

## 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”)



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## DECISION TO DISCONTINUE FINANCIAL ASSISTANCE TO THE MANUFACTURING SEGMENT

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### 1. Definitions

Ellies Holdings Ltd is referred to as the “Company”,  
Ellies Electronics Pty Ltd is referred to as “Electronics” and  
Ellies Industries Pty Ltd is referred to as “Industries”

### 2. Background

Shareholders are referred to the 2020 Integrated Annual Report where it was stated under Review of operations that *“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. Due to the amount of activity over the last year in the Trading and Distribution segment, the focus of the Board and Ellies management in the coming year is on the Manufacturing segment.”*

- 2.1. Industries is a partially owned subsidiary with the Company holding 73,68% of the shares through a wholly owned subsidiary Electronics.
  - 2.2. The Company has, for a considerable period been monitoring the trading operations of Industries and has made every effort to contain costs and restore a level of profitability to Industries. Of particular concern is the fact that trading volumes have not been adequate to cover much of the fixed cost or to generate sufficient profit to sustain the business. The major lines produced by Industries and which are largely sold to Electronics, consist of products related to satellite connectivity and associated electrical products which Electronics is now in a position to procure externally at a lower cost than if manufactured by Industries.
  - 2.3. Over the course of five years, the Company has provided financial assistance, through its wholly owned subsidiary Electronics, in the form of financial assistance and partially subordinated its loan account so as to enable Industries to continue operating.
  - 2.4. During 2020, the Company engaged the services of an external consultant to assess the operations of Industries with the objective of identifying both inefficiencies and efficiencies in order to assist in improving Industries’ viability. This exercise did not find sufficient positives to persuade the Company that its continued financial support of Industries was justifiable or in the best interests of the Company and its shareholders.
  - 2.5. Management prepared three scenario forecasts based on aggressive, conservative and cost reduction assumptions. None of the scenario forecasts prepared by management indicated a return to profitability in the next 24 months.
3. The Company also attempted to dispose of the business as a going concern. One potential buyer completed a comprehensive due diligence but declined to make a binding offer; the other potential buyer required significantly more security and vendor funding than was currently being provided and thus that potential transaction also fell through.
  4. As a consequence of the above, shareholders are advised that:
    - 4.1. After considerable discussion and thought by the Board, and given the fact that the Board could no longer see a strategic imperative to retain a manufacturing segment within the group as well as the fact that Industries is a drain on the resources of Electronics and the Company, it has determined that with effect from 12 February 2021, the Company through Electronics will no longer provide financial assistance to Industries. This has resulted in the Electronics board resolving to commence with an application for the liquidation of Industries.

4.2. The resolution of the ongoing losses in Industries is expected to have a positive effect on the financial position of Ellies going forward.

5. Shareholders will be updated as further material information becomes available.

12 February 2021

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