ELLIES HOLDINGS LIMITED

REVIEWED CONDENSED CONSOLIDATED FINANCIAL RESULTS

for the year ended 30 April 2019

2019 at a glance

REVENUE decreased by 1,0% to R1 357,7 million (2018: R1 371,8 million*)

EBITDA decreased by 125,5% to a loss of R21,5 million (2018: profit of R84,4 million)

OPERATING PROFIT decreased by 140,6% to a loss of R30,4 million (2018: operating profit of R75 million)

TOTAL COMPREHENSIVE INCOME decreased by 180,8% to a loss of R30,7 million (2018: operating profit of R38,0 million)

EARNINGS PER SHARE decreased by 152,3% to a loss of 3,58 cents (2018: earnings per share of 6,84 cents)

HEADLINE EARNINGS PER SHARE decreased by 141,3% to a loss of 3,26 cents (2018: headline earnings per share of 7,89 cents)

NET ASSET VALUE PER SHARE decreased by 8,5% to 47,5 cents (2018: 51,9 cents)

NET TANGIBLE ASSET VALUE PER SHARE decreased by 10,1% to 39,2 cents (2018: 43,6 cents)

NO DIVIDEND DECLARED

* *Restated – refer note 14.*

Results commentary

INTRODUCTION

Ellies Holdings Limited is an investment holding company for businesses involved in the manufacture, trading and distribution of a diverse range of products and services, inclusive of Digital Terrestrial Television (DTT), satellite television products and related accessories, electrical, signal distribution, residential and commercial LED lighting solutions, solar power, sound and audio-visual equipment distribution and installation.

Ellies Electronics, the Trading and Distribution segment, which is the heartbeat of the organisation, operates out of 13 branches and trade counters in South Africa, with a presence in all nine provinces and wholly-owned branches in Namibia, Botswana and Swaziland.

Ellies Industries, the Manufacturing segment, manufactures, sells and distributes various products related to markets Ellies serves, including satellite dishes, terrestrial aerials, TV brackets, mounts and shelving solutions, whilst offering bespoke industry solutions and custom-made products, with its primary customer being Ellies Electronics.

The Group changed its operating segments during the reporting period. It now reports on two segments, namely Trading and Distribution and Manufacturing. These segments leverage off common pools of expertise, allowing each segment to focus on its core competencies. The Trading and Distribution segment markets a comprehensive range of products, sourced from the Group's manufacturing segment as well as other manufacturers, both locally and internationally. The Manufacturing segment manufactures primarily for the Trading and Distribution segment.

ELLIES IN THE MACRO-ECONOMIC ENVIRONMENT

The financial year was a turbulent year for Ellies marred by leadership instability at an executive and non-executive director level and exacerbated by the persistent weak economic conditions within the consumer, retail, infrastructure and construction sectors.

Global political and economic volatility continued with uncertainty and unpredictability affecting raw material prices and foreign exchange rates. With approximately 30% of Ellies' products being imported, this has had a material impact on financial performance. Business confidence in South Africa continues to remain at low levels with an intense focus on the political landscape, particularly in the second half of the financial year, as the focus on state capture and the campaigning during the run up to the national and provincial elections intensified.

Corporate governance and ethical leadership have come under scrutiny in South Africa with the exposé of investigations into corporate governance failures and unethical behaviour at some well-known institutions in recent years. This has reinvigorated shareholder activism and the focus on good corporate governance has intensified.

Aligned to this theme, and following a period of conflict in the previous leadership team, Ellies Holdings Limited appointed a new, experienced Board in April 2019. The Chief Executive Officer and the Interim Chief Financial Officer were appointed to the Board on 4 April 2019, with the Interim Chief Financial Officer's title changing to Chief Financial Officer and Financial Director.

The repercussions of this instability at a senior level distracted from improvements being made within the organisation during the reporting period. However, with the key leadership positions now filled, Ellies is confident that management and the Company will focus all attention on making progress on the way forward.

OVERVIEW

A preliminary assessment by the new management has revealed a business in crisis from a strategic and operational perspective. A lack of strategic attention on the product range in recent years has resulted in Ellies losing market share on its core product lines upon which its success and reputation were historically built. A deterioration in the control environment, degradation of processes and procedures, a lack of investment in technology and infrastructure and a decaying culture of accountability have resulted in unacceptably high stock losses, incorrect stock mix and poor customer service levels which

Results commentary continued

impacted sales and led to disappointing financial results. Revenue concentration risk has been impacted by the performance of a few key customers who themselves face threats from changing influences in their respective industries.

Furthermore, key elements of the existing infrastructure, such as the main warehouse in Johannesburg, have not been adequately maintained and are having a severe detrimental impact on operational efficiency. Management is addressing the infrastructure issue.

REVIEW OF OPERATIONS

Trading and Distribution segment

The Trading and Distribution segment has been impacted by a loss in focus on inventory management (end-to-end) and significant operational issues, which have resulted in poor stock hygiene and poor order fill rates. The operational issues have been driven not only by a decline in the process and control environment but also by infrastructure issues, which are restricting the efficient movement and control of inventory.

The previous supply-driven procurement behaviours have resulted in the stock mix being incorrectly skewed to non-core inventory items that do not align with the strategic sales intent. This, combined with poor management of slow-moving and obsolete stock, has bloated inventory levels and further impacted warehouse efficiency.

Approximately half of the revenue for the Trading and Distribution segment is also concentrated from a few key customers and their performance within their own industries has had a direct impact on Ellies' performance. Increased competition from imports and the ongoing poor economic conditions in the country have put additional pressure on margins, directly impacting profitability.

Despite the challenges facing the segment, there is still good demand experienced from customers. With more than 9 600 customers, Ellies has a strong customer base with demand for its products and a brand that is recognised and respected across industries and sectors.

Manufacturing segment

The Manufacturing segment provides product to the Trading and Distribution segment. The Manufacturing segment's performance has been severely impacted by the lack of traction on the DTT programme by government. There has been insufficient throughput to recover the costs on a monthly basis and, as such, a detailed review of the strategy of the Manufacturing segment has been undertaken.

Going forward, the segment will implement agile manufacturing principles that support the Trading and Distribution segment's requirements by manufacturing to forecast market demand (South Africa and rest of Africa), lowering input costs and driving volumes to support a sustainable outcome.

Details of the financial results per segment are disclosed in the Segment Analysis.

FINANCIAL REVIEW

The Group experienced a challenging 12 months to 30 April 2019 and reported a loss per share of 3,58 cents for the reporting period (2018: earnings per share of 6,84 cents) and a headline loss per share of 3,26 cents (2018: headline earnings per share of 7,89 cents).

Consolidated statement of profit or loss and other comprehensive income

Revenue for the reporting period decreased by 1,0% to R1 357,7 million (2018: R1 371,8 million). Cost of sales increased, mainly as a result of new management re-assessing the saleability of inventory, which resulted in considerable write-offs and provision increases.

Refer to note 12 for disclosure on the impact of the first-time adoption of *IFRS 15: Revenue from Contract Customers.*

Margins were under pressure with gross margins decreasing to 25,7% from the 29,4% achieved during the prior year attributable to the inventory provisioning referred to above and declining volumes.

Operating expenses increased by 11,1% attributable to consulting fees of R10,5 million and legal fees mainly relating to legacy litigation matters of R9,1 million. An impairment loss on trade receivables amounted to R12,3 million and is disclosed separately.

Results commentary continued

The loss before interest, taxation, depreciation and amortisation of R21,5 million (2018: earnings of R84,4 million) was as a result of the marginal decrease in revenue, the inventory adjustments and an increase in operating expenses in dealing with legacy litigation issues and consulting fees incurred as part of the turnaround plan.

Impairments amounted to R11,8 million constituting an impairment of R3,9 million in respect of the loan to an associate, In-Toto Solutions Proprietary Limited, as a result of being unable to repay the loan to Ellies Electronics Proprietary Limited; and impairments of R7,9 million in respect of property, plant and equipment in the Manufacturing segment due to ongoing losses.

Net finance costs amounted to R17,5 million (2018: R14,9 million). The increase is attributable to the Group's bankers perfecting its guarantee issued in support of Megatron SA Proprietary Limited, previously a subsidiary of the Group, in respect of security for debt.

Taxation decreased to an income of R5,8 million against a R16,4 million charge in the prior year. The low tax rate is attributable to the tax effect on loss of control as well as unutilised temporary differences, with an effective tax rate of 9,4% (2018: 29,5%).

The interim financial results for the six months ended 31 October 2018 included R75 million in respect of a profit on the discontinued operation of Botjheng Water Proprietary Limited ("Botjheng Water"), which after netting off legal fees and other expenses amounted to R69,8 million. It was expected by the then Board of Directors that Botjheng Water would be liquidated and deregistered by year-end. Due to changes at the executive level, the liquidation and deregistration were not concluded. The new Board, appointed on 4 April 2019, reviewed the decision and concluded that it was premature to deconsolidate Botjheng Water and reversed the decision. This resulted in the R75 million profit from the deconsolidation of Botjheng Water, not being included in the year-end results.

During the reporting period, R33,3 million was received from the Cooperative Muratori Cementisi Ravenna ("CMC") arbitration, which had the effect of reducing the debt owing by Botjheng Water. Whilst a further gain is expected to be realised when Botjheng Water is wound up in a future period, it will not result in a cash flow.

Profit on discontinued operations amounted to R24,7 million and comprised the proceeds on Botjheng Water from CMC net of legal fees and the net reduction on the loan owed to Megatron SA Proprietary Limited, partially reduced by the increase in the liability to The Standard Bank of South Africa Limited ("Standard Bank") in respect of Megatron SA Proprietary Limited surety. Refer to note 6.

The Group incurred a net loss after tax of R31,4 million (2018: net profit after tax of R38,3 million).

Non-controlling interests' share of Group losses amounted to R9,2 million (2018: R4,2 million).

Consolidated statement of financial position

The financial position of the Group remains satisfactory. At the reporting date, capital and reserves amounted to R274,6 million compared to R310,4 million at 30 April 2018. The main contributor to this decrease was the clean-up undertaken on inventory and accounts receivable.

The Group's net asset value attributable to equity holders decreased to R294,4 million as at 30 April 2019 (30 April 2018: R321,8 million). The reduction in net asset value stems mainly from the reduction in inventory and trade and other receivables during the reporting period, which resulted in the increase in the accumulated loss. The Group's net interest-bearing debt amounted to R115,5 million and increased from R89,7 million at 30 April 2018 due to The Standard Bank of South Africa Limited perfecting its surety in respect of Megatron SA Proprietary Limited.

The guarantee issued to The Standard Bank of South Africa Limited in respect of Megatron SA Proprietary Limited, previously a subsidiary of the Group, for which R65,5 million was included in provisions in the comparative periods' reporting, was replaced by an interest-bearing liability of R89,4 million during the reporting period.

Liquidity is being closely managed and at the reporting date there was considerable headroom of facilities available. The replenishment of A-inventory lines to correct inventory levels and out-of-stock lost sales is expected to increase borrowings.

Ellies did not meet the required EBITDA levels on which the Standard Bank covenant is based. This was attributable to the new management re-assessing the saleability of inventory, the recoverability of accounts receivable and consulting and legal fees in dealing with legacy litigation issues. Standard Bank accepted the adjustments as once-off and non-recurring and confirmed in writing that, in terms of the facilities agreement, no breach of the covenant occurred.

Refer to note 12 for disclosure on the impact of the first-time application of *IFRS 9: Financial Instruments.*

Results commentary continued

Consolidated statement of cash flows

Cash generated from operating activities before working capital changes increased to R63,8 million (2018: R42,3 million). Working capital showed an outflow of R9,3 million (2018: outflow of R3,2 million). This excludes the reduction due to impairments and additional provisioning. Net finance and tax payments amounted to R28,3 million (2018: R24,2 million).

Cash utilised by investing activities of R3,4 million (2018: cash generated by investing activities R16,2 million) related mainly to replacement capital expenditure of R4,1 million, offset by proceeds on the disposal of property, plant and equipment and non-current assets and a loan made to an associate.

Cash generated by financing activities amounted to R56,9 million (2018: utilised by financing activities R27,8 million) attributable to loans advanced by Standard Bank. Also refer to the loan in respect of Megatron SA Proprietary Limited referred to above.

The Group closed with net borrowings of R115,5 million at 30 April 2019 compared to net borrowings of R89,7 million at 30 April 2018.

STRATEGY

A strategic review of the business has highlighted that there are key elements present and resultant market opportunities to return the business into a successful enterprise, despite the prevailing economic reality, the competitive landscape and the changing consumer needs. The Ellies brand is a strong, recognised brand with a long-standing reputation for quality, reliability and innovation. Ellies has a strong route to market and distribution network, not only across South Africa but also into chosen markets in the rest of Africa. Ellies has solutioning expertise that is well-known and respected in the commercial space, especially customised lighting, electrical and audio-visual solutions for the retail, industrial, infrastructure and property sectors, amongst others. It has a large active customer base and industry-leading products in its range with scope available for further product innovation.

In order to turn the business around, Ellies is in the process of implementing a 12-month strategy to stabilise the Company, optimise operational efficiencies and set the foundation for profitable growth.

The four key pillars for the strategy are:

- Compliance, risk and governance
- Operational efficiencies
- Cost management
- Profitable growth

In terms of stabilising the operations, Ellies will focus on restoring operational and cost discipline across the organisation, invest in appropriate technology to digitise processes and strengthen the control environment.

From a cost management perspective, there is a relentless focus on plugging expenditure leakages and tightening cost controls. It is expected, given the operational state of the business, that critical new investment will be required in strategic areas such as technology. However, the intention is to offset those expenses with a reduction in costs in other areas, where possible. Furthermore, a phased approach over the next three to five years will be taken, prioritising those investments focused on enhancing controls and operational efficiencies.

To ensure profitable growth, Ellies will focus on doing business at the right margins. The Group is in the process of renegotiating agreements that currently do not support its business goals and remains committed to driving a sustainable outcome from these negotiations. In order to position Ellies for longer-term sustainability and growth, the business will focus on leveraging the brand, revitalising its innovation capability, diversifying revenue by introducing new product ranges and solutions as well as targeting customers beyond the traditional consumer. Ellies is in the process of forming new strategic alliances, with exclusive distribution agreements, as well as developing annuity revenue streams. We believe that there are good opportunities available to expand existing capabilities into new markets and geographies, especially into the rest of Africa, as well as launching new products into new market spaces where Ellies is not yet a significant player. The Group will diversify its revenue by targeting growth in its commercial division, where the bespoke advisory and solutioning expertise and ability to develop customised products quickly, will differentiate Ellies from the rest of the market. The Group remains in a strong position to capitalise on the government's DTT programme once it gains traction.

Results commentary continued

Key to the Group's success is to restore inventory hygiene with a focus on having the right inventory, at the right place, at the right time. A fundamental change in the operating model is to shift from an historical supply-driven business model to a demand-driven sales forecasting and inventory model with profitable margins and leveraging existing innovation capabilities as a competitive differentiator.

The strategy is supported by a relentless focus on ethics, integrity, discipline, transparency and an overall strong corporate governance ethos. All compliance, risk and governance policies are in the process of being reviewed and updated and will be the foundation for how Ellies does business. Furthermore, Ellies will introduce a values-based culture reinforced across all levels of the organisation.

The Group is aware that in order to optimally execute on its strategy, attention is required to augment the existing skill competencies within Ellies. The focus will be on upskilling existing staff and also in sourcing external, top talent to enhance the Group's capabilities and capacity.

PROSPECTS

The Board believes that the strategy for the next financial year will re-establish the base and create the platform for future revenue growth and diversification. The focus beyond the next 12 months will be on scaling that growth and driving long-term sustainability.

The ongoing weak economic conditions, competitive environment and current revenue concentration from a customer perspective remain key risks facing the business, however, with the support of a new, experienced Board of Directors who are committed to the highest levels of ethics, as well as the execution of the sound, focused strategy, Ellies believes that this will ensure that the Group's turnaround will be implemented in an efficient and sustainable way.

GOVERNANCE

Subsequent to the publication on SENS of the interim results on 31 January 2019, the following changes were made to the Board of Directors on 4 April 2019 and were approved by shareholders at the General Meeting held on 27 May 2019:

- Mr Elliot Salkow's designation changed from executive director to non-executive director;
- Mr Andrew Harrington ceased to be the alternate director to Mr Salkow;
- Dr Shaun Prithivirajh, CEO, was appointed as an executive director;
- Mr Chris Booyens, Interim CFO, was appointed as an executive director;
- Mr Timothy Fearnhead was appointed as independent non-executive director and Chairperson of the Board;
- Mr Francois Olivier was appointed as independent non-executive director; and
- Mr Edward Raff was appointed as independent non-executive director.

DIVIDEND

No dividend has been declared.

Consolidated statement of **profit or loss and other comprehensive income**

for the year ended 30 April 2019

	Note	GROUP 2019 R'000	GROUP 2018* R'000
Revenue	2	**1 357 739**	1 371 830*
Cost of sales		**(1 009 244)**	(968 701)*
Gross profit		**348 495**	403 129
Other income		**4 497**	7 329
Operating expenses		**(362 144)**	(326 104)
Impairment loss on trade receivables		**(12 323)**	–
Depreciation		**(8 944)**	(9 367)
Operating (loss)/profit before impairments		**(30 419)**	74 987
Impairment of non-current assets held for sale		**–**	(869)
Impairment of property, plant and equipment		**(7 873)**	–
Impairment of loans to associate	6	**(3 902)**	(3 136)
Impairment of loans		**–**	(374)
(Loss)/profit from operations		**(42 194)**	70 608
Interest received		**2 816**	3 268
Interest paid		**(20 298)**	(18 200)
Share of losses from associates	6	**(2 269)**	–
(Loss)/profit before taxation		**(61 945)**	55 676
Taxation		**5 832**	(16 415)
(Loss)/profit for the year: continuing operations		**(56 113)**	39 261
Profit/(loss): discontinued operations	7	**24 718**	(1 003)
(Loss)/profit for the year		**(31 395)**	38 258
Other comprehensive income:			
Items that will be reclassified subsequently to profit or loss			
– Foreign currency translation reserve		**735**	(289)
Total comprehensive (loss)/income for the year		**(30 660)**	37 969
(Loss)/profit attributable to:			
Equity holders of the parent		**(22 183)**	42 421
Non-controlling interests		**(9 212)**	(4 163)
Net (loss)/profit after tax		**(31 395)**	38 258
Total comprehensive (loss)/income attributable to:			
Equity holders of the parent		**(21 448)**	42 132
Non-controlling interests		**(9 212)**	(4 163)
Total comprehensive (loss)/income for the year		**(30 660)**	37 969
– Basic (loss)/earnings per share (cents)	3	**(3,58)**	6,84
– Diluted (loss)/earnings per share (cents)	3	**(3,58)**	6,75

* *Restated – refer note 14.*

Consolidated statement of **financial position**

as at 30 April 2019

	Note	GROUP 2019 R'000	GROUP 2018 R'000
ASSETS			
Non-current assets		**132 555**	138 814
Property, plant and equipment	4	**64 029**	75 979
Goodwill	5	**51 438**	51 438
Deferred taxation		**17 088**	11 397
Current assets		**527 646**	632 444
Inventories		**300 009**	368 616
Trade and other receivables		**174 543**	241 939
Taxation receivable		**7 713**	1 097
Bank and cash balances		**45 381**	20 792
Non-current assets held for sale		**–**	4 250
Property, plant and equipment		**–**	4 250
Group disposals held for sale		**–**	1 440
Trading and Distribution segment	7	**–**	1 440
Total assets		**660 201**	776 948
EQUITY AND LIABILITIES			
Total shareholders' interests		**274 634**	310 429
Stated capital		**837 212**	837 212
Non-distributable reserves		**(176 236)**	(175 267)
Accumulated loss		**(366 554)**	(340 173)
Equity attributable to equity holders of the parent		**294 422**	321 772
Non-controlling interests		**(19 788)**	(11 343)
Non-current liabilities		**148 300**	7 490
Interest-bearing liabilities		**148 300**	4 847
Deferred taxation		**–**	2 643
Current liabilities		**237 267**	458 115
Interest-bearing liabilities		**9 656**	6 804
Trade and other payables		**177 094**	211 634
Provisions	8	**5 186**	67 230
Taxation payable		**786**	901
Third-party loans		**41 607**	75 350
Bank overdrafts		**2 938**	96 196
Group disposals held for sale		**–**	914
Trading and Distribution segment	7	**–**	914
Total equity and liabilities		**660 201**	776 948

Consolidated statement of **changes in equity**

for the year ended 30 April 2019

	Stated capital R'000	Foreign currency translation reserve R'000	Non-distributable reserves R'000	Accumulated loss 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 2017	837 212	1 512	(178 044)	(382 594)	278 086	(7 180)	270 906
Total comprehensive (loss)/income for the year	–	(289)	–	42 421	42 132	(4 163)	37 969
Share-based payment reserve	–	–	1 554	–	1 554	–	1 554
Balances as at 30 April 2018	**837 212**	**1 223**	**(176 490)**	**(340 173)**	**321 772**	**(11 343)**	**310 429**
Adjustments on first-time adoption of IFRS 9, net of tax	**–**	**–**	**–**	**(4 198)**	**(4 198)**	**–**	**(4 198)**
Total comprehensive income/(loss) for the year	**–**	**735**	**–**	**(22 183)**	**(21 448)**	**(9 212)**	**(30 660)**
Loss of control (non-controlling interests)	**–**	**–**	**–**	**–**	**–**	**767**	**767**
Share-based payment reserve	**–**		**(1 704)**	**–**	**(1 704)**	**–**	**(1 704)**
Balances as at 30 April 2019	**837 212**	**1 958**	**(178 194)**	**(366 554)**	**294 422**	**(19 788)**	**274 634**

Consolidated statement of **cash flows**

for the year ended 30 April 2019

	GROUP	
	2019 R'000	2018 R'000
Cash flows from operating activities	**63 822**	42 317
Cash generated from operations	**65 419**	63 523
Interest received	**265**	201
Interest paid	**(20 249)**	(18 227)
Taxation paid	**(8 345)**	(6 191)
Cash flows – continuing operations	**37 090**	39 306
Cash flows – discontinued operations	**26 732**	3 011
Cash flows from investing activities	**(3 387)**	16 152
Acquisitions of property, plant and equipment	**(5 041)**	(9 118)
Proceeds on disposal of property, plant and equipment	**982**	613
Proceeds on disposal of non-current assets held for sale	**4 250**	24 734
Loss of control	**(613)**	–
Loan to associate	**(3 620)**	(69)
Cash flows – continuing operations	**(4 042)**	16 160
Cash flows – discontinued operations	**655**	(8)
Cash flows from financing activities	**56 898**	(27 795)
Receipts from interest-bearing liabilities	**67 245**	305
Repayment of interest-bearing liabilities	**(10 347)**	(26 043)
Third-party loans paid	**–**	(957)
Cash flows utilised by continuing operations	**56 898**	(26 695)
Cash flows utilised by discontinued operations	**–**	(1 100)
Net increase in cash and cash equivalents	**117 333**	30 674
Foreign currency translation reserve – net movement on cash and cash equivalents	**(91)**	(283)
Cash and cash equivalents at the beginning of the year	**(74 799)**	(105 190)
Cash and cash equivalents at the end of the year	**42 443**	(74 799)
Cash and cash equivalents consist of:		
Bank and cash balances	**45 381**	21 397
– Continuing operations	**45 381**	20 792
– Discontinued operations	**–**	605
Bank overdrafts	**(2 938)**	(96 196)
– Continuing operations	**(2 938)**	(96 196)
	42 443	(74 799)

Segment analysis

for the year ended 30 April 2019

The Group changed its operating segments during the period under review. It now reports on two segments, namely Trading and Distribution and Manufacturing. These segments leverage off common pools of expertise, allowing each segment to focus on its core competencies. The Trading and Distribution segment sources and markets, both locally and internationally. The Manufacturing segment manufactures primarily for the Trading and Distribution segment.

STATEMENT OF FINANCIAL POSITION	Trading and Distribution R'000	Manufac-turing R'000	Total R'000
2019			
Total assets	1 325 533	83 905	1 409 438
Property, plant and equipment	41 540	22 489	64 029
Goodwill	51 438	–	51 438
Trade and other receivables	124 159	50 384	174 543
Taxation receivable	7 713	–	7 713
Inventories	288 979	11 030	300 009
Bank and cash balances	45 379	2	45 381
Intercompany loans	749 237	–	749 237
Deferred tax	17 088	–	17 088
Total liabilities	974 481	160 323	1 134 804
Long-term liabilities	157 956	–	157 956
Trade and other payables	133 814	44 066	177 880
Bank overdraft	–	2 938	2 938
Intercompany loans	636 649	112 588	749 237
Provisions	4 455	731	5 186
Third-party liabilities	41 607	–	41 607
Net assets	351 052	(76 418)	274 634

Segment analysis continued

for the year ended 30 April 2019

STATEMENT OF PROFIT OR LOSS	Trading and Distribution R'000	Manufacturing R'000	Trading and Distribution discontinued R'000	Total R'000
2019				
External revenue	1 356 897	842	611	1 358 350
Revenue	1 396 892	92 233	611	1 489 736
Intersegment revenue	(39 995)	(91 391)	–	(131 386)
Gross profit/(loss)	335 209	13 286	(119)	348 376
Other income	4 497	–	20 768	25 265
Operating expenses	(332 733)	(29 411)	(5 194)	(367 338)
Impairment loss on trade receivables	(12 323)	–	–	(12 323)
Depreciation	(4 471)	(4 473)	(6)	(8 950)
Operating (loss)/profit before impairments	(9 821)	(20 598)	15 449	(14 970)
Impairment of assets	–	(7 873)	–	(7 873)
Impairment of loan to associate	(3 902)	–	–	(3 902)
Profit on loss of control	–	–	9 269	9 269
(Loss)/profit from operations	(13 723)	(28 471)	24 718	(17 476)
Interest received	2 816	–	–	2 816
Interest paid	(20 298)	–	–	(20 298)
Interest intersegment	10 180	(10 180)	–	–
(Loss)/profit before taxation	(21 025)	(38 651)	24 718	(34 958)
Taxation	2 076	3 756	–	5 832
Share of losses from associates	(2 269)	–	–	(2 269)
(Loss)/profit for the year	(21 218)	(34 895)	24 718	(31 395)

Segment analysis continued

for the year ended 30 April 2019

STATEMENT OF FINANCIAL POSITION	Trading and Distribution R'000	Manufacturing R'000	Trading and Distribution discontinued R'000	Total R'000
2018				
Total assets	1 380 844	100 968	1 440	1 483 252
Property, plant and equipment	42 599	33 380	42	76 021
Goodwill	51 438	–	–	51 438
Trade and other receivables	224 953	18 083	54	243 090
Inventories	314 690	53 926	739	369 355
Bank and cash balances	20 569	223	605	21 397
Non-current asset held for sale	4 250	–	–	4 250
Intercompany loans	706 304	–	–	706 304
Deferred tax	16 041	(4 644)	–	11 397
Total liabilities	1 029 415	142 494	914	1 172 823
Long-term liabilities	11 651	–	–	11 651
Trade and other payables	176 428	36 107	14	212 549
Bank overdraft	96 196	–	–	96 196
Guarantee provisions	65 540	–	–	65 540
Intercompany loans	600 041	106 263	–	706 304
Provisions	678	1 012	900	2 590
Deferred tax	3 531	(888)	–	2 643
Third-party liabilities	75 350	–	–	75 350
Net assets	351 429	(41 526)	526	310 429

Segment analysis continued

for the year ended 30 April 2019

STATEMENT OF PROFIT OR LOSS	Trading and Distribution R'000	Manufac-turing R'000	Trading and Distribution discontinued R'000	Total R'000
2018				
External revenue	1 337 423	34 407	11 382	1 383 212
Revenue	1 376 052	116 935	11 382	1 504 369
Intersegment revenue	(38 629)	(82 528)	–	(121 157)
Gross profit/(loss)	371 586	31 543	(941)	402 188
Other income	7 329	–	12 534	19 863
Operating expenses	(298 520)	(27 584)	(7 722)	(333 826)
Impairment loss on trade receivables	–	–	–	–
Depreciation	(4 185)	(5 182)	(8)	(9 375)
Operating profit/(loss) before impairments	76 210	(1 223)	3 863	78 850
Impairment of non-current assets held for sale	(869)	–	–	(869)
Impairment of loan to associate	(3 136)	–	–	(3 136)
Impairment of loans	(374)	–	–	(374)
Loss on loss of control	–	–	(4 751)	(4 751)
Profit/(loss) from operations	71 831	(1 223)	(888)	69 720
Interest received	3 268	–	2	3 270
Interest paid	(18 200)	–	(83)	(18 283)
Interest intersegment	10 612	(10 612)	–	–
Profit/(loss) before taxation	67 511	(11 835)	(969)	54 707
Taxation	(16 103)	(312)	(34)	(16 449)
Profit/(loss) for the year	51 408	(12 147)	(1 003)	38 258

Notes to the **reviewed condensed consolidated financial statements**

for the year ended 30 April 2019

1. BASIS OF PREPARATION

The reviewed condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act 71 of 2008 of South Africa applicable to condensed financial statements. The JSE Listings Requirements require reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards ("**IFRS**"), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the 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 these financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements, except for the first-time adoption of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contract Customers.*

The reviewed condensed consolidated financial statements were compiled by Mr Jayme Burgers (CA(SA)), Group Financial Accountant, under the supervision of Mr Chris Booyens (CA(SA)), Financial Director and Chief Financial Officer.

The directors are not aware of any matters or circumstances arising subsequent to the reporting date that require any additional disclosure or adjustment to the financial statements, other than as disclosed in note 12.

Independent auditor's review

The condensed consolidated financial statements were reviewed by BDO South Africa Incorporated and an unmodified review opinion has been issued on the reviewed condensed consolidated financial statements for the financial year ended 30 April 2019. The auditor's report does not necessarily report on 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 engagement, they should obtain a copy of that report together with the accompanying reviewed condensed consolidated financial statements, both of which are available for inspection at Ellies' registered office.

Going concern assessment

In determining the appropriate basis of preparation of the reviewed condensed consolidated financial statements, the directors are required to determine if the Group will be a going concern for the next financial year and up to 31 August 2020. Management prepared cash flow forecasts for each of the subsidiaries. These forecasts were subjected to sensitivity tests. Management also considered the businesses' ability to meet its financial obligations for the 12 months following approval of the reviewed condensed consolidated financial statements. The analysis considered the current challenging market conditions and management's turnaround plan being executed including a return to sustainable profitability, cost reductions and the optimisation of working capital. The resulting cash flow projections were compared to available funding facilities. The forecast indicated that the banking facilities should be adequate. There are specific banking covenants with which the Company anticipates to comply.

The effect of a further deterioration in the economic outlook and its potential impact on the Group's cash flow and funding facilities were also considered. The Group's ability to fund its short-term liquidity requirements is dependent on adequate funding facilities.

The directors believe that the Group will have adequate resources available to continue in operation.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

2. REVENUE

Revenue from contracts with customers

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described in Note 12. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

Revenue streams

The entity enters into contracts for the sale of goods in the form of Digital Terrestrial Television (DTT), satellite television products and related accessories, electrical, signal distribution, residential and commercial LED lighting solutions, solar power, sound and audio visual equipment. Each contract has one performance obligation, namely the transfer of the specified goods. This obligation is satisfied at a point in time, being on date of delivery. The standard payment terms range between 30 to 120 days. The entity also provides warranties for a two-year period on certain products.

	GROUP	
	2019 R'000	2018 R'000
Revenue from contracts with customers	1 357 739	1 371 830*
	1 357 739	1 371 830

** 2018 restated – refer to note 14.*

Disaggregation of revenue from contracts with customers

In the following table, revenue from contracts with customers is disaggregated by primary geographic market.

	GROUP
	2019 R'000
South Africa	1 271 245
Botswana	16 623
Namibia	55 083
Swaziland	14 788
	1 357 739

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

3. (LOSS)/EARNINGS PER SHARE

	GROUP	
	2019	**2018**
(Loss)/earnings per share (cents)	**(3,58)**	6,84
– Trading and Distribution continuing operations	**(3,42)**	8,29
– Trading and Distribution discontinued operations	**3,99**	0,02
– Manufacturing	**(4,15)**	(1,47)
Headline (loss)/earnings per share (cents)	**(3,26)**	7,89
– Trading and Distribution continuing operations	**(2,88)**	8,58
– Trading and Distribution discontinued operations	**2,49**	0,78
– Manufacturing	**(2,87)**	(1,47)
The calculation of (loss)/earnings per ordinary share for the Group is based on the following:		
– Basic (loss)/earnings (R'000)	**(22 183)**	42 421
– Headline (loss)/earnings (R'000)	**(20 229)**	48 941
– Weighted average number of shares in issue	**620 158 235**	620 158 235
– Diluted weighted average number of shares in issue	**620 158 235**	628 158 235*
Shares in issue (number of shares)		
– At the end of the year	**620 158 235**	620 158 235
Reconciliation of headline earnings		
Net (loss)/profit for the year attributable to equity holders of the parent	**(22 183)**	42 421
Adjusted for:		
– Profit on sale of property, plant and equipment	**(767)**	(3 105)
– Trading and Distribution continuing operations	**(767)**	(3 105)
– Impairment of non-current assets held for sale	**–**	869
– (Profit)/loss as a result of loss of control	**(9 269)**	4 751
– Impairment of property, plant and equipment	**7 873**	–
– Impairment of loans to associates	**3 902**	3 136
– Tax effect on adjustments	**215**	869
Headline (loss)/earnings attributable to ordinary shareholders	**(20 229)**	48 941

** 8 million share options were issued on 10 January 2017 to the then CFO, who resigned before the options could vest.*

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

4. PROPERTY, PLANT AND EQUIPMENT

	Plant and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Office equipment/ furniture and fittings R'000	Land and buildings/ leasehold improve-ments R'000	Total R'000
GROUP						
As at 30 April 2019						
Cost	**68 901**	**14 475**	**11 336**	**33 437**	**47 560**	**175 709**
Accumulated depreciation and impairments	**(51 393)**	**(11 536)**	**(9 391)**	**(26 388)**	**(12 972)**	**(111 680)**
Net carrying value	**17 508**	**2 939**	**1 945**	**7 049**	**34 588**	**64 029**
Movement summary						
Carrying value at 30 April 2018	**26 754**	**2 497**	**2 261**	**8 865**	**35 602**	**75 979**
Additions	**1 565**	**1 632**	**749**	**1 080**	**15**	**5 041**
Disposals	**–**	**(205)**	**–**	**–**	**–**	**(205)**
Depreciation	**(2 938)**	**(988)**	**(1 067)**	**(2 902)**	**(1 049)**	**(8 944)**
Impairments	**(7 873)**	**–**	**–**	**–**	**–**	**(7 873)**
Foreign currency translation	**–**	**3**	**2**	**6**	**20**	**31**
Carrying value at 30 April 2019	**17 508**	**2 939**	**1 945**	**7 049**	**34 588**	**64 029**
As at 30 April 2018						
Cost	74 333	16 533	25 655	38 527	47 403	202 451
Accumulated depreciation and impairments	(47 579)	(14 036)	(23 394)	(29 662)	(11 801)	(126 472)
Net carrying value	26 754	2 497	2 261	8 865	35 602	75 979
Movement summary						
Carrying value at 30 April 2017	28 452	3 032	1 851	8 112	35 045	76 492
Additions	1 905	855	1 223	3 498	1 637	9 118
Disposals	–	(210)	(3)	–	–	(213)
Depreciation	(3 603)	(1 178)	(810)	(2 701)	(1 075)	(9 367)
Transfer (to)/from assets held for sale	–	–	–	(42)	–	(42)
Foreign currency translation	–	(2)	–	(2)	(5)	(9)
Carrying value at 30 April 2018	26 754	2 497	2 261	8 865	35 602	75 979

No property, plant and equipment have been encumbered as security for interest-bearing liabilities (2018: R36 million). Property, plant and equipment with a carrying value of Rnil (cost of R27,3 million) were scrapped during the reporting period.

A register of land and buildings is available for inspection at the registered office of the Company.

During the reporting period management reviewed its plant and equipment at Ellies Industries Proprietary Limited, and impaired its plant in light of lower throughput on lower demand. Management considers the carrying value post the impairment charge to approximate the fair value less cost to sell.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

5. GOODWILL

	GROUP	
	2019 R'000	**2018 R'000**
Cost	**53 672**	53 672
Accumulated impairments	**(2 234)**	(2 234)
	51 438	51 438
Net carrying value		
Arising on acquisition of companies/business of:		
Trading and Distribution segment	**51 438**	51 438
– Ellies Group of companies*	**51 438**	51 438
Closing net carrying value	**51 438**	51 438
Movement summary		
Carrying value at the beginning of the year	**51 438**	51 438
Carrying value at the end of the year	**51 438**	51 438
* *The net book value of goodwill has been allocated to the following cash-generating units*		
Bloemfontein (Ellies Electronics branch)	**13 911**	13 911
Cape Town (Ellies Electronics branch)	**23 431**	23 431
Ellies Namibia Proprietary Limited	**6 596**	6 596
Other smaller branches (Ellies Electronics branches)	**7 500**	7 500
	51 438	51 438

The main factors contributing to the goodwill raised on these acquisitions are their market presence and expected synergies.

Impairment review

In accordance with IAS 36, impairment of assets, goodwill and intangible assets with indefinite useful lives are reviewed annually for impairment, or more frequently if there is an indication that goodwill might be impaired.

The recoverable amount of goodwill relating to the Trading and Distribution segment cash-generating units has been determined on the basis of value-in-use calculations. All these cash-generating units operate in the same economic environment for which the same key assumptions have been used. These calculations use cash flow projections based on financial projections, covering a five-year period and a pre-tax discount rate of 24,0% (2018: 20,99%) for all cash-generating units. Cash flows beyond the five-year period were extrapolated using a steady 5,2% (2018: 4,0%) nominal growth rate. Management believes that this growth rate does not exceed the long-term average growth rate for the market in which the businesses operate. Any changes in revenue or costs are based on past practices and expectations of future changes in the market. Reasonable changes to the inputs of the model would not lead to material impairments.

Assumptions were based on management's past experience and best estimates regarding forecasts. Management determined budgeted gross margin based on past performance and its expectations of market developments. The discount rates used are pre-tax and reflect the appropriate risk associated with the industry and respective businesses. Based on management's calculations no impairment of goodwill is required.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

6. INVESTMENT IN ASSOCIATES

	In-Toto Solutions	
	2019 R'000	**2018 R'000**
GROUP		
Shares at cost	**	**
Loan receivable	**32 789**	26 618
Equity-accounted losses:		
Share of loss from associate	**(14 913)**	(12 644)
– Current year	**(2 269)**	–
– Prior years	**(12 644)**	(12 644)
Impairment of associate's loan	**(17 876)**	(13 974)
	–	–

** *Less than R1 000.*

2019

At the reporting date, management assessed the net recoverable value of the investments, considering a number of factors, including the net asset value of the company, extent of its support and the ultimate realisable value of the investment given market conditions, all of which necessitated the need to impair investments to Rnil.

An amount of R6,2 million, consisting of a loan impairment of R3,9 million and a R2,3 million loss on share of associate losses, was recognised in the statement of profit or loss.

2018

Impairment of loans to associate amounting to R3,1 million was recognised in the statement of profit or loss.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

7. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE/DISTRIBUTION AND PROFIT/(LOSS) ON LOSS OF CONTROL

During the reporting period, the Group disposed of African Solar Power Proprietary Limited.

The Group also finalised the measurement of Megatron SA Proprietary Limited's losses on deconsolidation. The Group decided that Botjheng Water Proprietary Limited will be classified as a discontinued operation. The Group intends to liquidate or dispose of Botjheng Water Proprietary Limited. No formal process has been initiated yet.

Operating profit of the disposal groups until the date of disposal and the profit or loss from re-measurement and disposal of assets and liabilities classified as held for sale are summarised as follows:

	Botjheng Water		African Solar Power		Total	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
GROUP						
Revenue	–	–	611	11 382	611	11 382
Cost of sales	–	(307)	(730)	(12 016)	(730)	(12 323)
Gross loss	–	(307)	(119)	(634)	(119)	(941)
Other income	20 766	12 513	2	21	20 768	12 534
Operating expenses	(5 037)	(6 170)	(157)	(1 552)	(5 194)	(7 722)
Depreciation	–	–	(6)	(8)	(6)	(8)
Operating profit/(loss) before impairment of intangible assets	15 729	6 036	(280)	(2 173)	15 449	3 863
Profit/(loss) before interest and taxation	15 729	6 036	(280)	(2 173)	15 449	3 863
Interest received	–	–	–	2	–	2
Interest paid	–	(83)	–	–	–	(83)
Net profit/(loss) before taxation	15 729	5 953	(280)	(2 171)	15 449	3 782
Taxation	–	–	–	(34)	–	(34)
Net profit/(loss) after taxation	15 729	5 953	(280)	(2 205)	15 449	3 748
Profit/(loss) for the year from discontinued operations attributable to equity holders of the parent	15 729	5 953	(141)	(1 103)	15 588	4 850
Loss for the year from discontinued operations attributable to non-controlling interests	–	–	(139)	(1 102)	(139)	(1 102)
Profit/(loss) for the year from discontinued operations	15 729	5 953	(280)	(2 205)	15 449	3 748
Profit on loss of control – Megatron SA Proprietary Limited (finalised)					9 924	–
Loss on loss of control – African Solar Power Proprietary Limited					(655)	(4 751)
Profit/(loss) from discontinued operations					24 718	(1 003)

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

7. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE/DISTRIBUTION AND PROFIT/(LOSS) ON LOSS OF CONTROL continued

The carrying amounts of assets and liabilities in the disposal groups for 2019 may be analysed as follows:

	African Solar Power	
	2019 R'000	**2018 R'000**
Non-current assets	–	42
Property, plant and equipment	–	42
Current assets	–	1 398
Inventories	–	739
Trade and other receivables	–	40
Taxation receivable	–	14
Bank and cash balances	–	605
Assets classified as held for sale	–	1 440
Current liabilities	–	914
Shareholder loans payable	–	900
Trade and other payables	–	14
Liabilities classified as held for sale	–	914

Cash flows generated by the disposal groups for the reporting periods under review until its disposal are as follows:

	Total	
	2019 R'000	**2018 R'000**
Operating activities	**26 732**	3 011
Investing activities	**655**	(8)
Financing activities	–	(1 100)
Cash flows from discontinued operations	**27 387**	1 903

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

7. DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE/DISTRIBUTION AND PROFIT/(LOSS) ON LOSS OF CONTROL continued

	African Solar Power	
	2019 R'000	**2018 R'000**
Analysis of assets and liabilities lost as a result of loss of control	**49**	–
Trade and other receivables	**20**	–
Bank and cash balances	**29**	–
	1 873	–
Long-term liabilities	**557**	–
Trade and other payables	**35**	–
Other liabilities	**1 281**	–
Net liabilities	**(1 824)**	–
Loss on loss of control		
Net liabilities lost	**1 824**	–
Loans forfeited as a result of loss on control	**(2 479)**	790
Guarantees assumed as a result of loss of control	**9 924**	(5 540)
	9 269	(4 750)
The (profit)/loss on loss of control relates to the following companies:		
Megatron SA Proprietary Limited (placed into business rescue on 12 August 2016)*	**9 924**	(5 540)
Megatron Towers Prorietary Limited (placed into liquidation on 19 April 2017)	**–**	790
African Solar Power Proprietary Limited (sold on 11 November 2018)**	**(655)**	–
Profit/(loss) as a result of loss of control	**9 269**	(4 750)

** Profit/(loss) is as a result of the remeasurement of the guarantee relating to the Standard Bank loan.*

*** Loss on loss of control is as a result of the impairment of loans as well as the net liability that is being released.*

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

8. PROVISIONS

	GROUP	
	2019 R'000	2018 R'000
Provision for warranty		
Balance at the beginning of the year	**677**	3 372
Provisions raised	**97**	33 *
Provision utilised	**(118)**	(2 728) *
Balance at the end of the year	**656**	677
The provisions reversed related to warranty periods that have expired.		
Guarantee provision		
Balance at the beginning of the year	**65 540**	60 000
Provisions raised	**23 818**	5 540
Megatron SA Proprietary Limited debt assumed	**(89 358)**	–
Balance at the end of the year	**–**	65 540
Other provisions		
Balance at the beginning of the year	**1 013**	12 221
Provisions raised	**3 837**	591
Provision utilised	**(320)**	(11 799)
Balance at the end of the year	**4 530**	1 013
Total provisions	**5 186**	67 230

* *Restated – refer note 14.*

The provision for warranty relates to goods sold for which there are warranties attached.

Guarantees related to the expected liability to Standard Bank from Megatron SA Proprietary Limited that was deconsolidated during the 2017 financial year. The guarantees were converted to debt.

Other provisions relate predominantly to employee benefit provisions.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

9. COMMITMENTS

	GROUP	
	2019 R'000	2018 R'000
Operating lease commitments		
Computer and office equipment	1 855	–
Premises	34 004	36 087
	35 859	36 087
These commitments accrue in the following periods:		
– Due within one year	23 209	16 460
– Due within year two to five years	12 650	19 451
– Due after five years	–	176
	35 859	36 087

10. ANALYSIS OF ASSETS AND LIABILITIES BY FINANCIAL INSTRUMENT CLASSIFICATION

	Amortised cost	Loans and receivables	Financial liabilities at amortised cost		Total	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
GROUP						
Current assets	206 918	248 656	–	–	206 918	248 656
Trade and other receivables	161 537	227 864	–	–	161 537	227 864
Bank and cash balances	45 381	20 792	–	–	45 381	20 792
Total assets	206 918	248 656	–	–	206 918	248 656
Non-current liabilities	–	–	148 300	4 847	148 300	4 847
Interest-bearing liabilities	–	–	148 300	4 847	148 300	4 847
Current liabilities	–	–	204 805	355 210	204 805	355 210
Interest-bearing liabilities	–	–	9 656	6 804	9 656	6 804
Trade and other payables	–	–	150 604	176 860	150 604	176 860
Third-party loans	–	–	41 607	75 350	41 607	75 350
Bank overdrafts	–	–	2 938	96 196	2 938	96 196
Total equity and liabilities	–	–	353 105	360 057	353 105	360 057

No fair value hierarchy has been presented as all financial instruments are carried at amortised cost, which approximates their fair value.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

11. GUARANTEES AND CONTINGENT LIABILITIES

- Unlimited suretyship given by Ellies Holdings Limited to Blue Strata Trading Proprietary Limited, a supplier, for facilities of R60 million (2018: R80 million).
- Lombard Insurance Company Limited has issued various "Performance Guarantees" and "Bid Security Guarantees" (denoted in South African Rands) as follows:

	GROUP	
	2019 R'000	**2018 R'000**
South African Rands	**8 472**	5 802
Euros	**–**	–
US Dollars	**3 065**	2 951

These "Performance Guarantees" and "Bid Security Guarantees" are expected to expire as follows:

	GROUP	
	2019 R'000	**2018 R'000**
30 April 2020	**11 537**	8 753

The directors do not believe any exposure to loss is likely.

	GROUP	
	2019 R'000	**2018 R'000**
The Standard Bank of South Africa Limited has issued the following guarantees on behalf of the Group	**2 215**	2 215

The Group has contingent liabilities in respect of bank and other guarantees per the above. It is not expected that any material liabilities will arise from these.

The South African Revenue Service currently has an order against Ellies Electronics Proprietary Limited in the amount of R2,6 million relating to a dispute over customs tariff classification and the matter is currently under appeal. The amount excludes the cost order against Ellies Electronics Proprietary Limited. The Group, based on the assessment of its legal position, does not believe that the case will result in a loss.

The two cases, Ellies Proprietary Limited versus Increspec Proprietary Limited and Ellies Proprietary Limited versus NV Properties Proprietary Limited, remain pending. Both Increspec Proprietary Limited and NV Properties Proprietary Limited have filed counter claims wherein they seek damages against Ellies Proprietary Limited in the sum of R21,5 million and R5 million, respectively. Ellies Proprietary Limited is defending the claims and, based on the assessment of its legal position, does not believe that the cases will result in a loss to the Group.

Beyond Platinum Proprietary Limited

Beyond Platinum Proprietary Limited instituted civil legal action and laid criminal charges against Ellies Electronics Proprietary Limited and certain of its directors for the alleged sale of counterfeit remote-control devices. The criminal cases against the directors have since been withdrawn. The civil claims are not quantified. The value of the risk in terms of assets is R5,1 million. During July 2019, the court delivered judgment in the civil case in favour of Ellies Electronics Proprietary Limited. Beyond Platinum Proprietary Limited then appealed the court judgment. Ellies Electronics Proprietary Limited is defending the case and, based on the assessment of its legal position, does not believe that the case will result in a loss to the Group.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

11. GUARANTEES AND CONTINGENT LIABILITIES continued

Super Group Limited

Super Group Limited instituted legal action against Ellies Electronics Proprietary Limited relating to performance and cancellation of contract and loss of profits. The total amount claimed is R42,0 million. Ellies Electronics Proprietary Limited is defending the claims and, based on the assessment of its legal position, does not believe that the case will result in a loss to the Group.

12. IMPACT OF FIRST-TIME ADOPTION OF IFRS 9 AND IFRS 15

IFRS 9 – Financial Instruments

IFRS 9 replaces IAS 39 – *Financial Instruments: Recognition and Measurement.* It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 – *Presentation of Financial Statements,* which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income. Previously, the Group's approach was to include the impairment of trade receivables in other expenses.

The following table summarises the impact, net of tax, of the transition to IFRS 9 on the opening balance of retained earnings:

	R'000
Retained earnings	
Recognition of expected credit losses under IFRS 9	(5 046)
Related deferred tax	848
Impact at 1 May 2018	(4 198)

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets and financial liabilities as at 1 May 2018.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 May 2018 relates solely to the new impairment requirements.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

12. IMPACT OF FIRST-TIME ADOPTION OF IFRS 9 AND IFRS 15 continued

	Original classification under IAS 39	New classification under IFRS 9	Original classification under IAS 39 R'000	New classification under IFRS 9 R'000
Financial assets				
Trade and other receivables	Loans and receivables	Amortised cost	221 840	216 794
Cash and cash equivalents	Loans and receivables	Amortised cost	20 792	20 792
Financial liabilities				
Interest-bearing liabilities	Amortised cost	Amortised cost	11 651	11 651
Third-party loans	Amortised cost	Amortised cost	75 350	75 350
Trade payables	Amortised cost	Amortised cost	200 300	200 300
Bank overdrafts	Amortised cost	Amortised cost	96 196	96 196

Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortised cost. An increase of R5,0 million in the allowance for impairment over these receivables was recognised in opening retained earnings at 1 May 2018 on transition to IFRS 9.

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 May 2018.

	IAS 39 carrying amount at 30 April 2018 R'000	Change R'000	IFRS 9 carrying amount at 1 May 2018 R'000
Financial assets			
Trade and other receivables			
– Brought forward: loans and receivables	221 840	–	–
– First-time adoption of IFRS 9	–	(5 046)	–
– Carried forward: amortised cost	–	–	216 794

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile. The Group has determined that the application of IFRS 9's impairment requirements at 1 May 2018 results in an additional allowance for impairment as follows:

	R'000
Loss allowance at 30 April 2018 under IAS 39	36 366
Additional impairment recognised at 1 May 2018 on	
– Trade and other receivables	5 046
Loss allowance at 1 May 2018 under IFRS 9	41 412

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

12. IMPACT OF FIRST-TIME ADOPTION OF IFRS 9 AND IFRS 15 continued

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively.

When adopting IFRS 9, the Group has applied transitional relief and opted not to restate prior periods. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 May 2018. Accordingly, the information presented for 2018 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 – *Revenue*, IAS 11 – *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Group has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 May 2018). Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

13. IFRS 16 – NOT YET ADOPTED

IFRS 16 – Leases

The Group is required to adopt IFRS 16 – *Leases* from 1 May 2019. The Group has assessed the estimated impact that initial application of IFRS 16 will have on its consolidated financial statements, as described below. The actual impacts of adopting the standard on 1 May 2019 may change because:

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

IFRS 16 replaces existing leases guidance, including IAS 17 - *Leases*, IFRIC 4 – *Determining whether an Arrangement contains a Lease*, SIC-15 – *Operating Leases – Incentives* and SIC-27 – *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

Leases in which the Group is a lessee

The Group will recognise new assets and liabilities for its operating leases of warehouse, factory facilities and equipment. The nature of expenses related to those leases will now change because the Group will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Group recognised operating lease expense on a straight-line basis over the term of the lease by applying lease smoothing, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

In addition, the Group will no longer recognise provisions for operating leases that it assesses to be onerous. Instead, the Group will include the payments due under the lease in its lease liability.

Based on the information currently available, the Group estimates that it will recognise additional lease liabilities of R27,8 million together with right of use assets as well as reversing the lease smoothing reserve as at 1 May 2019.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

13. IFRS 16 – NOT YET ADOPTED continued

Transition

The Group plans to apply IFRS 16 initially on 1 May 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 May 2019, with no restatement of comparative information.

The Group plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 May 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

14. PRIOR PERIOD ERRORS

Revenue and cost of sales

During 2019, the Group discovered that rebates received on the purchase of goods were incorrectly classified as revenue instead of cost of sales. The error has been corrected by restating each of the affected financial statement line items for prior periods. The following tables summarise the impacts on the Group's consolidated financial statements.

Consolidated statement of profit or loss and other comprehensive income	As previously reported R'000	Adjustment R'000	As restated R'000
Revenue	1 418 324	(46 494)	1 371 830
Cost of sales	(1 015 195)	46 494	(968 701)

Warranty provision

During 2019, the Group identified that movements in an internal inventory costing provision were incorrectly included as movements under the warranty provision. The error has been corrected by restating each of the affected disclosure line items for prior periods. The following table summarises the impact on the Group's consolidated financial statements.

	As previously reported R'000	Adjustment R'000	As restated R'000
Provision for warranty			
Balance at the beginning of the year	3 372	–	3 372
Provisions raised	22 749	(22 716)	33
Provision utilised	(25 444)	22 716	(2 728)
Balance at the end of the year	677	–	677

October 2018 interim results

The interim financial results for the six months ended 31 October 2018 included R69,8 million in respect of a profit on the discontinued operation of Botjheng Water Proprietary Limited. It was expected by the then Board of Directors that Bothjeng Water Proprietary Limited would be liquidated and deregistered by year-end. Due to changes at the executive level, the liquidation and deregistration were not concluded . The new Board, appointed in April 2019, reviewed the decision and concluded it was premature to deconsolidate Botjheng Water Proprietary Limited and reversed the decision. This resulted in the R75 million profit from the deconsolidation of Botjheng Water Proprietary Limited, which was included in the interim results, not being included in the year-end results.

Impact

There is no impact on the Group's profit, basic or diluted earnings per share and no impact on the total operating, investing or financing cash flows for the year ended 30 April 2018.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

15. EVENTS AFTER THE REPORTING DATE

General meeting

At the General Meeting held on 27 May 2019, the following resolutions were passed by shareholders:

- Ratification of the appointment of the directors by the Board of Directors on 4 April 2019, as follows:
  - Appointment of Messrs Timothy Fearnhead, Francois Olivier and Edward Raff as independent non-executive directors and Mr Timothy Fearnhead as Chairperson of the Board;
  - Re-appointment of the CEO, Dr Shaun Prithivirajh as an executive director; and
  - Appointment of the CFO, Mr Chris Booyens as an executive director;
- The appointment of the members of the Audit and Risk Committee, being Messrs Edward Raff (Chairperson), Martin Kuscus and Francois Olivier; and
- The remuneration of the non-executive directors for a two-year period.

Beyond Platinum Proprietary Limited

During July 2019, the court handed down judgment in the civil case in favour or Ellies Electronics Proprietary Limited. Beyond Platinum Proprietary Limited appealed the judgment. Refer to note 11.

Notes to the reviewed condensed consolidated financial statements continued

for the year ended 30 April 2019

For and on behalf of the Board

Dr Shaun Prithivirajh
CEO

Chris Booyens
CFO

5 August 2019

ELLIES HOLDINGS LIMITED

Incorporated in the Republic of South Africa
Registration number: 2007/007084/06
JSE share code: ELI
ISIN: ZAE000103081
("Ellies") or ("the Company") or ("the Group")

Directors:

Messrs Timothy Fearnhead (Chairperson)*, Dr Shaun Prithivirajh (CEO), Chris Booyens (CFO), Martin Kuscus*, Francois Olivier*, Edward Raff*, Elliot Salkow#

* *Independent non-executive* # *Non-executive*

Preparer:

Prepared by Mr Jayme Burgers (CA(SA)), Group Financial Accountant, under the supervision of Mr Chris Booyens (CA(SA)), Financial Director and CFO

Company Secretary: Ms Lindie Lankalebalelo

Registered office:

94 Eloff Street Ext, Village Deep, Johannesburg, 2001

(PO Box 57076, Springfield, 2137)

Auditors: BDO South Africa Inc, Wanderers Office Park, 52 Corlett Dr, Illovo, 2196

Sponsor: Java Capital, 2nd Floor, 6A Sandown Valley Crescent, Sandton, 2196

Transfer secretaries: Computershare Investor Services Proprietary Limited

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