



Integrated Annual Report

2019

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About this report

The Board of Directors of Ellies Holdings Limited (“Ellies” or “the Group” or “the Company”) (“the Board”) realises the importance of an integrated annual report that fully promotes transparency and accountability to reinforce its role as a responsible corporate citizen. It has therefore adopted the following approach:

REPORTING FRAMEWORKS

Ellies’ integrated annual report was developed considering and applying frameworks including:

- International Financial Reporting Standards (“IFRS”);
- SAICA Financial Reporting Guidelines as issued by the Accounting Practices Committee;
- JSE Listings Requirements;
- Global Reporting Standards 2018; and
- Companies Act, no 71 of 2008, as amended (“Companies Act”).

The Company has adopted the value-adding principles enshrined in the King IV Report on Corporate Governance for South Africa, 2016 (“King IV™”) and views integration, together with Board and Executive Committee education, as a phase of the process.

These frameworks inform our –

REPORTING PHILOSOPHY

Ellies continuously strives to improve its reporting elements, alignment to relevant reporting frameworks and best practice.

Ellies seeks to provide relevant and material information for investors and other stakeholders through a report that is accessible to the reader.

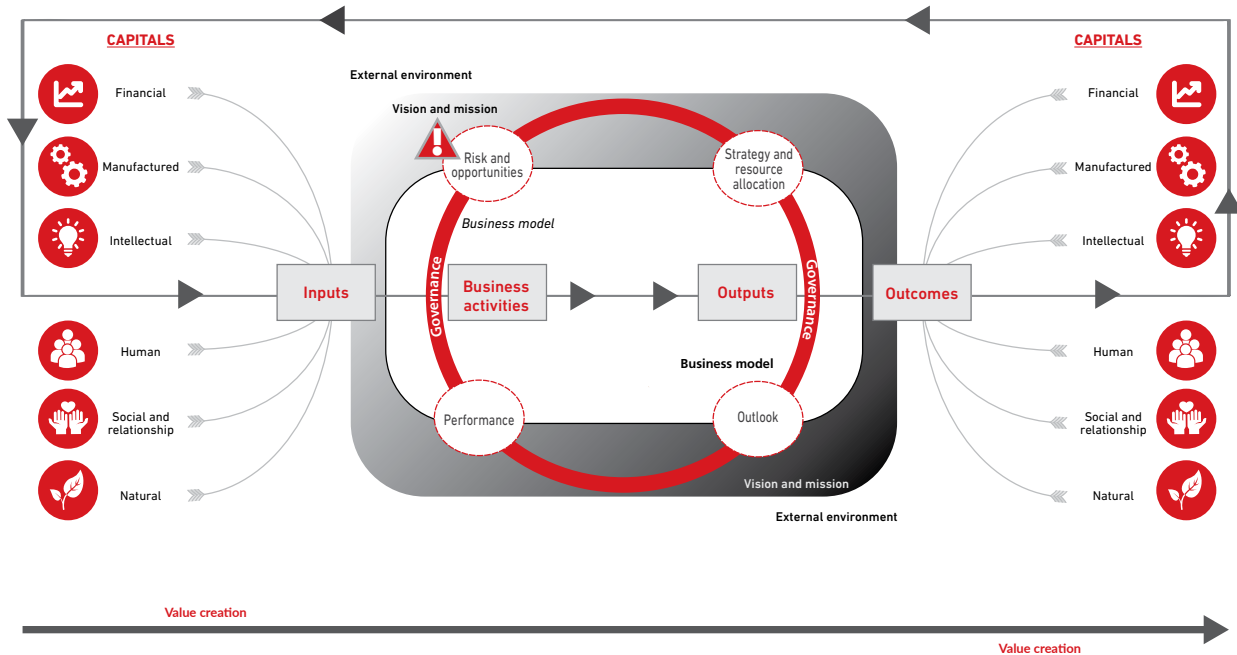
The objective is to strengthen the Company’s application of integrated reporting guiding principles and content elements, focusing on:

- advancing the material matters chapter;
- streamlining financial reporting;
- aligning governance disclosure to best practice;
- enhancing the transparency of the remuneration chapter;
- benchmarking performance according to achievements; and
- improving connectivity of information.

About this report continued

.....
 → **The reporting philosophy led to our –**
 ↓

REPORT STRUCTURE



SCOPE AND BOUNDARY

The primary objective of this integrated annual report is to demonstrate the ability of Ellies to create and sustain value.

The integrated annual report will provide a greater understanding of the Group's strategy, its business model and its major impacts across economic, social and environmental aspects as well as insight into how the Group is managed.

The 2019 integrated annual report addresses all businesses, which comprise the South African subsidiary companies, and the African operations.

A synopsis of economic, environmental and social indicators is presented on pages 66 to 79, as the Group progresses on its path to adopt a more integrated approach in its reporting.

The adoption of integrated reporting principles is a developmental and evolutionary process and it may take some time to fully implement these principles and achieve the desired level of reporting. This report, nevertheless, offers stakeholders a more holistic view of Ellies' operations and provides insight on both financial and non-financial matters for the year ended 30 April 2019.

As the concepts and practices of integrated reporting develop, management will aim to improve disclosures and application, as deemed appropriate.

The integrated report is also available online at www.elliesholdings.com.

About this report continued

ASSURANCE, COMPARABILITY AND RESTATEMENTS

A combined assurance model is applied to provide a coordinated approach to all assurance activities.

The content of this integrated annual report has been reviewed by the directors and management, but has not been externally assured.

The consolidated financial statements have been prepared in accordance with the Companies Act and IFRS and have been audited by BDO South Africa Incorporated who expressed an unmodified audit opinion.

Most of the performance measures included in this report have comparative figures and, unless specifically stated otherwise, cover the financial year of the Group.

Please refer to pages 113 to 115 for details pertaining to restatement and first-time adoption of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contract Customers*.

FEEDBACK REQUEST

The Board welcomes feedback on Ellies' integrated annual report 2019 from stakeholders. Please e-mail info@elliesholdings.com with any questions or comments on this report.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking statements which Ellies believes are reasonable and consider information available up to the date of the report. Results could, however, differ materially from those set out in the forward-looking statements as a result of, amongst other factors, changes in economic and market conditions, changes in the regulatory environment and fluctuations in commodity prices and exchange rates. As a result, these forward-looking statements are not guarantees of future performance and are based on numerous assumptions regarding Ellies' present and future business models, strategy and the environments in which it operates.

All subsequent oral or written forward-looking statements attributable to the Group or any member thereof or any persons acting on their behalf are expressly qualified in their entirety by the cautionary statements above and below. Ellies expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein or to

reflect any change in their expectations with regard thereto or any change in events, conditions or circumstances on which any such forward-looking statement is based. The forward-looking statements have neither been reviewed nor audited by the Group's external auditors, BDO South Africa Incorporated.


BOARD APPROVAL OF THE INTEGRATED ANNUAL REPORT

The Board acknowledges its responsibility to ensure the integrity of the integrated annual report. The Board has accordingly applied its mind to the integrated annual report and in the opinion of the Board the integrated annual report addresses all material issues, and presents fairly the integrated performance of the organisation and its impacts. The integrated annual report has been prepared in line with best practice to the extent possible for the year under review. The Board authorised the integrated annual report for release on 30 August 2019.

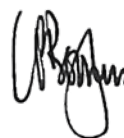
For and on behalf of the Board



Timothy Fearnhead
Chairperson



Dr Shaun Prithvirajh
CEO



Chris Booyens
CFO

Value creation



Group profile

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, which is part of the Trading and Distribution segment, is the heartbeat of the organisation, and operates out of 13 branches and trade counters in South Africa, and wholly-owned branches in Namibia, Botswana and Eswatini.

Ellies Industries, which is part of the Manufacturing segment, manufactures, sells and distributes various products related to markets in which 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 the Trading and Distribution segment and the Manufacturing segment. 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.

Our mission, vision and values

The Ellies Group provides products and services to people, and we endeavour to let this inform everything we do. We're not just a corporate institution – we're a family.

Mission

Our **mission** remains to keep on improving ourselves so that we can enrich the lives of others, offering solutions that truly make a difference in people's lives.

Vision

Our **vision** is to be at the forefront of technology and electronic accessories in southern Africa.

Values

Our **values** are embedded in everything we do – from the way we package our products, to the way we present ourselves, to the way we talk to our customers, colleagues, partners and investors.

- **Exceptional:** We strive to be an exceptional company, excellent at what we do and to be best in class.
- **Principled:** We honour our promises and keep our word. Nothing is as important as our reputation – not even our profits.
- **Committed:** We believe in what we do and take dedication and loyalty seriously.

As a leader in the industry, we pride ourselves on products that are utilitarian, innovative, technologically advanced and engineered to the highest quality with your best interests at heart – without cutting corners. Ellies is committed to providing customers with direct, honest, trustworthy advice, so that they are empowered to make the correct buying decisions.

The Group's ultimate goal is to be the brand of choice when it comes to satellite television, multi-media, electronic, electrical, energy-efficient lighting and power solutions, in both the residential and commercial sectors. Ellies is also deeply committed to empowerment; helping to create business opportunities and stimulating SMME growth is a fundamental pillar of the Group's belief system.

Geographic footprint



Who we are

Established in 1979, the Ellies Group listed on the Alt^x of the Johannesburg Stock Exchange on 5 September 2007 and moved to the Electronics and Electrical Sector of the Main Board in 2010.

The Group is a leading southern African manufacturer, importer, wholesaler and distributor of quality, electrical and electronic products and the design and installation of lighting, audio-visual and solar solutions to both the commercial and residential sectors. In addition to supplying aerial and satellite television equipment, accessories and hardware, headway has been made in photovoltaic solar panels, cable and fibre distribution networks, along with signal, sound and audio-visual turnkey solutions, specifically in the business sector.

Ellies is ideally positioned to capitalise on the ever-increasing demand for these products and services in southern Africa, and to introduce new offerings to its extensive and diversified customer base.

MANUFACTURING AND ENGINEERING

Staffed by experienced engineers, and with patents for many of its manufactured products, the facility comprises three key manufacturing divisions:

- **Aluminium and plastics manufacturing:** Product development and the manufacturing of terrestrial antennae using specialised machinery.
- **Electronics manufacturing:** Ellies' own-design products, such as the Wizard Remote Blaster and Video Sender, are manufactured and assembled using surface-mounted machines.
- **Light metal manufacturing:** This sub-division manufactures products in an advanced light metal fabricating plant. These include wall brackets; LED and plasma TV mountings; shelving; satellite and terrestrial mounting brackets; and satellite dishes.

Additional services and manufacturing include:

- Advanced laser cutting and punching equipment
- Design and manufacture of specialised tooling and equipment
- Robotic welding
- Fully automated electro-plating galvanising plant
- Computerised welded mesh facilities and cut-to-length wire straightening plant
- State-of-the-art powder coating plant
- Plastic injection moulding plant
- Brackets, including patents for certain brackets for television, aerial and satellite dish mounting

Ellies manufactures products catering for both coastal and inland conditions using steel, stainless steel and galvanised materials. The galvanising plant enables the Group to have more control over manufacturing volumes and costs. The Group has its own tool manufacturing and powder coating plant, ensuring self-sufficiency, as well as screen-printing capabilities, giving it the flexibility to meet the requirements of the Original Equipment Manufacturers (OEMs) to which it exports.

New products are tested before being launched – both newly procured and newly manufactured.

Who we are continued

RESEARCH AND DEVELOPMENT

With a dedicated research and development department, many of Ellies' products are designed, developed and manufactured in South Africa.

Some examples include the market-leading Wizard Remote Blaster, TV antennae, DTT aerials and Wizard Audio/Video Sender, TV Link and a range of solar home power back-up systems. The Group strives to continually reinvent itself by developing products which are both core and complementary to its business and related industries, such as wireless remote extenders, surge protectors and security products.

PACKAGING

Ellies has a packaging plant with specialised facilities, including vacuum and plastic blister packaging.

DISTRIBUTION AND LOGISTICS

Ellies' warehousing, distribution and logistics functions are being re-engineered to ensure just-in-time deliveries to customers.

The primary focus is on warehouse optimisation to increase supply-chain visibility, streamlining warehouse processes and improving customer service. Initiatives continue with regard to space utilisation optimisation, achieving labour efficiencies and the management of inventory control, together with the implementation of a warehouse management system.

Improved infrastructure will support the Group's diverse business operations, comprising retail, furniture and independent stores in urban and rural areas, as well as to commercial lighting and Elsat customers and Ellies branches countrywide.

PRODUCT PROCUREMENT, MARKETING AND SALES

In creating synergy and alignment across key divisions, Ellies aims to support the business, sales, customers and profit generation thus improving the bottom line, utilising insights gained into the cost of doing business.

This will allow for cost reduction, performance improvement, increased marketing and innovation to create value. It will further ensure that the Group remains outward facing and intrinsically linked to its customers' needs, as well as providing guidance on how the business communicates with customers and delivers on its commitments.

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 20 on pages 148 and 149.

Five-year review

for the year ended 30 April 2019

	2019 R'000	2018 * R'000	2017 R'000	2016 R'000	2015 R'000
Statement of comprehensive income					
Revenue – continuing operations	1 357 739	1 371 830	1 311 492	1 362 761	1 590 247
Revenue – discontinued operations	611	11 382	71 268	280 416	212 903
Total revenue	1 358 350	1 383 212	1 382 760	1 643 177	1 803 150
EBITDA # – continuing operations	(21 475)	84 354	(13 834)	28 520	(255 731)
EBITDA # – discontinued operations	15 455	3 871	(11 511)	(271 021)	(32 988)
Total EBITDA #	(6 020)	88 225	(25 345)	(242 501)	(288 719)
(Loss)/profit from operations – continuing operations	(42 194)	70 608	(61 954)	14 568	(309 953)
Profit from continuing operation – non-recurring expenses	(11 775)	(4 379)	(37 176)	–	(36 979)
Profit from continuing operation – adjusted for non-recurring expenses	(30 419)	74 987	(24 778)	14 568	(272 974)
Profit from operations – discontinued operations	15 449	3 863	(11 566)	(448 110)	(34 401)
Total profit from operations	(26 745)	74 471	(73 520)	(433 542)	(344 354)
Gross profit – continuing operations	348 495	403 129	334 123	406 152	241 438
Gross profit – discontinued operations	(119)	(941)	5 819	16 920	34 513
Total gross profit	348 376	402 188	339 942	423 072	275 951
Statement of financial position – continuing operations					
Cash and cash equivalents	42 443	(75 404)	(105 190)	(98 151)	9 810
Total assets	660 201	776 948	788 544	1 291 317	1 733 515
Shareholders' funds (capital and reserves)	274 634	310 429	270 906	519 288	855 047
Statement of cash flows – continuing operations					
Cash generated from/(utilised by) operations	65 419	63 523	103 620	146 233	(1 417)
SHARE STATISTICS					
(Loss)/earnings per share (cents)	(3,58)	6,84	(39,67)	(87,78)	(92,33)
Headline (loss)/earnings per share (cents)	(3,26)	7,89	(7,45)	(57,35)	(81,34)
Net asset value per share (cents)	47,48	51,89	44,84	83,97	190,76
Tangible net asset value per share (cents)	39,18	43,48	36,44	74,74	140,70
OTHER STATISTICS					
Shares in issue at year-end	620 158 235	620 158 235	620 158 235	620 158 235	453 057 398
Weighted average number of shares in issue	628 158 235	620 158 235	620 158 235	583 533 394	354 135 067
JSE STATISTICS					
Market capitalisation (R'000)	74 419	136 435	136 435	421 708	1 880 188
Share price (R)	0,12	0,22	0,22	0,68	4,15
Price: earnings ratio (times)	(10,06)	3,22	(0,55)	(1,70)	(4,49)
SELECTED RATIOS – FOR CONTINUING OPERATIONS					
(Loss)/profit from operations as percentage of revenue	(3,11)	5,15	(4,72)	1,07	(19,49)
Current asset ratio (current assets/current liabilities)	2,22	1,32	1,32	1,58	2,54
Quick asset ratio (current assets – inventories/current liabilities)	0,96	0,55	0,55	0,73	2,46
Return on shareholders' funds (return on equity) (profit before interest and tax/(shareholders' interest excluding non-distributable reserves) (%)	(7,58)	14,59	(3,57)	(21,33)	(22,20)

* Restated – refer note 20 on pages 148 and 149.

Earnings before interest, tax, depreciation and amortisation.

Our strategy

The consumer and retail sectors are rapidly changing, requiring suppliers like Ellies to be continuously monitoring and adapting their product lines to those ever-changing needs. We will remain relevant to our customers by maintaining a current, in-depth understanding of their needs, leveraging our innovation and sourcing capabilities, ensuring that our products and solutions are delivered to the customer via an efficient distribution network. For our commercial customers, we will continue to innovate around our customised solutions to ensure that we install the most cutting-edge solutions that meet their business and budget requirements.

In order to achieve our financial goals, focus is required on operational efficiencies, including process optimisation and control. Profit margins will be optimised through refocusing the product range and solutioning on positive margin product lines and intensifying our attention to cost management. To minimise losses and drive sustainable business practices, the business will operate on a newly revised framework of strong corporate governance and ethics.

The four pillars of the strategy

OPERATIONAL EFFICIENCIES

- Process redesign and digitalisation for efficiencies with appropriate controls supported by appropriate technology
- Ensure suitable warehousing facilities to meet current and future volumes
- Drive throughput volume in the manufacturing division
- Drive initiatives to focus on order fill rate and customer satisfaction
- Upskilling and training of staff (historically an area of underinvestment)

COST MANAGEMENT

- Implement enhanced cost management controls and discipline
- Stop wasteful expenditure
- Improve the control environment to prevent stock losses and fraud
- Implement demand-based procurement
- Conscientious, measured investment in appropriate technology and infrastructure requirements to optimise operational and revenue performance

PROFITABLE GROWTH

- Leverage innovation capabilities to provide leading products and solutions for customers
- Focus on profitable product ranges and solutions
- Expand existing products and solutions to new markets and geographies
- Open new trade counters in South Africa in F2020
- Expand commercial solutioning capabilities targeting key industries
- Explore new routes to market
- Achieve target order fill rate
- Diversify revenue: reduce concentration risk
- Grow annuity revenue streams

COMPLIANCE, RISK AND GOVERNANCE

- Ensure comprehensive, world-class governance frameworks and related policies are implemented
- Instil an ethical, performance-driven culture of integrity and discipline
- Improve and enhance the Group's Internal Audit function

Our investment case

GOVERNANCE AND LEADERSHIP

- New, experienced Board committed to the highest standards of corporate governance
- Experienced, committed management team to drive the turnaround
- Good corporate governance prioritised

BRAND

- Strong, market-recognised and trusted brand with reputation for quality and reliability

INNOVATION AND EXPERTISE

- Market-leading innovation capabilities with a legacy of being at the forefront of new technologies core to our capabilities
- Highly experienced team with technical ability and industry-leading product knowledge
- Bespoke commercial solutioning capabilities that deliver unique, turnkey advice and solutions in chosen sectors

ROUTE TO MARKET, GEOGRAPHIC REACH AND DISTRIBUTION CAPABILITIES

- Access to a large, diversified customer base
- Established route to market and wide distribution reach into southern Africa
- Experienced distribution capabilities
- Focus on customer service

PRODUCT RANGE AND OFFERING

- Diverse product range to provide industry leading holistic solutions within our core business areas:
 - Electrical
 - Audio-Visual
 - Lighting
 - Security
 - Satellite and streaming
 - Home automation
 - Connectivity and fibre
 - Power solutions and alternative energy
- Market reputation for quality products and ISO approval
- Ability to quickly adapt product offering to market needs and launch to market
- Value added services offered that enhance product offering such as installation and customisation driving competitive differentiation
- Product knowledge and training

STRONG MUTUALLY BENEFICIAL PARTNERSHIPS

- Longstanding relationships with key, reputable partners driving good business opportunities
 - Significant growth potential with these and new opportunities with new strategic business partners
 - Exclusive distribution agreements
-

Our business model

INPUTS

Financial capital

- Retain profit and equity for funding
- Providers of funding

Intellectual capital

- Product knowledge
- Sourcing knowledge
- Market knowledge
- Solutioning expertise
- In-house professional teams
- Sales and marketing
- Brands and intellectual property
- Research and development
- Product innovation
- Route to market
- Established exclusive supplier agreements
- Funder relationships

Human capital

- Customer-focused culture
- Values and ethics
- Technical expertise

Social and relationship capital

- Multifaceted installer training
- Skills and development training
- Online installation voucher capturing portal – support of Small, Medium and Micro-sized Enterprises
- Stakeholder and investor relationships

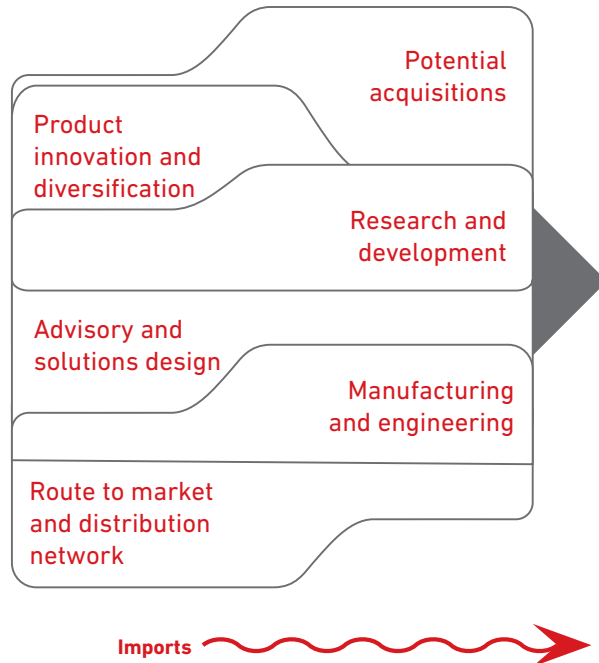
Manufactured capital

- Buildings
- Equipment
- Infrastructure

Natural capital

- Land
- Energy sources

VALUE CREATION



Supported by our business activities

Products	Customer knowledge	Logistics	Manufacturing
In-depth research and analysis (consumer trends, technology)	Train customers in all product categories, ranging from satellite to lighting	Centralised warehouse optimisation increasing supply chain visibility, streamlining processes	Agile manufacturing capability and capacity to adapt to market needs
New product innovation	Align our product ranges by product category to our identified customer needs	Increase operating efficiencies ensuring just-in-time deliveries to customers	
Diversification	Entrench customer value proposition	Expand our points of presence and depth of product range to our independents, increasing customer purchasing convenience	
Installer training	Provide specialised solutions to commercial customers	Warehouse management system	
Keep abreast of competitors			
Source responsibly			
Manage stock levels			
Increase fill rate			
Demand-based procurement			
Product packaging			

Our purpose

We are a company that creates wealth by improving people's lives through meaningful technology and innovation. We enrich customers' lives and lifestyles.

OUTPUTS



Turnkey commercial advisory and solutions

- LED lighting and PV solar
- Signal, sound and AV equipment
- Cable and fibre distribution networks
- Electronic security solutions



Wholesale and sourcing specialists

- Electronics
- Satellite television and accessories
- TV antennas (DTT)
- Electrical
- Residential lighting
- Alternative energy solutions
- Connectivity solutions
- Security



Other

- Elsat
- Procurement
- Product packaging
- Manufacturing
- Sourcing house brands for retailers
- Installations

Centralised warehousing, distribution and logistics

> 9 600 customers

Delivery to national retailers, independents (B2C)
Ellies Branches and Agents (Bordering countries)
Ellies Branches (National SA footprint)
Delivery to Commercial Key Accounts (B2B)
Trade counters (National SA footprint)
Trade counters (Bordering countries)

Supported by our business activities

Processes and controls	Our values	Engaged staff	Stakeholder satisfaction	Customer satisfaction
ISO 9001 certification	Exceptional, principled and committed	Assist staff in balancing their work lives	Rebuild stakeholder trust and investor confidence	Implement consumer-centric strategies
Digitalisation of processes	Expressed in everything we do – from the way we package our products, to the way we present ourselves, we talk to our customers, colleagues, partners and investors	Create an environment conducive to innovation, team work, job satisfaction and productivity	Rebuild value in the Company	Identify consumer trends in the industries in which we operate and align our product and service offerings
Internal Audit function		Passion, purpose, people, profits	Share our mission and vision	Nurture and build brand equity
Decentralised decision making with delegation of authority			Practice good corporate governance underpinned by strong ethics	Be flexible and agile in exceeding our customers' expectations
Consequence management			Service each customer as if they are our only customer	
Centralised shared services				

OUTCOMES

- Increased **customer value** and market share
- Increased **brand awareness** and perception
- New product development and **innovation**
- Total of **872 employees** who share in our wealth generation
- Diversified product mix** aligned to our customer needs
- Contribute to development in countries through **payment of taxes**
- Increased **locally manufactured** products
- Optimised operational efficiencies** including digitalisation
- Commitment to **sustaining our environment**
- Small business development through **the installer programme**
- Assisting in lowering the country's electrical consumption with energy efficient and **renewable product solutions**
- Community upliftment** through skills development, employment and social initiatives

Report to **shareholders**



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.

WHERE HAVE WE COME FROM?

Overview

A preliminary assessment by the new management team 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 in 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 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.

WHERE WE CURRENTLY ARE?

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.

Report to shareholders continued

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 on pages 106 to 109.

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 20 on pages 148 and 149 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.

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 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 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, R33,7 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

Report to shareholders continued

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 19 on page 147.

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 Standard Bank perfecting its surety in respect of Megatron SA Proprietary Limited.

The guarantee issued to Standard Bank 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 pages 113 to 115 for disclosure on the impact of the first-time application of IFRS 9: *Financial Instruments*.

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 an investment in 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.

Risks

Risk management and the ongoing improvement of corresponding control structures are key to management's focus in building a successful and sustainable business.

Executive management plays an active role in the risk management process and is responsible for the implementation, ongoing maintenance of and compliance with the risk process as it applies to each business in the Group.

Key risks identified within the Group include:

- funding arrangements and the associated meeting of covenants;
- reliance on a significant customer agreement;

Report to shareholders continued

- sub-optimal condition of the main warehouse and inability of the building to support high-volume logistics;
- insurance risk associated with structural shortfalls at the main warehouse, with remedial actions being taken;
- timeous conversion of obsolete inventory; and
- that fraud and theft may occur and that the internal controls will not timeously detect or prevent them from happening.

Mitigating strategies are disclosed in the risk management section of the integrated annual report on pages 44 to 46.

Stakeholder engagement

Sustainable value creation depends on successful engagement with stakeholders. The integrated capitals (as shown on page 2), underpinned by Ellies' values (as shown on page 6), serve as the basis of all exchanges and the Board and management aim to engage proactively with those who impact Ellies, as well as those on whom the Group has an impact. This informs the Group's strategy development and evaluation, risk management as well as material issues.

Stakeholder engagement is outlined on pages 47 to 50.

Environment

The Group currently does not collate data on environmental indicators. Data collation will commence after determining materiality in respect of the Global Reporting Standards 2018 in terms of environmental standards applicable to Ellies.

Ellies is mainly a distributor of finished goods and services with finished and semi-finished goods being procured from a variety of vendors, both locally and internationally. No materials used in operations have a significant impact on the environment. As such, Ellies is regarded as having an overall low environmental impact.

Social

Ellies' human capital is an important priority. The Group's goal remains to build and maintain a diverse, loyal, performance-driven workforce that is innovative and effective, and which reflects Ellies' collaborative values and culture. Transformation, human resources and Company culture are key matters that are addressed throughout all operations.

At a Group level, each business entity's operational objectives and requirements are being reviewed to ensure effective investment in appropriate training and skills development initiatives to ensure that employees are well positioned to meet the Group's strategic objectives.

A safe, healthy, satisfied workforce is a productive and effective workforce and ensuring employees' well-being remains of utmost importance.

Upliftment of the communities in which the Group operates, through corporate social investment initiatives, is ongoing.

Governance

Changes to the Board during the reporting period are disclosed in the Directors' Report on page 94.

The newly appointed Board is fully committed to the highest standards of governance and accountability, as recommended by King IV™, and the delivery of outcomes such as an ethical culture, good performance, effective control and legitimacy. The Board's approach to governance is founded on the premise that a successful business requires strong controls, meaningful structures and unwavering commitment to ethical conduct in order to reach its full potential.

The Group's corporate governance disclosure, shown on pages 30 to 43, has been prepared in terms of King IV™, and the Board has a key strategic priority to ensure the Group's compliance with the principles and recommended practices of the King IV™ principles that are applicable to Ellies, and the mandatory corporate governance requirements of the JSE.

The Board plays a pivotal role in strategic planning and establishing benchmarks to measure the Group's strategic objectives.

Report to shareholders continued

WHERE WE ARE GOING?

Strategy

A strategic review of the business has highlighted that there are key elements present and resultant market opportunities to return the business to 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.

Ellies has a turnaround strategy with short- and long-term goals, that will be implemented over the next 24 months, 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 digitalise 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.

The four pillars of the strategy



Compliance, risk and governance

- * *Introducing a values-based culture reinforced across all levels of the organisation.*
- * *A dedicated focus on ethics, integrity, discipline, transparency, accountability and an overall strong corporate governance ethos.*



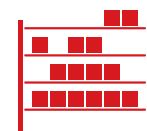
Operational efficiencies

- * *Stabilising operations by restoring operational and cost discipline across the organisation.*
- * *Investing in appropriate technology to digitalise processes and strengthen the control environment.*



Cost management

- * *A relentless focus on plugging expenditure leakages and tightening cost controls.*
- * *Adopting a phased approach with critical new investments to enhance controls and operational efficiencies.*



Profitable growth

- * *A clear focus on doing business at the right margins, leveraging the brand, revitalising the Group's innovation capability, diversifying revenue streams and targeting customers beyond the traditional consumer.*

Report to shareholders continued

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.

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 will be supported by a relentless focus on ethics, integrity, discipline, transparency, accountability 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.

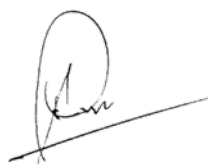
The ongoing weak economic conditions, competitive environment and current revenue concentration from a few customers' perspective remain key risks facing the business. However, with the support of a new, experienced Board who is committed to the highest levels of ethics, as well as the execution of the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

APPRECIATION

On behalf of the Board and Executive Committee, we would like to sincerely thank Standard Bank and Investec for their steadfast support of our turnaround strategy. We would also like to thank our staff for their commitment, hard work and resilience during a challenging year.



Timothy Fearnhead
Chairperson



Dr Shaun Prithvirajh
CEO



Chris Booyens
CFO

Governance



Board of Directors

as at 30 April 2019

INDEPENDENT NON-EXECUTIVE DIRECTORS



Timothy Fearnhead (70)

CA(SA)

**Independent Non-Executive
Chairperson**

Date appointed: 4 April 2019

Mr Timothy Fearnhead is a chartered accountant, was a partner at Deloitte for over 20 years and a member of their Board for four years prior to moving to Nedbank in 1997. He served in various financial executive roles within the Nedbank group between 1997 and 2006 and, on his retirement in 2006, he started a training consultancy business, where he spent four years running strategy and financial management courses.

External appointments:

Independent non-executive director of listed companies Accelerate Property Fund Ltd and Newgold Issuer Ltd as well as an independent non-executive director of a number of non-listed companies.

Board Sub-Committees:

Chairperson of the Nomination Committee (30 April 2019)



Martin Kuscus (63)

BA Cur, Dip EDP

**Independent Non-Executive
Director**

Date appointed: 1 June 2015

Mr Martin Kuscus was the MEC for Finance in the North West Provincial Government from 1994 until 2004. Prior to that, he spent 17 years in healthcare services. In June 2004, he became the Chief Executive Officer of the South African Bureau of Standards, a position he held until July 2009. He was the Chairperson of the first Board of Trustees for the Government Employees Pension Fund, overseeing a portfolio worth R850 billion from June 2005 to July 2009. He served on the Principles of Responsible Investment Board of the United Nations Global Compact Initiative on Responsible Investment and has served as Chairperson of the Pan African Infrastructure Development Fund.

External appointments:

Non-executive director of Netcare Ltd; Chairperson of the Mineworker's Provident Fund; Non-executive director of Bigen Africa Group Holdings (BAGH), South Africa; Trustee of Liberty Corporate Umbrella Funds; Partner in the Makings Consultancy Services.

Board Sub-Committees:

Chairperson of the Social and Ethics Committee (30 April 2019); member of the Remuneration Committee (30 April 2019); member of the Audit and Risk Committee (23 April 2019)

Board of Directors continued



Francois Olivier (48)

CA(SA); CFA Charter Holder

**Independent Non-Executive
Director**

Date appointed: 4 April 2019

Mr Francois Olivier has 19 years of investment research and portfolio management experience, six years of which were spent in the USA.

External appointments:

Portfolio Manager at Mazi Asset Management (Pty) Ltd; non-executive director of Renegen Ltd and Three I Developments (Pty) Ltd; director of family-owned businesses, Intuitu Investments (Pty) Ltd and 1 Andrew Street (Pty) Ltd.

Board Sub-Committees:

Chairperson of the Remuneration Committee (30 April 2019); member of the Nomination Committee (30 April 2019); member of the Audit and Risk Committee (23 April 2019)



Edward Raff (41)

*BComm; BSc Honours in Advanced
Mathematics of Finance; H Dip Tax;
H Dip Man; Completed all three CFA
levels*

**Independent Non-Executive
Director**

Date appointed: 4 April 2019

Mr Edward Raff has extensive financial and commercial experience and previously worked in investment banking, most recently at Rothschild & Co. Prior to this, he served as a senior executive in corporate finance at AngloGold Ashanti for almost 10 years.

External appointments:

Director of Archipelago Investments (Pty) Ltd, Siyalanda Property and Eureka Holdings (Pty) Ltd.

Board Sub-Committees:

Chairperson of the Audit and Risk Committee (23 April 2019); member of the Remuneration Committee (30 April 2019)

Board of Directors continued

NON-EXECUTIVE DIRECTOR



Elliot (Ellie) Salkow (65)

Non-Executive Director

Date first appointed: 6 March 2007

Date appointed as non-executive director: 4 April 2019

Mr Ellie Salkow began his career as a salesman and honed his entrepreneurial skills early on in South Africa and later in the United Kingdom. In 1979, he started Ellies Electronics and with great entrepreneurial spirit and flair, he soon created new opportunities within the market.

Following the resignation of Mr Wayne Samson, dispensation was obtained from the JSE for Mr Salkow to take on the role of both Executive Chairperson of the Board (with Mr Oliver Fortuin as the Lead Independent Director until his resignation on 30 June 2018) and Joint CEO during this interim period, until the appointment of Dr Shaun Prithivirajh as the new CEO with effect from 1 August 2018. Mr Salkow's appointment as non-executive director on 15 November 2019 was disputed and, therefore, Mr E Salkow only took on a non-executive director role on the Board, with effect from 4 April 2019, thereby relinquishing his full-time duties at the Company.

External appointments:

Independent non-executive director of Archsat Investments (Gauteng) CC, Archsat Investments (Natal) (Pty) CC, Berrywood Investments 10 (Pty) Ltd, Birchip Properties CC and Megatron SA (Pty) Ltd, as well as various Ellies Holdings Ltd subsidiary companies.

Board Sub-Committees:

Member of the Nomination Committee (30 April 2019)

Board of Directors continued

EXECUTIVE DIRECTORS



Dr Shaun Prithivirajh (49)

*PhD Business Management; MBA;
Diploma in Business Management,
BA*

Chief Executive Officer

Date appointed: 4 April 2019

Dr Shaun Prithivirajh's business career includes being Managing Executive and Director of Ellerines Services Africa as well as manager of internal products retail, commercial and industrial for Chevron South Africa Proprietary Limited (Caltex). He has extensive executive experience in turning around businesses and in-depth management experience in highly competitive retail and service-driven businesses.

Dr Prithivirajh was the Group CEO for GloCell (Pty) Ltd during the two-year period prior to joining Ellies Holdings Ltd as CEO on 1 August 2018. At the AGM held on 7 December 2018, his appointment as executive director and CEO was not ratified by shareholders. He, however, remained in the employ of Ellies Holdings Limited as its CEO in terms of his contract of employment. On 4 April 2019, the Board re-appointed him as executive director, which appointment was ratified by shareholders at the General Meeting held on 27 May 2019.

External appointments:

None.

Board Sub-Committees:

Member of the Social and Ethics Committee (30 April 2019)



Chris Booyens (62)

BCompt (Hons); CA(SA)

**Chief Financial Officer and
Financial Director**

Date appointed: 4 April 2019

Mr Chris Booyens is an experienced chartered accountant who held financial director roles in the listed environment at Harmony Gold Mining Ltd, Iliad Africa Ltd and Distribution and Warehousing Network Ltd as well as Financial Director roles at various Tiger Brands Ltd subsidiaries.

He was appointed as Interim Chief Financial Officer at Ellies Holdings Limited for a three-month period on 11 October 2018, with the option to extend his contract while the Board undertook the process of identifying a long-term Chief Financial Officer. As announced on SENS on 16 January 2019, the Board extended his contract to the end of the financial year, being 30 April 2019, and on 4 April 2019, appointed him as an executive director while he continues in his role as Chief Financial Officer.

External appointments:

None.

Board Sub-Committees:

Member of the Social and Ethics Committee (30 April 2019)

Board composition and meeting attendance

BOARD MEETING ATTENDANCE

Attendance at meetings held during the period 1 May 2018 to 30 April 2019 is shown below.

	21 May 2018	19 Jul 2018	27 Sep 2018	6 Dec 2018	18 Jan 2019	24 Jan 2019	4 Apr 2019
Members							
Adrian Bock ¹	P	P	P	N/A	N/A	N/A	N/A
Oliver Fortuin ²	A	N/A	N/A	N/A	N/A	N/A	N/A
Stephen Goldberg ³	A	P	N/A	N/A	N/A	N/A	N/A
Martin Kuscus ⁴	P	P	P	P	P <i>Meeting Chair</i>	P	P
Fikile Mkhize ⁵	P	P	P	P	N/A	N/A	N/A
Reshoketswe Ralebepa ⁶	N/A	N/A	A	AP	N/A	N/A	N/A
Ian Russell ⁷	N/A	N/A	N/A	P	N/A	N/A	N/A
Dr Shaun Prithvirajh ⁸	N/A	N/A	P	N/A	N/A	N/A	N/A
Elliot Salkow ⁹	P	P	P	A	A	A	P
Andrew Hannington (Alternate to Mr Elliot Salkow) ¹⁰	N/I	N/I	N/I	A	P	P	N/A
Invitees							
Dr Shaun Prithvirajh	N/A	N/A	N/A	N/I	P	P	P
Chris Booyens ¹¹	N/A	N/A	N/A	N/I	P	P	P
Rudi Huiskamp (External Auditors – BDO South Africa Inc)	N/I	N/I	N/I	N/I	N/I	P	N/I
Company Secretary							
CIS Company Secretaries (Pty) Ltd ¹²	P	P	P	P	N/A	N/A	N/A
Lindie Lankalebalelo ¹³	N/A	N/A	N/A	P	P	P	N/I

A – Absent AP – Apology N/A – Not applicable N/I – Not invited P – Present

¹ Resigned as CFO and joint CEO with effect from 28 September 2018.

² Resigned as Lead Independent Director and independent non-executive director with effect from 30 June 2018.

³ Resigned as independent non-executive director with effect from 13 August 2018.

⁴ Appointed as Interim Chairperson on 18 January 2019; resigned as Interim Chairperson on 4 April 2019.

⁵ Appointed as Interim Chairperson on 15 November 2018; Resigned from the Board on 18 January 2019.

⁶ Appointed as independent non-executive director on 1 September 2018; Resigned from the Board on 14 January 2019.

⁷ Appointed as independent non-executive director with effect from 1 October 2018; Appointed as Interim Lead Independent Director on 16 November 2018; Resigned from the Board on 18 January 2019.

⁸ Appointed as CEO and executive director with effect from 1 August 2018; Appointment not ratified at the AGM held on 7 December 2018, but remained as CEO in terms of an employment contract; Re-appointed as executive director on 4 April 2019.

⁹ Retired as Executive Chairperson with effect from 15 November 2018; Remained as an executive director; Appointed as a non-executive director on 4 April 2019.

¹⁰ Appointed as alternate director to Mr Elliot Salkow with effect from 11 December 2018; Ceased to be Mr Elliot's Salkow's alternate director from 4 April 2019.

¹¹ Appointed as Interim CFO with effect from 11 October 2018 to 7 December 2018; Contract extended from 7 January 2019 to 30 April 2019; Appointment as CFO and executive director confirmed on 4 April 2019, before expiry of contract period.

¹² Resigned on 1 December 2018.

¹³ Appointed on 1 December 2018.

Board composition and meeting attendance

continued

BOARD COMPOSITION

On 4 April 2019, the Board was reconstituted as follows:

Independent non-executive directors

- Mr Timothy John Fearnhead – Chairperson of the Board
- Mr Martin John Kuscus
- Mr Francois Johannes Olivier
- Mr Edward Hillel Raff

Non-executive director

- Mr Elliot Ralph Salkow

Executive directors

- Dr Shaun Prithvirajh – Chief Executive Officer
- Mr Christiaan Phillip Booyens – Chief Financial Officer and Financial Director

At the General Meeting held on 27 May 2019, the above appointments were ratified by shareholders.

Executive Committee

The Executive Committee comprises the following members:

- Dr Shaun Prithvirajh – Chief Executive Officer
- Mr Chris Booyens – Chief Financial Officer
- Mr Johan Klein – Executive: Group Services
- Mr Zeyn Agjee – Executive: Procurement
- Mr Steven Baloyi – Executive: Operations
- Mr Daryl Harding – Executive: Sales
- Mr Gary Gillingham – Executive: Commerce
- Mrs Voloshnee Pandaram – Executive: Marketing
- Mr Henry Barber – Executive: Branches
- Mr Charm Naicker – Executive: IT

Company Secretary

- Ms Lindie Lankalebalelo
-

Corporate governance report

The Board and individual directors are committed to the principles of transparency, integrity and accountability and accept their duty and responsibility to ensure that the principles and underlying recommended practices, outlined in King IV™, are observed with the resultant governance outcomes of an ethical culture, good performance, effective control and legitimacy. The Board's commitment to sound governance practices is disclosed in this section and throughout the integrated annual report.

The Board, as it has been re-constituted with effect from 4 April 2019, is committed to ensuring that Ellies complies with the JSE Listings Requirements and applies the King IV™ principles and recommended practices, as applicable to the Group, as outlined in the future focus areas throughout this report on pages 30 to 43.

LEADERSHIP

Principle 1:

The governing body should lead ethically and effectively.

The Board exercises effective leadership, with directors adhering to their ethical and fiduciary duties. The directors discharge their responsibilities in the following manner:

- **Integrity:** acting in good faith and in the best interest of Ellies. Declarations pertaining to conflicts of interest are tabled at each Board meeting and untenable conflicts are identified and acted on.
- **Competence:** ensuring the necessary experience, expertise and competency to lead effectively.
- **Responsibility:** considering risks and overseeing and monitoring management's implementation and execution of the mitigating strategies ensuring accountability for the Group's performance.
- **Accountability:** accepting responsibility for the execution of their duties, even when these are delegated.
- **Fairness:** adopting a stakeholder-inclusive approach and ensuring the equitable treatment of all stakeholders, while remaining cognisant of the Group's short, medium and long-term impact on the economy, environment, society and its stakeholders.
- **Transparency:** exercising governance roles and responsibilities in a transparent manner.

Arrangements by which Board members will be held to account for ethical and effective leadership include, but are not limited to, performance evaluations of individual directors as well as of the Board as a whole. Ellies' Code of Conduct has been communicated to all stakeholders and all directors and employees of the Group subscribe to the Code.

Planned areas of future focus:

Ellies' Code of Conduct will be reviewed on a continuous basis to ensure that it remains aligned with best practice. Conduct in respect of share trading is currently included in the Code and a separate Share Trading Policy will be developed in the year ahead.

ORGANISATIONAL ETHICS

Principle 2:

The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.

The Board determines and sets the tone of Ellies' values, including principles of ethical business practice and human rights considerations, and, supported by the Social and Ethics Committee, approves Ellies' Code of Conduct and considers the requirements for the Group to be a responsible corporate citizen, based on integrity, competence, responsibility, accountability, fairness and transparency.

Corporate governance report continued

The implementation and execution of the Code of Conduct has been delegated to management with the Board, assisted by the Social and Ethics Committee, providing ongoing oversight of the management of ethics by monitoring the activities with regard to ethics and ensuring that it is integrated in the operations of the Group.

Planned areas of future focus:

The Code of Conduct will be updated with the objective of aligning both employee and director conduct to the achievement of the governance outcomes, as recommended by King IV™, being an ethical culture; performance and value creation; adequate and effective control; and trust, good reputation and legitimacy.

Ellies' values and ethical standards will be incorporated into management and employees' key performance areas with the appropriate weighting attached thereto. The Board, through the Social and Ethics Committee and the Remuneration Committee, will provide oversight of the management of ethics throughout the organisation to ensure that the Group's ethical standards are applied to the processes for the recruitment, evaluation of performance and reward of employees, as well as the sourcing of suppliers.

RESPONSIBLE CORPORATE CITIZENSHIP

Principle 3:

The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.

The Board, assisted by the Social and Ethics Committee and supported by the executives, oversees and monitors how the operations and activities of the Group affect its status as a responsible corporate citizen. Through stakeholder engagement and collaboration, Ellies has committed to understanding and being responsive to the interests and expectations of stakeholders and to partnering with them in finding solutions to sustainability challenges.

Oversight and monitoring of activities and outputs that affect Ellies' status as a responsible corporate citizen includes:

- workplace (employment equity; fair remuneration; health and safety; training and development of employees);
- economy (economic transformation; prevention, detection and response to fraud and corruption);
- society (consumer protection; community development; protection of human rights); and
- environment (carbon footprint).

The Group's status as a corporate citizen is disclosed in the Sustainability Report (workplace, economy, society and environment) and the Social and Ethics Committee Report (transformation) contained in this integrated annual report.

Planned areas of future focus:

Ellies' responsible corporate citizenship will be enforced through the adoption by the Board of related policies, which may include, but will not be limited to, the Occupational Health and Safety Policy and Workplan, the Protection of Personal Information Policy, the Corporate Social Investment Policy, the Corporate Citizenship Policy, the Anti-Corruption Policy, the Whistle-Blowing Policy, the Human Rights Policy and the Tax Policy.

The Board, through the Social and Ethics Committee, will be considering measures to monitor organisational ethics and methods by which to address outcomes.

STRATEGY AND PERFORMANCE

Principle 4:

The governing body should appreciate that the organisation's core purposes, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.

The Board informs and approves Ellies' strategy, which is aligned with the purpose of the Group, the value capitals and value drivers of the business, and the expectations of its stakeholders, aimed at ensuring sustainability and which takes

Corporate governance report continued

into account the top risks facing the Group. With the support of the Board Committees, the Board oversees and monitors the implementation and execution by management of the policies, procedures and priorities and ensures that Ellies accounts for its performance by, amongst others, reporting and disclosure.

The Board recognises the need to conduct annual strategy sessions to review and approve the strategy proposed by Group operations, taking into account related risks, opportunities, the availability of capital and resources, sustainability and stakeholder interests. The Board further recognises the importance of monitoring its performance against the targets set by the strategy.

Ellies' investment case, strategic priorities and business model are disclosed on pages 12 to 15 of the integrated annual report and risk management appears on pages 44 to 46.

Sustainability issues are considered by the Board when strategies or new business opportunities are evaluated. These include the effect on all stakeholders, including shareholders, suppliers, customers, employees and communities.

Planned areas of future focus:

To ensure that the Group's strategy remains aligned with stakeholder expectations, mechanisms for two-way communications with stakeholder groups, including the management of the effects of actions, will be explored.

REPORTING

Principle 5:

The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.

The Board, through the Audit and Risk Committee, ensures that the necessary controls are in place to verify and safeguard the integrity of the integrated annual report and any other disclosures.

Reports are issued by Group operations and departments to the various Board Committees. These reports, among others, form the basis of the 2019 integrated annual report. In addition, the Company issues unaudited interim results and audited consolidated financial statements for year-end results. The publication of external reports, press releases and releases on SENS enable stakeholders to make informed assessments of Ellies' performance.

The review of reports by the various committees ensures integrity and transparency of the Group's reporting and ensures the Board is aware of all developments across the Group and is able to track progress against set targets in the short, medium and long term. The Chairperson from each committee provides feedback to the Board on relevant matters.

Reporting frameworks and materiality are approved by the Audit and Risk Committee to ensure compliance with legal requirements and relevance to stakeholders. The review of reports by the various committees ensures integrity and transparency of the Group's reporting and ensures that the Board is aware of all developments across the Group and is able to track progress against set targets in the short, medium and long term. The Board ensures that reports issued by Ellies enable stakeholders to make informed assessments of the Group's performance and its short, medium and long-term prospects.

The Audit and Risk Committee oversees the integrated reporting process and reviews the annual financial statements. Ellies ensures that the integrated annual report, which includes the sustainability report, the annual financial statements and corporate governance disclosures, is published on the website, www.elliesholdings.com.

The Chairperson of the Social and Ethics Committee reports back to shareholders at each Annual General Meeting ("AGM") of the Company and the Chairperson of the Audit and Risk Committee attends each AGM of the Company to respond to questions pertaining to the annual financial statements.

Planned areas of future focus:

An ongoing focus area will be the streamlining of reporting to enhance disclosure in a concise manner and aligned to the Integrated Reporting Framework and JSE's Pro-Active Monitoring Panel's reports on financial statements.

Corporate governance report continued

PRIMARY ROLE AND RESPONSIBILITIES OF THE GOVERNING BODY

Principle 6:

The governing body should serve as the focal point and custodian of corporate governance in the organisation.

The Board has an approved Charter which it reviews annually. The Charter sets out its governance responsibilities, including the role, responsibilities, membership requirements and procedural conduct. The Board Charter guides the Board in the execution of its duties together with the Company's Memorandum of Incorporation. Through its sub-Committees, whose mandates and terms of reference are reviewed annually, the Board implements and monitors the governance practices within the Group.

The Board as well as any director or Committee may obtain independent, external professional advice at Ellies' expense concerning matters within the scope of their duties and the directors may request documentation from, and set up meetings with, management, as and when required.

Although the Board is supported by various committees and management reporting structures, it accepts responsibility for corporate governance within the Group and for relevant and transparent disclosure and reporting of corporate governance.

Planned areas of future focus:

An appropriate governance and compliance structure will be put in place to ensure that all entities within Ellies adhere to Group requirements and governance and compliance standards.

The Board Charter will be reviewed and updated, as appropriate.

The process of alignment of Ellies' policies and procedures to King IV™ is ongoing and will continue in the year ahead. The adoption of a formal Governance Framework Policy will be considered in the year ahead.

COMPOSITION OF THE GOVERNING BODY

Principle 7:

The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

JSE Listings Requirements (paragraph 3.84, service issue 26) – mandatory disclosure requirements: Categorisation of directors; Balance of power and authority on the Board; Appointment of the CEO and Chairperson; Policy on the promotion of gender and race diversity on the Board; CV of each director standing for election or re-election.

There was, as disclosed in the Directors' Report on page 94, considerable upheaval on the Board of Directors, at both non-executive and executive levels, during the reporting period. As stated on page 29, the Board of Directors was re-constituted on 4 April 2019 and confirmed by shareholders at the General Meeting held on 27 May 2019.

Directors are appointed by way of a transparent and formal procedure, governed by the mandate and terms of reference of the Nomination Committee and the Board Charter. A director's skills, knowledge, experience in relevant sectors, qualifications, availability, number of external Board appointments and what he/she brings to the diversity of the Board are among the issues considered in the selection process, bearing Ellies' strategic objectives in mind and to ensure the Board's effectiveness.

The Board evaluated and concluded that as at 30 April 2019, the Board comprised a majority of independent non-executive directors with four of the five non-executive directors being independent and two executive directors, the CEO and the CFO. The capacity of each director is categorised as defined in the JSE Listings Requirements, also taking into consideration King IV™ and other factors as outlined in the Board Charter. A short CV of each director can be found on pages 24 to 27. Mr Elliot Salkow is not considered independent in terms of the definition as he was an executive director of the Company until April 2019 and is a significant shareholder of the Company. There is a clear distinction between the roles of the CEO and the Chairperson, and these positions are occupied by separate individuals.

Following the restructuring of the Board, the Board is more aligned in terms of its strategic focus. The diversity of Board member qualifications provides assurance that Ellies' business is considered from different perspectives with a view to providing a holistic review of the Company's strategy. There is a clear balance of power and authority at Board level.

Corporate governance report continued

The Group remains committed to improve gender and race representation and steps are being taken to ensure that the Board applies the principle of diversity, which incorporates both gender and race diversity as required by the JSE Listings Requirements. Race and gender targets for the Board will be reviewed to ensure that future appointments are aligned with this policy and the B-BBEE codes.

At each Board meeting, directors are required to declare in writing whether any of them has any conflict of interest in respect of any matter on the agenda. Any such conflicts are managed proactively, as determined by the Board and subject to legal provisions.

The Board votes on the re-appointment of the Chairperson every year. Shareholders vote annually on the re-election of non-executive directors to the Board who, retire by rotation, or who serve on the Board for nine years or longer. A brief CV of each director standing for election or re-election at the AGM is included in the integrated annual report, of which the notice of AGM forms part. In accordance with clause 24.8 of the Company's Memorandum of Incorporation, Messrs Martin John Kuscus and Elliot Ralph Salkow retire by rotation and, being eligible, offer themselves for re-election.

Planned areas of future focus:

The Board will review, at least annually, its composition and diversity targets, as well as the appropriateness of the skills, experience, expertise of individual directors and the effectiveness of the Board as a whole.

The Board has not appointed a Lead Independent Director and consideration will be given in respect of such an appointment to assist the Chairperson, as recommended by Principle 7 (practice 32) of King IV™.

An appropriate succession plan for the Chairperson, CEO and CFO, as well as an appropriate Succession Planning Policy and Succession Planning Framework for the Group, will be developed.

A policy evidencing a clear balance of power of authority at Board level as well as a Conflict of Interest Policy will be incorporated into the Board Charter when the Charter is updated and reviewed in the year ahead.

As required in terms of paragraphs 3.84(i) and 3.84(j) of the JSE Listings Requirements, a Board Diversity Policy will be adopted which will support the principles and aims of gender and race diversity at Board level with voluntary targets set by the Board, which targets will be reported on in the integrated annual report every year.

COMMITTEES OF THE GOVERNING BODY

Principle 8:

The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.

JSE Listings Requirements (paragraph 3.84, service issue 26) – mandatory disclosure requirements: Audit Committee, Remuneration Committee and Social and Ethics Committee; Expertise and experience of the Financial Director.

The Board Charter and Ellies' Memorandum of Incorporation provide that the Board may delegate particular roles and responsibilities to standing committees. Committees, with a formal mandate and terms of reference, have been established to assist the Board in discharging its responsibilities. The Committees of the Board comprise the Audit and Risk Committee, the Remuneration Committee, the Nomination Committee and the Social and Ethics Committee. The provisions of the Board Charter and composition of the committees are determined and approved by the Board.

The Committees are appropriately constituted, and members are appointed by the Board, except for the Audit and Risk Committee (which is a statutory committee in terms of the Companies Act – from an audit perspective) whose members are nominated by the Board and elected by shareholders.

External advisors attend Committee meetings by invitation, Executive directors attended Committee meetings, where they are not members of such Committee, by invitation. Formal Charters have been established and approved for each Committee, which charters are reviewed annually.

Corporate governance report continued

The Board considers the allocation of roles and associated responsibilities and the composition of membership across committees holistically, so as to achieve the following:

- Effective collaboration through cross-membership between committees, where required; coordinated timing of meetings; and avoidance of duplication or fragmented functioning, as appropriate.
- Where more than one committee has jurisdiction to deal with a similar matter, the specific role and positioning of each committee in relation to such matter are defined to ensure complementary rather than competing approaches.
- There is a balanced distribution of power in respect of membership across committees, so that no individual has the ability to dominate decision making, and no undue reliance is placed on any individual.
- A delegation by the Board of its responsibilities to a committee does not by or of itself constitute a discharge of the Board's accountability.

Audit and Risk Committee

The Audit and Risk Committee comprises three non-executive directors, all of whom are independent.

The Chairperson of the Board is not a member of the Committee. The Audit and Risk Committee is constituted as a statutory committee in respect of its statutory duties in terms of section 94(7) of the Companies Act and a committee of the Board in terms of all other duties assigned to it by the Board, which include the monitoring and evaluation of risk functions delegated to the Committee by the Board.

The Committee performs the functions as set out in the Companies Act. Adequate processes and structures have been implemented to assist the Committee in providing oversight and ensuring the integrity of financial reporting, internal control and other governance matters relating to subsidiaries.

The performance of the Audit and Risk Committee and significant issues dealt with during the year are set out in the Report of the Audit and Risk Committee included in the annual financial statements from pages 84 to 91.

Resolutions confirming the appointment of the members of the Audit and Risk Committee will be presented to shareholders at the AGM to be held on 31 October 2019.

Remuneration Committee

The Remuneration Committee is responsible for overseeing remuneration. All members of the committee are independent, non-executive directors. The Chairperson of the Board is not a member of the Committee. The Report of the Remuneration Committee appears on pages 51 to 59.

Nomination Committee

The Nomination Committee identifies and recommends suitable Board appointments taking into consideration necessary competencies and knowledge to execute the required functions and responsibilities. Induction and other training programmes ensure that the Ellies Board, its Committees and management are kept informed of applicable laws, regulations and codes of best practice, as well as Ellies's Code of Ethics Conduct and internal policies. The Board recognises that on occasion the directors may feel the need to seek advice from independent professionals regarding the discharge of their duties. The Board Charter encourages directors to seek independent advice funded by Ellies.

The Nomination Committee ensures that the composition of the Board and the Board Committees, including the appointment of the Chairperson of each Committee, takes into account factors such as diversity and skills as well as the need to create an even spread of power and authority.

The Nomination Committee identifies, evaluates and makes recommendations to the Board in respect of candidates to be appointed to the Board and Board Committees. The Nomination Committee process is formal and transparent, including and ensuring that:

- the nominated candidate meets the fit and proper criteria; and
 - terms and conditions of appointment of all members are formalised in writing.
-

Corporate governance report continued

The Nominations Committee further:

- considers the composition of the Board, taking into account the Company's strategy, customers/markets served, Board diversity, skills and experience of Board members, continued eligibility for members, evaluation of effectiveness and performance of directors, roles and primary strengths of current Board members;
- conducts annual evaluations of the effectiveness and performance of the Board as a whole and considers the contribution of each non-executive director;
- evaluates the independence of directors whose tenures exceed nine years;
- reviews the Board's training, development and orientation needs, including induction programmes for new directors; and
- plans the succession of the CEO and executive directors.

In terms of the Nomination Committee Charter, the Nomination Committee meets at least twice per annum. Due to changes to the Board, only one meeting was held during the reporting period. Attendance at meetings held during the period 1 May 2018 to 30 April 2019 was as follows:

	15 Nov 2018
Members	
Fikile Mkhize (Chairperson) ¹	P
Ian Russell ²	P
Martin Kuscus	AP
Invitees	
Dr Shaun Prithivirajh (CEO)	P
Tsholo Nketane – Tuesday Consulting	P (via telecon)
Company Secretary	
CIS Company Secretaries (Pty) Ltd ³	P

P – Present

AP – Apology

¹ Resigned as member of the Committee on 18 January 2019.

² Resigned as member of the Committee on 18 January 2019.

³ Resigned as Company Secretary on 1 December 2018.

The Nomination Committee was reconstituted on 30 April 2019 and comprises Messrs Timothy Fearnhead (Independent Non-Executive Chairperson of the Nomination Committee and Chairperson of the Board), Francois Olivier (Independent Non-Executive Director) and Elliot Salkow (Non-Executive Director).

Social and Ethics Committee

The Social and Ethics Committee is responsible for overseeing and reporting on social, ethics, transformation and sustainability matters. It is also responsible to execute the statutory duties set out in the Companies Act.

The Committee comprises one independent non-executive director, who is also the Chairperson of the Committee, and two executive directors being, the CEO and CFO. The Social and Ethics Committee Report appears on pages 60 to 62.

Planned areas of future focus:

The Board and its Committees will approve their respective annual workplans for the year ahead, which plans will be actioned and reported on in the next integrated annual report.

Corporate governance report continued

EVALUATION OF THE PERFORMANCE OF THE GOVERNING BODY

Principle 9:

The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

The Board evaluation process' aim is to not only satisfy compliance commitments but to have as an objective improved governance and overall performance in the interest of all stakeholders.

The Board was unable to conduct a self-appraisal assessment during the year under review due to changes in the Board during the reporting period.

Planned areas of future focus:

An evaluation of the Board, its Committees and the individual directors, will be conducted in the next financial year and thereafter annually, with the third year to be conducted externally by an independent evaluator. The annual evaluations will consist of a questionnaire to be completed by all Board members. This annual evaluation will be comprehensive, encompassing all aspects of the Board's responsibilities. It will cover the effectiveness of the Board as a whole and a director's contribution will be measured against his or her duties.

Evaluation questions will also evaluate the performance of the Chairperson and the Lead Independent Director (if applicable).

The Chairperson will annually appraise the CEO and the results of this appraisal will be considered by the Remuneration Committee to guide it in its evaluation of the performance and remuneration of the CEO. Evaluations will be performed in line with both the Company's own objectives and the guidance that is given in King IV™ and the Institute of Directors in Southern Africa. The results will be collated by the Company Secretary and passed on to the Board who assesses the results.

Nomination for re-appointment of a director will only occur after evaluation of performance and the satisfactory attendance at meetings by the director.

The Board will annually consider other commitments of directors and whether the director has sufficient time to fulfil the responsibilities as a director, to ensure that they can still execute their job effectively and are free from conflicts that cannot be managed satisfactorily. Should the Board be of the view that a director is overcommitted or has an unmanageable conflict, the Chairperson will meet with that director to discuss the resolution of the matter to the satisfaction of the Board.

APPOINTMENT AND DELEGATION TO MANAGEMENT

Principle 10:

The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.

JSE Listings Requirements (paragraph 3.84, service issue 26) – mandatory disclosure requirements: The Company Secretary.

CEO and executive management

The role and function of the CEO are specified in the Board Charter and the performance of the CEO is evaluated by the Board against the criteria specified.

The Board approves and regularly reviews the delegation of authority. The CEO, CFO and executive management are jointly and severally the highest executive decision-making authority of the Group and are jointly and severally delegated with authority from and are jointly and severally accountable to the Board for the successful implementation of the Group strategy and the overall management and performance of the Group, consistent with the primary aim of enhancing long-term shareholder value.

In terms of the delegation of authority framework, executive management supports the CEO and CFO in the implementation of the Group strategy and the overall management and performance of Ellies. The CEO and CFO may sub-delegate all matters not specifically reserved for decision-making by the Board or shareholders.

Corporate governance report continued

The CEO and CFO are not members of the Audit and Risk, Remuneration and Nomination Committees, but attend any meeting, or part thereof, by invitation, if needed, to contribute pertinent insights and information. The CEO and CFO are members of the Social and Ethics Committee.

The Board evaluates the performance of the CEO and CFO annually against agreed performance measures and targets.

Delegation of authority

The Board delegates certain of its powers and authority, outside of the reserved powers, to management and/or such committees/forums, as they may deem appropriate. The directors appreciate that, despite such delegation occurring, they still remain ultimately responsible. However, it is understood that, any person or committee/forum to whom power or authority has been delegated, shall not, unless stated expressly to the contrary, be required to obtain consent to act in accordance with his/her/its delegated authority, but shall report regularly for monitoring purposes.

In the event of there being any dispute over the interpretation of the powers delegated by the Board to management, any committee or forum, the matter will be referred to the Board for a ruling and the decision of the Board in this regard shall be final and binding.

Succession planning

Given the fact that the Board has just stabilised the executive management team, succession planning of key management positions will be a key focus area in the next year to ensure continuity.

Company Secretary

The Company's appointed secretary, Ms Lindie Lankalebalelo, plays a pivotal role in the continuing effectiveness of the Board. The Company Secretary is not a director of the Company and was appointed by the Board in line with requirements of the Companies Act. The Company Secretary is considered independent and competent in the role as Company Secretary.

As the Board was reconstituted in April 2019, the Company Secretary's performance throughout the year was not evaluated. Furthermore, the Company Secretary was only appointed with effect from 1 December 2018, but the Board is satisfied that the Company Secretary has the required competency in respect of qualifications and experience. The Board is satisfied that the Company Secretary maintained an arm's length relationship with the Board and its directors.

Key functions of the Company Secretary include the following:

- provision of guidance to the Board as a whole and to individual directors regarding how their responsibilities should properly be discharged in the best interests of the Group;
 - overseeing the induction and orientation of new directors and ongoing training and education of all directors;
 - providing a central source of guidance and advice to the Board, and within the Company, on matters of good governance and of changes in legislation;
 - assisting the Chairperson and the CEO in determining the annual Board plan and Board agendas;
 - formulating governance and Board-related issues;
 - ensuring that the Board and Board Committee Charters are kept up to date;
 - ensuring that minutes of all shareholders meetings, Board meetings and the meetings of any committees of the directors, including those of the Audit and Risk Committee, are properly recorded in accordance with the Companies Act;
 - being responsible for ensuring the proper compilation and timely circulation of Board papers;
 - ensuring that a copy of the Company's annual financial statements is sent to every person who is entitled to it in terms of the Companies Act;
 - ensuring that the Company has filed the required returns and notices in terms of the Companies Act, and confirming that all such returns and notices appear to be true, correct and up to date; and
 - assisting with the annual evaluation of the Board, its individual directors and senior management.
-

Corporate governance report continued

Planned areas of future focus:

The effective exercise of authority and responsibilities will be a regular agenda item on Board and Committee meeting agendas to ensure that time constraints and potential conflicts of interests are considered and balanced against the opportunity for professional development.

A Delegated Authorities Framework will be adopted in the year ahead.

As required in terms of paragraph 3.84(h) of the JSE Listings Requirements, an evaluation of the Company Secretary's performance will be conducted in the year ahead, and the results thereof will be disclosed in the 2020 integrated annual report.

RISK GOVERNANCE

Principle 11:

The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

The Board has direct responsibility for the governance of risk and approves Ellies' risk policy that gives effect to its set direction on risk. Ellies is committed to effective risk management in pursuit of its strategic objectives, with the ultimate aim to grow value sustainably for all stakeholders by embedding risk management into key decision-making processes. The Board also approves Ellies' top risk profile and financial risk appetite and tolerance levels, ensuring that risks are managed within these levels, as deemed appropriate, and based on materiality and changes in the external and internal environments.

To support the Board in ensuring effective risk management oversight, the Board Committees are responsible for ensuring the effective monitoring of relevant Group top risks within the ambit of each Committee's scope. In monitoring and providing oversight on Ellies' risk, each Committee will consider potential risks and/or opportunities, as appropriate.

The Board recognises that risk management forms part of the Group's governance, risk, compliance and sustainability function.

Due to changes to the Board and various resignations of key executive staff during the period under review, the Board was unable to conduct an enterprise-wide risk assessment. The Board is committed to risk compliance and to this end has appointed Nexia SAB&T as the internal audit service provider.

Key risks and mitigation strategies are disclosed under risk management on pages 44 to 46 in the integrated annual report.

Pro-active monitoring and mitigation of operational or enterprise risks will be implemented, which will include monthly monitoring of key control risks. This initiative will be implemented through a phased-in approach in collaboration with the internal audit function.

A Chief Risk Officer has been appointed.

Planned areas of future focus:

The identification and monitoring of key risk indicators, together with mitigating strategies, are ongoing.

The Board is committed to establishing an integrated governance, risk, compliance and sustainability function that will assume responsibility for building a defined approach to review governance, risk, compliance and sustainability requirements and to track the performance of these requirements against set targets. The integration of these functions will break down silos between functional areas, enabling common processes, policies, and technology infrastructure, as well as streamlining governance, risk and compliance efforts. Further to this, Ellies will be building a risk awareness culture where the management of risks will be viewed as key to business success and not as an obstacle to progress in achieving strategic objectives.

A Risk Policy, formal Risk Framework and Business Continuity Policy will be developed in the year ahead.

Corporate governance report continued

TECHNOLOGY AND INFORMATION GOVERNANCE

Principle 12:

The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

The Board is ultimately accountable for the governance of technology and information management.

The Board, through the Audit and Risk Committee, oversees and monitors the governance of information technology (IT) in the Group.

The IT strategy must be aligned to Ellies' business needs and sustainability objectives.

In order to assist the Board, the IT function is in the process of developing a Shared Services Portal and an IT Governance Framework Policy, which will be submitted to the Board for approval. This framework will provide the Board with sufficient comfort around effective management and governance of information and technology and further by the implementation of effective IT risk management practices aligned to the enterprise wide risk management framework. Business units will be required to govern all core information and technology that is unique to the specific operation. A security and resilience plan is being developed to progressively mature the Ellies cyber security and resilience position.

The security and resilience plan will address information security, business continuity and data resilience. Preliminary assessments will be conducted to establish a record of how personal information is being processed within Ellies and to evaluate the impact that this processing of personal information has on the fundamental rights of individuals, specifically their right to privacy. The security and resilience plan does not reduce the individual and collective responsibilities of the Executive Committee, Audit and Risk Committee and Board members in regard to their fiduciary duties and responsibilities.

Preliminary assessments are important tools for accountability as they assist responsible parties in not only complying with requirements of the Protection of Personal Information Act, No 4 of 2013, but also demonstrate that appropriate measures have been taken to ensure compliance with this and all other applicable legislation. Progress on technology and information governance is reported to the Audit and Risk Committee to ensure an integrated approach in relation to the monitoring and assessment of technology and information risks within the business.

Planned areas of future focus:

A Technology and Information Policy for the governance of technology and communication will be developed in alignment with the recommended practices of King IV™ and to be reflective of the principle of communication and technology. The IT risk management framework will be aligned to the Group risk management framework, including third-party management and disaster recovery measures.

Information management risks will be addressed and the return on major IT investments, aligned to Ellies' strategy, will be monitored by the Board.

A policy that governs the protection of personal information, in accordance with the Protection of Personal Information Act, No 4 of 2013, will be developed and implemented.

COMPLIANCE GOVERNANCE

Principle 13:

The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

The Board has delegated responsibility for the implementation and execution of effective compliance management to management. The Board is, however, aware that it remains ultimately responsible for compliance with *inter alia* applicable laws, adopted non-binding rules, codes and standards. Through committees and reporting structures, the Ellies Board and its committees are appraised of any material incidences of non-compliance with legislative or regulatory requirements or a breach of internal controls.

Corporate governance report continued

The Board requires all Group companies and their directors and employees to comply with all applicable laws and adopt non-binding rules, codes and standards in a way that supports Ellies' ethical corporate citizenship. Legal compliance systems and processes are reviewed and are improved continuously to mitigate the risk of non-compliance with the laws and also to ensure appropriate responses to changes and developments in the regulatory environment.

The monitoring of the Group's compliance with legislation and regulatory requirements is mainly performed through the Company Secretariat. The Company Secretariat is currently setting up a new structure within the Company to comply with compliance tracking requirements. The Company Secretariat is continuing the process of evaluating the entire spectrum of national legislation to establish a regulatory universe for the Group. This is required as the Company evolves in the Electronics sector.

To the extent that legal and regulatory matters have an impact on the financial statements, reports are presented to the Audit and Risk Committee.

Other than Ellies entering into a voluntary disclosure programme (VDP) with the South African Revenue Service, there have been no regulatory penalties, sanction or fines for contraventions of, or non-compliance with, statutory obligations, whether imposed on Ellies or members of the Board or officers during the reporting period.

Planned areas of future focus:

The Social and Ethics Committee and Audit and Risk Committee will receive regular reports on compliance matters, relevant to their Charters. A compliance structure for the Group will be designed, accompanied by a Compliance Policy, as well related policies, and existing policies will be updated. In an effort to ensure that policies are easily accessible to employees, policies will be made available on the Ellies intranet.

By reviewing policies on a regular basis and providing training in this regard, Ellies will ensure that employees are kept abreast with latest developments and will be able to address any issues as and when they arise.

The Generally Accepted Compliance Practice Framework developed by the Compliance Institute of South Africa comprises principles, standards and guidelines that serve as a benchmark of compliance best practice across all industries and internationally. The Group will consider the establishment of a compliance function that can monitor and review the said framework to ensure that the Group consistently follows best practice in relation to legislative and regulatory compliance.

The integrated governance, risk and compliance function will review, *inter alia*, compliance.

REMUNERATION GOVERNANCE

Principle 14:

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long-term.

JSE Listings Requirements (paragraph 3.84, service issue 26) – mandatory disclosure requirements:

The remuneration policy and the implementation report.

The Board is committed to ensure that executives' performance is measured against the achievement of Ellies' strategy and objectives and bonuses linked to the delivery thereof. The collective achievement of Ellies' objectives ultimately creates value for all stakeholders.

Ellies' rewards strategy and policy translate into competitive and appropriate reward outcomes. The background information, Remuneration Policy and Implementation Report are reported on in detail on pages 51 to 58 in the Remuneration Committee Report contained in the integrated annual report.

Ellies' Remuneration Committee is tasked by the Board to independently approve and oversee the implementation of a Remuneration Policy that will encourage the achievement of Ellies' strategy and grow stakeholder value sustainably.

Corporate governance report continued

Ellies discloses the remuneration of each director and prescribed officer individually in its annual financial statements and in the Implementation Report on pages 55 to 57.

In line with the recommended practices in King IV™ and the JSE Listings Requirements, both the Remuneration Policy and the Implementation Report will be tabled for separate non-binding advisory votes by the shareholders at the AGM to be held on 31 October 2019.

Planned areas of future focus:

The remuneration structure and Remuneration Policy will be reviewed and updated in the year ahead.

ASSURANCE

Principle 15:

The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.

The Audit and Risk Committee is responsible for the quality and integrity of Ellies' integrated reporting. The Board and committees are made up of diverse skills and experience to ensure that risks and opportunities are considered from various perspectives. The Board, with the support of the Audit and Risk Committee, satisfies itself that the combined assurance approach is effective and sufficiently robust. The combined assurance approach should enable the Board to place reliance on the underlying the statements that the Board makes concerning the integrity of information for internal decision-making and of the Company's external reports.

During the reporting period, the internal audit function was outsourced to an internal audit firm. The mandate included internal audits of the full cycle of activities, *inter alia*:

- Diagnosis of the current status on the application of good governance principles focusing on the review of:
 - the process for the establishment of internal controls within the organisation;
 - controls in place to keep the organisation on course towards its financial goals and achievement of its objectives;
 - processes in place to minimise surprises and risks; and
 - processes in place that allow the organisation to successfully deal with change; and
- Drafting of a three-year risk-based audit plan and agreed with management and approved by the Audit and Risk Committee.

The initial focus was on documenting the inventory process to identify gaps in existing controls.

The Board, in the statement of responsibility of directors on page 82, provides their independent assurance of the information provided in the 2019 integrated annual report.

A Combined Assurance Framework, based on a five-lines of defence model and aligned to the six value capitals (financial, manufactured, intellectual, human, social and relationship, natural), will be developed, which approach will assist in addressing control over the key risks facing the Group. Ellies' combined assurance model will ensure objectivity of all information provided to stakeholders.

Corporate governance report continued

STAKEHOLDERS

Principle 16:

In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

Ellies strives to ensure a systematic and integrated approach to stakeholder engagement across the Group, facilitated through engagement initiatives to enable increased assurance to the Board that all stakeholder issues have been identified, prioritised and appropriately addressed.

It is a business imperative that Ellies understands and is responsive to the needs and interests of its key stakeholder groups.

Ellies' marketing and investor relations function contributes to the execution of Ellies' strategy by ensuring integration across internal communications, consumer affairs, brand, public relations and stakeholder relations.

A brand strategy is crucial to the organisation and stakeholders. Market research is currently being conducted to establish consumer insight, which will aid in correctly positioning the brand and formulating an effective strategy in an effort to increase equity, profitability and awareness amongst all stakeholders.

Public relations media plans have been executed in support of corporate social investment initiatives in creating a favourable and responsible organisational brand image.

In a constant endeavour to reduce risk, a standard operating procedure mandating and restricting the use of intellectual property has been circulated to the executive committee and senior management nationally.

The Head of Marketing, Ms Voloshnee Pandaram, is a member of the Executive Committee.

The subsidiary companies have delegated responsibilities, as required, to Board Committees of the holding company and have adopted the policies and procedures of the holding company.

Stakeholder engagement disclosures appear on pages 47 to 50 of the integrated annual report.

Planned areas of future focus:

A Stakeholder Engagement Policy, including a stakeholder engagement framework, as well as a comprehensive Group Governance Framework, which articulates and gives direction on relationships and the exercise of authority across the Group, will be developed in the year ahead. The framework will include formulating contingency plans as a cautionary measure in an attempt to reduce possible negative public relations. The management of stakeholder risk will form part of Ellies' governance, risk, compliance and sustainability function.

Stakeholder engagement will be increased to facilitate feedback from the different stakeholder groups and in support of the Board's planned stakeholder-inclusive approach as well as to ensure that the Board is advised timeously of material issues that may impact the Company. Material issues and associated risk pertinent to reputational damage will be regularly reported on to governing bodies.

Risk management

The newly constituted Board acknowledges that it is responsible for the total process of risk management and for setting the risk strategy. The risk strategy is based on the need to identify, assess, manage and monitor all known forms of risk across the Group, in liaison with the executive directors and senior management. Risk policies will be developed and clearly communicated to all employees to ensure that the risk strategy is incorporated into the language and culture of the Group.

The Board decides the Group's appetite or tolerance for risk and has the responsibility to ensure that the Group implements an effective ongoing process to identify risk, to measure its impact against a broad set of assumptions and then to activate what is necessary to proactively manage these risks.

Risk is not only viewed from a negative perspective. The review process will also identify areas of opportunity, such as where effective risk management can be turned to competitive advantage.

The Group is in the process of adopting an ongoing, systematic and documented risk management process that ensures that all material risks are identified, evaluated, effectively managed, and where this is practical, quantified. This process will be undertaken within each business unit as well as by the Board and serves to ingrain a sustainable risk awareness and culture at all levels. Ongoing business sustainability is addressed as part of this process.

The Group insures against losses arising from catastrophic events, which include fire, flood, explosion, earthquake and machinery breakdown, as well as business interruption from these events.

The current insurance profile is per branch and originated when the branches were individual businesses prior to being incorporated in the Group. Most branches have their own brokers, with each branch having its own policy renewal date. With effect from November 2019, the portfolio will be centralised and all operations will form part of the programme.

GROUP RISK MANAGEMENT FRAMEWORK

Formalisation of a risk management framework is the responsibility of the Board. The framework will include:

- efficient allocation of capital across various activities in order to maximise returns and diversification of income streams;
- risk taking within levels acceptable to the Group as a whole and within the constraints of the relevant business units;
- efficient liquidity management and control of funding costs; and
- improved risk management and control.

The Group's risk management framework will aim to:

- align strategy with risk appetite and tolerance;
 - improve decision-making which improves the Group's risk profile;
 - promote strategic and coordinated procurement;
 - ensure equitable commercial terms and conditions are contracted on a continuous basis;
 - promote continuous improvement through the application of key lessons learnt;
 - improve predictability and build shareholder confidence;
 - build robust organisational risk structures and facilitate timeous interventions to promote long-term sustainability; and
 - promote the efficient and proactive utilisation of opportunities.
-

Risk management continued

IDENTIFYING RISKS AND OPPORTUNITIES

The identification of risks and opportunities is robust, systematic and should involve every level of the organisation.



Having regard to the fact that managing risk is an inherent part of the Group's activities, risk management and the ongoing improvement in corresponding control structures will be a key focus of management in building a successful and sustainable business.

The Board recognises that risk management is a dynamic process and that the risk framework should be robust enough to effectively manage and react to change in an efficient and timeous manner.

In terms of its Charter, the Audit and Risk Committee has been mandated to monitor the progress of the implementation of the risk management processes, with written submissions and presentations provided by management at regular intervals.

The structure of the Group endeavours to promote the active participation of executive management in all of the operational and strategic decisions affecting the business units, thereby creating a strong culture of ownership and accountability.

Risk management continued

Key risks identified, together with mitigation strategies, are disclosed below.

Risk rating 2019	Top strategic risks	Mitigation strategies
1	Funding Funding arrangements and the associated meeting of covenants	<ul style="list-style-type: none"> Reviewing long-term funding capacity requirements Nurturing relationships with bankers
2	Customer Reliance on significant customer agreements	<ul style="list-style-type: none"> Reducing reliance on a few significant customers over time Re-establishing and nurturing the relationships to ensure continuity
3	Property Sub-optimal condition of the main warehouse and inability of the building to support high-volume logistics	<ul style="list-style-type: none"> Undertaking audits of both preventative and mitigating controls Reviewing the outcome of the audits with actions thereon implemented by management, the executive team and the Audit and Risk Committee
4	Insurance Insurance risk associated with structural shortfalls at the main warehouse, with remedial actions being taken	<ul style="list-style-type: none"> Reviewing the appropriateness of insurance cover annually Remediating identified shortcomings
5	Inventory Timeous conversion of obsolete inventory	<ul style="list-style-type: none"> Improving significantly on the demand forecast Re-invigorating the sales and operations planning process to ensure optimal functionality Formulating plans to dispose of excess and/or obsolete inventory Optimising credit control management
6	Internal controls Incidents of fraud and theft may occur and that the internal controls will not timeously detect or prevent them from happening	<ul style="list-style-type: none"> Reviewing current internal controls Implementing effective control procedures Establishing an Internal Audit function through an outsourced service provider Reviewing current security service providers Implementing an internal whistle-blowing hotline Implementing and communicating a clear Fraud Prevention Policy to all staff Ensuring that policies and approval limits are in place
7	Foreign exchange Significant volumes of imports impact the Group's exposure to exchange rate fluctuations	<ul style="list-style-type: none"> Reviewing the forward cover policy Ensuring that forward cover is arranged or bought as a hedge against adverse exchange rate fluctuations Ensuring that policies and approval limits are in place
8	Information technology Outdated hardware and a lack of reliable processes and systems threaten business continuity and disaster recovery	<ul style="list-style-type: none"> Developing an information technology continuity plan Developing a disaster recovery plan Refreshing the hardware being utilised throughout the Group
9	Competitors New competitors enter and disrupt the local market	<ul style="list-style-type: none"> Strengthening current customer relationships
10	Transformation Insufficient implementation of transformation objectives affects the Group's ability to compete	<ul style="list-style-type: none"> Improving the Group's Broad-Based Black Economic Empowerment rating through the implementation of specified initiatives

Engaging our stakeholders

Stakeholders are those individuals, groups of individuals or organisations that impact and/or could be impacted by Ellies' activities, product or services and associated performance. The Board has identified the following key stakeholder groups with whom the Group engages in a structured and inclusive manner aimed at establishing and maintaining open and transparent, mutually beneficial relationships:



Engaging our stakeholders continued

Stakeholders	Type of engagement	Material issues raised	Action taken
Shareholders and the investment community	Providers of share capital and the principal risk takers within the business.	The generation of sustainable, market-related returns on their investment, together with timely, relevant, open and ongoing communication on Ellies' activities and performance.	<p>Investors are kept abreast of developments through formal engagements such as the Stock Exchange News Service, results presentations and investor updates as well as workshops and specific shareholder meetings.</p> <p>Ellies' integrated annual report seeks to provide shareholders (and other stakeholders) with an in-depth understanding of Group strategy, sustainability, value drivers, governance, reward systems as well as actual Company performance.</p> <p>Shareholders are given the opportunity to put questions to the Board at the AGM and all other shareholder meetings and presentations.</p>
Banks, funders and insurance companies	Primary bankers who provide working capital and general transactional banking facilities. Credit underwriters provide insurance on the Group's debt exposure to a bank and short-term insurers provide cover on the Group's assets.	<p>Stable and sound financial management of the business and management of funding within the parameters set by the agreements entered into between Ellies and its funders. Regular updates and communication on developments in the Group's financial sphere are provided to the funders.</p> <p>Ongoing maintenance of the Group's assets at appropriate levels and in accordance with industry regulations and standards to meet the short-term insurance cover.</p>	<p>Various financial services are provided to the Group, including credit insurance. The Group CEO and CFO engage with the financial service providers and attend to their ongoing requirements regarding Group and ad hoc funding requirements, as the need arises, as well as interactions with the Group's bankers regarding cash flow forecasts and performance against covenants.</p> <p>Annual interactions, or more often as required, entail the updating of insurance policies, which include short-term insurance, professional indemnity, directors' liability and key person insurance cover.</p>

Engaging our stakeholders continued

Stakeholders	Type of engagement	Material issues raised	Action taken
Regulators	Industry associations and various regulatory bodies who ensure that Ellies adheres to all applicable laws, regulations, codes and corporate governance, specifically the JSE, South African Reserve Bank, South African Revenue Service, the Department of Labour and the B-BBEE Commission.	Compliance with laws and regulations that are designed to protect stakeholders, primarily through the submission of regular statutory returns and the timely collection and payment of duties and taxes.	Relationships of trust and transparency are maintained with all regulators. This is an ongoing process, which escalates when new requirements and legislation are introduced. Ellies is regulated by several stakeholders including the JSE, South African Revenue Service, South African Reserve Bank, the Department of Trade and Industry, the Department of Labour, the B-BBEE Commission and the Companies and Intellectual Property Commission.
Customers	Customers comprise individual consumers, small resellers, solution providers, retailers and large corporate resellers as well as contractees and lessees.	To gain access to Ellies' quality product and service offerings and obtain solutions that will achieve the desired outcomes for customers' respective projects.	Engagements with customers are segmented and range from accounts that are managed through the Group's various call centres to accounts that are managed on a face-to-face basis.
Suppliers	Providers of products and services, both local and international, in accordance with Ellies' procurement policy.	To render an ongoing and commercially viable supply of products and services.	Formal service level agreements are entered into with suppliers. Regular meetings are scheduled between suppliers and varying levels of management.
Employees	A diverse range of individuals of varying skills, expertise, qualifications, experience and nationalities (including race and gender diversity) are employed across the Group to add value to all stakeholders.	Career and personal development in a work environment that ensures job security and appropriate reward for performance.	On the appointment of new employees, a formal induction programme is conducted by the HR department. Employees have access to Company information on the intranet and Company newsletters are distributed and are posted on notice boards. Daily formal and informal engagement with staff to ensure that they receive the necessary guidance, motivation, feedback and recognition.

Engaging our stakeholders continued

Stakeholders	Type of engagement	Material issues raised	Action taken
Trade unions	Organisations of workers in the same skilled occupations or related skilled occupations who act together to secure favourable working conditions for all their respective members.	Maintaining good working relationships and obtaining consensus on any decisions or projects that may result in changes in working conditions or in Ellies' operational requirements through engaging on collective employment issues and communicating potential changes affecting labour.	<p>Union representatives are elected to liaise with management on matters affecting union members.</p> <p>The Executive: Group Services is responsible for managing the relationship with the employee unions and relevant industrial labour organisations.</p> <p>Meetings are held with the bargaining councils, as required.</p> <p>Engagement occurs on a strategic level as well as on operational and tactical levels, thereby improving both management and the unions' commitment to common values and objectives.</p>
Communities	The areas in which Ellies' operations are located and the people participating in and related to the Group's activities.	The creation of partnerships to best facilitate integrated sustainability initiatives and to collaborate in a way that furthers economic, environmental and social agendas for the greater good of the community.	The Group adopts a consistent approach to community development and evaluates the socio-economic impact that the Group's operations and activities have on the communities in which it operates. Engagement is ongoing as partnerships dictate or stakeholder needs require.
Media	Media includes every broadcasting and narrowcasting medium such as newspapers, magazines, TV, radio, billboards (including signage on buildings), direct mail, social media, telephone and internet.	To educate and inform the respective audiences of developments in the electrical and electronic equipment sectors, adding Ellies' voice to the public debate, as well as to communicate the Group's performance and contribution to the economy, including its product and service offerings.	Executive management conducts interviews and attends press briefings with members of the media. These take the form of one-on-one time with Ellies executives and key spokespeople across the Group to discuss pertinent issues relevant to the Group's business activities. The Group's interim and annual results are published in the press and executive management attends to the media briefings surrounding the release of the results.
Government – national, provincial and local	Members of local, provincial and national government with particular emphasis on those involved in electrical and electronic equipment development.	Ellies is, and is seen to be, an active participant in driving the economic, social and environmental upliftment of the country through its participation in electrical and electronic equipment development.	As a result of Ellies' participation in electrical and electronic development, the Group interacts, either directly or indirectly, with local and provincial government on projects. The primary method of engagement with government is through tender processes and formal meetings, as required.

Report of the Remuneration Committee

The intention of the Report of the Remuneration Committee is to provide an overview and understanding of Ellies' remuneration philosophy and to report on executive director, senior management and non-executive director remuneration.

The remuneration philosophy focuses on structures that aim to attract and retain talented individuals who can make a contribution to Ellies' sustainability. To this end, it aims to empower individuals to make a positive contribution to the growth of the business.

The Board defines the principles which guide the development of Ellies' strategy and objectives. When setting remuneration, an appropriate balance is sought between employee and shareholder interests. The ultimate responsibility for the Remuneration Policy vests in the Board.

In line with King IV™ recommended practice and in accordance with the JSE Listings Requirements, this report has been segregated into three parts:

Part 1: Background;

Part 2: Remuneration Policy, which is subject to a non-binding advisory vote by shareholders; and

Part 3: Implementation Report, which is subject to a non-binding advisory vote by shareholders.

PART 1: BACKGROUND STATEMENT

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

During the reporting period, the Remuneration Committee ("Committee") comprised three members appointed by the Board, being Mr Ian Russell (Independent Non-Executive Chairperson of the Committee), Mr Martin Kuscus (Independent Non-Executive Director) and Ms Fikile Mkhize (Independent Non-Executive Director). Mr Ian Russell and Ms Fikile Mkhize resigned with effect from 18 January 2019.

Attendance at meetings held during the period 1 May 2018 to 30 April 2019 is shown below.

	26 Oct 2018
Members	
Ian Russell (Chairperson) ¹	P
Martin Kuscus ²	P
Fikile Mkhize ³	AP
Invitees	
Dr Shaun Prithvirajh (CEO)	P
Chris Booyens (CFO)	P
Johan Klein (Executive: HR)	P
Company Secretary	
CIS Company Secretaries (Pty) Ltd ⁴	P

P – Present AP – Apology

¹ Appointed as Chairperson of the Committee with effect from 1 October 2018; resigned with effect from 18 January 2019.

² Appointed as member of the Committee with effect from 1 June 2015.

³ Resigned as member of the Committee with effect from 18 January 2019.

⁴ Resigned as Company Secretary with effect from 31 December 2018.

Report of the Remuneration Committee

continued

The Committee was reconstituted with effect from 30 April 2019 with its members being Mr Francois Olivier (Independent Non-Executive Chairperson of the Committee), Mr Edward Raff (Independent Non-Executive Director) and Mr Martin Kuscus (Independent Non-Executive Director).

In terms of the Committee's mandate, the Committee shall meet at least twice per annum, which practice is being adhered to by the reconstituted Committee.

ROLE AND RESPONSIBILITIES

The Committee's role and responsibilities are governed by a formal Charter, as approved by the Board. The Charter is subject to an annual review by the Board. A copy of the Charter may be requested from the Company Secretary and is also available for inspection at Ellies' registered address.

The responsibilities and duties of the Committee include:

- determining and agreeing the framework or broad policy for the remuneration of the CEO, executive directors and such other members of the executive management team as deemed appropriate;
 - ensuring that no director or manager is involved in any decisions regarding his/her own remuneration;
 - taking into account all factors deemed necessary, with the objective of the Remuneration Policy being to set appropriate remuneration levels to attract, retain and motivate the calibre of directors and executive required to run the Company successfully, while simultaneously aligning their interests with those of shareholders;
 - determining the targets for any performance-related pay schemes operated by the Company and requesting the Board, when required, to seek shareholder approval for any long-term incentive arrangements;
 - within the terms of the agreed framework/policy, determining the total remuneration package of the CEO and each executive director including, where appropriate, bonuses, incentive payments and share options and/or conditional rights;
 - determining service agreements for the CEO and executive directors, termination payments and compensation commitments, it being noted that *inter alia* the executive directors' service agreements should contain notice periods of not less than 60 days;
 - reviewing appropriate market information regarding remuneration-related matters;
 - being aware of and overseeing any major changes in employee benefit structures throughout the Company;
 - producing a Remuneration Report for inclusion in the Company's integrated annual report which sets out *inter alia* the Company's policy on executive and senior management remuneration, as well as details regarding membership and attendance by members at Committee meetings;
 - ensuring that the Remuneration Policy and report in respect of the implementation thereof are tabled at the AGM for separate, non-binding, advisory votes by shareholders. The Remuneration Policy must record the measure that will be taken by the Board in the event that either the Remuneration Policy or the Implementation Report, or both, are voted against by 25% or more of the voting rights exercised at the AGM;
 - ensuring that adequate disclosure is made of directors' remuneration, including but not limited to, pensions and share options, in the Remuneration Report; and
 - making recommendations to the Board in respect of the fees of the Chairperson and the non-executive directors, for approval by the Company's shareholders in general meeting.
-

Report of the Remuneration Committee

continued

VOTING ON REMUNERATION

In terms of the Companies Act, fees for non-executive directors for their services as directors must be put to shareholders for approval by special resolution. Such approval will be granted for a period of two years. Approval may not be sought retrospectively.

Additionally, it is a JSE Listings Requirement to present two separate resolutions to cast non-binding advisory votes in respect of the Remuneration Policy and its implementation to shareholders.

At the AGM held on 7 December 2018, the resolutions relating to the Remuneration Policy and the Remuneration Implementation Report were presented to shareholders and voted on as follows:

- Total number of Ellies shares in issue as at the date of the AGM:
620 158 235
- Total number of Ellies shares that were present/represented at the AGM:
399 803 971, being 61% of the total number of Ellies shares that could have been voted at the AGM.

Resolutions	Shares voted excluding abstentions	Number of votes per share		Abstentions as a percentage of votable shares*
		In favour of	Against	
Ordinary resolution number 7.1	239 736 373	202 406 745	37 329 627	160 067 598
Approval of the Company's Remuneration Policy – non-binding advisory vote				
<i>Percentage</i>	<i>36,46%</i>	<i>84,43%</i>	<i>15,57%</i>	<i>24,34%</i>
Ordinary resolution number 7.2	239 736 373	202 406 746	37 329 627	160 067 598
Approval of the Company's Remuneration Implementation Report				
<i>Percentage</i>	<i>36,46%</i>	<i>84,43%</i>	<i>15,57%</i>	<i>24,34%</i>

* In relation to total shares in issue (excluding treasury shares)

Resolutions pertaining to the Company's Remuneration Policy, summarised on page 54, as well as the Implementation Report outlined on pages 55 to 58, will be tabled at the AGM to be held on 31 October 2019 and shareholders will be requested to cast separate non-binding advisory votes thereon, as required by the JSE Listings Requirements and King IV™.

In alignment to the recommended practices outlined in King IV™ and the JSE Listings Requirements, the Board commits to take measures in the event that either the Remuneration Policy or Implementation Report, or both, be voted against by 25% or more of the voting rights exercised, which measures will provide for taking steps in good faith and with best reasonable effort to:

- enter into an engagement process to ascertain the reasons for the dissenting votes; and
- appropriately address legitimate and reasonable objections and concerns raised, which may include amending the Remuneration Policy, or clarifying and adjusting remuneration governance and/or processes.

At the General Meeting held on 27 May 2019, the resolution relating to non-executive directors' remuneration was presented to shareholders and voted on as follows:

- Total number of Ellies shares in issue as at the date of the General Meeting:
620 158 235
- Total number of Ellies shares that were present/represented at the General Meeting:
317 489 074, being 51,19% of the total number of Ellies shares that could have been voted at the General Meeting.

Report of the Remuneration Committee

continued

Resolutions	Shares voted excluding abstentions	Number of votes per share		Abstentions as a percentage of voteable shares*
		In favour of	Against	
Special resolution number 1	312 421 086	310 808 654	1 612 432	5 067 987
Approval of remuneration payable to non-executive directors				
<i>Percentage</i>	<i>50,38%</i>	<i>99,48%</i>	<i>0,52%</i>	<i>0,82%</i>

* In relation to total shares in issue (excluding treasury shares)

A special resolution relating to the remuneration payable to non-executive directors will not be presented to shareholders at the AGM to be held on 31 October 2019, as shareholders approved the remuneration for a two-year period with the passing of the resolution at the General Meeting held on 27 May 2019.

PART 2: REMUNERATION POLICY

The objectives of the Ellies' Remuneration Policy are to enable the business to:

- retain competent employees who enhance business performance;
- reward, recognise and confer appreciation for superior performance;
- direct employees' energies and activities towards key business goals;
- recruit high-performing, skilled individuals from a shrinking pool of talent; and
- achieve the most effective returns (employee productivity) for total employee spend.

To achieve this, Ellies rewards its executives and managers in a way that reflects the dynamics of the market and the context in which it operates. All components of this remuneration policy, including the fixed pay and variable pay for performance, are aligned to the strategic direction of the business.

PUBLIC ACCESS TO THE REMUNERATION POLICY

The full Remuneration Policy is available on request from the Company Secretary and for inspection at the Company's registered offices.

Report of the Remuneration Committee

continued

PART 3: IMPLEMENTATION REPORT

EXECUTIVE DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Details of executive directors and prescribed officers' remuneration are disclosed below:

2019	Basic salary R'000	Car allowance R'000	Medical aid and provident fund R'000	Bonus R'000	Consulting fees R'000	Total R'000
Executive directors						
Dr Shaun Prithivirajh ¹	2 578	–	368	–	–	2 946
Chris Booyens ²	–	–	–	–	1 138	1 138
Adrian Bock ³	925	10	95	488	–	1 518
Elliot Salkow ⁴	1 968	–	59	453	–	2 480
Andrew Hannington (Alternate to Elliot Salkow) ⁵	–	–	–	–	–	–*
	5 471	10	522	941	1 138	8 082
Prescribed officers						
Tommy Erasmus ⁶	1 378	–	192	–	675	2 245
Gavin Fait ⁷	1 149	102	201	–	–	1 452
Johan Klein ⁸	1 770	–	150	–	–	1 920
	4 297	102	543	–	675	5 617
	9 768	112	1 065	941	1 813	13 699

* Mr Hannington was not remunerated by the Company, as clause 25.2 of the Memorandum of Incorporation states that the alternate director must be paid by the director who appoints him.

¹ Appointed as CEO and executive director with effect from 1 August 2018; appointment not ratified at the AGM held on 7 December 2018, but remained as CEO in terms of an employment contract; re-appointed as executive director on 4 April 2019.

² Appointed as Interim CFO with effect from 11 October 2018 to 7 December 2018; contract extended from 7 January 2019 to 30 April 2019; appointment as CFO and executive director confirmed on 4 April 2019, before expiry of contract period.

³ Resigned as CFO and joint CEO with effect from 28 September 2018.

⁴ Retired as Executive Chairperson on 15 November 2018; remained as an executive director; Appointed as a non-executive director on 4 April 2019.

⁵ Appointed as alternate director to Elliot Salkow with effect from 11 December 2018; ceased to be Mr Elliot Salkow's alternate director from 4 April 2019.

⁶ Resigned on 31 March 2019.

⁷ Resigned on 31 July 2019.

⁸ Appointed with effect from 1 May 2018.

Report of the Remuneration Committee

continued

2018	Basic salary R'000	Car allowance R'000	Medical aid and provident fund R'000	Total R'000
Executive directors				
Adrian Bock	2 550	–	270	2 820
Elliot Salkow	2 117	–	60	2 177
Wayne Samson	3 750	–	348	4 098
	8 417	–	678	9 095
Prescribed officers				
Tommy Erasmus	801	–	183	984
Gavin Fait	883	76	124	1 083
	1 684	576	307	2 067
	10 101	576	985	11 162

SHARE OPTIONS

On 10 January 2017, the Group offered Mr Adrian Bock (CFO and joint CEO at the time) 8 000 000 share options, with a requirement that he remains in employment for specified period(s), upon which the options shall vest. Mr Adrian Bock resigned before the options could vest and the options, therefore, lapsed.

As at 30 April 2019, there were no share options outstanding.

NON-EXECUTIVE DIRECTORS' REMUNERATION

There are no short or long-term incentive schemes for non-executive directors. Exceptions apply only where non-executive directors previously held executive office and qualify for unvested benefits resulting from their period of employment with the Company. There are no pension benefits for non-executive directors.

Fees for F2019

The table that follows provides an analysis of the emoluments paid to non-executive directors for the year ended 30 April 2019, with comparative figures for the prior year.

Report of the Remuneration Committee

continued

	2019 Fees for services as directors R'000	2018 Fees for services as directors R'000
Non-executive directors		
Timothy Fearnhead ¹	32	–
Oliver Fortuin ²	50	300
Stephen Goldberg ³	61	280*
Martin Kuscus ⁴	299	220
Fikile Mkhize ⁵	165	225
Francois Olivier ⁶	–	–
Edward Raff ⁷	24	–
Reshoketswe Ralebepa ⁸	92	–
Ian Russell ⁹	107	–
Elliot Salkow ¹⁰	25	–
	855	1 025

* Includes Company benefits of R40 000

¹ Appointed as independent non-executive director and Chairperson of the Board on 4 April 2019.

² Resigned as Lead Independent Director and independent non-executive director on 30 June 2018.

³ Resigned as independent non-executive director on 13 August 2018.

⁴ Appointed as Interim Chairperson on 18 January 2019; Resigned as Interim Chairperson on 4 April 2018.

⁵ Appointed as Interim Chairperson on 15 November 2018; Resigned from the Board on 18 January 2019.

⁶ Appointed as independent non-executive director on 4 April 2019.

⁷ Appointed as independent non-executive director on 4 April 2019.

⁸ Appointed as an independent non-executive director on 1 September 2018; resigned from the Board on 14 January 2019.

⁹ Appointed as an independent non-executive director on 1 October 2018; Appointed as Interim Lead Independent Director on 16 November 2018; Resigned from the Board on 18 January 2019.

¹⁰ Appointed as a non-executive director on 4 April 2019.

Fees for F2020

At the General Meeting held on 27 May 2019, shareholders approved the non-executive directors' remuneration by special resolution in terms of section 66(9) of the Companies Act, granting authority to pay fees for services as directors. The remuneration structure, excluding value added tax, of the non-executive directors was effective from 1 June 2019 and valid for a period of two years and is based on the Practices and Fees Trends Report issued by PwC in January 2019:

Board	Proposed fee
Chairperson	R500 000 per annum, subject to an annual increase of up to 10%
Other non-executive directors	R300 000 per annum, subject to an annual increase of up to 10%
Chairing of sub-committees	No additional fees payable
Membership of sub-committees	No additional fees payable

No fees are paid for attendance per meeting as the base fee is an all-inclusive fee with the non-executive directors' appointment agreements stipulating attendance at meetings as a requirement.

Executive directors receive no director or Committee fees for their services as directors in addition to their normal remuneration.

Report of the Remuneration Committee

continued

DIRECTORS AND PRESCRIBED OFFICERS' SHAREHOLDING IN THE ORDINARY SHARE CAPITAL OF THE COMPANY

The directors and prescribed officers held in aggregate direct and indirect beneficial interests of 19,34% (30 April 2018: 19,34%) in the issued share capital of the Company, being 119 924 067 shares (30 April 2018: 119 924 067 shares), at the end of the reporting period, as follows:

Name	Beneficial number of shares							
	2019				2018			
	Direct	Indirect	Total number of shares	%	Direct	Indirect	Total number of shares	%
Non-executive director								
Elliot Salkow	119 924 067	–	119 924 067	19,34	119 924 067	–	119 924 067	19,34

Changes in directors' and their associates' and prescribed officers' shareholding subsequent to the reporting date

The Remuneration Committee and the Board are not aware of any changes in the directors' and their associates' and prescribed officers' shareholding subsequent to the reporting date.

INTEREST OF DIRECTORS IN CONTRACTS

The directors have certified that they had no material interest in any transaction of any significance with the Company or its subsidiaries, other than as disclosed in the related party note, note 35 on page 165.

REMUNERATION ACTIVITIES

- A salary benchmark survey was conducted during 2018.
- Salary increases negotiated with the trade union averaged 7%, MEIBC negotiated increases averaged 6,5% and no increases were awarded to management.
- The aim is for the compensation of the general workforce to be benchmarked against the 25th percentile and for executives against the 50th percentile in the market.
- Short-term incentives are in the final phase of approval, with implementation scheduled for August 2019.
- The long-term incentive scheme is currently under review, with a new scheme being developed for presentation to shareholders at the General Meeting to be held on 31 October 2019.

Report of the Remuneration Committee

continued

FUTURE FOCUS AREAS

The Committee will, in the year ahead, have as its key focus areas:

- Alignment of the Charter of the Remuneration Committee with the recommended practices contained in King IV™, as applicable to Ellies;
- Evaluation of best remuneration practices, appropriately benchmarked, for employees, management, executives and directors, as proposed by the executive management of Ellies, for implementation throughout the Group; and
- Expansion of the Remuneration Policy in accordance with the remuneration practices adopted by the Board.

COMPLIANCE

The Committee has satisfied itself that the remuneration policy, as detailed in the 2019 Remuneration Committee Report, was complied with, and there were no substantial deviations from the policy during the reporting period.

APPROVAL

The Board has approved this Report of the Remuneration Committee on 26 August 2019.

Signed for and on behalf of the Remuneration Committee



Francois Olivier (*Independent Non-Executive Director*)
Chairperson of the Remuneration Committee

Report of the Social and Ethics Committee

The Social and Ethics Committee (“the Committee”) submits this report in respect of the financial year ended 30 April 2019.

The Committee acts as a committee for the Ellies Group of companies.

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

During the reporting period, the Committee comprised three members appointed by the Board, being Mr Martin Kuscus (Independent Non-Executive Director and Chairperson of the Committee), Ms Reshoketswe Ralebepa (Independent Non-Executive Director) and Mr Ian Russell (Independent Non-Executive Director). Ms Reshoketswe Ralebepa and Mr Ian Russell resigned with effect from 14 January 2019 and 18 January 2019, respectively.

Due to changes to the Board, no meetings were held during the period 1 May 2018 to 30 April 2019.

The Committee was reconstituted with effect from 30 April 2019 with its members being Mr Martin Kuscus (Independent Non-Executive Chairperson of the Committee), Dr Shaun Prithivirajh (Executive Director and CEO of Ellies) and Mr Chris Booyens (Executive Director and CFO of Ellies).

In terms of the Committee’s Charter, meetings of the Committee may be held as frequently as the Committee considers appropriate, but it will normally meet not less than twice a year and must meet once every financial year, which practice will be adhered to in the future.

ROLE AND RESPONSIBILITIES – TERMS OF REFERENCE

The Committee’s role and responsibilities are governed by a formal Charter as approved by the Board. The Charter is subject to annual review by the Board. A copy of the Charter may be requested from the Company Secretary and is available for inspection at the Company’s registered office.

General duties and responsibilities of the Committee

The Committee must establish an annual work plan aimed at achieving the aims and objectives to ensure that all relevant matters are covered by the agenda of the meetings planned for the year. The plan must ensure proper coverage of the matters laid out in the Charter.

The role of the Committee is to perform statutory duties as contemplated in the Companies Act. In addition, and complementary to its statutory duties in terms of the Companies Act, to assist Ellies to discharge its business sustainability obligations with respect to the implementation of practices that are consistent with good corporate citizenship, with particular focus on the following:

- Monitor the Company’s adherence to a specified list of legislation, as outlined in the Committee’s Charter;
 - Broad-Based Black Economic Empowerment (B-BBEE) Act:
 - Ensure the Company’s compliance with the Department of Trade and Industry’s (DTI) Codes of Good Practice;
 - Ensure that the Company achieves a substantial change in the racial composition of management structures and in the skilled occupations;
 - Promote programmes that lead to broad-based and meaningful participation by black people in the management of the Company;
 - Increase the extent to which black women enter management positions; and
 - Ensure that the annual compliance certificate is submitted to the JSE and to the B-BBEE Commission and is available on the Company’s website;
-

Report of the Social and Ethics Committee

continued

- Labour and employment:
 - Oversee and monitor the following areas, including but not limited to employment equity, fair remuneration, safety, health, dignity and development of employees.
- Governance:
 - Monitor the Company's efforts and activities in respect of the exercise of ethical and effective leadership by the Board towards the achievement of the following governance outcomes:
 - > An ethical culture;
 - > Good performance;
 - > Effective control; and
 - > Legitimacy.
- Ethics:
 - To instil an ethical culture in the Company, including the incorporation of ethics into the operations of the business systems, procedures and practices.

Statutory duties and responsibilities of the Committee

The Committee has the following statutory duties:

To monitor the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- (i) social and economic development, including the Company's standing in terms of the goals and purposes of:
 - (aa) the ten principles as set out in the United Nations Global Compact Principles;
 - (bb) the OECD (Organisation for Economic Co-operation and Development) recommendations regarding corruption;
 - (cc) the Employment Equity Act; and
 - (dd) the Broad-Based Black Economic Empowerment Act.
 - (ii) good corporate citizenship, including the Company's:
 - (aa) promotion of equality, prevention of unfair discrimination and reduction of corruption;
 - (bb) contribution to development of the communities in which its activities are predominantly conducted or within which its activities are predominantly marketed; and
 - (cc) record of sponsorship, donations and charitable giving.
 - (iii) the environment, health and public safety, including the impact of the Company's activities and of its products and services.
 - (iv) consumer relationships, including the Company's advertising, public relations and compliance with consumer protection law.
 - (v) labour and employment, including:
 - (aa) the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
 - (bb) the Company's employment relationships and its contribution toward the educational development of its employees.
 - (vi) draw matters within its mandate to the attention of the Board as the occasion requires; and
 - (vii) report, through one of its members, to the shareholders at the Company's AGM on the matters within its mandate.
-

Report of the Social and Ethics Committee

continued

FOCUS AREAS FOR F2020

Review of implementation of policies and feedback on social and ethics responsibilities, including but not limited to:

- Code of Business Conduct and Ethics;
- Ellies' standing in terms of the goals and purposes of its statutory social and ethics duties in terms of the Companies Act's requirements and regulations; and
- Establishment of a social and ethics advisory panel, which will be accountable to the Committee and report to the Chairperson of the Committee.

CONCLUSION

In terms of the Companies Act, the Committee is required to report through one of its members to the Company's shareholders on the matters within its mandate at the Company's AGM to be held on 31 October 2019.

In the notice of AGM, shareholders are referred to this Report by the Committee.

The Report of the Social and Ethics Committee was approved by the Board on 26 August 2019.



Martin Kuscus

Chairperson of the Social and Ethics Committee

Sustainability



Sustainability

report

The Board acknowledges that in addition to being responsible for corporate performance, it holds a responsibility for triple bottom line reporting. The Group's corporate culture is one of integrity, transparency, competency and efficiency in decision making and the fair and equitable treatment of its human and natural capital. From a moral point of view, the directors of the Group are expected to apply sound and reasonable judgement which can only be achieved through nurturing the social capital element, mutual respect for cultural, social or other differences and to foster transparent communication which detracts from subjective viewpoints.

The directors understand that transparency not only relates to a principle of freely, and without prejudice or subjective interests, disclosing information to stakeholders, but also to acknowledge the individual shortcomings which could jeopardise stakeholders. This report emphasises the Group's commitment to integrity and the benefit of the greater good of all the stakeholders.

The sustainability report has been prepared in alignment to the six capitals (financial, manufactured, intellectual, human, social and relationship, natural) and the Global Reporting Standards 2018 guidelines. The aim is to incorporate disclosure on the United Nations Global Compact's ten principles, as set out below, in future sustainability reports.

UNITED NATIONS GLOBAL COMPACT'S TEN PRINCIPLES

The **UN Global Compact's ten principles** in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- The Universal Declaration of Human Rights;
- The International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;
- The Rio Declaration on Environment and Development; and
- The United Nations Convention against Corruption.

Human Rights

Businesses should:

Principle 1: support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights' abuses.

Labour

Businesses should:

Principle 3: uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: eliminate of all forms of forced and compulsory labour;

Principle 5: effectively abolish child labour; and

Principle 6: eliminate discrimination in respect of employment and occupation.

Environment

Businesses should:

Principle 7: support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Businesses should:

Principle 10: work against corruption in all its forms, including extortion and bribery.

Sustainability report continued

DATA COLLATION

Sustainability performance information was gathered, and data collated for publication in the integrated annual report. Every effort has been made to ensure data accuracy and completeness. There is, however, the possibility of small inconsistencies due to human error in recording and collating, and differences in interpretation of definitions.

Data has mainly been collated for Ellies' subsidiary companies, unless specifically indicated otherwise, for the economic and social indicators for the period 1 May 2018 to 30 April 2019, and sustainability data collation coincides with Ellies' financial reporting cycle. Environmental data has not been collated and, following a determination of materiality exercise, will be collated in the future.

Financial data has been extracted from the consolidated annual financial statements. Intergroup transactions have been eliminated.

The basis for reporting on the financial elements is in accordance with the Group's accounting policies, which are disclosed in the annual financial statements.

Data is only reported where considered to be of sufficient accuracy and is reported according to the Global Reporting Standards 2018. Ongoing efforts are being made to improve the data quality and to broaden the content in the range of material indicators.

Sustainability report continued

ECONOMIC

VALUE ADDED STATEMENT

Value added is the measure of wealth created by the group in its operations by `adding value` to the cost of raw materials, products and services purchased. The statement below summarises the total wealth created and shows how it was shared by employees and the stakeholders that contributed to its creation.

Also set out below is the amount retained and reinvested in the Group for the replacement of assets and the further development of operations.

	2019 R'000	%	2018 R'000	%
Revenue	1 357 739		1 371 830	
Cost of materials and other services	(1 142 938)		(1 088 502)	
Other income and interest	7 313		10 597	
Total wealth created	222 114		293 925	
<i>Employees and contractors</i>				
– Salaries, wages and related benefits	228 450	103	206 303	70
<i>Providers of capital</i>				
– Interest paid on borrowings and finance charges	20 298	9	18 200	6
<i>Government</i>				
– Company tax	(5 832)	(3)	16 415	6
<i>Retained for re-investment</i>				
– Depreciation of property, plant and equipment	8 944	4	9 367	3
– Impairments and write-offs	26 367	12	4 379	2
– (Profit)/loss on loss of control	(24 718)	(11)	1 003	–
Total wealth distributed	253 509		255 667	
Retained (loss)/profit	(31 395)	(14)	38 258	13

Sustainability report continued

Exchanges with government, including amounts collected on their behalf

Further to this and in the furtherance of the economy and national development, the table below indicates exchanges between the Group and government, including amounts collected on their behalf:

	2019 R'000	2018 R'000
Employee taxes	47 193	40 832
Company taxes	6 710	6 837
Value added tax and sales tax	65 075	78 016
Customs and excise duty	19 979	21 481

PROCUREMENT PRACTICES

Ellies' strategy is based on the supply of world-class local and international electronic and electrical products and services.

Where applicable, these products and services are manufactured in-house or sourced through local suppliers, wherever possible. Ellies recognises that the procurement of local products and services creates job opportunities in local communities. Such job opportunities should then lead to further growth and development in support of the South African economy.

During the reporting period, products and services procured locally in South Africa amounted to R560 million (2018: R470 million), whereas imported products amounted to R260 million (2018: R303 million), with imports constituting 32% (2018: 41%) of the Group's procurement spend.

Sustainability report continued

ENVIRONMENT

ENVIRONMENTAL POLICY

An Environmental Policy will be developed around Ellies' ethos to be a responsible corporate citizen to:

- do all that is reasonably practicable to minimise the environmental impact of its operations using standards which are scientifically sustainable and commonly acceptable;
- review and continuously improve the performance of its products, services and operations, as measured by its environmental impact;
- work in co-operation with members of industry, government bodies, suppliers and customers to promote the achievement of high standards of environmental care;
- promote responsibly the real advantages it has achieved, whilst avoiding making false or misleading claims of environmental benefit;
- take an active part in protecting the environment by continuous improvement in the environmental impact of its operations;
- meet or exceed the requirements of legislation and responsible customer opinion;
- heighten employees' environmental awareness through suitable training;
- encourage its suppliers to develop environmentally superior processes and ingredients and co-operate with other members of the chain to improve overall environmental performance; and
- set annual improvement objectives aimed at improving the overall environmental performance of the business.

Ellies is mainly a distributor of finished goods and services with finished and semi-finished goods being procured from a variety of suppliers, both locally and internationally. No materials used in operations have a significant impact on the environment.

The Board will, going forward, assign the responsibility for governance of environmental management and monitoring to the Social and Ethics Committee.

COMPLIANCE

There were no material, monetary or other penalties brought against the Group or any of its subsidiaries for non-compliance with environmental laws and regulations during the reporting period.

Sustainability report continued

SOCIAL

EMPLOYMENT

Ellies' employment strategy focuses on employee initiatives, social conditions and sustaining jobs in the supply base as well as occupational health and safety. Ellies' employees are the foundation of the business that enable the execution of the Group's business strategy to deliver sustainable profit growth. The Group's focus is on attracting, engaging and retaining the best talent to deliver on its strategic plan.

Ellies' employment brand is built on a combination of its culture, its leadership, its products and its reputation.

Ellies' vision of transformation is translated into strategies and specific targets and plans which are monitored and governed by the Board. Transformation plans and targets are reflected in the leadership and other relevant employees' performance goals.

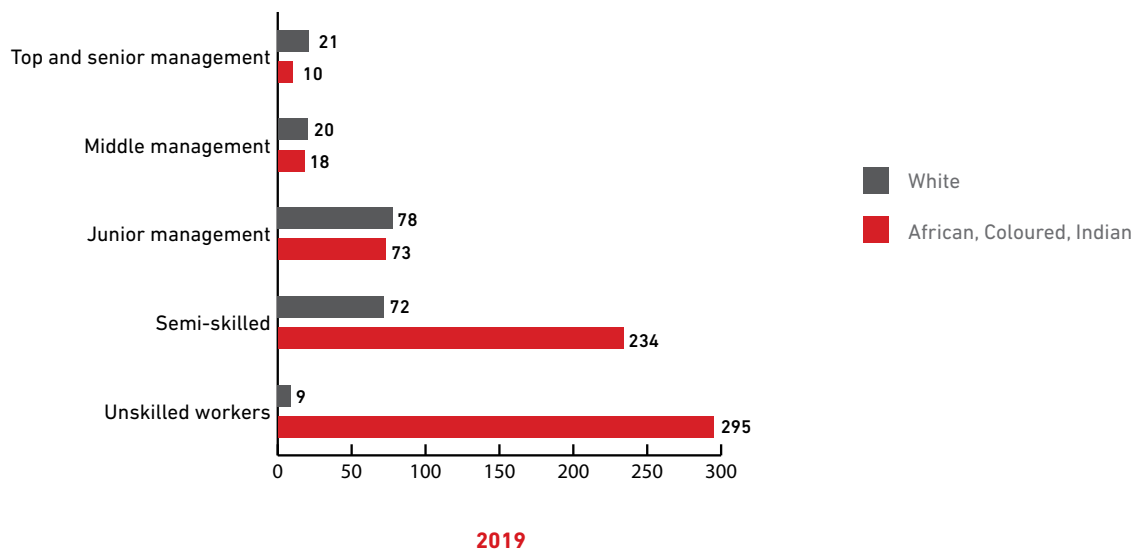
At the reporting date, the Group employed 872 (2018: 841) people, of whom 846 (2018: 841) were full-time employees and 26 (2018: 0) were fixed-term employees, translating into a fixed-term staff complement of 3%. The increase in the number of fixed term employees is mainly attributable to specific short-term projects. There were 12 (2018: 0) disabled employees. The total number of employees in South Africa was 830 (2018: 841) and 42 (2018: 0) employees worked outside South Africa. Employee remuneration during the reporting period amounted to R228,5 million (2018: R206,3 million).

The Group's employment equity profile as well as employment by race, gender, age group and region are depicted below:

Employment equity

Ellies has developed an employment equity plan, as required by the Employment Equity Act and Skills Development Act. This plan, aimed at creating diversity in the workplace, is monitored on an ongoing basis. Employment equity is only applicable to operations in South Africa.

Group employment equity profile



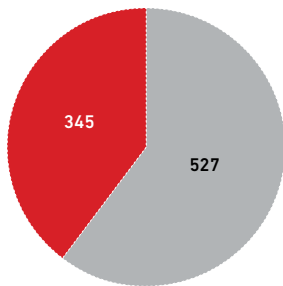
Sustainability report continued

Group employment equity by occupational levels

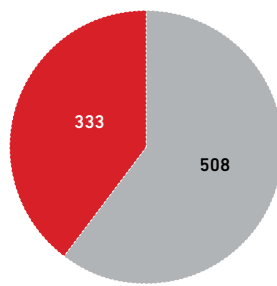
The total number of employees in each of the following occupational levels are shown in the table below.

	FEMALE				FEMALE TOTAL	MALE				MALE TOTAL	GRAND TOTAL
	A	C	I	W		A	C	I	W		
Executive director								1	1	2	2
Other executive manager	1		1		2	1		1	6	8	10
Senior manager	2	1		1	4		1	1	13	15	19
Middle manager	1	4	2	6	13	3	2	6	14	25	38
Junior manager	8	12	6	26	52	30	4	13	52	99	151
Semi-skilled	66	30	12	33	141	80	38	8	39	165	306
Unskilled	110	13			123	156	15	1	9	181	304
GRAND TOTAL	188	60	21	66	335	270	60	31	134	495	830

Gender diversity



2019



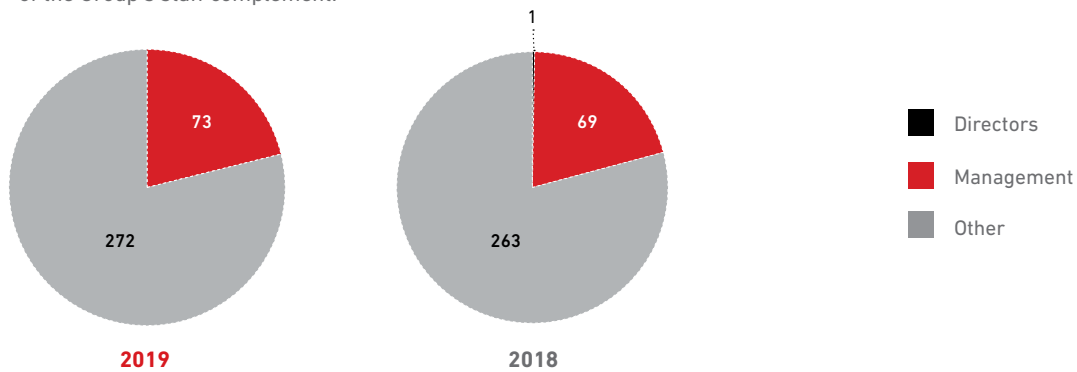
2018

■ Male
■ Female

Sustainability report continued

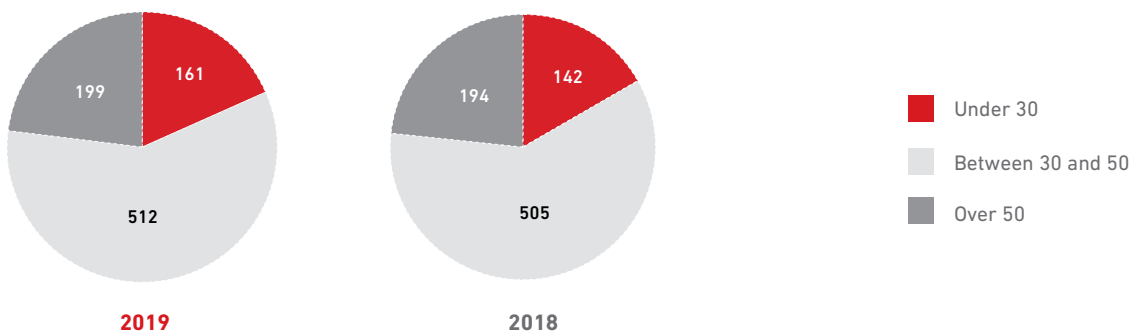
Female employment

Female employment increased by 3,6% during the reporting period, with female employment comprising 39,6% (2018: 39,6%) of the Group's staff complement.



Age group

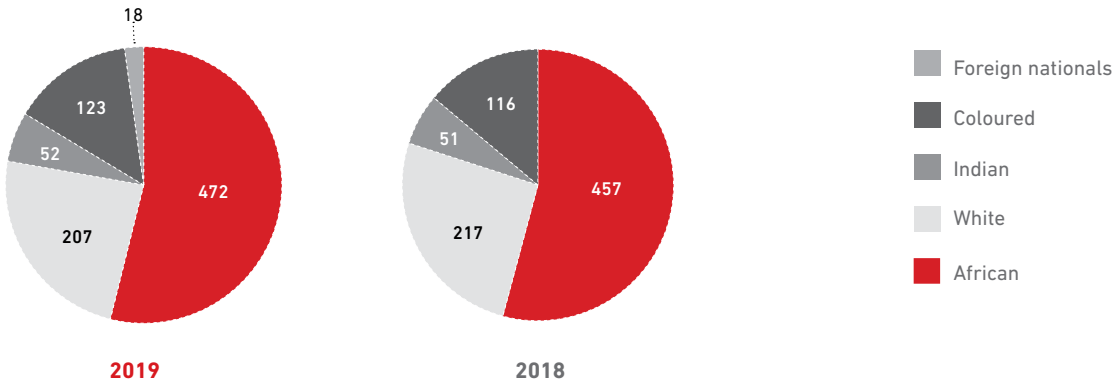
The spread of employment by age group showed that 18,5% (2018: 16,9%) young employees, under the age of 30, are in a developmental phase, with 58,7% (2018: 60,0%) of employees between the ages of 30 and 50 on a career path where succession training and planning occurs, and 22,8% (2018: 23,1%) of employees over 50 with the experience and expertise to impart on the younger generations.



Sustainability report continued

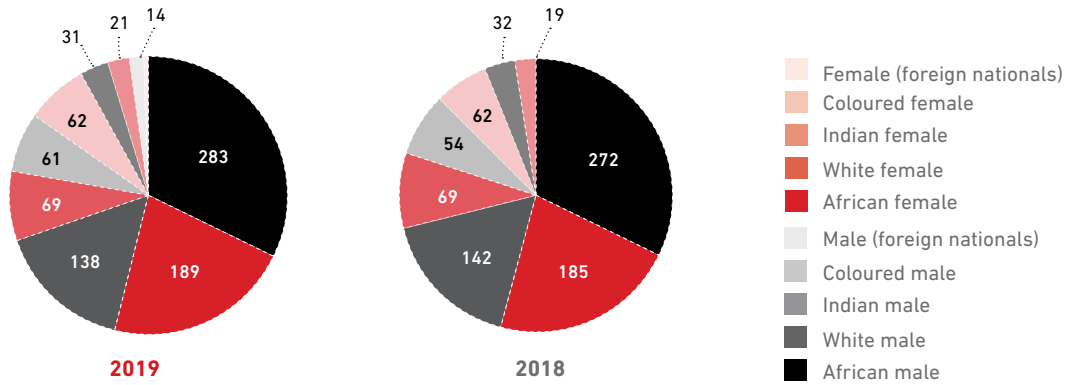
Race diversity

During the reporting period, 76,3% of the staff complement was black (African, Indian and Coloured), compared to 74,2% in 2018. The Group's aim is to align the race composition of employees to the demographics of the country as well as to achieve its employment equity targets.



Race and gender diversity

At the reporting date, black females constituted 31,2% (2018: 30,7%) and black males 43,0% (2018: 43,5%) of the workforce.



The percentage of employees who are deemed historically disadvantaged South Africans was 76,3% (2018: 74,2%).

Region



Sustainability report continued

Staff turnover

The internationally recognised way of calculating labour turnover is as follows: employees who resign, are retrenched, retire, leave due to mutually agreed settlements and long-term contracts that are ended.

$$\frac{\text{Number of employees leaving during period}}{\text{Average number employed during period}} \times 100$$

The staff turnover rate for the reporting period, based on the above calculations, was 16,7%. The staff turnover rate was mainly attributable to voluntary resignations.

LABOUR/MANAGEMENT RELATIONS

The number of unionised employees is listed below and constitutes 41,9% of the Group's workforce.

	2019 R'000
Unionised members	365
SACCAWU	220
NUMSA	115
Abangobi Workers Union	30
Non-unionised members	507
Total staff complement	872

Ellies adheres to all statutory minimum Basic Conditions of Employment Act requirements, including notice periods, changes to conditions of employment, notices of possible restructuring or cases of termination of contracts. These notice periods are determined by collective agreements, industry bargaining agreements or employment contracts, in line with the industries in which the Group has business operations.

OCCUPATIONAL HEALTH AND SAFETY

The Group assigns high priority to employee health and safety through the application of best practice-based safety, health, environment and quality (SHEQ) policies, which continue to be reviewed and updated where required.

Health and safety consultants are regularly appointed to evaluate and report on areas deemed to be high-risk areas by the Board and also to evaluate and report on risk areas not identified by the Board, which need to be added and prioritised into the SHEQ policies.

Monthly meetings of the SHEQ Committee takes place and incident and review outcome reports are reviewed at monthly management and Executive Committee meetings.

Sustainability report continued

Over and above the fact that employees are an important asset in ensuring the sustainability of the Group, Ellies also has a statutory responsibility to ensure that occupational injuries, diseases and environmental incidents are prevented and where they occur, they are formally recorded. Ellies is also committed to ensuring that investigations or enquiries are conducted, and that immediate action is implemented to prevent future incidents from recurring. The Group complies with the requirements of local, national and international laws, regulations and standards. Thus, various measures and safe work procedures have been implemented in order to measure and utilise incident data and associated trends. This serves as the basis for a proactive and focused approach to reduce the severity and frequency of safety, health and environmental incidents. Incidents also impact negatively on productive hours, staff motivation and internal efficiencies.

There were 31 recordable injuries, which resulted in a Total Recordable Injury Frequency Rate (TRIFR), calculated on 200 000 hours work, of 3,5%. The Group is working towards zero incidents through training and awareness programmes, improved housekeeping practices and manager-employee relationships.

HIV/AIDS

During the reporting period, HIV/AIDS awareness training was made available to 804 employees, resulting in a total HIV/AIDS training spend of R171 312, translating into a training spend of R196 per employee trained for a period of 8 minutes per employee. The number of employees that actually participated in this HIV/AIDS-related training and awareness programmes was 157 (18%), with 17 employees being voluntarily tested for HIV/AIDS.

TRAINING AND EDUCATION

Training initiatives implemented during the reporting period included:

- First aid – Level 1 training;
- Fire-fighting training;
- Incident and accident training;
- Fire-fighting evacuation training;
- Racking and stacking training;
- Hazard identification and risk assessment training;
- Legal liability training;
- Safety, health, environment and quality training; and
- Forklift training.

Employee Wellness Programme

Ellies implemented ICAS, an Employee Wellness Programme, during the reporting period. They have more than 20 years' experience in providing the most comprehensive range of preventative care and counselling services. The Employee Health and Wellness Programmes empower employees to take control of their wellbeing, reducing problems at home and work, thereby facilitating higher levels of productivity. Ellies made this free service available to all employees and their families. The cost to Ellies for the service amounts to R252 000 per year.

This option offers a number of bespoke services such as:

- Stress management;
 - Financial advice;
 - Relationship guidance;
 - Substance abuse counselling;
 - Work guidance;
 - Trauma counselling;
 - HIV/AIDS counselling;
 - Legal advice;
-

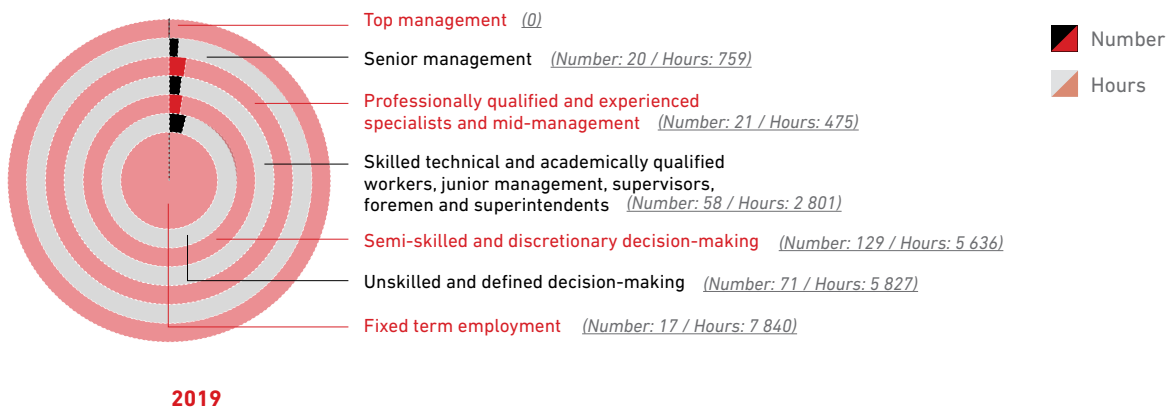
Sustainability report continued

- Family matters counselling; and
- Change management.

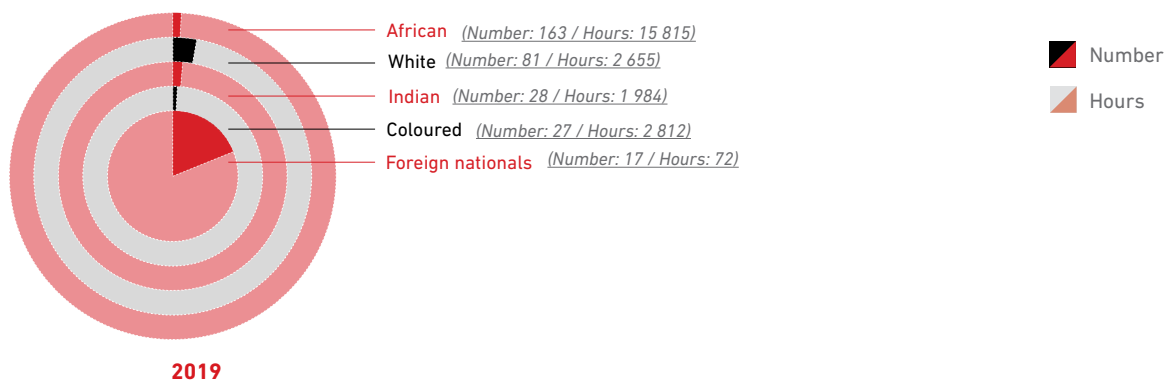
During the reporting period, total training spend amounted to R7,8 million, of which internal training spend was R6,2 million, the balance being external training spend, with 316 employees receiving training, all of whom were based in South Africa. The training spend per employee trained was R24 746.

Detailed below is a summary of training initiatives undertaken during the year, categorised by employment category, race and gender.

Employees trained by employment category

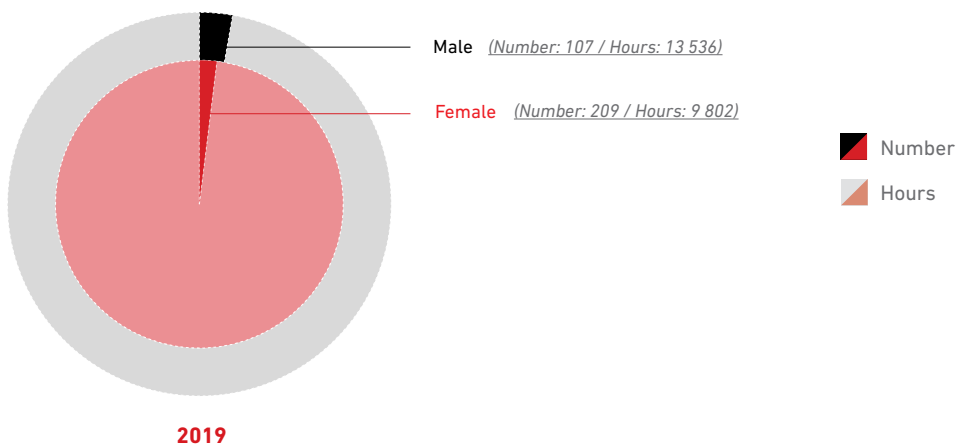


Employees trained by race



Sustainability report continued

Employees trained by gender



Succession planning

Ellies views succession planning as an ongoing process that identifies the necessary competencies and then works to assess, develop and retain a talent pool of employees in order to ensure continuity of leadership for all critical positions.

Employees in the Group are viewed as critical assets and key to meeting Ellies' business objectives and delivering on its vision.

Senior managers in the Group will be tasked with identifying key employees in their respective business units whom they consider as potential successors and focused training programmes and accelerated development initiatives will be made available to them.

HUMAN RIGHTS

Non-discrimination

The Group and the Board strive to eliminate any forms of discrimination through leading by example. Experience and psychology prove that discrimination tends to be driven by one of three elements being hatred, fear derived from the unknown or the threat of being inferior.

The Board supports a multi-cultural and multi-racial work environment, which respects people for who they are, where they come from and also the insights that each employee is able to offer to the Group. No opinion or point of departure is discriminated against or dismissed without due consideration being granted. Human Resources is under strict mandate from the Board to actively and diligently search across all levels of employment for suitable candidates as vacancies arise without any preconceived or mandated agendas other than to find the right person for the vacancy, taking into account the employment equity targets for the Group.

Underaged or compulsory labour

The Group does not condone or tolerate any underaged or compulsory labour practices within the Group. The Board will summarily reject and refuse further business endeavours with any supplier or business partner if it were to be discovered that such labour practices are employed within their respective businesses.

The Group strictly supports labour practices which are aligned with all relevant legislation and best practices, including the Labour Relations Act, the Employment Equity Act, the Skills Development Act and the Basic Conditions of Employment Act.

Sustainability report continued

SOCIETY

Local communities

Ellies sees its employees as key stakeholders and strives to create a safe, humane, ethical work environment. As employees are recruited from the local communities where Ellies' operations are based, this approach extends to the communities in which the Group operates. The Group's environmental and social responsibility principles guide its daily decision-making and govern how it enters, operates in and exits a community.

With the dearth of skills in South Africa, Ellies' initiatives focus on skills development with a view to enabling individuals to enter the workplace, particularly in the industry in which the Group operates.

Data has not been compiled on the percentage of operations with implemented local community engagement, impact assessments and development programmes and may be addressed in the future.

None of the operations in the Group has significant potential or actual negative impacts on local communities.

ANTI-BRIBERY AND CORRUPTION

Experience and integrity guide the Board to confidently acknowledge that, despite lucrative and/or tangible benefits, there is never a requirement or justification to accept a dealing or transaction where bribery or corruption is evident.

The Board asserts its stance against partaking in any dealings of a corrupt nature or where undue payments are implied or required and further emphasises their commitment to absolute transparency.

PUBLIC POLICY

During the reporting period the Group did not participate in public policy development and lobbying.

The Group does not contribute to any political parties and no such contributions were made in the reporting period.

PRODUCT RESPONSIBILITY

Customer satisfaction through reliability of supply and dependable quality levels drives the sales strategy of the Group. The electrical products that are manufactured and distributed by Ellies have been certified and accredited by the South African Bureau of Standards and the Group is also accredited by the Independent Communications Authority of South Africa.

Certifications include ISO 9001:2015 – Quality Management Systems and ISO 45001: 2018 – Occupational Health and Safety.

COMPLIANCE

The Group received no significant fines for non-compliance with laws and regulations concerning the provision and use of products and services provided by the Group.

CUSTOMER PRIVACY

There were no substantiated complaints regarding breaches of customer privacy and losses of customer data during the reporting period.

A Protection of Personal Information Policy will be developed for the Group in the year ahead.

FUTURE FOCUS

Ellies will, in the future, endeavour to incorporate the Group's contribution, as far as is appropriate to Ellies and in the corporate environment, towards the Sustainable Development Goals to achieve a better and more sustainable future for all.

Sustainability report continued

Sustainable Development Goals

 <p>1 NO POVERTY</p>	Goal 1:	End poverty in all its forms everywhere.
 <p>2 ZERO HUNGER</p>	Goal 2:	End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
 <p>3 GOOD HEALTH AND WELL-BEING</p>	Goal 3:	Ensure healthy lives and promote well-being for all at all ages.
 <p>4 QUALITY EDUCATION</p>	Goal 4:	Ensure inclusive and equitable quality education and promote lifelong learning opportunities.
 <p>5 GENDER EQUALITY</p>	Goal 5:	Achieve gender equality and empower all women and girls.
 <p>6 CLEAN WATER AND SANITATION</p>	Goal 6:	Ensure availability and sustainable management of water and sanitation for all.
 <p>7 AFFORDABLE AND CLEAN ENERGY</p>	Goal 7:	Ensure access to affordable, reliable sustainable and modern energy for all.
 <p>8 DECENT WORK AND ECONOMIC GROWTH</p>	Goal 8:	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
 <p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>	Goal 9:	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.
 <p>10 REDUCED INEQUALITIES</p>	Goal 10:	Reduce inequality within and among countries.
 <p>11 SUSTAINABLE CITIES AND COMMUNITIES</p>	Goal 11:	Make cities and human settlements inclusive, safe, resilient and sustainable.

Sustainability report continued

 <p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p>	<p>Goal 12:</p>	<p>Ensure sustainable consumption and production patterns.</p>
 <p>13 CLIMATE ACTION</p>	<p>Goal 13:</p>	<p>Take urgent action to combat climate change and its impacts.</p>
 <p>14 LIFE BELOW WATER</p>	<p>Goal 14:</p>	<p>Conserve and sustainably use the oceans, seas and marine resources for sustainable development.</p>
 <p>15 LIFE ON LAND</p>	<p>Goal 15:</p>	<p>Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.</p>
 <p>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</p>	<p>Goal 16:</p>	<p>Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.</p>
 <p>17 PARTNERSHIPS FOR THE GOALS</p>	<p>Goal 17:</p>	<p>Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development.</p>

Annual financial statements



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Level of assurance

These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

AUDITORS

BDO South Africa Incorporated
Registered Auditors

Rudi Huiskamp (CA(SA))
Designated auditor

PREPARER

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

PUBLISHED

30 August 2019

Statement of **responsibility** and **approval** by the Board of Directors

for the year ended 30 April 2019

The directors are required in terms of the Companies Act, No 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Group and the Company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards ("IFRS"). The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with IFRS and are presented in terms of the disclosure requirements as set out in the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, 2008. The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and the Company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

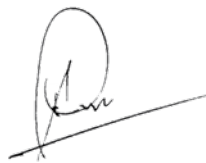
The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The external auditors are responsible for independently auditing and reporting on the Group and the Company's annual financial statements. The annual financial statements have been examined by the Group's external auditors and their report is presented on pages 96 to 101.

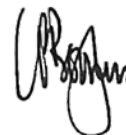
The annual financial statements set out on pages 102 to 169, which have been prepared on the going concern basis, were approved by the Board of Directors on 26 August 2019 and were signed on its behalf by:



Timothy Fearnhead
Chairperson



Dr Shaun Prithvirajh
CEO



Chris Booyens
CFO

Certificate by **Company Secretary**

The Company Secretary of Ellies Holdings Limited certifies that in terms of section 88(2) of the Companies Act, the Company has lodged with the Companies and Intellectual Property Commission of South Africa all such returns and notices as are required of a public Company in terms of this Act and that all such returns are true, correct and up to date in respect of the financial year ended 30 April 2019.



Ms Lindie Lankalebalelo
Company Secretary

26 August 2019

Report of the **Audit and Risk Committee**

The Audit and Risk Committee ("the Committee") has pleasure in submitting this report, describing how it discharged its duties assigned in terms of the Companies Act, and additional duties assigned to it by the Board, in respect of the financial year ended 30 April 2019.

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

The Committee is constituted as a statutory committee of the Company in respect of its statutory duties as stipulated in section 94(7) of the Companies Act and is a committee of the Board in respect of all other duties assigned to it by the Board, as contemplated in the King Code ("King IV™").

At 30 April 2018, the Committee comprised Ms Fikile Mkhize (Independent Non-Executive Director and Chairperson of the Committee) and Messrs Oliver Fortuin (Independent Non-Executive Director) and Stephen Goldberg (Independent Non-Executive Director). A number of changes to the membership of the Committee occurred during the reporting period, as disclosed in the meeting attendance table below.

The Committee meets at least three times a year. Attendance at meetings during the period 1 May 2018 to 30 April 2019 is outlined below:

	18 July 2018	26 Sep 2018	5 Dec 2018	18 Jan 2019
Members				
Fikile Mkhize (Chairperson) ¹	P	P	P	N/A
Reshoketswe Ralebepa (Interim Chairperson) ²	N/A	P	A	N/A
Stephen Goldberg ³	P	N/A	N/A	N/A
Martin Kuscus ⁴	N/A	N/A	N/A	P <i>Meeting Chair</i>
Ian Russell ⁵	N/A	N/A	P <i>Meeting Chair</i>	N/A
Invitees				
Adrian Bock (CFO) ⁶	P	P	N/A	N/A
Dr Shaun Prithvirajh (CEO) ⁷	N/A	P	P	P
Chris Booyens (FD and CFO) ⁸	N/A	N/A	P	P
Christo Botha (External Auditors – BDO SA Inc) *	P	N/I	N/I	N/I
Jenny Hu (External Auditors – BDO SA Inc)	P	N/I	N/I	N/I
Edward Dreyer (External Auditors – BDO SA Inc)	P	N/I	N/I	N/I
Rudi Huiskamp (External Auditors – BDO SA Inc)	P	P	P	P
Ayishe Ramasike (Internal Auditor – Nexia SAB&T)	N/A	N/A	P	P
Naeem Hassim (Internal Auditor – Nexia SAB&T)	N/A	N/A	P	N/I
Rajen Kistnan (Internal Auditor – Nexia SAB&T)	N/A	N/A	P	N/I
Company Secretary				
CIS Company Secretaries (Pty) Ltd ⁹	P	P	P	N/A
Lindie Lankalebalelo (Company Secretary) ¹⁰	N/A	N/A	P	P

P – Present

N/A – Not applicable

A – Apology

N/I – Not invited

* Grant Thornton Johannesburg and BDO South Africa Incorporated merged in December 2018 and the merged audit firm is now known as BDO South Africa Incorporated.

¹ Resigned on 18 January 2019.

² Appointed as a member of the Audit and Risk Committee with effect from 27 September 2018; appointed as Interim Chairperson of the Audit and Risk Committee effective 15 November 2018; resigned on 14 January 2019.

³ Resigned on 13 August 2018.

⁴ Appointed as a member of the Audit and Risk Committee on 16 January 2019.

⁵ Appointed as a member of the Audit and Risk Committee on 1 October 2018; resigned on 18 January 2019.

⁶ Resigned on 28 September 2018.

⁷ Appointed as CEO and executive director on 1 August 2018; appointment not ratified at the AGM held on 7 December 2018, but remained as CEO in terms of an employment contract; re-appointed as executive director on 4 April 2019.

⁸ Appointed as Interim CFO on 11 October 2018 to 7 December 2018; contract extended from 7 January 2019 to 30 April 2019; appointment as CFO and executive director confirmed on 4 April 2019, before expiry of contract period.

⁹ Resigned as Company Secretary on 1 December 2018.

¹⁰ Appointed as Company Secretary on 1 December 2018.

Report of the Audit and Risk Committee

continued

The current Charter of the Audit and Risk Committee states that the Chairperson of the Board may be a member of the Committee, but may not chair the Committee. The Charter is currently under review to reflect that the Chairperson of the Board is not eligible to chair or serve on the Committee. However, the Chairperson has a standing invitation to attend all Committee meetings. The Chief Executive Officer, Chief Financial Officer, the Head of Internal Audit and the external audit partner attend all meetings by permanent invitation. Other attendees comprise certain Ellies employees and consultants who are invited to attend meetings, as and when required.

On 4 April 2019, the Board was reconstituted and members of the Audit and Risk Committee were appointed by the Board on 23 April 2019.

At the reporting date, the Committee comprised three skilled and experienced independent non-executive members, being Mr Edward Raff (Chairperson of the Committee), Mr Francois Olivier and Mr Martin Kuscus. At the AGM to be held on 31 October 2019, shareholders will be presented with resolutions to approve the appointment of the members of the Audit and Risk Committee.

ROLE AND RESPONSIBILITIES – TERMS OF REFERENCE

The Committee's role and responsibilities are governed by a formal Charter as approved by the Board. The Charter is subject to an annual review by the Board. A copy of the Charter may be requested from the Company Secretary and is available for inspection at Ellies' registered office.

The Committee's duties and responsibilities are outlined below.

Auditors and external audit

The Committee must, on an annual basis (and more frequently as required):

- evaluate the independence and effectiveness of the external auditor and consider whether any non-audit services rendered by such auditors will be likely to substantively impair their independence;
- evaluate the performance of the external auditor;
- assess the tenure of the external audit firm;
- assess the suitability of the audit firm and designated audit partner;
- oversee the rotation of the designated audit partner;
- consider and make recommendations on the appointment and/or retention of the external auditor and/or any questions of resignation or dismissal of the auditor;
- discuss and review with the external auditor, before the audit commences, the audit engagement letter, the terms, nature and scope of the audit function, procedure and engagement, the audit fee, and ensure co-ordination and maintenance of a professional relationship between them (where more than one audit firm is involved);
- negotiate procedures, subject to agreement, beyond minimum statutory and professional duties – there are certain minimum non-negotiable procedures required from the external auditors;
- agree to the timing and nature of reports required to be provided by the external auditor;
- consider any problems identified in going concern or internal control statements;
- make suggestions as to problem areas/areas of focus that the audit should address;
- consider any accounting treatments, significant unusual transactions, or accounting judgements, that could be contentious;
- identify key matters arising in the current year's management letter and satisfy itself that the remedial actions are adequate and effective;
- consider whether any significant ventures, investments or operations are not subject to external audit;
- review the overall audit role, to explore objectives, minimise duplication, ensure "de-cluttering" of financial statements, discuss the implications of new auditing standards and ensure that the external audit fee will sustain a proper audit and provide value for money;
- obtain assurance from the external auditor that adequate accounting records are being maintained; and
- review the arrangements in place for combined assurance and the effectiveness thereof.

Report of the Audit and Risk Committee

continued

Financial statements

The Committee must examine and review the annual financial statements, prior to submission to the Board for approval, focusing particularly on:

- the integrity of the financial statements;
- the implementation of new systems;
- tax and litigation matters involving uncertainty;
- any changes in accounting policies and practices;
- major judgmental areas;
- significant adjustments arising from the audit;
- the basis on which the Company has been determined a going concern;
- capital adequacy;
- internal controls;
- compliance with accounting standards, the JSE Listings Requirements and all relevant statutory and regulatory requirements;
- the efficiency of major adjustments processed at year-end;
- compliance with the financial conditions of loan covenants; and
- the review of any special documents (such as prospectuses, circulars and trading updates), when applicable.

Financial director and finance function

On an annual basis, the Committee is tasked with:

- evaluating the appropriateness of the experience and expertise of the Financial Director;
- considering the adequacy of the expertise and resources of the finance function; and
- ensuring that the Group has established appropriate financial reporting procedures and that such procedures are operating satisfactorily.

Internal controls and internal audit

An important function of the Committee is the oversight and monitoring of the effective functioning of the internal auditors, ensuring that the respective roles and functions of the external and internal auditors are sufficiently clarified and co-ordinated as to provide an objective overview of the operational effectiveness and adequacy of the Company's systems of internal control and reporting. The objective being that Internal Audit is able to provide the Committee with insight, advice and assurances that those systems and controls are in place and are functioning effectively. The processes/activities include:

- identification of areas of significant risks in the business that require focused attention;
- evaluating the performance of the internal audit function;
- reviewing the internal audit function's compliance with its mandate as approved by the Committee;
- reviewing the effectiveness of the Company's systems of internal controls, including internal financial control, business risk management and the maintenance of effective internal control systems;
- considering the performance and/or the appointment and/or dismissal and/or re-assignment of the head of the internal audit function;
- reviewing and approving the Internal Audit Charter, internal audit plans and internal audit's conclusions with regard to internal control;
- reviewing the adequacy of corrective action taken in response to significant internal audit findings;
- reviewing significant matters reported by the internal audit function;
- reviewing the objectives and the execution of the operations of the internal audit function;
- assessing the adequacy of performance of the internal audit function, and the adequacy of available internal audit resources;
- reviewing the levels of co-operation and co-ordination between the internal and external audit functions and ensuring co-ordination of the formal internal audit work plan with external auditors to avoid duplications in scope;
- reviewing significant differences of opinion between management and the internal audit function;

Report of the Audit and Risk Committee

continued

- maintaining proper and adequate accounting records;
- evaluating the independence and effectiveness of the internal auditors;
- evaluation of controls in place in the operational and financial reporting environment;
- safeguarding the Company's assets against unauthorised use or disposal; and
- directing and supervising investigations into matters within scope, such as evaluations of the effectiveness of the Company's internal controls, cases of employee fraud, misconduct or conflicts of interest.

The Committee must, on an annual basis (and more frequently as required):

- evaluate the independence and effectiveness of the internal auditor and consider whether any non-audit services rendered by the internal auditor will be likely to substantively impair their independence;
- evaluate the performance of the internal auditor; and
- evaluate the performance and effectiveness of the internal audit function.

Risk management and insurance

A crucial role of the Committee is overall responsibility for the integrity, reliability and efficiency of the Company's risk management strategy/policy and insurance portfolio.

Combined assurance

Effectiveness of internal and external assurance functions and services, including but not limited to:

- Internal audit
- External audit
- Risk management

Policies and procedures

It is desirable that companies have well documented and up to date policy manuals in respect of various areas of their operations. The Committee should ensure that policy manuals are in place and are regularly updated as required from time to time, in all areas of the business, including (but not limited to):

- investment-related activities;
- asset management activities;
- operational activities and operational expenses;
- capital expenditure; and
- human resources.

Legislation and regulations

The Committee is responsible for:

- monitoring compliance with the requirements of the Memorandum of Incorporation;
- compliance with applicable legislation, regulation and best practice recommendations, including the JSE Listings Requirements, Companies Act, no 71 of 2008 and the Report on Corporate Governance for South Africa 2016 ("King IV™"); and
- making recommendations in respect of any potential conflict of interest or questionable matters of a material nature.

Reporting and accountability

The Chairperson of the Committee must:

- account to the Board for the activities and execution of functions of the Committee and make recommendations to the Board concerning the adoption of the financial statements and any other matters arising from the above responsibilities;
- attend the AGM to answer questions in respect of matters falling within the ambit of the Committee; and
- receive and (in consultation with the Committee) respond to external complaints regarding the Committee's responsibilities.

Report of the Audit and Risk Committee

continued

AUDIT AND RISK COMMITTEE ACTIVITIES AND DECISIONS TAKEN

AUDIT	
External audit	<ul style="list-style-type: none"> In terms of section 90(1) of the Companies Act, the Committee had nominated Grant Thornton as the independent auditors and Mr Rudi Huiskamp, a registered independent auditor, as the designated audit partner, for appointment for the 2019 audit. This appointment was approved by shareholders at the AGM on 7 December 2018. The Committee has satisfied itself through enquiry that the auditor of Ellies is independent, as defined by the Companies Act, and as per the standards stipulated by the auditing profession. Requisite assurance was sought and provided by the auditor that the internal governance processes within the audit firm support and demonstrate the claim to independence. As announced on SENS on 3 December 2018, the audit firm changed from Grant Thornton Johannesburg to BDO South Africa Incorporated, following the merger of the two audit firms. BDO South Africa Incorporated was, therefore, the external auditor for the 2019 audit and the designated audit partner was Mr Rudi Huiskamp.
External audit scope and budget	<ul style="list-style-type: none"> The Committee, in consultation with executive management, agreed to the engagement letter, terms, nature and scope of the audit function and audit plan for the 2019 reporting period. The budgeted fee was considered for appropriateness and then approved. The final adjusted fee will be agreed on completion of the audit. Audit fees are disclosed in note 21 of the 2019 annual financial statements. The Committee considers and approves the non-audit services rendered by the external auditor. The external auditors rendered non-audit services relating to tax services (submission of tax returns) and company secretarial services (In-Toto Solutions (Pty) Ltd, Ellies Electronics Holdings (Pty) Ltd, Ellies Nominees (Pty) Ltd, Ellies Electronics (Pty) Ltd, Ellies Infrastructure Holdings (Pty) Ltd, Megatron (SA) (Pty) Ltd and Ellies Properties (Pty) Ltd), during the reporting period. Non-audit services rendered amounted to 2,1% (2018: 2,4%) of quoted audit fees.
Auditor independence and rotation	<ul style="list-style-type: none"> Grant Thornton has been Ellies' auditor since 2008. In December 2018, Grant Thornton Johannesburg (including satellite offices in Nelspruit, Polokwane and Rustenburg) merged with BDO South Africa Incorporated and was consolidated under BDO South Africa Incorporated, with Mr Rudi Huiskamp being appointed as the designated audit partner at the beginning of the 2019 reporting period. As the designated audit partner has rotated during the external audit firm's tenure, and a new Financial Director has been appointed at Ellies, these appointments mitigate the risk of familiarity between the external auditor and management. The external auditors have unrestricted access to the Committee and its Chairperson with a view to ensuring that their independence is not impaired. The Committee considered the external auditors' independence and concluded that the independence remained. As gazetted on 5 June 2017, mandatory audit firm rotation will be effective for financial year-ends commencing on or after 1 April 2023. An audit firm shall not serve as the appointed auditor of a company for more than ten consecutive financial years. The audit firm will only be eligible for re-appointment as the auditor after the expiry of at least five financial years. In assessing the suitability of the re-appointment of BDO South Africa Incorporated and the audit partner, Mr Rudi Huiskamp, the Committee has assessed the information provided by BDO South Africa Incorporated, as required per paragraph 22.15(h) of the JSE Listings Requirements. The Committee, therefore, has recommended the re-appointment of BDO South Africa Incorporated as auditors, with Mr Rudi Huiskamp as the designated audit partner, for the ensuing year to shareholders for approval at the AGM to be held on 31 October 2019. The Committee confirms that the audit firm and designated audit partner are accredited by the JSE.

Report of the Audit and Risk Committee

continued

AUDIT continued	
Quality of external audit	<ul style="list-style-type: none"> The quality of the audit has been of a high standard with independence and objectivity always at the forefront.
Internal audit	<ul style="list-style-type: none"> With effect from 1 November 2018, the internal audit function has been outsourced to Nexia SAB&T, with an initial limited scope of preparing a gap analysis on the inventory processes.
Internal control	<ul style="list-style-type: none"> The Group maintains systems of internal control, which include financial, operational and compliance controls. The Committee is responsible for reviewing the functioning of the internal control system, the reliability and accuracy of the financial information provided by management as well as that provided for dissemination to other users of financial information. In addition, it reviews whether the Group should continue to use the services of the current external auditors, any accounting or auditing concerns identified as a result of the external audit, the Group's compliance with legal and regulatory provisions, its Memorandum of Incorporation, Code of Conduct and by-laws. The Board is accountable for establishing appropriate risk and control policies. Executive management is responsible for monitoring, reviewing and communicating these controls and policies through the organisation. Corrective actions are taken to address control deficiencies and other opportunities for improving the systems, as they are identified. Incidents of fraud and theft may occur in the business and the internal controls in operation may not timeously detect or prevent them from happening. The Board has adopted to a zero-tolerance approach to fraud and is determined to ensure effective and efficient internal controls are put in place. The Internal Audit function will be outsourced with a mandate to commence full-cycle internal audit compliance testing in all operations from F2020.
REPORTING	
Evaluation of the Financial Director, finance function and financial reporting	<ul style="list-style-type: none"> The Board has considered the appropriateness of the experience and expertise of the Interim CFO, Mr Chris Booyens (CA(SA)) and concluded that those were appropriate. Chris was, therefore, appointed as Financial Director and Chief Financial Officer on 4 April 2019. In the future the evaluation of the Financial Director will be undertaken by the Audit and Risk Committee on an annual basis. The appropriateness of the expertise of the Company's finance function and the experience of the senior members of management responsible for the finance function was considered and found to be adequate. The resources of the finance function are, however, inadequate and will be addressed going forward. Ellies' financial reporting procedures have short-comings relating to resources, systems and process and measures will be taken to ensure that those procedures are operating and operating satisfactorily during the next reporting period.
Annual financial statements and accounting policies	<ul style="list-style-type: none"> The Committee has reviewed the accounting treatments and the appropriateness of the accounting policies, and any changes thereto, and the financial statements of the Group and the Company. It is satisfied that they are appropriate and comply with IFRS. Except for the adoption of IFRS 9 – <i>Financial Instruments</i> and IFRS 15 – <i>Revenue from Contracts with Customers</i>, there have been no changes in the accounting policies. IFRS 16 – <i>Leases</i> will be introduced in F2020. The Committee met separately with management and the external auditors and the short-comings and internal control weaknesses will be addressed as a priority in the year ahead. The Committee recommended the annual financial statements for the year ended 30 April 2019 for approval to the Board. The Board approved the annual financial statements on 26 August 2019 and the financial statements will be open for discussion at the AGM.

Report of the Audit and Risk Committee

continued

REPORTING continued	
Going concern	<ul style="list-style-type: none"> The Committee reviewed a documented assessment by management of the going concern premise of the Company and the Group before recommending to the Board that the Company and the Group will be going concerns in the foreseeable future. The going concern assessment appears in note 39 on page 169.
Integrated reporting process	<p>The Committee oversaw the integrated reporting process in accordance with its Charter and, in particular, the Committee:</p> <ul style="list-style-type: none"> regarded all factors and risks that may impact on the integrity of the integrated annual report, including factors that may predispose management to present a misleading picture, significant judgements and reporting decisions made, as well as any evidence that brings into question previously published information and forward-looking statements or information; reviewed the annual financial statements; reviewed the disclosure of material sustainability issues in the sustainability report and in the integrated annual report to ensure that it is reliable and does not conflict with the financial information; recommended the integrated annual report for approval by the Board; and reviewed the content of the condensed financial information to determine if it provides a balanced view.
JSE Proactive Monitoring Panel	<ul style="list-style-type: none"> During F2019, accounting policies, previously reported in note 1 as a single note, have been placed within the relevant notes to the consolidated financial statements, where possible. This application renders the accounting policies more appropriate and entity-specific, in alignment with the JSE Report on Proactive Monitoring in relation to accounting policies. The Committee considered the 2018 JSE Report on Proactive Monitoring, issued on 20 February 2019, and has taken the appropriate action to apply the most relevant findings.
RISK	
Policies on risk management	<ul style="list-style-type: none"> The policies on risk management, including information technology risks, will be reviewed going forward. A formal risk management framework, risk policy and IT risk policy will be developed and implemented. Additional information pertaining to risk management is disclosed on pages 44 to 46 of the integrated annual report, including the top risks pertaining to financial, people and process management.
Legal risk	<ul style="list-style-type: none"> The Committee was satisfied that there has been no material non-compliance with laws and regulations. VDP (Voluntary Disclosure Programme) submissions have been submitted to the South African Revenue Service, the outcome of which is pending. The VDP relates to value added tax which was overclaimed, due to a system error, and has been fully provided for. The Committee is also satisfied that it has complied with all its legal, regulatory and other responsibilities during the reporting period. The Group is currently involved in litigation, the details of which are disclosed in note 35.
Financial risk	<ul style="list-style-type: none"> Refer to note 34 on pages 161 to 164 in the financial statements for full disclosure on financial risks.

Report of the Audit and Risk Committee

continued

ASSURANCE	
Combined assurance	<ul style="list-style-type: none"> • Arrangements are in the process of being developed and implemented for combined assurance.
COMPLIANCE	
Legal and regulatory compliance	<ul style="list-style-type: none"> • The Committee has been assigned the responsibility for ensuring ongoing legal and regulatory compliance. Compliance with legal and regulatory responsibilities are currently being reviewed by the Audit and Risk Committee and will be reported on in the F2020 Report of the Committee.
GOVERNANCE	
Charter and policies	<ul style="list-style-type: none"> • The Charter of the Audit and Risk Committee will be reviewed and updated in the year ahead. • The process of aligning policies and procedures with King IV™ is ongoing.

CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

Following the review by the Committee of the consolidated and separate annual financial statements of Ellies for the year ended 30 April 2019, the Committee is of the view that, in all material aspects, it complies with the relevant provisions of the Companies Act and International Financial Reporting Standards and fairly presents the financial position at that date and the results of its operations and cash flows for the year.

In conjunction with the Social and Ethics Committee, the Committee has also satisfied itself as to the integrity of the remainder of the integrated annual report.

The Committee recommended the consolidated and separate financial statements and integrated annual report for the year ended 30 April 2019 for approval to the Board on 26 August 2019.

CONCLUSION

The Audit and Risk Committee report was approved by the Board on 26 August 2019.



Edward Raff (*Independent Non-Executive Director*)
Chairperson of the Audit and Risk Committee

Directors' report

for the year ended 30 April 2019

The directors take pleasure in presenting their report, which forms part of the consolidated financial statements for the year ended 30 April 2019. The consolidated financial statements presented on pages 102 to 169 set out fully the financial position, results of operations and cash flows of the Group and the Company for the year ended 30 April 2019.

NATURE OF BUSINESS

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 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.

LISTING INFORMATION

Ellies Holdings Limited is listed in the Electrical and Electronic Equipment sector of the Johannesburg Stock Exchange under the JSE share code: ELI. The Company's ISIN number is ZAE000103081.

REGISTERED ADDRESS

The holding Company's registered address is:

94 Eloff Street Ext, Village Deep, Johannesburg, 2001.

PO Box 57076, Springfield, 2137.

YEAR UNDER REVIEW

Group results summary

	2019 R'000	2018 R'000	% change
Statement of financial position			
Total assets	660 201	776 948	(15,0)
Total liabilities	385 567	466 519	(17,4)
Net asset value per share (cents)	47,5	51,9	(8,5)
Net tangible asset value per share (cents)	39,2	43,6	(10,1)
Statement of profit or loss and other comprehensive income			
Revenue	1 357 739	1 371 830*	(1,0)
(Loss)/earnings before interest, taxation, depreciation and amortisation	(21 475)	84 354	(125,5)
Operating (loss)/profit before impairments	(30 419)	74 987	(140,6)
Impairments	(11 775)	(4 379)	(168,9)
Operating (loss)/profit	(42 194)	70 608	(159,8)
Net finance charges	(17 482)	(14 932)	(17,1)
Income tax income/(expense)	5 832	(16 415)	(135,5)
Attributable (loss)/profit	(22 183)	42 421	(152,3)
Headline (loss)/earnings	(20 229)	48 941	(141,3)
(Loss)/earnings per share (cents)	(3,58)	6,84	(152,3)
Headline (loss)/earnings per share (cents)	(3,26)	7,89	(141,3)

* Restated

An analysis of the Group's results is disclosed in the Report to Shareholders on pages 18 and 19.

Directors' report continued

for the year ended 30 April 2019

Restatement and first-time adoption of new standards

Please refer to pages 113 to 115 and note 20 on pages 148 and 149 for details pertaining to restatement and first-time adoption of IFRS 9 – *Financial Instruments* and IFRS 15 – *Revenue from Contract Customers* as well as to note 37, Prior period errors.

SPECIAL RESOLUTIONS

At the AGM of the Company held on 7 December 2018, the following special resolutions were presented to shareholders for approval:

- Special resolution number 1: Granting the Company a general authority to repurchase its own shares.
- Special resolution number 2: Granting the Company the authority to provide financial assistance for a period of two years to any company or corporation which is related or inter-related to the Company in terms of the requirements of section 45 of the Companies Act, No 71 of 2008.

Special resolution number 1 was passed by the requisite majority of votes; and special resolution number 2 was withdrawn.

At the General Meeting of the Company, held on 27 May 2019, the following special resolution was approved by shareholders:

- Special resolution number 1: Approving the non-executive directors' fees to be effective from 1 June 2019, valid for a period of two years.

At the forthcoming AGM of the Company to be held on Thursday, 31 October 2019, the following special resolutions will be presented to shareholders for approval:

- Special resolution number 1: Granting the Company a general authority to repurchase its own shares.
- Special resolution number 2: Granting the Company the authority for a period of two years to provide financial assistance to any company or corporation which is related or inter-related to the company and/or to any financier for the purpose of or in connection with the subscription or purchase of shares or other securities in the Company or any related or inter-related company or corporation in terms of the requirements of section 44 of the Companies Act, No 71 of 2008.
- Special resolution number 3: Granting the company the authority for a period of two years to provide financial assistance to any company or corporation which is related or inter-related to the Company in terms of the requirements of section 45 of the Companies Act, No 71 of 2008.

At the General Meeting of the Company to be held on Thursday, 31 October 2019, the following special resolution will be presented to shareholders for approval:

- Special resolution number 1: Approval and ratification of the new Ellies Share Trust Deed and the Ellies Long-Term Incentive Plan in compliance with Schedule 14 of the JSE Listings Requirements.

DIVIDEND

No dividend has been proposed or declared for the reporting period.

SHARE CAPITAL

The unissued shares are under the control of the directors until the next AGM, subject to the Listings Requirements of the JSE Limited.

Further details of the authorised and issued share capital of the Company are provided in note 14 to the consolidated annual financial statements.

Directors' report continued

for the year ended 30 April 2019

REPURCHASE OF SECURITIES

During the reporting period, there was no repurchase of shares and no shares were issued for cash.

DIRECTORS

The directors of the Company during the reporting period are disclosed in the table below.

Name	Designation	Date appointed	Date resigned
Adrian Bock	Executive Director – Joint Chief Executive Officer and Chief Financial Officer	14 July 2016	28 September 2018
Chris Booyens ¹	Executive Director – Chief Financial Officer	4 April 2019	
Timothy Fearnhead	Independent Non-Executive Chairperson of the Board	4 April 2019	
Oliver Fortuin	Lead Independent Director	11 April 2011	30 June 2018
Stephen Goldberg	Independent Non-Executive Director	21 November 2014	13 August 2018
Martin Kuscus	Independent Non-Executive Director	1 June 2015	
Fikile Mkhize	Independent Non-Executive Director; Interim Chairperson of the Board	1 June 2012	18 January 2019
Francois Olivier	Independent Non-Executive Director	4 April 2019	
Dr Shaun Prithivirajh ²	Executive Director – Chief Executive Officer	4 April 2019	
Edward Raff	Independent Non-Executive Director	4 April 2019	
Reshoketswe Ralebepa	Independent Non-Executive Director	1 September 2018	14 January 2019
Ian Russell	Independent Non-Executive Director; Interim Lead Independent Director	1 October 2018	18 January 2019
Elliot Salkow	Executive Director – Executive Chairperson of the Board; Joint Chief Executive Officer	6 March 2007	4 April 2019
	Non-Executive Director	4 April 2019	
Andrew Hannington	Alternate Director to Mr Elliot Salkow	11 December 2018	4 April 2019

¹ Appointed as Interim CFO with effect from 11 October 2018 to 7 December 2018; contract extended from 7 January 2019 to 30 April 2019; appointment as CFO and executive director confirmed on 4 April 2019, before expiry of contract period.

² Appointed as CEO and executive director with effect from 1 August 2018; appointment not ratified at the AGM held on 7 December 2018, but remained as CEO in terms of an employment contract; re-appointed as executive director on 4 April 2019.

In terms of clause 24.8 of the Company's Memorandum of Incorporation, Messrs Elliot Salkow and Martin Kuscus retire by rotation at the forthcoming AGM and, being eligible and available, have offered themselves for re-election.

Directors' report continued

for the year ended 30 April 2019

SECRETARY

On 1 December 2018, CIS Company Secretaries (Pty) Ltd resigned as Company Secretary of Ellies effective from 31 December 2018. Ms Lindie Lankalebalelo was appointed as Company Secretary on 1 December 2018.

DIRECTORS' SHAREHOLDING

The directors held in aggregate direct and indirect beneficial interests of 19,34% (30 April 2018: 19,43%) in the issued share capital of the Company, the details of which are disclosed in the Report of the Remuneration Committee on page 58.

The Company has not been notified of any material change in directors' interests during the period 30 April 2019 to the date of this report.

DIRECTORS' EMOLUMENTS

Details of the directors' emoluments are set out on pages 55 to 57 of the Report of the Remuneration Committee and in note 22 on page 151.

DIRECTORS' INTEREST IN CONTRACTS

No material contracts involving directors' interest were entered into during the reporting period, other than as disclosed in the related party note 35 on page 165.

LITIGATION

The Group is currently involved in litigation, the details of which are disclosed in note 36 on page 166.

SHAREHOLDING ANALYSIS

A presentation of the Company's shareholding is set out on pages 171 and 172 .

BORROWING POWERS

The Group has unlimited borrowing powers permitted in terms of the Company's Memorandum of Incorporation.

SUBSIDIARIES AND ASSOCIATE COMPANIES

Details of the holding company's interest in subsidiaries and associate companies are set out on pages 122 and 124 of the annual financial statements. Details of indebtedness to the holding Company are set out in note 9 on pages 132 and 133 of the annual financial statements.

EVENTS AFTER THE REPORTING DATE

Events after the reporting date are disclosed in note 38 on page 169.

STATEMENT ON GOING CONCERN

The statement on going concern is disclosed in note 39 on page 169.

AUDITORS

The auditors, BDO South Africa Incorporated, have indicated their willingness to continue in office for the 2020 financial year. The Audit and Risk Committee has satisfied itself of the independence of the auditors and the designated audit partner. A resolution to re-appoint BDO South Africa Incorporated as auditors, and Mr Rudi Huiskamp as designated audit partner, will be proposed at the next AGM scheduled to take place on 31 October 2019.

DATE OF AUTHORISATION FOR ISSUE OF ANNUAL FINANCIAL STATEMENTS

The annual financial statements have been authorised for issue by the Board on 26 August 2019. No authority was given to anyone to amend the annual financial statements after the date of issue.

Report of the **independent auditor**

for the year ended 30 April 2019

TO THE SHAREHOLDERS OF ELLIES HOLDINGS LIMITED AND ITS SUBSIDIARIES

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Ellies Holdings Limited and its subsidiaries (the group and company) set out on pages 102 to 169, which comprise the consolidated and separate statements of financial position as at 30 April 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Ellies Holdings Limited and its subsidiaries as at 30 April 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Report of the independent auditor continued

for the year ended 30 April 2019

Key audit matter	How our audit addressed the key audit matter
<p>Consolidated financial statements</p> <p><i>Expected credit losses (ECL) on trade and other receivables – Note 8</i></p> <p>The International Accounting Standards Board (IASB) issued IFRS 9 Financial Instruments which replaced IAS 39 Financial Instruments. The group has adopted IFRS 9 in the current financial period and the requirements have been applied retrospectively without restating comparatives with effect from 1 May 2018. The key changes arising from adoption of IFRS 9 are that the group's credit losses are now based on expected losses rather than an incurred loss model. The adoption resulted in the creation of an expected credit loss allowance at 1 May 2018 and the difference between the new balance and the previous IAS 39 allowance balance was adjusted against retained income.</p> <p>The group stratifies trade receivable into identifiable categories based on the revenue streams of the business and the risk profile of the customers. The identified categories are Multichoice South Africa, retailers, independent customers and COD customers. The group measures the lifetime expected credit loss allowance for trade receivables by applying a provision matrix as permitted by IFRS 9. The provision matrices have been developed by making use of judgement and past default experience of debtors and incorporates forward-looking information such as the likelihood of default by the debtor and general economic conditions of the industry as at the reporting date. Macro-economic factors affecting customers' ability to settle the amounts outstanding include the ongoing energy crisis in South Africa, the financial vulnerability of state-owned enterprises at present, GDP in South Africa and various other factors.</p> <p>The application of IFRS 9 is therefore considered to be a key audit matter as it is a new standard that requires a significant degree of judgement by management when assessing the expected credit losses on trade and other receivables by incorporating forward-looking information.</p>	<p>Our audit procedures included amongst other:</p> <ul style="list-style-type: none"> • We assessed the group's expected credit loss allowance policy and compared it with the requirements of IFRS 9 to determine compliance with the standard; • We tested the appropriateness of the categories identified by the group by ensuring that the correct data has been allocated to the relevant category; • We reviewed the appropriateness of the historical loss ratio assessment per category applied by management to determine that their assessment is reasonable; • We assessed the forward looking assumptions applied by management in their expected credit loss assessment per category through discussions with them; • We reviewed the accuracy of the accounting system's ageing; • We assessed management's assumptions and calculation of the specific credit loss allowance; and • We considered the adequacy of the disclosure made in the financial statements with reference to the disclosure requirements of IFRS 9.

Report of the independent auditor continued

for the year ended 30 April 2019

Key audit matter	How our audit addressed the key audit matter
<p><i>Existence and valuation of inventories - note 7</i></p> <p>Inventory at year end is the group's most significant asset at R300 million. The new management identified operational issues relating to inventory during the current year which have resulted in significant write offs and impairments.</p> <p>Management regularly identifies slow moving, obsolete and damaged inventories on a line by line basis to ensure that these are recorded at the lower of cost or estimated net realisable value. The write down of inventory is based on management's judgement and estimate relating to projected likely future sales less estimated selling costs using factors that exist at the reporting date.</p> <p>Based on the drive to clean-up inventory, as well as the judgement involved in carrying inventory at the lower of cost and net realisable value, this is considered a key audit matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • We attended physical counts at various locations across a wider geographical spread, which included all three foreign subsidiaries, smaller branches, such as Bloemfontein, Nelspruit, Polokwane and Port Elizabeth, as well as the larger, main distribution centers in Johannesburg, Durban and Cape Town; • We performed test counts on inventory on a sample basis at the locations set out above, to ensure existence and completeness thereof; • We reconciled the inventory count information to final inventory sheets for accuracy and performed roll backs on a sample basis where counts differed; • We evaluated the assumptions and estimates applied by management for reasonability relating to slow moving, obsolete and damaged inventories by: testing the identification of such inventory for each business, testing the accuracy of historical sales trend information; assessing changing trends applied against the current inventory balances; and performing analytical procedures on obsolescence levels and write down rates. • We tested the estimated future sales values, less estimated costs to sell against the carrying value of the inventories. • We recalculated the arithmetical accuracy of the computations. • In considering the write down of the inventory, we assessed the levels of the inventory, the risk of additional returns from customers and estimated reselling prices for reasonability. Where inventories were expected to be sold at values below cost, we ensured that an appropriate write-down has been recorded. • We considered the adequacy of the disclosure made in the financial statements with reference to the disclosure requirements of IAS 2.

Report of the independent auditor continued

for the year ended 30 April 2019

Key audit matter	How our audit addressed the key audit matter
<p>Goodwill impairment testing – Note 2</p> <p>At 30 April 2019, the group has goodwill with a carrying value of R51.4 million, recognised on the acquisition of various branches and subsidiaries in previous periods.</p> <p>In terms of IFRS, management are required to perform an impairment test on goodwill at least annually, and are also required to perform an impairment test if indicators of impairment are identified.</p> <p>We have determined this is a key audit matter due to the judgement required by management in preparing a 'value-in-use' calculation in order to assess whether the goodwill is impaired. Forecasting future cash flows and applying an appropriate discount rate, inherently involves a high degree of estimation and judgement by management, as disclosed in Note 2 to the financial statements.</p> <p>No impairment of the goodwill was identified in the current financial period.</p>	<p>Our audit procedures included amongst other:</p> <ul style="list-style-type: none"> • We reviewed the model for compliance with IAS 36 Impairment of Assets. • We assessed the determination of Cash Generating Units based on our understanding of how management monitors the group's operations and makes decisions about groups of assets that generate independent cash flows. • We verified the mathematical accuracy and appropriateness of the methodology applied in the underlying model and calculations. • We checked the accuracy and relevance of the input data provided by management based on our knowledge of the business and industry. • We evaluated the cash flow projections and the process by which they were developed for reasonability and consistency and, compared the cash flows to the latest Board approved budgets, and assessed the historical accuracy and reasonableness of the budgeting process. • We assessed the key growth rate for reasonability assumptions by comparing them to historical results, economic and industry forecasts, and assessing the discount rate by reference to the cost of capital of the group. • We performed a sensitivity analysis of the key assumptions applied in the model and considered the potential impact of reasonably possible downside changes in these key assumptions. • With the assistance of our internal valuation specialist, we assessed the assumptions and methodologies used by management in the calculations for reasonability. • We considered the adequacy of the disclosure made in the financial statements with reference to the disclosure requirements of IAS 36.

Report of the independent auditor continued

for the year ended 30 April 2019

Key audit matter	How our audit addressed the key audit matter
<p>Separate financial statements</p> <p><i>Recoverability of investments in subsidiaries - Note 4</i></p> <p>At 30 April 2019, the carrying value of Investment in Subsidiaries amounts to R148million. The company is required to consider indicators of impairment with respect to the recoverability of its interests in subsidiary companies.</p> <p>This annual consideration is a key audit matter as the balance of interests in subsidiary companies is significant in the separate financial statements and the assessment of impairment of the investment requires significant judgement to be applied by management.</p> <p>Indicators of impairment that were considered in the current year included the reduced profitability and general economic downturn in the country.</p> <p>An impairment totalling R211 million was recognised in the current year on the investment in Ellies Electronics Holdings Proprietary Limited.</p>	<p>Our audit procedures included the following amongst other:</p> <ul style="list-style-type: none"> • We considered indicators of impairments for the investments held. • We assessed the impairment calculations performed by management for reasonableness. • With the assistance of our internal valuation specialist, we assessed the assumptions and methodologies used by management in the calculations for reasonability. • We considered the adequacy of the disclosure made in the financial statements with reference to the disclosure requirements of IAS 36.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Ellies Holdings Limited Integrated Annual Report" for the year ended 30 April 2019, which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

Report of the independent auditor continued

for the year ended 30 April 2019

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that BDO South Africa Incorporated has been the auditor of Ellies Holdings Limited and its subsidiaries for 1 year.

BDO South Africa Inc

BDO South Africa Incorporated

Registered Auditors

R Huiskamp

Director

Registered Auditor

27 August 2019

Wanderers Office Park
52 Corlett Drive
Illovo, 2196

Statements of financial position

as at 30 April 2019

	Note	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
ASSETS					
Non-current assets		132 555	138 814	148 245	359 130
Property, plant and equipment	1	64 029	75 979	–	–
Goodwill	2	51 438	51 438	–	–
Investments in subsidiaries	4	–	–	148 245	359 126
Deferred taxation	6	17 088	11 397	–	4
Current assets		527 646	632 444	4 619	2 320
Inventory	7	300 009	368 616	–	–
Trade and other receivables	8	174 543	241 939	–	39
Taxation receivable		7 713	1 097	29	10
Loan to subsidiary	9	–	–	4 523	2 204
Bank and cash balances	11	45 381	20 792	67	67
Non-current assets held for sale		–	4 250	–	–
Property, plant and equipment	12	–	4 250	–	–
Group disposals held for sale		–	1 440	–	–
Trading and Distribution segment	13	–	1 440	–	–
Total assets		660 201	776 948	152 864	361 450
EQUITY AND LIABILITIES					
Total shareholders' interests		274 634	310 429	146 138	361 364
Stated capital	14	837 212	837 212	837 212	837 212
Non-distributable reserves	16	(176 236)	(175 267)	–	–
Accumulated loss		(366 554)	(340 173)	(691 074)	(475 848)
Equity attributable to equity holders of the parent		294 422	321 772	146 138	361 364
Non-controlling interests	15	(19 788)	(11 343)	–	–
Non-current liabilities		148 300	7 490	–	–
Interest-bearing liabilities	17	148 300	4 847	–	–
Deferred taxation	6	–	2 643	–	–
Current liabilities		237 267	458 115	6 726	86
Interest-bearing liabilities	17	9 656	6 804	–	–
Trade and other payables	18	177 094	211 634	873	86
Provisions	19	5 186	67 230	–	–
Taxation payable		786	901	–	–
Third-party loans	10	41 607	75 350	–	–
Loans from subsidiary	9	–	–	5 853	–
Bank overdrafts	11	2 938	96 196	–	–
Group disposals held for sale		–	914	–	–
Trading and Distribution segment	13	–	914	–	–
Total equity and liabilities		660 201	776 948	152 864	361 450

Statements of profit or loss and other comprehensive income

for the year ended 30 April 2019

	Note	GROUP		COMPANY	
		2019 R'000	2018* R'000	2019 R'000	2018* R'000
Revenue	20	1 357 739	1 371 830*	–	1 872
Cost of sales	21	(1 009 244)	(968 701)*	–	–
Gross profit		348 495	403 129	–	1 872
Other income		4 497	7 329	–	–
Operating expenses		(362 144)	(326 104)	(4 341)	(1 887)
Impairment loss on trade receivables		(12 323)	–	–	–
Depreciation	1	(8 944)	(9 367)	–	–
Operating (loss)/profit before other impairments		(30 419)	74 987	(4 341)	(15)
Impairment of non-current assets held for sale		–	(869)	–	–
Impairment of property, plant and equipment	1	(7 873)	–	–	–
Impairment of net investments in associate	5	(3 902)	(3 136)	–	–
Impairment of investment in subsidiary	4	–	–	(210 881)	–
Impairment of loans		–	(374)	–	–
(Loss)/profit from operations	22	(42 194)	70 608	(215 222)	(15)
Finance income	23	2 816	3 268	–	–
Finance costs	24	(20 298)	(18 200)	–	–
Share of losses from associate	5	(2 269)	–	–	–
(Loss)/profit before taxation		(61 945)	55 676	(215 222)	(15)
Taxation	27	5 832	(16 415)	(4)	4
(Loss)/profit for the year: continuing operations		(56 113)	39 261	(215 226)	(11)
<i>Profit/(loss): discontinued operations</i>	13	24 718	(1 003)	–	–
(Loss)/profit for the year		(31 395)	38 258	(215 226)	(11)
<i>Other comprehensive income:</i>					
Items that will be reclassified subsequently to profit or loss					
– Foreign currency translation reserve		697	(278)	–	–
– Tax effect on foreign currency translation		38	(11)	–	–
Total comprehensive (loss)/profit for the year		(30 660)	37 969	(215 226)	(11)
<i>(Loss)/profit attributable to:</i>					
Equity holders of the parent		(22 183)	42 421	(215 226)	(11)
Non-controlling interests		(9 212)	(4 163)	–	–
Net (loss)/profit after tax		(31 395)	38 258	(215 226)	(11)
<i>Total comprehensive income/(loss) attributable to:</i>					
Equity holders of the parent		(21 448)	42 132	(215 226)	(11)
Non-controlling interests		(9 212)	(4 163)	–	–
Total comprehensive (loss)/income for the year		(30 660)	37 969	(215 226)	(11)
– Basic (loss)/earnings per share (cents)	26	(3,58)	6,84		
– Diluted (loss)/earnings per share (cents)	26	(3,58)	6,75		

* Restated – refer note 37.

Statements 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
COMPANY							
Balances as at 1 May 2017	837 212	–	–	(475 837)	361 375		
Total comprehensive loss for the year	–	–	–	(11)	(11)		
Balances as at 30 April 2018	837 212	–	–	(475 848)	361 364		
Total comprehensive loss for the year	–	–	–	(215 226)	(215 226)		
Balances as at 30 April 2019	837 212	–	–	(691 074)	146 138		
Notes	14	16	16			15	

Statements of cash flows

for the year ended 30 April 2019

	Note	GROUP		COMPANY	
		2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash flows from operating activities		63 822	42 317	(3 612)	(40)
Cash generated from operations	27	65 419	63 523	(3 593)	(50)
Finance income	28	265	201	–	–
Finance costs	28	(20 249)	(18 227)	–	–
Taxation paid	29	(8 345)	(6 191)	(19)	10
Cash flows – continuing operations		37 090	39 306	(3 612)	(40)
Cash flows – discontinued operations		26 732	3 011	–	–
Cash flows from investing activities		(3 387)	16 152	–	–
Acquisitions of property, plant and equipment	1	(5 041)	(9 118)	–	–
Proceeds on disposal of property, plant and equipment	1	982	613	–	–
Proceeds on disposal of non-current assets held for sale	12	4 250	24 734	–	–
Loss of control		(29)	–	–	–
Investment in associate		(3 620)	(69)	–	–
Cash flows – continuing operations		(3 452)	16 160	–	–
Cash flows – discontinued operations		71	(8)	–	–
Cash flows from financing activities		56 898	(27 795)	3 612	62
Receipts from interest-bearing liabilities	30	67 245	305	3 612	62
Repayment of interest-bearing liabilities	30	(10 347)	(26 043)	–	–
Third-party loans paid	30	–	(957)	–	–
Cash flows utilised by continuing operations		56 898	(26 695)	3 612	62
Cash flows utilised by discontinued operations		–	(1 100)	–	–
Net increase in cash and cash equivalents		117 333	30 674	–	22
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)	67	45
Cash and cash equivalents at the end of the year		42 443	(74 799)	67	67
<i>Cash and cash equivalents consist of:</i>					
Bank and cash balances		45 381	21 397	67	67
– Continuing operations		45 381	20 792	67	67
– Discontinued operations		–	605	–	–
Bank overdrafts		(2 938)	(96 196)	–	–
– Continuing operations		(2 938)	(96 196)	–	–
		42 443	(74 799)	67	67

Segment analysis

for the year ended 30 April 2019

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 sources and markets, both locally and internationally. The Manufacturing segment manufactures primarily for the Trading and Distribution segment.

Prior to the period being reported on, the segments identified were Consumer and Infrastructure.

The Consumer segment comprised manufacturing, properties and goods and services. The Infrastructure segment comprised Megatron SA Proprietary Limited and Botjheng Water Proprietary Limited, which were contractors operating in the electricity and water infrastructure sectors. Megatron SA Proprietary Limited was placed under business rescue and the operations of Botjheng Water Proprietary Limited ceased.

Due to the downscaling of the Group, the segment previously known as Consumer was split into the Trading and Distribution segment and the Manufacturing segment. This is the basis on which current operations are reviewed by the chief operating decision maker, being the Executive Committee.

General

Intersegment transactions are entered into under the normal commercial terms and conditions. The revenue from external parties is measured in a manner consistent with that in the statement of profit or loss.

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, deferred tax assets, inventory, trade and other receivables, cash and cash equivalents and intercompany loans.

Segment liabilities comprise borrowings, deferred tax liabilities, trade and other payables, income tax liabilities and intercompany loans.

The Group's largest customer contributed to 26% of the Group's revenue. The revenue forms part of the Trading and Distribution segment's external revenue.

	Trading and Distribution R'000	Manufacturing R'000	Total R'000
STATEMENT OF FINANCIAL POSITION			
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
Interest-bearing 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	Total continuing operations R'000	Trading and Distribution discontinued R'000	Total R'000
2019					
External revenue	1 356 897	842	1 357 739	611	1 358 350
Revenue	1 396 892	92 233	1 489 125	611	1 489 736
Intersegment revenue	(39 995)	(91 391)	(131 386)	–	(131 386)
Gross profit/(loss)	335 209	13 286	348 495	(119)	348 376
Other income	4 497	–	4 497	20 768	25 265
Operating expenses	(332 733)	(29 411)	(362 144)	(5 194)	(367 338)
Impairment loss on trade receivables	(12 323)	–	(12 323)	–	(12 323)
Depreciation	(4 471)	(4 473)	(8 944)	(6)	(8 950)
Operating (loss)/profit before other impairments	(9 821)	(20 598)	(30 419)	15 449	(14 970)
Impairment of property, plant and equipment	–	(7 873)	(7 873)	–	(7 873)
Impairment of net investment in associate	(3 902)	–	(3 902)	–	(3 902)
Profit on loss of control	–	–	–	9 269	9 269
(Loss)/profit from operations	(13 723)	(28 471)	(42 194)	24 718	(17 476)
Interest received	2 816	–	2 816	–	2 816
Interest paid	(20 298)	–	(20 298)	–	(20 298)
Interest intersegment	10 180	(10 180)	–	–	–
(Loss)/profit before taxation	(21 025)	(38 651)	(59 676)	24 718	(34 958)
Taxation	2 076	3 756	5 832	–	5 832
Share of losses from associates	(2 269)	–	(2 269)	–	(2 269)
(Loss)/profit for the year	(21 218)	(34 895)	(56 113)	24 718	(31 395)

Segment analysis continued

for the year ended 30 April 2019

STATEMENT OF FINANCIAL POSITION	Trading and Distribution* R'000	Manufac- turing 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
Interest-bearing 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

* Restated – refer to note 37.

Segment analysis continued

for the year ended 30 April 2019

STATEMENT OF PROFIT OR LOSS	Trading and Distribution R'000	Manufacturing R'000	Total continuing operations R'000	Trading and Distribution discontinued R'000	Total R'000
2018					
External revenue	1 337 423	34 407	1 371 830	11 382	1 383 212
Revenue	1 376 052	116 935	1 492 987	11 382	1 504 369
Intersegment revenue	(38 629)	(82 528)	(121 157)	–	(121 157)
Gross profit/(loss)	371 586	31 543	403 129	(941)	402 188
Other income	7 329	–	7 329	12 534	19 863
Operating expenses	(298 520)	(27 584)	(326 104)	(7 722)	(333 826)
Depreciation	(4 185)	(5 182)	(9 367)	(8)	(9 375)
Operating profit/(loss) before other impairments	76 210	(1 223)	74 987	3 863	78 850
Impairment of non-current assets held for sale	(869)	–	(869)	–	(869)
Impairment of net investment in associate	(3 136)	–	(3 136)	–	(3 136)
Impairment of loans	(374)	–	(374)	–	(374)
Loss on loss of control	–	–	–	(4 751)	(4 751)
Profit/(loss) from operations	71 831	(1 223)	70 608	(888)	69 720
Interest received	3 268	–	3 268	2	3 270
Interest paid	(18 200)	–	(18 200)	(83)	(18 283)
Interest intersegment	10 612	(10 612)	–	–	–
Profit/(loss) before taxation	67 511	(11 835)	55 676	(969)	54 707
Taxation	(16 103)	(312)	(16 415)	(34)	(16 449)
Profit/(loss) for the year	51 408	(12 147)	39 261	(1 003)	38 258

Principal accounting policies

for the year ended 30 April 2019

The principal accounting policies as set out below have been applied, unless otherwise stated.

BASIS OF PREPARATION

These annual financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the requirements of the Companies Act of South Africa, Financial Pronouncements issued by the Financial Reporting Standards Council and the Listings Requirements of the JSE Limited, on the historic cost basis except in the case of financial instruments which are measured using the amortised cost models. The annual financial statements are prepared on the going concern basis. The preparation of annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts in the annual financial statements. The areas involving a higher degree of judgement or complexity, or areas where assumptions or estimates are significant to the annual financial statements are disclosed under management estimates in the respective notes.

Accounting policies previously presented in note 1 as a single note, have in 2019 been placed within the relevant notes to the consolidated financial statements, where possible. Changes were made in the wording of these policies to more clearly set out the accounting policies relevant to the Group and do not represent changes in accounting policies.

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*.

Basis of consolidation

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable assets and liabilities acquired. Any goodwill that arises is tested annually for impairment (see note 2). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees as well as impairments on associates, until the date on which significant influence or joint control ceases

Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised profit arising from intragroup transactions, are eliminated.

Principal accounting policies continued

for the year ended 30 April 2019

BASIS OF PREPARATION continued

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Rands, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency balances are translated into the functional currency using the exchange rates prevailing at the reporting date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of profit or loss within operating expenses.

Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. If a foreign entity were to be sold, such exchange differences would be recognised in the statement of profit or loss and other comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing rate.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Board of Directors.

Use of judgements and estimates

In preparing these consolidated and separate financial statements, management has made judgements and estimates that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Principal **accounting policies** continued

for the year ended 30 April 2019

BASIS OF PREPARATION continued

Significant judgements and estimates

Information about assumptions and estimation uncertainties at 30 April 2019 that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is included in the following notes:

- Note 6 – recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised;
- Note 2 – impairment test goodwill: key assumptions underlying recoverable amounts, including the recoverability of development costs;
- Note 19 – recognition and measurement of provisions: key assumptions about the likelihood and magnitude of an outflow of resources;
- Note 8 – measurement of estimated credit loss allowance as well as specific impairment allowance for trade receivables: key assumptions in determining the weighted-average loss rate;
- Note 1 – estimation of useful lives of assets is based on historic performances as well as expectations about the future use, and requires a significant degree of judgement as well as, determining the fair value less costs to sell property, plant and equipment;
- Note 36 – by their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events;
- Note 4 – Impairment test on investments: key assumptions underlying recoverable amounts; and
- Note 7 – measurement of slow-moving inventory, and key assumptions used on the average usage and expected rate of sale of inventory.

Principal accounting policies continued

for the year ended 30 April 2019

STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2019

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.

Principal accounting policies continued

for the year ended 30 April 2019

STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2019 continued

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	227 864	222 818
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	227 864	–	–
– First-time adoption of IFRS 9	–	(5 046)	–
– Carried forward: amortised cost	–	–	222 818

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

Principal accounting policies continued

for the year ended 30 April 2019

STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2019 continued

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.

There was no material impact on the Group other than new disclosures and accounting policies under note 20.

STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The list of standards and interpretations below only reflects those which are expected impact the group. The group has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the group's accounting periods beginning on or after 1 May 2019 or later periods:

IFRS 16 – Leases

Company as lessee:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short-term leases or leases where the underlying asset has a low value, which are expensed on a straight-line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The lease liability takes into consideration, where appropriate, fixed and variable lease payments; residual value guarantees to be made by the lessee; exercise price of purchase options; and payments of penalties for terminating the lease.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any remeasurement of the lease liability. However, right-of-use assets are measured at fair value when they meet the definition of investment property and all other investment property is accounted for on the fair value model. If a right-of-use asset relates to a class of property, plant and equipment which is measured on the revaluation model, then that right-of-use asset may be measured on the revaluation model.
- The lease liability is subsequently increased by interest, reduced by lease payments and remeasured for reassessments or modifications.
- Remeasurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.

Principal accounting policies continued

for the year ended 30 April 2019

STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE continued

- The lease liability is remeasured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.
- The lease liability is remeasured by discounting revised lease payments at the original discount rate when there is a change in the amounts expected to be paid in a residual value guarantee or when there is a change in future payments because of a change in index or rate used to determine those payments.
- Certain lease modifications are accounted for as separate leases. When lease modifications which decrease the scope of the lease are not required to be accounted for as separate leases, then the lessee remeasures the lease liability by decreasing the carrying amount of the right of lease asset to reflect the full or partial termination of the lease. Any gain or loss relating to the full or partial termination of the lease is recognised in profit or loss. For all other lease modifications which are not required to be accounted for as separate leases, the lessee remeasures the lease liability by making a corresponding adjustment to the right-of-use asset.
- Right-of-use assets and lease liabilities should be presented separately from the other assets and liabilities. If not, then the line item in which they are included must be disclosed. This does not apply to right-of-use assets meeting the definition of investment property which must be presented within investment property. IFRS 16 contains different disclosure requirements compared to IAS 17 Leases.

The effective date of the standard is for years beginning on or after 1 January 2019.

The group expects to adopt the standard for the first time in the 2020 annual financial statements.

The estimated impact of implementing this standard as at 1 May 2019 would be:

- Recognition of right-of-use assets in the statement of financial position – R29,2million;
- Recognition of lease liabilities in the statement of financial position – R29,2 million; and
- Reversal of lease smoothing liability – R0,5 million.

The estimated impact of implementing the statement as at year end April 2020 would be

- Recognition of right-of-use assets in the statement of financial position – R10,93 million;
- Recognition of lease liabilities in the statement of financial position – R9,89 million;
- Recognition of depreciation on the right-of-use assets in the statement of comprehensive income – R19,35 million;
- Recognition of interest expense on the lease liabilities in the statement of comprehensive income – R2,66 million; and
- Reduction in operating expense in the statement of comprehensive income R21,48 million.

Notes to the annual financial statements

for the year ended 30 April 2019

1. PROPERTY, PLANT AND EQUIPMENT

ACCOUNTING POLICIES

Property, plant and equipment

Property, plant and equipment are tangible assets held by the Group for use in supply of goods or for administrative purposes and are expected to be used during more than one period and are initially recorded at cost. Depreciation is calculated on the straight-line method to write down the cost of each asset to its residual value over its estimated useful life. Subsequently, property, plant and equipment is carried at cost less accumulated depreciation and impairment. Useful lives and residual values are reassessed at the end of each financial period. The useful life applicable to each category of property, plant and equipment is estimated as follows:

Land	Not depreciated
Buildings	20 to 50 years
Plant and equipment	10 to 20 years
Motor vehicles	4 to 5 years
Computer equipment	2 to 4 years
Office equipment	10 years
Furniture and fittings	6 to 10 years

Impairment of property, plant and equipment

The carrying amounts of property, plant and equipment are reviewed annually for an indication of whether or not the relevant asset is impaired. If any such indication exists, and where the carrying amounts exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of an asset or cash-generating unit is the higher of its fair value less costs to sell and its value-in-use.

Impairment losses and reversals are recognised directly in profit or loss. Reversals of impairments are limited to the carrying amount of the asset had no impairment been recognised previously.

Disposal of property, plant and equipment

The profit or loss arising on the disposal or scrapping of an asset is the difference between the sales proceeds and the carrying amount of the asset and is recognised as gains or losses in profit or loss.

MANAGEMENT ESTIMATES

Residual values and useful lives of items of property, plant and equipment

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate.

The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors.

In reassessing assets' lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

Notes to the annual financial statements continued

for the year ended 30 April 2019

1. PROPERTY, PLANT AND EQUIPMENT continued

GROUP	Plant and equipment R'000	Motor vehicles R'000	Computer equipment R'000	Office equipment/ furniture and fittings R'000	Land and buildings/ leasehold improvements R'000	Total R'000
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
Reconciliation of property, plant and equipment						
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 reserve	–	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
Reconciliation of property, plant and equipment						
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 reserve	–	(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 (Manufacturing Segment) and impaired its plant in light of lower throughput on lower demand. The Group engaged the services of The Property Partnership CC, Chartered Valuation Surveyors, to assist with the valuation of the plant and equipment in use at Ellies Industries Proprietary Limited. The selection process included prior confirmation by the external auditors, BDO South Africa Incorporated, that they could place reliance on the work performed by the valuer and that the methodology to be used by the valuer would satisfy the requirements.

The valuer determined the gross current replacement cost and also the market value for removal, which equate to fair value less costs to sell. The valuation indicated an impairment of plant and equipment and as a result an impairment loss of R7,9 million was recognised in profit or loss.

COMPANY

The Company has no property, plant and equipment.

Notes to the annual financial statements continued

for the year ended 30 April 2019

2. GOODWILL

ACCOUNTING POLICIES

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

Goodwill is carried at cost as established at the date of acquisition less accumulated impairment losses. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units that is expected to benefit from the synergies of the combination. Impairment of goodwill is not subsequently reversed.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit.

MANAGEMENT ESTIMATES

Goodwill is tested for impairment at each reporting date. The recoverable amounts of cash-generating units to which a portion of goodwill relates, have been estimated based on value-in-use calculations. Value-in-use calculations have been based on an appropriate discount rate.

Management prepared 5-year forecasts per IAS 36 with a terminal growth calculation. A projection was made of the revenue and margin expense growth, working capital growth and capital expenditure for future periods. The effect of future taxation was determined. The growth rate used in the above was 5,2%, the current South African long-term rate, and was discounted at a pre-tax rate of 24%.

	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		
<i>Arising on acquisition of companies/business of:</i>		
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
<i>* The net book value of goodwill has been allocated to the following cash-generating units</i>		
Bloemfontein (Ellies Electronics branch)	13 911	13 911
Cape Town (Ellies Electronics branch)	23 431	23 431
Ellies Namibia Proprietary Limited (Subsidiary)	6 596	6 596
Other smaller branches (Ellies Electronics branches)	7 500	7 500
	51 438	51 438

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

Notes to the annual financial statements continued

for the year ended 30 April 2019

2. GOODWILL continued

Impairment review

In accordance with IAS 36, goodwill is 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. Management made use of a discounted cash-flow model over a period of five years; the following assumptions were applied in determining the value in use:

- A growth rate of 5,2% (2018: 4%) was applied and cash flows were discounted at a pre-tax rate of 24% (2018:20,99%), which is the estimated cost of capital.
- Asset values were based on the carrying amounts for the financial period.
- Future profits were estimated using historical information and approved budgets.
- Sales growth/gross margins were based on historical achievement/known future prospects.
- Costs were assumed to grow in line with expansion and expected inflation.
- Cash flows have been extended into perpetuity at the growth rates noted above as management has no reason to believe the company will not continue past the budget period.

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 annual financial statements continued

for the year ended 30 April 2019

3. INTANGIBLE ASSETS

ACCOUNTING POLICIES

Intangible assets consist of customer relationships that were acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Goodwill is not amortised.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

	Customer relationships R'000
GROUP	
As at 30 April 2019	
Cost	3 968
Accumulated amortisation and impairment	(3 968)
Net carrying value	–
As at 30 April 2018	
Cost	3 968
Accumulated amortisation and impairment	(3 968)
Net carrying value	–

Intangible assets were acquired as part of the acquisition of Botjheng Water Proprietary Limited. The costs attributable to these assets have been determined by management, applying recognised valuation techniques and exercising judgement on the same basis as for goodwill, as described in note 2.

The separately identifiable value in use is determined to be zero, given the outlook for Botjheng Water Proprietary Limited, and the fair value cannot be separately identified.

Botjheng Water Proprietary Limited has been disclosed as a discontinued operation during the reporting period (refer to note 13).

COMPANY

The Company has no intangible assets.

Notes to the annual financial statements continued

for the year ended 30 April 2019

4. INVESTMENTS IN SUBSIDIARIES

ACCOUNTING POLICIES

The parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary.

Subsidiaries in the separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses.

MANAGEMENT ESTIMATES

Investments are tested for impairment at each reporting date, if there is an indication of impairment. The recoverable amounts of the impairment are estimated based on the value-in-use calculations.

	Country of incorporation	Segment	Ownership percentage		Shares at cost	
			2019 %	2018 %	2019 %	2018 %
COMPANY						
Shares held directly:						
Ellies Electronics Holdings Proprietary Limited	RSA	Trading and Distribution	100	100	**	**
Ellies Infrastructure Holdings Proprietary Limited	RSA	Trading and Distribution	100	100	**	**
Loans deemed capital contributions:						
Ellies Electronics Holdings Proprietary Limited	RSA	Trading and Distribution			532 126	532 126
Impairment of investment					(383 881)	(173 000)
					148 245	359 126

	Country of incorporation	Segment	Ownership percentage	
			2019 %	2018 %
Shares held indirectly:				
Botjheng Water Proprietary Limited	RSA	Trading and Distribution	100	100
Ellies Electronics Proprietary Limited	RSA	Trading and Distribution	100	100
Ellies Industries Proprietary Limited ***	RSA	Manufacturing	76	76
African Solar Power Proprietary Limited	RSA	Trading and Distribution	– ****	50
Ellies Electronics (Namibia) Proprietary Limited	Namibia	Trading and Distribution	100	100
Ellies Electronics (Botswana) Proprietary Limited	Botswana	Trading and Distribution	100	100
Elsat (Botswana) Proprietary Limited	Botswana	Trading and Distribution	100	100
Ellies Electronics Swaziland Proprietary Limited	Swaziland	Trading and Distribution	100	100
Ellies Properties Proprietary Limited	RSA	Trading and Distribution	100	100
Megatron SA Proprietary Limited *****	RSA	Trading and Distribution	100	100

** Amounts are less than R1 000.

*** Refer to note 15, with regards to subsidiaries with material non-controlling interests.

**** During the reporting period, the Group disposed of African Solar Power Proprietary Limited (refer note 13).

***** Megatron SA Proprietary Limited was deconsolidated during the 2017 reporting period due to the company going into business rescue, Ellies Holdings Limited remains the 100% shareholder.

Notes to the annual financial statements continued

for the year ended 30 April 2019

4. INVESTMENTS IN SUBSIDIARIES continued

Impairment review

Subsidiaries are shown at carrying amounts, net of impairment. As part of the annual impairment risk indicator exercise conducted, businesses are assessed for impairment. Reduced profitability and general economic downturn in the country were identified as indicators of impairment.

The recoverable amount of the investment in Ellies Electronics Holdings Proprietary Limited (Trading and Distribution segment) was determined on the basis of value-in-use calculations. Management made use of the discounted cash-flow model over a period of five years; the following assumptions were applied in determining the value in use:

- A growth rate of 5,2% (2018: 4%) was applied and cash flows were discounted at a pre-tax rate of 21,4% (2018: 20,99%), which is the estimated cost of capital.
- Asset values were based on the carrying amounts for the financial period.
- Future profits were estimated using historical information and approved budgets.
- Sales growth/gross margins were based on historical achievement/known future prospects.
- Costs were assumed to grow in line with expansion and expected inflation.
- Cash flows have been extended into perpetuity at the growth rates noted above as management has no reason to believe the company will not continue past the budget period.

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 further 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.

An impairment of R210,9 million was recognised in profit or loss. The investment is considered to be fairly valued post the impairment.

Notes to the annual financial statements continued

for the year ended 30 April 2019

5. INVESTMENTS IN ASSOCIATE

ACCOUNTING POLICIES

Investment in associate are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in profit of loss, and its share of post-acquisition reserve movements is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Associate company in the separate financial statements

Investments in associate are accounted for at cost less accumulated impairment losses.

Ellies Holdings Limited has a 49% ownership interest in In-Toto Solutions Proprietary Limited. The associate is unlisted and is registered and operates within South Africa.

	Country of incorporation and principal place of business	Ownership percentage	
		2019 %	2018 %
COMPANY			
In-Toto Solutions Proprietary Limited	RSA	49	49

	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 net investment in associate	(17 876)	(13 974)
	–	–

** Less than R1 000.

Notes to the annual financial statements continued

for the year ended 30 April 2019

5. INVESTMENTS IN ASSOCIATE continued

Summarised financial information for the associate

	GROUP	
	2019 R'000	2018 R'000
Statement of profit or loss information		
Revenue	81	3 626
Cost of sales	(423)	(2 731)
Gross (loss)/profit	(342)	895
Other income	3	1 240
Operating expenses	(1 738)	(2 365)
Operating loss	(2 077)	(230)
Finance cost	(2 551)	(3 100)
Loss before tax	(4 628)	(3 330)
Taxation	–	–
Loss for the year	(4 628)	(3 330)
Statement of financial position information		
Non-current assets	–	–
Current assets	90	584
Total assets	90	584
Total equity	(33 984)	(29 355)
Non-current liabilities	32 789	26 657
Current liabilities	1 285	3 282
Total liabilities	34 074	29 939

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

Notes to the annual financial statements continued

for the year ended 30 April 2019

6. DEFERRED TAXATION

ACCOUNTING POLICIES

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the taxation bases of assets and liabilities and their carrying amounts for financial reporting purposes. Currently substantively enacted taxation rates (rate expected to be enforce when the asset is realised or liability settled) are used to calculate deferred taxation. Deferred taxation assets relating to deductible temporary differences are only recognised to the extent that it is probable that they will result in future economic benefits, in the form of reductions in the future taxable income, for the Group. Deferred taxation is charged to profit or loss, except to the extent that it relates to transactions recognised directly in other comprehensive income or equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to transactions recognised directly in other comprehensive income and equity. The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences and that such deferred tax assets are expected to be utilised within a period not exceeding three years.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

MANAGEMENT ESTIMATES

Deferred tax assets

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Assessing the recoverability of deferred income tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the reporting date could be impacted.

Notes to the annual financial statements continued

for the year ended 30 April 2019

6. DEFERRED TAXATION continued

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
The balance consists of:				
Capital allowances	(2 453)	(3 220)	–	–
Employee benefits	3 643	5 393	–	–
Prepaid expenses	(51)	–	–	–
Impairment and other allowances against receivables	5 425	3 515	–	–
Lease obligations	134	–	–	–
Income received in advance	(1 336)	(258)	–	–
Intangible assets	(667)	(667)	–	–
Assessed tax losses	10 170	3 713	–	4
Unearned profit on inventory	1 017	179	–	–
Provisions	1 534	196	–	–
Other	(328)	(97)	–	–
	17 088	8 754	–	4
Movement summary				
Balance at the beginning of the year	8 754	18 644	4	–
First time adoption of IFRS	848	–	–	–
Temporary differences per statement of comprehensive income	7 486	(9 890)	(4)	4
Capital allowances	767	(6 532)	–	–
Employee benefits	(1 750)	6 843	–	–
Prepaid expenses	(51)	–	–	–
Impairment and other allowances against receivables	1 062	162	–	–
Lease obligations	134	(25)	–	–
Income received in advance	(1 078)	(905)	–	–
Assessed tax losses	6 457	(4 989)	(4)	4
Unearned profit on inventory	838	(829)	–	–
Provisions	1 338	(2 955)	–	–
Other	(231)	(660)	–	–
Balance at the end of the year	17 088	8 754	–	4
Disclosed as:				
Deferred taxation – non-current asset	17 088	11 397	–	–
Deferred taxation – non-current liability	–	(2 643)	–	–
	17 088	8 754	–	4

* Restated – refer note 37.

Notes to the annual financial statements continued

for the year ended 30 April 2019

6. DEFERRED TAXATION continued

	2019 R'000	2018 R'000
CONTINUING – GROUP		
Tax losses		
Utilised to raise deferred tax asset	35 292	13 261
Deferred tax asset at 28%	10 170	3 713
Unrecognised/unutilised	21 966	–
Unrecognised tax asset on losses	6 150	–
Total tax losses	57 258	13 261
DISCONTINUED – GROUP		
Tax losses		
Utilised to raise deferred tax asset	–	–
Deferred tax asset at 28%	–	–
Unrecognised/unutilised	68 184	98 900
Unrecognised tax asset on losses	68 184	98 900
Total tax losses	68 184	98 900

The deferred tax asset belongs to the Trading and Distribution segment. Management considered it probable that future taxable profits would be earned by the Trading and Distribution segment against which these assets can be utilised.

7. INVENTORY

ACCOUNTING POLICIES

Inventories are stated at the lower of cost or net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity.

Costs of ordinary interchangeable items are assigned using the weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

However, for the manufacturing entities mainly standard costing is used which is evaluated against the first-in first-out (FIFO) method; the trading entities mainly use the weighted average method. The cost of finished goods and work-in-progress comprises raw materials, direct labour, transport and handling costs, other direct costs and related production overheads (based on normal operating capacity) and excludes borrowing costs.

MANAGEMENT ESTIMATES

Inventory impairments

Impairment of inventory is calculated on a line-by-line basis with reference to average rate of sale to identify slow-moving, defective or obsolete items.

	GROUP	
	2019 R'000	2018 R'000
Raw materials	34 617	37 739
Merchandise	245 003	313 101
Goods in transit	9 158	–
Work in progress	11 231	17 776
	300 009	368 616

Inventory has been pledged as security against certain banking facilities. Refer to notes 11 and 17.

Inventories have been reduced by R3,0 million as a result of the write-down to net realisable value. This write-down was recognised in cost of sales. Refer to note 22.

Inventory has been further reduced by R79,8 million as a result of stock count losses, obsolete stock as well as slow-moving stock adjustments.

Notes to the annual financial statements continued

for the year ended 30 April 2019

8. TRADE AND OTHER RECEIVABLES

ACCOUNTING POLICIES

Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

In order to mitigate the risk of financial loss from defaults, each customer is analysed individually for creditworthiness before terms and conditions are offered. The Group makes use of information submitted by customers as well as external bureau data. Where possible, guarantees or another form of collateral are obtained.

Managing the exposure within the approved limit is continuously monitored.

Other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

MANAGEMENT ESTIMATES

Impairment

IFRS 9

IFRS 9 was adopted at the beginning of the 2019 financial year. It replaced the incurred loss model of IAS 39 with an expected credit loss model.

The adoption resulted in the creation of an expected credit loss provision at 1 May 2018 and the difference between the new provision and the previous IAS 39 provision was adjusted against retained income.

Sales and accounts receivable are stratified into identifiable categories based on the revenue streams of the business and the risk profile of the customers. The identified categories are retailers, independent customers and COD customers. The age analyses were reviewed and the historic losses identified were allocated to the respective category. The reviews resulted in the requirement for specific impairments and credit note provisions being identified. Further, an expected loss ratio was determined based on historic losses as well as forward-looking information. A provision matrix was used to determine the lifetime expected credit loss for the remaining customers.

IAS 39

The Group assesses its trade and other receivables for impairment at each reporting date. In determining whether any impairment should be recognised, the Group makes judgements as to whether objective evidence exists that the Group will not be able to collect all amounts due according to the original terms of receivables.

Notes to the annual financial statements continued

for the year ended 30 April 2019

8. TRADE AND OTHER RECEIVABLES continued

	GROUP	
	2019 R'000	2018 R'000
Gross trade receivables	180 265	263 346
IFRS 9 expected credit loss and specific allowance	(20 441)	(36 366)
Net trade receivables	159 824	226 980
Prepayments	1 607	998
Deposits	3 652	3 979
Value added tax	7 747	7 885
Retention debtors – infrastructure	607	1 213
Financed receivables	301	633
Other receivables	805	251
	174 543	241 939

Trade receivables have been ceded to The Standard Bank of South Africa Limited to secure certain banking facilities. Refer to note 17.

A reversionary cession of trade debtors has been given to Blue Strata Trading Proprietary Limited for credit facilities granted to the Group.

Trade receivables approximate their fair value due to their short-term maturity.

	GROUP	
	2019 R'000	2018 R'000
Movement in impairment allowance raised against receivables		
Balance at the beginning of the year	36 366	33 940
First time adoption of IFRS 9 (expected credit loss)	5 046	–
Impairment allowance raised	12 323	3 250
Impairment allowance utilised	(12 913)	(824)
Impairment allowance reversed (Botjheng/CMC)	(20 381)	–
Balance at the end of the year	(20 441)	36 366

Basis of raising specific impairment allowances against receivables

All trade and other receivables are continuously reviewed on an individual basis. When all reasonable measures have been taken, without success, in recovering a receivable amount and when reasonable doubt exists as to the recoverability of any such individual receivable amount, a corresponding specific allowance for impairment is raised. Specific allowances for impairment raised against receivables are reversed when a receivable amount is either written off as bad debt, or when a previous allowance is recovered.

Credit risk disclosure for comparatives under IAS 39

The following sections provide comparative information for trade and other receivables which have not been restated. The information is provided in accordance with IAS 39 – *Financial instruments: Recognition and Measurement*.

Notes to the annual financial statements continued

for the year ended 30 April 2019

8. TRADE AND OTHER RECEIVABLES continued

Credit quality of trade and other receivables

Management has made an assessment of the debts neither past due nor impaired and are satisfied with the credit quality of these debtors, as all such debts are expected to be recovered without default. The credit quality of trade and other receivables can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	GROUP
	2018
	R'000
Related credit exposure and enhancements	
Maximum exposure to credit losses of trade and other receivables	240 308
At the reporting date, trade receivables of R57,2 million were past due but not impaired, being customers of whom there are no recent history of default and management is of the view that they are recoverable in full, these debtors are aged as follows:	
Trade receivables past due but not impaired	
Amounts 30 days overdue	11 487
Amounts 60 days overdue	17 609
Amounts 90 days and more overdue	28 063
	57 159

All debtors impaired related to individual debtors that are 90+ days outstanding for which management believes there is uncertainty regarding payment.

9. LOANS TO/(FROM) SUBSIDIARIES

ACCOUNTING POLICIES

Loans to subsidiaries

Loans to subsidiaries are classified as either financial assets recognised at amortised cost or financial liabilities recognised at amortised cost.

Impairment of financial assets – IFRS 9

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses, termed 'the expected credit loss (ECL) model'. This replaces IAS 39's incurred loss model. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and trade receivables that are not measured at fair value through profit or loss. Recognition of credit losses is no longer dependent on the group first identifying a credit loss event. Instead, the group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument. In applying this forward-looking approach, a distinction is made between:

- financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk (Stage 1);
- financial assets that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low (Stage 2); and
- financial assets that have objective evidence of impairment and are considered in default at the reporting date (Stage 3).

Notes to the annual financial statements continued

for the year ended 30 April 2019

9. LOANS TO/(FROM) SUBSIDIARIES

ACCOUNTING POLICIES continued

12-month expected credit losses are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. When a loan is in default, interest is accrued on the net impaired balance.

Measurement of the expected credit losses is determined by a probability weighted estimate of credit losses over the expected life of the financial instrument. The Group defines a significant increase in credit risk as when there is an indication that the subsidiary is financially distressed, and may not be able to meet its obligations as they fall due in the normal course of business and when there is a going concern impediment. The Group defines a default event as non-payment of debts on due date, when a subsidiary becomes insolvent, and when it ceases business due to a going concern issue. The Group's write-off policy is to impair loan accounts or where the amount owing is considered irrecoverable, to write it off.

Classification and measurement under IAS 39

Loans to subsidiaries are classified as loans and receivables.

Impairment of financial assets – IAS39 (prior year)

At each reporting date, the Company assesses all financial assets, other than those at fair value through profit or loss, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the Company, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in profit or loss.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in profit or loss within operating expenses. When such assets are written off, the write-off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses

Loans from subsidiaries

After initial recognition these liabilities are measured at amortised cost using the effective interest method.

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9.

Discounting is omitted where the effect of discounting is immaterial.

	COMPANY	
	2019 R'000	2018 R'000
Current		
Ellies Electronics Holdings Proprietary Limited*	4 523**	–
Ellies Electronics Proprietary Limited*	(5 853)	2 204
	(1 330)	2 204

* The amounts are unsecured, interest free, with no fixed terms of repayment.

** Refer to note 4 for the impairment consideration on the loan to Ellies Electronics Holdings Proprietary Limited.

Notes to the annual financial statements continued

for the year ended 30 April 2019

10. THIRD-PARTY LOANS

ACCOUNTING POLICIES

Third-party loans are classified as financial liabilities recognised at amortised cost

After initial recognition these liabilities are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9.

	GROUP	
	2019 R'000	2018 R'000
Megatron SA Proprietary Limited	41 607	75 350
	41 607	75 350

The loan is unsecured, interest free and has no fixed repayment terms.

Third-party liabilities comprise the amount owing by Botjheng Water Proprietary Limited, a subsidiary company, to Megatron SA Proprietary Limited, previously a subsidiary. The latter was deconsolidated when the Ellies Group lost control following Megatron SA Proprietary Limited going into business rescue. The Group guaranteed Megatron SA Proprietary Limited's debts to Standard Bank and all receipts flowing to Megatron SA Proprietary Limited were ceded to Standard Bank in terms of a cession and pledge.

Botjheng Water Proprietary Limited received R33,7 million from the Cooperative Muratori Cementisi Ravenna arbitration which had the effect of reducing Botjheng Water Proprietary Limited's loan liability to Megatron SA Proprietary Limited.

A further gain is expected when Botjheng Water Proprietary Limited is wound up, but it will not result in a cash flow.

11. BANK AND CASH BALANCES, AND BANK OVERDRAFTS

ACCOUNTING POLICIES

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts are included within cash and cash equivalents in the statement of cash flows as they form an integral part of the Group's cash management.

Cash and cash equivalents are classified as financial instruments at amortised cost.

Impairment (IFRS 9)

The same policy applies as per note 9 (loans to/from subsidiaries).

IAS 39 (prior year)

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Company's accounting policy for borrowing costs.

Notes to the annual financial statements continued

for the year ended 30 April 2019

11. BANK AND CASH BALANCES, AND BANK OVERDRAFTS continued

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Cash on hand	3 332	3 156	–	–
Bank accounts	40 882	14 494	67	67
CFC Bank accounts	1 167	3 142	–	–
Bank overdrafts	(2 938)	(96 196)	–	–
	42 443	(75 404)	67	67
Disclosed as				
Current asset	45 381	20 792	67	67
Current liability	(2 938)	(96 196)	–	–
	42 443	(75 404)	67	67

Banking facilities

The Group entered into a banking facility agreement on 27 July 2018, comprised of:

- R85 million A amortised facility;
- R85 million B bullet facility; and
- R135 million general banking facilities.

On 30 January 2019, an amended and restated facilities agreement was entered into. Refer to note 17.

The banking facilities of the Company and its subsidiaries are secured as follows:

- general notarial bond over all moveable assets R350 million (2018: R350 million); and
- cession of trade and other receivables.

Refer to note 17 for full details.

12. NON-CURRENT ASSETS HELD FOR SALE

ACCOUNTING POLICIES

Non-current assets classified as held for sale

Items classified as non-current assets held for sale are measured at the lower of carrying amount or fair value less costs to sell. Once classified as held-for-sale and property, plant and equipment are no longer amortised or depreciated.

Such assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continued use. This condition is regarded as met only when a sale is highly probable, the asset or disposal group is available for immediate sale in its present condition and management is committed to the sale which is expected to qualify for recognition as a completed sale within one year from date of classification.

Notes to the annual financial statements continued

for the year ended 30 April 2019

12. NON-CURRENT ASSETS HELD FOR SALE continued

Ellies entered into contracts to sell certain non-core properties during the prior reporting period.

The property designated as held for sale has been sold during the reporting period.

The fair values of non-current assets held for sale may be analysed as follows:

	GROUP	
	2019 R'000	2018 R'000
Remaining Portion of Erf 195 Selby *	–	4 250
Non-current assets held for sale	–	4 250

* During the previous reporting period, the fair value of Erf 195 Selby was revalued to R4,25 million, resulting in a R1,29 million impairment. Erf 195 Selby was sold for R4,25 million during the reporting period.

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

ACCOUNTING POLICIES

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations;
- or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income and statement of cash flows are re-presented as if the operation had been discontinued from the start of the comparative year.

Measurement

Discontinued operations and disposal groups held for sale/distribution are measured at the lower of the carrying value and fair value less costs to sell.

Loss of control

Upon the loss of control, Ellies derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any resulting gain or loss is recognised in profit or loss. Any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the annual financial statements continued

for the year ended 30 April 2019

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

continued

During the reporting period, the Group disposed of African Solar Power Proprietary Limited for R5 000.

The Group also finalised the measurement of Megatron SA Proprietary Limited's losses on deconsolidation. Megatron SA Proprietary Limited was deconsolidated during the 2017 reporting period; the measurement relates to the guarantee that was remeasured at each reporting period. 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)
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/(loss) on loss of control – Megatron SA Proprietary Limited (finalised)					9 924	(5 540)
Profit on loss of control - Megatron Towers Proprietary Limited					–	789
Loss on loss of control – African Solar Power Proprietary Limited					(655)	–
Profit/(loss) from discontinued operations					9 269	(4 751)

Notes to the annual financial statements continued

for the year ended 30 April 2019

13. 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	71	(8)
Financing activities	–	(1 100)
Cash flows from discontinued operations	26 803	1 903

Notes to the annual financial statements continued

for the year ended 30 April 2019

13. 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)	–

	GROUP	
	2019 R'000	2018 R'000
Profit/(loss) on loss of control		
Net liabilities lost	1 824	–
Loans forfeited as a result of loss on control	(2 479)	789
Guarantees assumed as a result of loss of control	9 924	(5 540)
	9 269	(4 751)
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 Proprietary Limited (placed into liquidation on 19 April 2017)	–	789
African Solar Power Proprietary Limited (sold on 11 November 2018)**	(655)	–
Profit/(loss) as a result of loss of control	9 269	(4 751)

* Profit/(loss) is as a result of the remeasurement of the guarantee relating to The Standard Bank of South Africa Limited 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 annual financial statements continued

for the year ended 30 April 2019

14. STATED CAPITAL

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Authorised				
800 000 000 no par value shares				
Issued				
620 158 235 (2018: 620 158 235) no par value shares	837 212	837 212	837 212	837 212
	Number of shares	Number of shares	Number of shares	Number of shares
No changes to the issued share capital took place during the year				
Shares in Issue at the end of the year	620 158 235	620 158 235	620 158 235	620 158 235

15. NON-CONTROLLING INTERESTS

	African Solar Power		Ellies Industries		Total	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Balance at the beginning of the year	(628)	458	(10 715)	(7 638)	(11 343)	(7 180)
Share of attributable earnings for the year – continuing operations	(139)	(1 086)	(9 073)	(3 077)	(9 212)	(4 163)
Derecognition on disposal of subsidiaries – African Solar Power	767	–	–	–	767	–
Balance at the end of the year	–	(628)	(19 788)	(10 715)	(19 788)	(11 343)

Subsidiary with significant non-controlling interests

The Manufacturing segment consists of Ellies Industries Proprietary Limited only. Refer to the Segment section on pages 106 to 109 for the financial information relating to Ellies Industries Proprietary Limited.

Notes to the annual financial statements continued

for the year ended 30 April 2019

16. NON-DISTRIBUTABLE RESERVES

ACCOUNTING POLICIES

Share-based payments

The Group operates equity-settled share-based compensation. The costs of these arrangements are measured by reference to their fair value at the dates on which they were granted. The fair values are charged as an expense in determining operating profit, with a corresponding credit to equity, on a straight-line basis over the initial vesting period of each grant. The costs take into account the best estimate of the number of rights that are expected to vest, taking into account non-market conditions such as exits from the schemes prior to vesting and operating performance compared to target for vesting, where applicable. These estimates are revised at each reporting date and the impact of the revision is recognised in profit or loss.

Foreign subsidiaries and associates – translation

Once-off items in the statement of comprehensive income and statement of cash flows of foreign subsidiaries expressed in currencies other than the South African Rand are translated to South African Rand at the rates of exchange prevailing on the day of the transaction. All other items are translated at weighted average rates of exchange for the relevant reporting period. Assets and liabilities of these undertakings are translated at closing rates of exchange at each reporting date. The difference that arises due to the above translations is recognised in the statement of changes in equity as a foreign currency translation reserve. For these purposes, net assets include loans between Group companies that form part of the net investment, for which settlement is neither planned nor likely to occur in the foreseeable future and is either denominated in the functional currency of the parent or the foreign entity. When a foreign operation is disposed of, any related exchange differences in equity are recycled through profit or loss as part of the gain or loss on disposal.

Common control transactions

The predecessor values method is used to account for common control transactions. The predecessor values method requires financial statements to be prepared using predecessor book values without any step up to fair value. The difference between any consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity as a common control reserve. No additional goodwill is created by the transaction.

MANAGEMENT ESTIMATES

Fair value of share-based payments

The Group calculates the costs of share-based arrangements by reference to the fair value of the options at the dates on which they were granted, using the Black Scholes model.

Notes to the annual financial statements continued

for the year ended 30 April 2019

16. NON-DISTRIBUTABLE RESERVES continued

	GROUP	
	2019 R'000	2018 R'000
Arising from common control transactions	(178 194)	(178 194)
Foreign currency translation reserve	1 958	1 223
Share-based payment reserve	–	1 704
	(176 236)	(175 267)
Movement summary for foreign currency translation reserve		
Balance at the beginning of the year	1 223	1 512
Translation of foreign entity	735	(289)
Balance at the end of the year	1 958	1 223
Share-based payment reserve		
Balance at the beginning of the year	1 704	150
Remeasurement of share-based payment	–	1 554
Reversal of share-based payment*	(1 704)	–
Balance at the end of the year	–	1 704

* These option were cancelled during the reporting period.

Share-based payment reserves

On 10 January 2017, the group offered Mr AL Bock (CFO and joint CEO at the time), 8 000 000 share options, with a requirement that he remains in employment for specified period(s), upon which the options shall vest. Mr AL Bock resigned before the options could vest and the options, therefore, lapsed.

Share options	Vesting period	Fair value at grant date (cents)
2 million shares at a strike price of 28,56 cents	2 years	16,66
2 million shares at a strike price of 28,56 cents	3 years	19,57
4 million shares at a strike price of 28,56 cents	4 years	21,78

The shares were valued at the issue date using the Black-Scholes model.

Measurement of fair value

The fair value of the options has been measured using the Black-Scholes model. The model takes into account all inputs to determine the fair value of the shares as follows:

	Cents
Share price at grant date	28,56
Exercise price	28,56
Volatility (%) *	83
Expected life	As above
Expected dividend (%)	–
Risk-free rate (%)	8,34

* Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, for the preceding year.

The equity-settled payment is recognised over the applicable vesting period of each of the options.

Notes to the annual financial statements continued

for the year ended 30 April 2019

16. NON-DISTRIBUTABLE RESERVES continued

	R'000
The fair value of the option award to be released as follows	1 596
2017	150
2018	515
2019	466
2020	310
2021	155

Share-based payment reserves

On 27 October 2017, the Group offered the staff incentive trust 29 450 000 share options, with a requirement that beneficiaries remain in employment for specified period(s) upon which the options shall vest. These options were not allocated to individual beneficiaries and subsequently lapsed.

Share options	Vesting period	Fair value at grant date (cents)
7,36 million shares at a strike price of 37 cents	2 years	17,96
7,36 million shares at a strike price of 37 cents	3 years	21,50
14,73 million shares at a strike price of 37 cents	4 years	24,15

The shares were valued at the issue date using the Black-Scholes model.

Measurement of fair value

The fair value of the options has been measured using the Black-Scholes model. The model takes into account all inputs to determine the fair value of the shares as follows:

	Cents
Share price at grant date	36,00
Exercise price	37,00
Volatility (%) *	89
Expected life	As above
Expected dividend (%)	-
Risk-free rate (%)	7,08

* Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, for the preceding year.

The equity-settled payment is recognised over the applicable vesting period of each of the options.

Notes to the annual financial statements continued

for the year ended 30 April 2019

16. NON-DISTRIBUTABLE RESERVES continued

	R'000
The fair value of the option award to be released as follows:	6 460
2018	1 039
2019	2 077
2020	1 747
2021	1 152
2022	445

17. INTEREST-BEARING LIABILITIES

ACCOUNTING POLICIES

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9.

Interest-bearing liabilities are recognised initially at fair value, net of transaction costs incurred. Interest-bearing liabilities are subsequently stated at amortised cost and any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of profit or loss over the period of the borrowings using the effective interest method. Interest-bearing liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

	GROUP	
	2019 R'000	2018 R'000
Non-current portion	148 300	4 847
Instalment sale liabilities	96	187
Term loans	148 204	102
Property term loan	–	4 558
Current portion	9 656	6 805
Instalment sale liabilities	212	75
Term loan - payable within 12 months	9 444	140
Property term loan - payable within 12 months	–	6 590
	157 956	11 652

Notes to the annual financial statements continued

for the year ended 30 April 2019

17. INTEREST-BEARING LIABILITIES

Instalment sale liabilities

The instalment sale liabilities bear interest at rates of 9% and 11,5% and are repayable in monthly instalments of R15 000.

Term loans

Current reporting period

During the year, the Group's banking facilities was restructured, which resulted in the following:

- The reduction of the property loan to Rnil, owed by Ellies Properties Proprietary Limited;
- The absorption of Megatron's loan to the value of R89 million, as a result of the guarantees signed;
- An advance from The Standard Bank of South Africa Limited to the value of R67 million; and
- A reduction in the Group's overdraft facility from R200 million to R135 million.

The restructure resulted in the following facilities:

Standard Bank – Facility A (R85 million)

This loan bears interest at the variable JIBAR plus a margin of 4%, and is repayable in equal quarterly instalments of R4,72 million with the final payment being made on 30 April 2024. The instalments comprise payment of capital.

Standard Bank – Facility B (R85 million)

This loan bears interest at the variable JIBAR plus a margin of 4,5%, and is repayable on the 30 April 2024. Interest on the loan is paid quarterly.

The Standard Bank loans are secured as follows:

- General notarial bond over all moveable assets of R350 million (2018: R350 million); and
- Cession of trade and other receivables and amounts due from contract customers.

The Group did not meet the required EBITDA levels on which the facilities 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 as defined in the facilities agreement and confirmed in writing that, in terms of the facilities agreement, no breach of the covenant occurred.

Prior reporting period

The term loan bears interest at a rate of 9% and is repayable in monthly instalments of R10 thousand.

The property term loan bears interest at 10,9% and is repayable in quarterly instalments of R1,8 million.

The property term loan is secured by land and buildings with a carrying value of R36 million.

The directors consider the carrying amount of interest-bearing liabilities to approximate their fair value.

The instalment sale liabilities bear interest at a rate of 12% and are repayable in monthly instalments of R6 thousand. These liabilities are secured by plant and equipment.

Notes to the annual financial statements continued

for the year ended 30 April 2019

18. TRADE AND OTHER PAYABLES

ACCOUNTING POLICIES

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9.

Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Trade payables	99 026	106 363	–	–
Accrued expenses	21 758	15 816	85	85
Universal Service and Access Agency of South Africa (USAASA) accrual (Ellies Industries Proprietary Limited) *	28 848	28 593	–	–
Cooperative Muratori Cementisi Ravenna (CMC) accrual (Botjheng Water Proprietary Limited) **	–	26 088	–	–
Payroll accruals	10 190	19 768	–	–
Value added tax	11 645	7 133	–	–
Lease liability (straight lining)	480	–	–	–
Income received in advance	4 175	7 873	–	–
Profit share accrual (Swaziland)	972	–	–	–
	177 094	211 634	85	85

The directors consider the carrying amount of trade and other payables to approximate their fair value.

* USSASA contracted with Ellies to supply dish kits with LNBs as part of the Digital Terrestrial Television (DTT) roll-out. Ellies recognised the revenue in 2017. Due to The South African Post Office (SAPO) not having sufficient storage space, Ellies agreed to store the inventory on behalf of USSASA and SAPO. The provision relates to the cost to complete the production of the dish kits and the transport thereof.

** The accrual relates to the expected cost incurred on the CMC court case. The accrual was subsequently reversed during the current reporting period against the CMC debtor.

Notes to the annual financial statements continued

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19. PROVISIONS

ACCOUNTING POLICIES

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

Specific provisions raised include provisions for warranties on products that are sold, provision for employee benefits as well as provision for royalties.

MANAGEMENT ESTIMATES

Costs of warranty include the cost of labour, material and related overhead necessary to repair a product during the warranty period. Management accrues for the estimated cost of the warranty on products sold. The costs are estimated based on actual historical expenses incurred and on estimated future expenses related to current sales, and are updated periodically. Actual warranty costs are charged against the provision for warranty. The actual warranty costs may differ from estimated warranty costs.

	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
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 37.

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

Guarantees related to the expected liability to The Standard Bank of South Africa Limited from Megatron SA Proprietary Limited that was deconsolidated during the 2017 financial year. The guarantees were converted to debt, when The Standard Bank of South Africa Limited perfected its surety.

Other provisions relate predominantly to employee benefit provisions.

Notes to the annual financial statements continued

for the year ended 30 April 2019

20. REVENUE

ACCOUNTING POLICIES

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

IFRS 15 – Revenue from Contracts with Customers current year

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. To determine whether to recognise revenue, the group follows a five-step process:

- (1) Identifying the contract with a customer.
- (2) Identifying the performance obligations.
- (3) Determining the transaction price.
- (4) Allocating the transaction price to the performance obligations.
- (5) Recognising revenue when the performance obligations are satisfied.

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 control over the specified goods. This obligation is satisfied at a point in time, being on date of delivery. The entity also provides warranties for a two-year period on certain products. No element of financing is deemed present as the sales are made generally by cash or negotiated credit terms of 30 to 120 days.

Ellies is mainly a distributor of products procured from other suppliers and manufactures only approximately 10% by value of the products it sells. Due to approximately 30% of products being imported, Ellies is often not able to return losses associated with returned product to manufacturers. The Group is therefore mostly not in a position to recall goods from the trade. Ellies will accept from its customers all reasonable returns of products including faulty product and out-of-box failures within a reasonable or guarantee period for full credit, but is not in a position to accept liability for failure by the operators of networks as that is outside Ellies' control.

The Group does no longer generates revenue from contract work, these types of revenue related to Botjheng Water Proprietary Limited and previous Megatron companies.

IAS 18 – Revenue prior year

Revenue is stated at the fair value of consideration received or receivable, excluding value added tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the buyer, costs can be measured reliably and receipt of the future benefits is probable.

Revenue from contracts is recognised where the outcome of contract work can be estimated reliably. Contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that the contract costs incurred for work performed to date bear to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of contract work cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Advance payments received are assessed on initial recognition to determine whether it is probable that it will be repaid in cash or another financial asset. In this instance, the advance payment is classified as a non-trading financial liability that is carried at amortised cost. If it is probable that the advance payment will be repaid with goods or services, the liability is carried at historic cost.

Other income earned by the Group is recognised on the following basis:

- Interest income is recognised as it accrues on the effective interest method unless collectability is in doubt.

Notes to the annual financial statements continued

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20. REVENUE continued

Revenue from contracts with customers

The effect of initially applying IFRS 15 on the Group's revenue from contracts with customers is described on page 115. Due to the transition method chosen in applying IFRS 15, comparative information has not been restated to reflect the new requirements.

	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 note 37.

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
The revenue generated in South Africa can be further disaggregated into the following customer categories:	
Cash on delivery customers	204 208
Independent customers	217 690
Satellite television service providers	353 017
Major retailers	496 330
	1 271 244

21. COST OF SALES

	GROUP	
	2019 R'000	2018 R'000
Cost of goods sold	966 412	968 650
Inventory write-offs	82 798	46 545
Rebates and discounts received	(39 966)	(46 494)
	1 009 244	968 701*

* Restated – refer to note 37.

Notes to the annual financial statements continued

for the year ended 30 April 2019

22. PROFIT/(LOSS) FROM OPERATIONS

ACCOUNTING POLICIES

Operating leases

Leases where the lessor retains risks and rewards of ownership of the underlying asset are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease liability. This liability is not discounted.

Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised during the period in which the employee renders the related service. The provisions for employees' entitlements to wages, salaries, annual leave represent the amount which the Group has a present obligation to pay as a result of the employees' services provided to the reporting date.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
(Profit)/loss from operations is stated after taking the following items into account:				
Foreign exchange (loss)/profit	537	(1 084)	-	-
Depreciation	8 944	9 367	-	-
Legal fees	9 116	2 357	1 440	-
Consulting fees	10 535	7 166	1 388	423
Audit fees	2 748	2 710	-	-
Losses and impairments				
Impairment of property, plant and equipment (refer to note 1)	7 873	-	-	-
Impairment of non-current assets held for sale	-	896	-	-
Impairment of net investment in associate (refer to note 5)	3 902	3 136	-	-
Impairment allowance and other allowances against debtors (refer to note 8)	12 323	3 250	-	-
Impairment of investment (refer to note 4)	-	-	210 881	-
Operating lease and rental charges				
Plant and equipment	681	530	-	-
Premises	29 689	21 737	-	-
	30 370	22 267	-	-
Profit on sale of non-current assets				
Profit on disposal of property, plant and equipment	767	3 106	-	-
	767	3 106	-	-
Employee costs				
Directors	8 937	10 120	-	-
Prescribed officers	5 617	2 067	-	-
Other staff	213 896	194 116	-	-
	228 450	206 303	-	-

Notes to the annual financial statements continued

for the year ended 30 April 2019

22. PROFIT/(LOSS) FROM OPERATIONS continued

Details of directors and prescribed officers' remuneration are disclosed as follows:

2019	Fees as directors R'000	Basic salary R'000	Car allowance R'000	Medical aid and provident fund R'000	Bonus R'000	Consulting fees R'000	Total R'000
Executive directors							
Dr Shaun Prithvirajh ¹	–	2 578	–	368	–	–	2 946
Chris Booyens ²	–	–	–	–	–	1 138	1 138
Adrian Bock ³	–	925	10	95	488	–	1 518
Elliot Salkow ⁴	–	1 968	–	59	453	–	2 480
Andrew Hannington (Alternate to Elliot Salkow) ⁵	–	–	–	–	–	–	–*
	–	5 471	10	522	941	1 138	8 082
Non-executive directors							
Timothy Fearnhead ⁶	32	–	–	–	–	–	32
Oliver Fortuin ⁷	50	–	–	–	–	–	50
Stephen Goldberg ⁸	61	–	–	–	–	–	61
Martin Kuscus ⁹	299	–	–	–	–	–	299
Fikile Mkhize ¹⁰	165	–	–	–	–	–	165
Francois Olivier ¹¹	–	–	–	–	–	–	–
Edward Raff ¹²	24	–	–	–	–	–	24
Reshoketswe Ralebepa ¹³	92	–	–	–	–	–	92
Ian Russell ¹⁴	107	–	–	–	–	–	107
Elliot Salkow ¹⁵	25	–	–	–	–	–	25
	855	–	–	–	–	–	855
Prescribed officers							
Tommy Erasmus ¹⁶	–	1 378	–	192	–	675	2 245
Gavin Fait ¹⁷	–	1 149	102	201	–	–	1 452
Johan Klein ¹⁸	–	1 770	–	150	–	–	1 920
	–	4 297	102	543	–	675	5 617
	855	9 768	112	1 065	941	1 813	14 554

* Mr Hannington was not remunerated by the Company, as clause 25.2 of the Memorandum of Incorporation states that the alternate director must be paid by the director who appoints him.

¹ Appointed as CEO and executive director with effect from 1 August 2018; appointment not ratified at the AGM held on 7 December 2018, but remained as CEO in terms of an employment contract; re-appointed as executive director on 4 April 2019.

² Appointed as Interim CFO with effect from 11 October 2018 to 7 December 2018; contract extended from 7 January 2019 to 30 April 2019; appointed as Chief Financial Officer and Financial Director on 4 April 2019, before expiry of contract; remunerated as a consultant until 30 April 2019 in terms of contractual obligations.

³ Resigned as CFO and joint CEO with effect from 28 September 2018.

⁴ Retired as Executive Chairperson with effect from 15 November 2018; remained as an executive director; appointed as a non-executive director with effect from 4 April 2019.

⁵ Appointed as alternate director to Mr Elliot Salkow with effect from 11 December 2018; ceased to be Mr Elliot Salkow's alternate director with effect from 4 April 2019.

⁶ Appointed as independent non-executive director and Chairperson of the Board with effect from 4 April 2019.

⁷ Resigned as Lead Independent Director and independent non-executive director with effect from 30 June 2018.

⁸ Resigned as independent non-executive director with effect from 13 August 2018.

⁹ Appointed as Interim Chairperson with effect from 18 January 2019; resigned as Interim Chairperson with effect from 4 April 2019.

¹⁰ Appointed as Interim Chairperson with effect from 15 November 2018; resigned from the Board effective 18 January 2019.

¹¹ Appointed as independent non-executive director with effect from 4 April 2019.

¹² Appointed as independent non-executive director with effect from 4 April 2019.

¹³ Appointed as an independent non-executive director with effect from 1 September 2018; resigned from the Board on 14 January 2019.

¹⁴ Appointed as an independent non-executive director with effect from 1 October 2018; appointed as Interim Lead Independent Director with effect from 16 November 2018; resigned from the Board effective 18 January 2019.

¹⁵ Appointed as a non-executive director with effect from 4 April 2019.

¹⁶ Resigned on 31 March 2019.

¹⁷ Resigned on 31 July 2019.

¹⁸ Appointed with effect from 1 May 2018.

Notes to the annual financial statements continued

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22. PROFIT/(LOSS) FROM OPERATIONS continued

2018	Fees as directors R'000	Basic salary R'000	Car allowance R'000	Medical aid and provident fund R'000	Bonus R'000	Total R'000
Executive directors						
Adrian Bock	–	2 550	–	270	–	2 820
Elliot Salkow	–	2 117	–	60	–	2 177
Wayne Samson	–	3 750	–	348	–	4 098
	–	8 417	–	678	–	9 095
Non-executive directors						
Oliver Fortuin	300	–	–	–	–	300
Stephen Goldberg	280 *	–	–	–	–	280*
Martin Kuscus	220	–	–	–	–	220
Fikile Mkhize	225	–	–	–	–	225
	1 025	–	–	–	–	1 025
Prescribed officers						
Tommy Erasmus	–	801	–	183	–	984
Gavin Fait	–	883	76	124	–	1 083
	–	1 684	76	307	–	2 067
	1 025	10 101	76	985	–	12 187

* Includes Company benefits of R40 000

Notes to the annual financial statements continued

for the year ended 30 April 2019

23. FINANCE INCOME

ACCOUNTING POLICIES

Finance income and finance costs

The Group's finance income and finance costs include:

- interest income; and
- interest expense.

Interest income or expense is recognised using the effective interest method

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

	GROUP	
	2019 R'000	2018 R'000
Funds and deposits with banks	241	202
Interest received from related parties	2 551	3 066
Other	24	–
	2 816	3 268

24. FINANCE COSTS

	GROUP	
	2019 R'000	2018 R'000
Bank overdraft and trade finance facility	16 426	15 282
Interest-bearing liabilities	3 872	2 850
Deemed interest incurred on vendor loans	–	(27)
Other	–	95
	20 298	18 200

Notes to the annual financial statements continued

for the year ended 30 April 2019

25. TAXATION

ACCOUNTING POLICIES

Current taxation

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the taxation rates and legislation substantively enacted at the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the taxation bases of assets and liabilities and their carrying amounts for financial reporting purposes. Currently substantively enacted taxation rates (rate expected to be enforce when the asset is realised or liability settled) are used to calculate deferred taxation. Deferred taxation assets relating to deductible temporary differences are only recognised to the extent that it is probable that they will result in future economic benefits, in the form of reductions in the future taxable income, for the Group. Deferred taxation is charged to profit or loss, except to the extent that it relates to transactions recognised directly in other comprehensive income or equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to transactions recognised directly in other comprehensive income and equity.

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
South African normal taxation				
Current year	1 428	6 409	–	–
Prior year underprovision	186	160	–	–
Deferred taxation				
Current year	(7 446)	9 880	4	(4)
Held for sale	–	(34)	–	–
	(5 832)	16 415	4	(4)
	%	%	%	%
Reconciliation of rate of taxation				
South African normal taxation rate	28,00	28,00	28,00	28,00
– Donations	(0,29)	0,23	–	–
– Loan impairment	(1,46)	1,64	(27,45)	–
– Loss on sale of invetment	(0,38)	–	–	–
– Non-deductible interest	(0,88)	–	–	–
– Leasehold depreciation	(0,34)	0,38	–	–
– Guarantee provision	(1,42)	–	–	–
– Disallowable capital allowances	(0,12)	0,03	–	–
– Property, plant and equipment impairment	(0,71)	0,51	–	–
– Associates losses	(1,03)	–	–	–
– Legal expenses	–	1,22	–	–
Exempt income				
– Exempt income – interest	1,15	(1,56)	–	–
– Reversal of vendor loan	–	(1,51)	–	–
Tax lossess	(12,59)	(0,07)	(0,55)	–
Foreignn tax rate differential	(0,56)	0,17	–	–
Exchange rate	0,32	0,09	–	–
Prior year adjustments	(0,30)	0,35	–	–
	9,42	29,48	–	28,00

Notes to the annual financial statements continued

for the year ended 30 April 2019

26. (LOSS)/EARNINGS PER SHARE

ACCOUNTING POLICIES

Earning/(loss) per share

Earnings/(loss) per share is based on attributable profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Diluted earnings per share is presented when the inclusion of potential ordinary shares has a dilutive effect on the earnings per share, more specifically related to share options in issue.

Headline earnings/(loss) per share

Headline earnings/(loss) per share is based on the same calculation as above, except that the attributable profit specifically excludes items as set out in Circular 04/2018: "Headline Earnings" issued by the South African Institute of Chartered Accountants.

	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

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

Notes to the annual financial statements continued

for the year ended 30 April 2019

26. (LOSS)/EARNINGS PER SHARE continued

	GROUP	
	2019 R'000	2018 R'000
Reconciliation of headline earnings		
Net (loss)/profit for the year attributable to equity holders of the parent	(22 183)	42 421
<i>Adjusted for:</i>		
– 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 net investment in associate	3 902	3 136
– Tax effect on adjustments	215	869
Headline (loss)/earnings attributable to ordinary shareholders	(20 229)	48 941

All amounts presented are net of non-controlling interests, where applicable.

Notes to the annual financial statements continued

for the year ended 30 April 2019

27. CASH (UTILISED BY)/GENERATED FROM OPERATIONS

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
Loss before taxation	(61 945)	55 676	(215 222)	(15)
<i>Adjusted for:</i>				
Interest received	(2 816)	(3 268)	–	–
Interest paid	20 298	18 200	–	–
Impairment on inventory	82 798	21 168	–	–
Impairment on trade receivables	12 323	3 136	–	–
Impairment of loans	3 902	3 510	–	–
Impairment of investment in subsidiary	–	–	(210 881)	–
Impairment of non-current assets held for sale	–	869	–	–
Impairment of property, plant and equipment	7 873	–	–	–
Depreciation	8 944	9 359	–	–
Reclassification of vendor loan	–	(3 000)	–	–
Share-based payments	(1 704)	1 554	–	–
Loss on disposal of non-current assets	(767)	(3 106)	–	–
Share of losses from associates	2 269	–	–	–
(Decrease)/increase in provisions	3 496	(13 097)	–	–
	74 671	--	(4 341)	(15)
Changes in working capital	(9 252)	(27 478)	748	(35)
Decrease/(increase) in inventories	57 762	(15 282)	–	–
Increase in trade and other receivables	(59 198)	(23 235)	(39)	(39)
(Decrease)/increase in trade and other payables	(7 816)	11 039	787	4
	65 419	63 523	(3 393)	(50)

Notes to the annual financial statements continued

for the year ended 30 April 2019

	GROUP		COMPANY	
	2019 R'000	2018 R'000	2019 R'000	2018 R'000
28. FINANCE INCOME/(COSTS) (IN CASH)				
Interest paid				
Total finance cost (refer to note 24)	20 298	18 200	–	5
Imputed interest on vendor loans	–	27	–	–
Accrued interest	(49)	–	–	–
Total interest paid (in cash)	20 249	18 227	–	5
Interest received				
Total finance income (refer to note 23)	(2 816)	(3 268)	–	–
Accrued interest on associate loan	2 551	3 067	–	–
Total interest received (in cash)	(265)	(201)	–	–
Total interest paid/received (in cash)	19 984	18 026	–	5
29. TAXATION PAID				
Balance at the beginning of the year	(196)	(574)	(10)	(20)
Charged to the statement of comprehensive income	1 614	6 569	–	–
Balance at the end of the year	6 927	196	29	10
	8 345	6 191	19	(10)
30. REPAYMENT OF LOANS				
Cash flow from financing activities				
Interest-bearing liabilities				
Balance at the beginning of the year	11 651	37 389	–	–
Repayment of Interest-bearing liabilities	(10 347)	(26 043)	–	–
Proceeds from interest-bearing liabilities	67 245	305	–	–
Megatron debt assumed (note 19)	89 358	–	–	–
Accrued interest	49	–	–	–
Balance at the end of the year	157 956	11 651	–	–
Third-party loans				
Balance at the beginning of the year	75 350	76 307	–	–
Repayment of third-party loans	–	(957)	–	–
Deemed repayment (non-cash flow)	(33 743)	–	–	–
Balance at the end of the year	41 607	75 350	–	–

Notes to the annual financial statements continued

for the year ended 30 April 2019

31. COMMITMENTS

The Group leases a number of warehouse facilities under operating leases. The leases typically run for a period of two to five years, with an option to renew the lease after that date.

	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

32. RETIREMENT BENEFITS

ACCOUNTING POLICIES

Employee benefit

Pension obligations

The Group pays fixed contributions into defined contribution plans (a defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund)). The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefit relating to employee service in the current and prior periods.

The Group pays the contributions to publicly administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense in the statement of profit or loss when they are due.

	GROUP	
	2019 R'000	2018 R'000
Contributions to funds	18 101	13 843

Notes to the annual financial statements continued

for the year ended 30 April 2019

33. 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	2019 R'000	2018 R'000
GROUP								
Current assets	206 311	248 656	–	–	–	–	206 311	248 656
Trade and other receivables	160 930	227 864	–	–	–	–	160 930	227 864
Bank and cash balances	45 381	20 792	–	–	–	–	45 381	20 792
Total assets	206 311	248 656	–	–	–	–	206 311	248 656
Non-current liabilities	–	–	148 300	4 847	148 300	4 847	148 300	4 847
Interest-bearing liabilities	–	–	148 300	4 847	148 300	4 847	148 300	4 847
Current liabilities	–	–	204 805	355 210	204 805	355 210	204 805	355 210
Interest-bearing liabilities	–	–	9 656	6 804	9 656	6 804	9 656	6 804
Trade and other payables	–	–	150 604	176 860	150 604	176 860	150 604	176 860
Third-party loans	–	–	41 607	75 350	41 607	75 350	41 607	75 350
Bank overdrafts	–	–	2 938	96 196	2 938	96 196	2 938	96 196
Total equity and liabilities	–	–	353 105	360 057	353 105	360 057	353 105	360 057

	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	2019 R'000	2018 R'000
COMPANY								
Current assets	4 590	2 271	–	–	–	–	4 590	2 271
Loan to subsidiary	4 523	2 204	–	–	–	–	4 523	2 204
Bank and cash balances	67	67	–	–	–	–	67	67
Total assets	4 590	2 271	–	–	–	–	4 590	2 271
Current liabilities	–	–	6 726	86	6 726	86	6 726	86
Trade and other payables	–	–	873	86	873	86	873	86
Loan to subsidiary	–	–	5 853	–	5 853	–	5 853	–
Total equity and liabilities	–	–	6 726	86	6 726	86	6 726	86

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

Notes to the annual financial statements continued

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34. FINANCIAL RISK MANAGEMENT

The Group's operations expose it to a number of financial risks. The Group's objective with financial risk management is to protect the underlying business operations against those financial risks which may influence its income negatively.

The capital structure of the Group consists of cash and cash equivalents disclosed in note 26, borrowings disclosed in note 17 and equity disclosed in the statement of financial position.

34.1 Currency risk management

Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions, recognised assets or liabilities and net investments are denominated in a currency that is not the entity's functional currency, which is South African Rand. Exposures consist primarily of exposures with respect to the US Dollar as well as exposure to foreign exchange due to operations in Botswana.

Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. In general, the group's policy is to enter into forward foreign exchange contracts to cover net foreign currency exposure. Refer to the sensitivity note, note 34.2.

34.2 Interest rate risk

The Company and Group are exposed to interest rate risk through their variable rate cash balances, as well as their interest-bearing liabilities. The Group's interest rate risk arises mainly from long- and short-term borrowing from its main banker, Standard Bank. The Group's borrowings are denominated in South African Rand at variable rates. To date, the Group has not hedged against changes in interest rates.

An interest rate sensitivity analysis is set out below. The analysis indicates the financial assets and liabilities which are sensitive to interest rate fluctuations and the profit or loss and taxation effects of possible changes in interest rates to which the financial assets are linked.

	Carrying value R'000	Foreign exchange risk Profit/(loss) should the Rand exchange rate change by 2%			Interest rate risk Profit/(loss) should the interest rate change by 2%		
		Amount subject to risk R'000	Rand apprecia- tion R'000	Rand deprecia- tion R'000	Amount subject to risk R'000	Rate increase R'000	Rate decrease R'000
GROUP							
30 April 2019							
Financial assets							
Trade and other receivables	160 950	9 762	(195)	195	–	–	–
Bank and cash balances	45 381	2 743	(55)	55	–	–	–
<i>Impact of financial assets on:</i>	–	–	–	–	–	–	–
– profit before taxation	–	–	(250)	250	–	–	–
– profit after taxation	–	–	(180)	180	–	–	–
Financial liabilities							
Interest-bearing liabilities	(157 956)	96	2	(2)	(157 956)	(3 159)	3 159
Trade and other payables	(150 604)	755	15	(15)	–	–	–
Third party loans	(41 607)	–	–	–	–	–	–
Bank overdrafts	(2 938)	–	–	–	(2 938)	(59)	59
<i>Impact of financial assets on:</i>	–	–	–	–	–	–	–
– profit before taxation	–	–	17	(17)	–	(3 218)	3 218
– profit after taxation	–	–	12	(12)	–	(2 317)	2 317
Overall impact on profit after taxation	–	–	(168)	168	–	(2 317)	2 317

Notes to the annual financial statements continued

for the year ended 30 April 2019

34. FINANCIAL RISK MANAGEMENT continued

34.2 Interest rate risk continued

	Carrying value R'000	Foreign exchange risk Profit/(loss) should the Rand exchange rate change by 2%			Interest rate risk Profit/(loss) should the interest rate change by 2%		
		Amount subject to risk R'000	Rand apprecia- tion R'000	Rand deprecia- tion R'000	Amount subject to risk R'000	Rate increase R'000	Rate decrease R'000
30 April 2018							
Financial assets							
Trade and other receivables	227 864	10 840	(217)	217	-	-	-
Bank and cash balances	20 792	1 389	(28)	28	-	-	-
<i>Impact of financial assets on:</i>							
- profit before taxation	-	-	(245)	245	-	-	-
- profit after taxation	-	-	(176)	176	-	-	-
Financial liabilities							
Interest-bearing liabilities	(11 651)	11 651	233	(233)	(11 651)	(233)	233
Trade and other payables	176 860	943	19	(19)	-	-	-
Third party loans	(75 350)	-	-	-	-	-	-
Bank overdrafts	(96 196)	-	-	-	(96 196)	(1 924)	1 924
<i>Impact of financial assets on:</i>							
- profit before taxation	-	-	252	(252)	-	(2 157)	2 157
- profit after taxation	-	-	181	(181)	-	(1 553)	1 553
Overall impact on profit after taxation	-	-	5	(5)	-	(1 553)	1 553

COMPANY

No Company sensitivity analysis is presented as there were no balances exposed to foreign exchange risk and the only interest rate risk would relate to bank and call deposits of R67 489 (2018: R67 489) at year-end, on which the after tax impact on profit or loss would be R928 (2018: R928) should the interest rate change by 2% (2018: 2%).

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34. FINANCIAL RISK MANAGEMENT continued

34.3 Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities and funding sources.

The Group manages liquidity risk through the compilation and monitoring of cash flow forecasts, as well as ensuring that adequate borrowing facilities are maintained. Repayments of term borrowings are structured to match the expected cash flows from the operations to which they relate, where possible. The Group utilises the credit facilities of The Standard Bank of South Africa and Investec and has been able to operate within these facilities.

The funding of growth in the Group for working capital requirements will continue to use credit facilities from financial institutions as well as other feasible corporate market funding mechanisms for working capital. The funding of growth in the Group of a capital nature will utilise suitable funding sources available in the corporate market and from financial institutions.

	Carrying value of financial liabilities R'000	Expected settlement period of financial liabilities			
		No terms R'000	Less than 6 months R'000	6 to 12 months R'000	More than 12 months R'000
GROUP					
30 April 2019					
Non-current liabilities					
Interest-bearing liabilities	148 300	–	–	–	199 915
Current liabilities					
Interest-bearing liabilities	9 656	–	9 098	18 264	–
Trade and other payables	150 604	–	150 604	–	–
Third-party loans	41 607*	–	–	–	–
Bank overdrafts	2 938	2 938	–	–	–
	353 105	2 938	159 702	18 264	199 915
30 April 2018					
Non-current liabilities					
Interest-bearing liabilities	4 847	–	–	–	4 847
Current liabilities					
Interest-bearing liabilities	6 804	–	3 394	3 306	–
Trade and other payables	176 860	20 969	137 670	18 221	–
Shareholders' loan payable	2 000	–	–	2 000	–
Third-party loans	75 960	–	75 960	–	–
Bank overdrafts	96 196	96 196	–	–	–
	360 667	117 165	217 024	23 527	4 847
COMPANY					
30 April 2019					
Current liabilities					
Trade and other payables	873	–	873	–	–
Loan to subsidiary	5 853	5 853	–	–	–
	6 726	5 853	873	–	–
30 April 2018					
Current liabilities					
Trade and other payables	86	–	86	–	86
	86	–	86	–	86

* Management is of the opinion that this loan will not be repaid, as Botjheng Water Proprietary Limited is unable to do so and will either be liquidated or sold. No cross guarantees or cross sureties exist.

Notes to the annual financial statements continued

for the year ended 30 April 2019

34. FINANCIAL RISK MANAGEMENT continued

34.3 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of debt, which includes the borrowings, as disclosed in note 17, cash and cash equivalents as disclosed in note 27, and equity as disclosed in the statement of financial position.

Consistent with others in the industry, the Group monitors capital on the basis of the debt : equity ratio.

This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total equity is represented in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The debt : equity ratios are as follows:

	GROUP	
	2019 R'000	2018 R'000
Total borrowings		
Interest-bearing liabilities	157 956	11 651
Third-party loans	41 607	75 350
	199 563	87 001
<i>Add: Cash and cash equivalents (net borrowings)</i>	<i>(42 443)</i>	<i>75 404</i>
Net debt	157 120	162 405
Total equity	274 634	310 429
Total capital	431 754	472 834
Debt as a percentage of equity	0,57 : 1	0,52 : 1

34.5 Credit risk

Credit risk is managed on a Group basis. Credit risk consists of cash equivalents, trade and loans receivable. The Company only deposits cash with major banks with high-quality credit standing and limits exposure to any one counterparty.

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk for exposures other than those arising on cash and cash equivalents are managed by making use of credit approvals, limits and monitoring.

The Company only deals with reputable counterparties with consistent payment histories. Each counterparty is analysed individually for creditworthiness before terms and conditions are offered. The analysis involves making use of information submitted by the counterparties as well as external bureau data, where available. Counterparty credit limits are in place and are reviewed and approved by management. The exposure to credit risk and the creditworthiness of counterparties is continuously monitored.

Trade receivables consist of a large number of customers in various industries.

Credit risk exposure arising on cash and cash equivalents is managed by the Group through dealing with well-established financial institutions with high credit ratings.

Notes to the annual financial statements continued

for the year ended 30 April 2019

35. RELATED PARTY INFORMATION

GROUP

Related parties include transactions with directors and key management or entities where directors or key management have an interest or control. During the year, the group entered into various transactions with related parties. The related parties are:

Related parties

Associates of the company are listed in note 5.

Vegtu Investments Proprietary Limited – Common directors and a major shareholder

ZAH Properties Proprietary Limited – Director/shareholder is a close family member of one of the Group's directors

Pyramid conference and venue centre CC – Director/shareholder is a close family member of one of the Group's directors

Related party transactions	GROUP	
	2019 R'000	2018 R'000
Rent (paid)/received		
Vegtu Investments Proprietary Limited	(9 811)	(12 178)
ZAH Properties Proprietary Limited	(214)	–
Interest received		
In-Toto Solutions	2 551	3 136
Purchases		
Pyramid Conference and Venue Centre CC	(135)	(397)
Directors' remuneration details can be found in note 21.		
Related-party balances		
Vegtu Investments Proprietary Limited – included in accounts payable	–	(759)
In-Toto Solutions – included in accounts receivable	–	158

There were no other material balances at the reporting date.

COMPANY

Related parties include the subsidiary companies, shareholders and directors. During the reporting period, the Company entered into various transactions with related parties on an arm's length basis.

Related parties:

Subsidiaries of the Company are listed in note 4.

Associates of the Company are listed in note 5.

Related party transactions	COMPANY	
	2019 R'000	2018 R'000
Administration fees	–	1 872

Related party balances

All related party balances at the reporting date are disclosed in note 9.

Notes to the annual financial statements continued

for the year ended 30 April 2019

36. 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
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 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, all duly impaired. 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.

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.

Notes to the annual financial statements continued

for the year ended 30 April 2019

37. 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 table summarises 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

Notes to the annual financial statements continued

for the year ended 30 April 2019

37. PRIOR PERIOD ERRORS continued

Deferred taxation

During 2019, the Group reassessed the classification of its deferred tax assets and liabilities disclosed during the prior year and identified that certain deferred tax items were incorrectly classified. The error has been corrected by restating each of the affected disclosure line items for prior periods. The following table summarises the impacts on the Group's consolidated financial statements.

	As previously reported R'000	Adjustment R'000	As restated R'000
The balance consists of:			
Capital allowances	1 414	(4 634)	(3 220)
Employee benefits	(1 976)	7 369	5 393
Impairment and other allowances against receivables	3 492	23	3 515
Lease obligations	43	(43)	–
Income received in advance	256	(514)	(258)
Assessed tax lossess	3 250	463	3 713
Intangible assets	(667)	–	(667)
Unearned profit on inventory	132	47	179
Provisions	2 285	(2 089)	196
Other	525	(623)	(98)
	8 754	–	8 754
Movement summary			
Capital allowances	(1 897)	(4 635)	(6 532)
Employee benefits	(526)	7 369	6 843
Impairment and other allowances against receivables	139	23	162
Lease obligations	18	(43)	(25)
Income received in advance	(391)	(514)	(905)
Assessed tax lossess	(5 452)	463	(4 989)
Unearned profit on inventory	(876)	47	(829)
Provisions	(866)	(2 089)	(2 955)
Other	(28)	(633)	(661)
Foreign translation	(11)	11	–
	(9 890)	–	(9 890)

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 Botjheng 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 2019.

Notes to the annual financial statements continued

for the year ended 30 April 2019

38. 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 of Ellies Electronics Proprietary Limited. Beyond Platinum Proprietary Limited appealed the judgment. Refer to note 35.

South African Revenue Service

The South African Revenue Service had an order against Ellies Electronics Proprietary Limited in the amount of R2,6 million relating to a dispute over customs tariff classification. On 7 August 2019, Ellies Electronics Proprietary Limited was unsuccessful in the appeal against the South African Revenue Service. The court order against Ellies Electronics Proprietary Limited is for an amount of R2 646 491,26 plus legal costs that have not yet been quantified.

39. GOING CONCERN ASSESSMENT

In determining the appropriate basis of preparation of the annual financial statements, the directors are required to consider whether 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 annual 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 Group 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.

Shareholder information



Analysis of ordinary shareholders

as at 26 April 2019

Shareholder spread	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
1 – 1 000	1 003	24,66	405 699	0,07
1 001 – 10 000	1 553	38,19	6 585 408	1,06
10 001 – 100 000	1 068	26,26	41 077 432	6,62
100 001 – 1 000 000	366	9,00	111 806 246	18,03
Over 1 000 000	77	1,89	460 283 450	74,22
Total	4 067	100,00	620 158 235	100,00

Distribution of shareholders	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Assurance companies	2	0,05	1 390 375	0,22
Close corporations	33	0,81	1 574 417	0,25
Collective investment schemes	6	0,15	25 161 066	4,06
Control accounts	1	0,02	4	0,00
Custodians	6	0,15	7 161 731	1,15
Foundations and charitable funds	7	0,17	3 492 466	0,56
Hedge funds	1	0,02	750 000	0,12
Insurance companies	1	0,02	1 358 212	0,22
Investment partnerships	17	0,42	1 775 091	0,29
Managed funds	3	0,07	1 021 187	0,16
Medical aid funds	1	0,02	1 394 945	0,22
Organs of state	2	0,05	84 786 850	13,67
Private companies	74	1,82	45 060 813	7,27
Public entities	1	0,02	1 647 196	0,27
Retail shareholders	3 738	91,91	333 779 754	53,82
Retirement benefit funds	25	0,61	67 817 641	10,94
Scrip lending	1	0,02	189 989	0,03
Stockbrokers and nominees	10	0,25	14 645 408	2,36
Trusts	135	3,32	27 149 190	4,38
Unclaimed scrip	3	0,07	1 900	0,00
Total	4 067	100,00	620 158 235	100,00

Analysis of ordinary shareholders continued

as at 30 April 2019

Shareholder type	Number of shareholdings	% of total shareholdings	Number of shares	% of issued capital
Non-public shareholders	2	0,04	200 337 222	32,31
Beneficial holders > 10%: Government Employees Pension Fund	1	0,02	80 413 155	12,97
Directors of the Company or any of its subsidiaries	1	0,02	119 924 067	19,34
Public shareholders	4 065	99,96	419 821 013	67,69
Total	4 067	100,00	620 158 235	100,00

Beneficial shareholders with a holding greater than 5% of the issued shares	Number of shares	% of issued capital
Salkow Elliot Ralph Mr	119 924 067	19,34
Total	119 924 067	19,34

Fund managers with a holding greater than 5% of the issued shares	Number of shares	% of issued capital
Mazi Capital Proprietary Limited	185 165 859	29,86
Government Employees Pension Fund	80 413 155	12,97
Total	265 579 014	42,83

Market performance

	2019 R'000	2018 R'000
Opening price 2 May (R)	0,35	0,20
Closing price 30 April (R)	0,12	0,36
Closing high for the period (R)	0,37	0,45
Closing low for the period (R)	0,12	0,15
Number of shares in issue	620 158 235	678 608 235 *
Volume traded during the period	216 843 022	202 275 203
Ratio of volume traded to shares issued (%)	34,97	30,76
Rand value traded during the period (R)	45 761 555	62 993 299
Price: earnings ratio as at 30 April	2,36	5,16
Earnings yield as at 30 April	42,33	19,39
Market capitalisation as at 30 April (R)	74 418 988	236 738 965

* Share options totalling 37 450 000, not shares, were issued to key staff. The Company will seek to have the shares cancelled as soon as possible in compliance with the JSE Listings Requirements and the Companies Act. The shares in issue will then be 620 158 235 shares, with any dilution for share options calculated per note 25 of the annual financial statements.

Shareholders'

diary

Financial year-end	30 April
	2019
Reviewed results for the year ended 30 April 2019 published on SENS	Monday, 5 August
Reviewed results for the year ended 30 April 2019 published in the press	Tuesday, 6 August
Record date to receive notice of AGM	Friday, 23 August
Integrated annual report	Monday, 26 August
Integrated annual report, incorporating the Notice of AGM, posted to shareholders and announced on SENS	Friday, 30 August
No change statement released on SENS	Friday, 30 August
Last day to trade to be recorded in the register on the record date for participation in the AGM	Tuesday, 22 October
Record date to participate in and vote at the AGM	Friday, 25 October
To facilitate administration, it would be appreciated if proxies can be received by the transfer secretaries by 10:00 on	Tuesday, 29 October
Last day for lodging forms of proxy at 10:00 on *	Thursday, 31 October
AGM at 09:00 on	Thursday, 31 October
Results of AGM released on SENS	Thursday, 31 October

* Any form of proxy not delivered to the transfer secretaries by this time may be handed to the transfer secretaries at the AGM or to the Chairperson of the AGM prior to the commencement of the AGM.

Notice of annual general meeting

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")

This document is important and requires your attention. If you are in any doubt as to what action you should take in respect of the resolutions contained in this notice, please consult your Central Securities Depository Participant ("CSDP" or "participant"), broker, banker, attorney, accountant or other professional adviser immediately.

If you have sold or otherwise transferred all of your ordinary shares in the Company, please send this document together with the accompanying form of proxy at once to the relevant transferee or to the stockbroker, CSDP, bank or other person through whom the sale or transfer was effected, for transmission to the relevant transferee.

For consistency of reference in this notice of annual general meeting (hereinafter the "AGM"), the term "MOI" is used throughout to refer to the Company's Memorandum of Incorporation, which was adopted by shareholders at the AGM of shareholders held on 28 November 2012.

Section 63(1) of the Act – Identification of meeting participants

Kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licenses and passports.

NOTICE OF AGM

Notice is hereby given that the AGM of the shareholders of Ellies will be held on Thursday, 31 October 2019 at 10:00 (or at any adjournment or postponement thereof) at Computershare, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196, to transact the following business and resolutions with or without amendments approved at the meeting:

The minutes of the AGM held on Friday, 7 December 2018 and the adjourned AGM held on Friday, 14 December 2018 and the minutes of the General Meeting held on Monday, 27 May 2019 will be available for inspection at the registered office of the Company until 30 minutes immediately preceding the 2019 AGM.

Included in this document are the following:

- The notice of AGM setting out the resolutions to be proposed at the meeting, together with explanatory notes; and
- A proxy form for completion, signature and submission to the transfer secretaries by shareholders holding Ellies ordinary shares in certificated form or recorded in the sub-register in electronic form in "own name". Proxy forms may also be handed to the Chairperson of the AGM at the commencement of the meeting.

Mailing details of the transfer secretaries are detailed on the proxy form and notes thereto.

PRESENTATION OF ANNUAL FINANCIAL STATEMENTS AND REPORTS

The consolidated audited annual financial statements for the Company and the Group, including the external Independent Auditor's Report, the Audit and Risk Committee Report and the Directors' Report for the year ended 30 April 2019, have been distributed, as required, and will be presented to shareholders at the AGM.

The consolidated audited annual financial statements, together with the abovementioned reports, are set out on pages 81 to 169 of the 2019 integrated annual report.

Notice of annual general meeting continued

REPORT FROM THE SOCIAL AND ETHICS COMMITTEE

In accordance with Companies Regulation 43(5) (c), issued in terms of the Companies Act, no 71 of 2008 (“the Companies Act”), the Chairperson of the Social and Ethics Committee (“Committee”), or in the absence of the Chairperson any member of the Committee, will present the Committee’s report to shareholders at the AGM. The Social and Ethics Committee Report is set out on pages 60 to 62 of the 2019 integrated annual report.

SPECIAL RESOLUTIONS

Special resolution number 1

To grant a general authority to the Company to repurchase its own shares

“RESOLVED THAT, the Company or a subsidiary, be and is hereby authorised, by way of general authority in terms of article 16 of the MOI, to acquire shares issued by it, subject to the requirements of sections 46 and 48 of the Companies Act and the Listings Requirements of the JSE Limited (“JSE”) and the MOI of the Company.”

It is recorded that the JSE Listings Requirements require, *inter alia*, that the Company or a subsidiary may make a general acquisition of shares issued by the Company only if:

- the repurchase of the ordinary shares is effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
 - at any point in time the Company may only appoint one agent to effect any repurchases on its behalf;
 - this general authority shall only be valid until the next AGM of the Company, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
 - the maximum price at which the shares may be acquired will be 10% (ten percent) above the weighted average market value at which such ordinary shares are traded on the JSE over the 5 (five) business days immediately preceding the date on which the transaction is effected. In the event that the Company’s shares have not traded in such five business-day period, the JSE will be consulted for a ruling;
 - any such acquisition shall not, in any one financial year, exceed 20% (twenty percent) (or 10% (ten percent) if the repurchases as made through a subsidiary of the Company) of the Company’s issued ordinary shares as at the date of passing of the general authority;
 - the Company or its subsidiaries may not repurchase ordinary shares during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and has been submitted to the JSE in writing prior to the commencement of the prohibited period;
 - the directors have passed a resolution authorising the repurchase, resolving that the Company or the subsidiary, as the case may be, has satisfied the solvency and liquidity test as defined in Section 4 of the Companies Act and resolving that since the solvency and liquidity test had been applied, there have been no material changes to the financial position of the Group;
 - when the Company has cumulatively repurchased 3% (three percent) of the initial number (the number of that class of shares in issue at the time that the general authority from shareholders is granted) of the relevant class of securities and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, an announcement must be made. Such announcement must be made as soon as possible and, in any event, by not later than 8:30 on the second business day following the day on which the relevant threshold is reached or exceeded and must contain the following information in terms of paragraph 11.27 of the JSE Listings Requirements:
 - the date(s) of repurchase(s) of securities;
 - the highest and lowest prices paid for securities so repurchased;
-

Notice of annual general meeting continued

- the number and value of securities repurchased;
- the extent of authority outstanding, by number and percentage (calculated by using the number of shares in issue before any repurchases were effected);
- a statement as to the source of funds utilised;
- a statement by the directors that after considering the effect of such repurchase:
 - > the Company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 (twelve) months after the date of the announcement;
 - > the assets of the Company and the Group will be in excess of the liabilities of the Company and the Group for a period of 12 (twelve) months after the date of the announcement. For this purpose, the assets and liabilities should be recognised and measured in accordance with the accounting policies used in the latest audited Group annual financial statements;
 - > the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the announcement;
 - > the working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the announcement;
- a statement confirming that paragraph 5.72 (a) of the JSE Listings Requirements has been complied with;
- an explanation including supporting information (if any) of the impact on the repurchase on the financial information;
- the number of treasury shares held after the repurchase;
- the date on which the securities will be cancelled, and the listing removed, if applicable; and
- in the event that the repurchase/purchase was made during a prohibited period through a repurchase programme pursuant to paragraph 5.72 and/or paragraph 14.9(e) of Schedule 14, a statement confirming that the repurchase was put in place pursuant to a repurchase programme prior to the prohibited period in accordance with the JSE Listings Requirements.

The directors of the Company do not have any specific intentions of utilising this general authority as at the date of this AGM.

Additional disclosure requirements required in terms of paragraph 11.26 of the JSE Listings Requirements

Material changes

No material changes have occurred since 30 April 2019 and the date of distribution of this notice as incorporated with the 2019 integrated annual report.

Directors' responsibility statement

The directors, whose names are given on pages 24 to 27 of the integrated annual report have considered all statements of fact and opinion in the notice and integrated annual report to which this notice is attached and therefore collectively and individually accept full responsibility for the accuracy of the information given and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that the notice and integrated annual report contain all information required by law and the JSE Listings Requirements.

The JSE Listings Requirements require the following disclosures, which are contained in the 2019 integrated annual report as tabled below: –

Requirements	Reference
Major shareholders	Page 172
Share capital of the Company	Page 140, Note 14

Notice of annual general meeting continued

Statement by directors in terms of paragraph 11.26 (d) of the JSE Listings Requirements

The Company's directors state that they have resolved by resolution that after considering the effect of such maximum repurchase:

- the Company and the Group will be able in the ordinary course of business to pay its debts for a period of 12 (twelve) months after the date of the notice of the AGM;
- assets of the Company and the Group will be in excess of the liabilities of the Company and the Group for a period of 12 (twelve) months after the date of the notice of the AGM. For this purpose, the assets and liabilities should be measured in accordance with the accounting policies used in the latest audited annual Group financial statements;
- the share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the notice of the AGM;
- working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 (twelve) months after the date of the notice of the AGM; and
- a resolution by the Board of Directors has been passed that it has authorised the repurchase, that the Company and its subsidiaries have passed the solvency and liquidity test and that, since the test was performed, there have been no material changes to the financial position of the Group.

The directors state further in terms of paragraph 11.26 (e) of the JSE Listings Requirements, that such resolution contains a statement that such authority is limited to paragraphs 5.72(a), (c), (d) and 5.68 of the JSE Listings Requirements.

Reason for and effect of special resolution number 1

The reason for and effect of special resolution number 1 is to authorise the Company and/or its subsidiaries by way of a general authority to acquire Ellies issued shares on such terms, conditions and in such amounts as determined from time to time by the directors of the Company, subject to the limitations set out above and in compliance with sections 46 and 48 of the Companies Act. It is the intention of the directors of the Company to use such authority should prevailing circumstances, such as market conditions, in their opinion warrant it.

Percentage voting rights

This resolution requires at least 75% (seventy-five percent) of the voting rights exercised by shareholders present or represented by proxy and entitled to exercise voting rights on the resolution.

Special resolution number 2

General authority to provide financial assistance for a period of two years in terms of section 44 of the Companies Act

"RESOLVED THAT, in terms of section 44(3)(a)(ii) of the Companies Act, as a general approval, that the Board be and is hereby authorised to approve that the Company provides any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to it in sections 44(1) and 44(2) of the Companies Act), that the Board may deem fit to any company or corporation that is related or inter-related to the Company ("related" or "inter-related" will herein have the meaning attributed to it in section 2 of the Companies Act) and/or to any financier who provides funding by subscribing for securities in the Company or any company or corporation that is related or inter-related to the Company, on the terms and conditions and for amounts that the Board may determine for the purpose of, or in connection with, the subscription of any shares or other securities, issued or to be issued by the Company or a related or inter-related company or corporation, or for the purchase of any shares or securities of the Company or a related or inter-related company or corporation, provided that the aforementioned approval shall be valid for a period of two years or until the AGM following the next meeting."

Reason for special resolution number 2

The reason for and effect of special resolution number 2 is to grant the directors the authority, until the next AGM of the Company, to provide financial assistance to any company or corporation which is related or inter-related to the Company and/or to any financier for the purpose of or in connection with the subscription or purchase of shares or other securities in the Company or any related or inter-related company or corporation.

Notice of annual general meeting continued

This means that the Company is authorised, *inter alia*, to grant loans to its subsidiaries and to guarantee and furnish security for the debt of its subsidiaries where any such financial assistance is directly or indirectly related to a party subscribing for shares or securities in the Company or its subsidiaries. A typical example of where the Company may rely on this authority is where a subsidiary raises funds by way of issuing shares and the third-party funder requires the Company to furnish security, by way of a guarantee or otherwise, for the obligations of its subsidiary to the third-party funder arising from the issue of the shares.

Approval is not sought for loans to directors or other individuals and no such financial assistance will be provided under this authority.

Compliance with section 44(3)(b) of the Companies Act

The directors of the Company will, in accordance with the Companies Act, ensure that financial assistance is only provided if the requirements of that section are satisfied, *inter alia*, that immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test set out in section 4(1) of the Companies Act and the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

Percentage voting rights

This resolution requires at least 75% (seventy-five percent) of the voting rights exercised by shareholders present or represented by proxy and entitled to exercise voting rights on the resolution.

Special resolution number 3

General authority to the Company to provide financial assistance for a period of two years to any of its subsidiaries in terms of section 45 of the Companies Act

“RESOLVED THAT, the Board of the Company be given general authority for a period of two years or until the AGM following the next meeting, whichever occurs first, in terms of section 45(3)(a)(ii) of the Companies Act to authorise the Company from time to time to provide any direct or indirect financial assistance, as defined in section 45(1) of the Companies Act, to any subsidiary as contemplated in section 45(2) of the Companies Act for such amounts and on such terms and conditions as the Board of the Company may determine.”

Reason for special resolution number 3

The reason for special resolution number 3 is to obtain authority to transfer funds against loan accounts between Group companies in order to continue conducting centralised treasury operations of the Group; and for the Group to continue issuing covering guarantees in favour of financial institutions and certain major suppliers for credit and advances by those organisations to the Company’s operating subsidiaries, both of which practices require shareholder approval by way of special resolution in terms of section 45 of the Companies Act.

The effect of the resolution will be to allow the Group to continue critical Group functions, including treasury operations, and to satisfy major lenders and suppliers’ security requirements so that they can continue to lend to and supply the Group. Such financial assistance will be provided as part of the day-to-day operations of the Company in the normal course of its business and in accordance with its MOI and the provisions of the Companies Act.

Compliance with section 45(3) (b) of the Companies Act

The directors of the Company will, in accordance with section 45(3) (b) of the Companies Act, ensure that financial assistance is only provided if the requirements of that section are satisfied, *inter alia*, that immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test set out in section 4(1) of the Companies Act.

Notice of annual general meeting continued

Notice given to shareholders of the Company in terms of section 45(5) of the Companies Act of a resolution adopted by the Board authorising the Company to provide such direct or indirect financial assistance in respect of special resolution number 3:

- (a) by the time that notice of this AGM is delivered to shareholders of the Company, the Board will have adopted a resolution ("section 45 Board resolution") authorising the Company to provide, at any time and from time to time during the period of two years commencing on the date on which special resolution number 3 is adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act (which includes lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) to a related or inter-related Company or corporation;
- (b) the section 45 Board resolution will be effective only if and to the extent that special resolution number 3 is adopted by the shareholders of the Company, and the provision of any such direct or indirect financial assistance by the Company, pursuant to such resolution, will always be subject to the Board being satisfied that:
 - (i) immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 45(3)(b)(i) of the Companies Act, and
 - (ii) the terms under which such financial assistance is to be given are fair and reasonable to the Company as referred to in section 45(3)(b)(ii) of the Companies Act; and
- (c) in as much as the section 45 Board resolution contemplates that such financial assistance will in the aggregate exceed one-tenth of one percent of the Company's net worth at the date of adoption of such resolution, the Company will provide notice of the section 45 Board resolution to shareholders of the Company. Such notice will also be provided to any trade union representing any employees of the Company.

Percentage voting rights

This resolution requires at least 75% (seventy-five percent) of the voting rights exercised by shareholders present or represented by proxy and entitled to exercise voting rights on the resolution.

ORDINARY RESOLUTIONS

The minimum percentage of voting rights required for ordinary resolutions number 1 to 3, 5 and 6 below to be adopted is more than 50% (fifty percent) of the voting rights exercised on each of the resolutions by shareholders present or represented by proxy. Ordinary resolution number 4 requires endorsement through non-binding advisory votes by shareholders. Should either ordinary resolution number 4.1 or ordinary resolution number 4.2 be voted against by 25% or more of the voting rights exercised, the Board of Directors will enter into an engagement process to ascertain the reasons for the dissenting votes and appropriately address legitimate and reasonable objections and concerns raised.

Ordinary resolution number 1

Re-appointment of retiring directors

1.1 Mr Martin Kuscus

"RESOLVED THAT, Mr Martin Kuscus, who retires in compliance with clause 24.8 of the MOI which requires that one-third or more of the non-executive directors must retire at each AGM, and being eligible offers himself for re-election, be and is hereby re-elected and confirmed as an independent non-executive director."

Notice of annual general meeting continued

A brief biography of Mr Martin Kuscus is as follows:

Martin Kuscus (63)

BA Cur; Dip EDP

Mr Martin Kuscus was the MEC for Finance in the North West Provincial Government from 1994 until 2004. Prior to that, he spent 17 years in healthcare services. In June 2004, he became the Chief Executive Officer of the South African Bureau of Standards, a position he held until July 2009. He was the Chairperson of the first Board of Trustees for the Government Employees Pension Fund, overseeing a portfolio worth R850 billion from June 2005 to July 2009. He served on the PRI Board of the United Nations Global Compact Initiative on Responsible Investment and has served as Chairperson of the Pan African Infrastructure Development Fund.

External appointments: Non-executive director of Netcare Limited; Chairperson of the Mineworker's Provident Fund; Non-executive director of Bigen Africa; Trustee of Liberty Corporate Umbrella Funds; Partner in the Makings Consultancy Services.

1.2 Mr Elliot Salkow

"RESOLVED THAT, Mr Elliot Salkow, who retires in compliance with clause 24.8 of the MOI which requires that one-third or more of the non-executive directors must retire at each AGM, and being eligible offers himself for re-election, be and is hereby re-elected and confirmed as a non-executive director."

A brief biography of Mr Elliot Salkow is as follows:

Elliot (Ellie) Salkow (65)

Mr Ellie Salkow began his career as a salesman and honed his entrepreneurial skills early on in South Africa and later in the United Kingdom. In 1979, he started Ellies Electronics Proprietary Limited and with great entrepreneurial spirit and flair, he soon created new opportunities within the market.

Following the resignation of Mr Wayne Samson, dispensation was obtained from the JSE for Mr Salkow to take on the role of both Executive Chairperson of the Board (with Mr Oliver Fortuin as the Lead Independent Director until his resignation on 30 June 2018) and Joint CEO during this interim period, until the appointment of Mr Shaun Prithivirajh as the new CEO with effect from 1 August 2018. Mr Salkow's appointment as non-executive director on 15 November 2018 was disputed and, therefore, Mr E Salkow only took on a non-executive director role on the Board, with effect from 4 April 2019, thereby relinquishing his full-time duties at the Company.

External appointments: Independent non-executive director of Archsat Investments (Gauteng) CC; Archsat Investments (Natal) (Pty) CC; Berrywood Investments 10 (Pty) Ltd; Birchip Properties CC and Megatron SA (Pty) Ltd; as well as various Ellies Holdings Limited subsidiary companies.

Ordinary resolution number 2

Appointment of the members of the Audit and Risk Committee

Note: For avoidance of doubt, all references to the Audit and Risk Committee of the Company is a reference to the Audit Committee as contemplated in the Companies Act.

"RESOLVED THAT, the following independent non-executive directors, all of whom qualify in terms of section 94(4) of the Companies Act, be appointed as the Chairperson and members of the Audit and Risk Committee, subject to the re-appointment of Mr Martin Kuscus as director pursuant to ordinary resolution number 1.1:

Notice of annual general meeting continued

2.1 Mr Edward Raff (Chairperson)

A brief biography of Mr Edward Raff is as follows:

Edward Raff (41)

BComm; BSc Honours in Advanced Mathematics of Finance; H Dip Tax; H Dip Man; Completed all three CFA levels

Mr Edward Raff has extensive financial and commercial experience and previously worked in investment banking, most recently at Rothschild & Co. Prior to this, he served as a senior executive in corporate finance at AngloGold Ashanti for almost 10 years.

External appointments: Director of Archipelago Investments (Pty) Ltd, Siyalanda Property; and Eureka Holdings (Pty) Ltd.

2.2 Mr Francois Olivier

A brief biography of Mr Francois Olivier is as follows:

Mr Francois Olivier (48)

CA(SA); CFA Charter Holder

Mr Francois Olivier has 19 years of investment research and portfolio management experience, six years of which were spent in the USA.

External appointments: Portfolio Manager at Mazi Asset Management (Pty) Ltd; non-executive director of Renergen Ltd and Three I Developments (Pty) Ltd; director of family-owned businesses, Intuitu Investments (Pty) Ltd and 1 Andrew Street (Pty) Ltd.

2.3 Mr Martin Kuscus

A brief biography of Mr Martin Kuscus is included under ordinary resolution number 1.1 above.

Ordinary resolution number 3

Re-appointment of the auditors

“RESOLVED THAT, upon the recommendation given by the Audit and Risk Committee of the Company, BDO South Africa Incorporated be re-appointed as auditors of the Company and Mr Rudi Huiskamp be re-appointed as the designated partner who will undertake the audit of the Group, both until the date of the next AGM.”

Explanatory note

In accordance with paragraph 3.84(g)(iii) of the JSE Listings Requirements, the Audit and Risk Committee confirms that it has assessed the suitability for the appointment of BDO South Africa Incorporated and Mr Rudi Huiskamp.

Ordinary resolution number 4

Non-binding endorsement of Ellies' Remuneration Policy and Remuneration Implementation Report

- 4.1 “RESOLVED THAT, shareholders endorse the Company's Remuneration Policy as detailed in the Remuneration Committee Report in the integrated annual report, through a non-binding advisory vote as recommended in part 5.4 practice 37 of the King IV Report on Corporate Governance for South Africa, 2016.”
 - 4.2 “RESOLVED THAT, shareholders endorse the Company's Remuneration Implementation Report as detailed in the Remuneration Committee Report in the integrated annual report, through a non-binding advisory vote as recommended in part 5.4 practice 37 of the King IV Report on Corporate Governance for South Africa, 2016.”
-

Notice of annual general meeting continued

Reason for and effect of ordinary resolution number 4

The reason for ordinary resolutions number 4.1 and 4.2 is that the King IV Report on Corporate Governance for South Africa, 2016 recommends and the JSE Listings Requirements in paragraph 3.84(k) stipulates that the Remuneration Policy and the Remuneration Implementation Report of the Company be endorsed through separate non-binding advisory votes by shareholders.

Should either resolution number 4.1 or 4.2 be voted against by 25% or more of the voting rights exercised, the Board will enter into an engagement process to ascertain the reasons for the dissenting votes and appropriately address legitimate and reasonable objections and concerns raised.

Ordinary resolution number 5

Placement of unissued shares under the control of the directors

"RESOLVED THAT, all of the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control of the directors of the Company as a general authority to allot or issue the same at their discretion in terms of and subject to the provisions of section 38 of the Companies Act, the JSE Listings Requirements and the Company's MOI and subject to the proviso that the aggregate number of ordinary shares which may be allotted and issued in terms of this ordinary resolution number 5, shall be limited to 5% (five percent) of the number of ordinary shares in issue from time to time."

Ordinary resolution number 6

Authorisation of the directors to implement the special and ordinary resolutions

"RESOLVED THAT, any one director of the Company or the Company Secretary be and is hereby authorised to do all such things as are necessary and to sign all such documents issued by the Company so as to give effect to such ordinary resolutions and special resolutions with or without amendment and, where applicable, registered."

Transaction of such other matters as may be transacted at an AGM.

SALIENT DATES AND TIMES

	Date
Record date to receive notice of AGM	Friday, 23 August 2019
Notice of AGM to be posted to shareholders and announced on SENS	Friday, 30 August 2019
Last day to trade to be recorded in the register on the record date for participation in the AGM	Tuesday, 22 October 2019
Record date to participate in and vote at the AGM	Friday, 25 October 2019
To facilitate administration, it would be appreciated if proxies can be received by the transfer secretaries by 10:00 on	Tuesday, 29 October 2019
Last day for lodging forms of proxy at 10:00 on *	Thursday, 31 October 2019
AGM at 10:00 on	Thursday, 31 October 2019
Results of AGM released on SENS	Thursday, 31 October 2019

* Any form of proxy not delivered to the transfer secretaries by this time may be handed to the transfer secretaries at the AGM or to the Chairperson of the AGM prior to the commencement of the AGM.

Note:

Any changes to the above dates will be announced on SENS.

Notice of annual general meeting continued

VOTING AND PROXIES

Certificated shareholders and dematerialised shareholders who hold shares in "own name" registration who are unable to attend the AGM and who wish to be represented thereat, must complete the form of proxy as attached to this notice of AGM, in accordance with the instructions contained therein and return it to the transfer secretaries to be received preferably by 10:00 on Tuesday, 29 October 2019, for administration purposes. Proxies may also be handed to the transfer secretaries at the AGM or to the Chairperson of the AGM at the commencement of the AGM or prior to the voting on any resolution proposed in the AGM notice.

Completion of the relevant form of proxy will not preclude such shareholder from attending and voting (in preference to those shareholders' proxies) at the AGM.

Every person present and entitled to vote at the general meeting shall, on a show of hands, have one vote only, and on a poll, shall have one vote for every ordinary share held or represented.

Shareholders' rights regarding proxies in terms of section 58 of the Companies Act are as follows:

1. At any time, a shareholder of a Company may appoint any individual, including an individual who is not a shareholder of that Company, as a proxy to –
 - (a) participate in, and speak and vote at, a shareholders meeting on behalf of the shareholder; or
 - (b) give or withhold written consent on behalf of the shareholder to a decision contemplated in section 60.
 2. A proxy appointment –
 - (a) must be in writing, dated and signed by the shareholder; and
 - (b) remains valid for:
 - (i) a period as set out in 23.7 of the MOI.
 - (ii) any longer or shorter period expressly set out in the appointment, unless it is revoked in a manner contemplated in section 58(4)(c) of the Companies Act, or expires earlier as contemplated in section 58(8)(d) of the Companies Act.
 3. Other –
 - (a) a shareholder of the Company may appoint two or more persons concurrently as proxies, and may appoint more than one proxy to exercise voting rights attached to different securities held by the shareholder;
 - (b) a proxy may delegate the proxy's authority to act on behalf of the shareholder to another person, subject to any restriction set out in the instrument appointing the proxy; and
 - (c) a copy of the instrument appointing a proxy must be delivered to the Company or to another person on behalf of the Company, before the proxy exercises any rights of the shareholder at a shareholders meeting.
 4. Irrespective of the form of instrument used to appoint a proxy –
 - (a) the appointment is suspended at any time and to the extent that the shareholder chooses to act directly and in person in the exercise of any rights as a shareholder;
 - (b) the appointment is revocable unless the proxy appointment expressly states otherwise; and
 - (c) if the appointment is revocable, a shareholder may revoke the proxy appointment by:
 - (i) cancelling it in writing, or making a later inconsistent appointment of a proxy; and
 - (ii) delivering a copy of the revocation instrument to the proxy, and to the Company.
-

Notice of annual general meeting continued

5. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of –
 - (a) the date stated in the revocation instrument, if any; or
 - (b) the date on which the revocation instrument was delivered as required in section 58(4)(c)(ii) of the Companies Act.
6. A proxy is entitled to exercise, or abstain from exercising, any voting right of the shareholder without direction, except to the extent that the instrument appointing the proxy otherwise provides.

ELECTRONIC PARTICIPATION

Should any shareholder wish to participate in the AGM by way of electronic participation, that shareholder should make application in writing (including details as to how the shareholder or its representative can be contacted) to so participate to the Company Secretary at the address below or by e-mail to lindie.lankalebalelo@ellies.co.za, to be received by the Company Secretary at least 5 (five) business days prior to the AGM in order for the Company Secretary to arrange for the shareholder (and its representative) to provide reasonably satisfactory identification to the Company Secretary for the purposes of section 63(1) of the Companies Act and for the Company Secretary to provide the shareholder (or its representative) with details as to how to access any electronic participation to be provided. The Company reserves the right to elect not to provide for electronic participation at the AGM in the event that it determines that it is not practical to do so. The costs of accessing any means of electronic participation provided by the Company will be borne by the shareholder so accessing the electronic participation. Shareholders are advised that participation in the AGM by way of electronic participation will not entitle a shareholder to vote. Should a shareholder wish to vote at the AGM, he/she may do so by attending and voting at the AGM either in person or by proxy.

By order of the Board



Ms Lindie Lankalebalelo
Company Secretary

26 August 2019

Registered address

Ellies Holdings Limited
94 Eloff Street Ext, Village Deep, Johannesburg, 2001
(PO Box 57076, Springfield, 2137)

Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers, 15 Biermann Ave, Rosebank, Johannesburg, 2196
(PO Box 61051, Marshalltown, 2107)



Form of proxy



HOLDINGS LIMITED

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")

Only to be completed by certificated and dematerialised shareholders with "own name" registration.

If you are a dematerialised shareholder, other than with "own name" registration, do not use this form. Dematerialised shareholders other than those with "own name" registration who wish to attend the annual general meeting, must inform their CSDP or broker of their intention to attend and request their CSDP or broker to issue them with the relevant Letter of Representation to attend the annual general meeting in person and vote, or, if they do not wish to attend the meeting in person, but wish to be represented thereat, provide their CSDP or broker with their voting instructions in terms of the relevant custody agreement entered into between them and their CSDP or broker in the manner and cut-off time stipulated therein.

An ordinary shareholder entitled to attend and vote at the annual general meeting to be held at Computershare Investor Services Proprietary Limited, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 on Thursday, 31 October 2019 at 10:00, is entitled to appoint a proxy to attend, speak or vote thereat in his/her stead. A proxy need not be a shareholder of the Company.

All forms of proxy must be lodged at the Company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) (proxy@computershare.co.za), by no later than 10:00 on Thursday, 31 October 2019. However, to facilitate administration, it would be appreciated if proxies can be received by the transfer secretaries by 10:00 on Tuesday, 29 October 2019.

I/We (please print names in full)

of (address)

Telephone number:

Cellphone number:

E-mail address:

being an ordinary shareholder(s) of the Company holding ordinary shares in the Company do hereby appoint:

1. _____ or failing him/her

2. _____ or failing him/her

3. the Chairperson of the annual general meeting as my/our proxy to vote on my/our behalf at the abovementioned annual general meeting (and any adjournment thereof) to be held at 10:00 at Computershare Investor Services Proprietary Limited, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, Johannesburg, 2196 on Thursday, 31 October 2019, for the purpose of considering and, if deemed fit, passing with or without modifications, the following resolutions to be considered at such meeting:

	Number of votes (one per share)		
	In favour of	Against	Abstain
Special resolutions			
1.	Issue of general authority for the Company to repurchase its own shares		
2.	Issue of a general authority to provide financial assistance in terms of section 44 of the Companies Act		
3.	Issue of a general authority to provide financial assistance in terms of section 45 of the Companies Act		
Ordinary resolutions			
1.	Re-appointment of retiring directors		
	1.1 Re-appointment of Mr Martin Kuscus as an Independent Non-Executive Director		
	1.2 Re-appointment of Mr Elliot Salkow as a Non-Executive Director		
2.	Appointment of the members of the Audit and Risk Committee		
	2.1 Mr Edward Raff (Chairperson)		
	2.2 Mr Francois Olivier		
	2.3 Mr Martin Kuscus		
3.	Approval to re-appoint BDO South Africa Incorporated and Mr Rudi Huiskamp as auditors		
4.	Endorsement of the Company's Remuneration Policy and its Remuneration Implementation Report		
	4.1 Endorsement of the Company's Remuneration Policy		
	4.2 Endorsement of the Company's Remuneration Implementation Report		
5.	General authorisation to place unissued shares under the control of the directors		
6.	Authorisation of the directors or the Company Secretary to implement the special and ordinary resolutions		

Insert an "X" in the appropriate block. If no indications are given, the proxy will vote as he/she deems fit. Each member entitled to attend and vote at the meeting may appoint one or more proxies (who need not be a member of the Company) to attend, speak and vote in his/her stead.

Signed at _____ on _____ 2019

Signature _____

Assisted by (where applicable) _____

Please read the notes on the following page.

Notes to the form of proxy

1. A shareholder may insert the names of a proxy or the names of two alternative proxies of the member's choice in the space provided, with or without deleting "the Chairperson of the meeting", but any such deletion must be initialled by the shareholder. The person whose name appears first on the proxy and which has not been deleted shall be entitled to act as proxy to the exclusion of those names following.
 2. A shareholder is entitled to one vote on a show of hands and, on a poll, one vote in respect of each ordinary share held.
A shareholder's instructions to the proxy must be indicated by inserting the relevant number of votes exercisable by the shareholder in the appropriate box. Failure to comply with this will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he/she deems fit in respect of all the shareholder's votes.
 3. A vote given in terms of an instrument of proxy shall be valid in relation to the annual general meeting notwithstanding the death, insanity or other legal disability of the person granting it, or the revocation of the proxy, or the transfer of the ordinary shares in respect of which the proxy is given, unless notice as to any of the aforementioned matters shall have been received by the transfer secretaries or by the Chairperson of the annual general meeting before the commencement of the annual general meeting.
 4. If a shareholder does not indicate on this form that his/her proxy is to vote in favour of or against any resolution or to abstain from voting, or gives contradictory instructions, or should any further resolution(s) or any amendment(s) which may properly be put before the annual general meeting, be proposed, the proxy shall be entitled to vote as he/she thinks fit.
 5. The authority of a person signing a proxy in a representative capacity must be attached to the proxy unless that authority has already been recorded with the Company's transfer secretaries or waived by the Chairperson of the annual general meeting.
 6. A minor or any other person under legal incapacity must be assisted by his/her parent or guardian as applicable, unless the relevant documents establishing capacity are produced or have been registered with the transfer secretaries.
 7. Where there are joint holders of ordinary shares: any one holder may sign the form of proxy; the vote(s) of the senior shareholders (for that purpose seniority will be determined by the order in which the names of ordinary shareholders appear in the Company's register) who tender a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholder(s).
 8. Proxies must be lodged at or posted or e-mailed to the Company's transfer secretaries, Computershare Investor Services Proprietary Limited, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196 (PO Box 61051, Marshalltown, 2107) (proxy@computershare.co.za), to be received not later than 10:00 on Thursday, 31 October 2019. Proxies may also be handed to the Chairperson of the AGM at the commencement of the AGM. However, to facilitate administration, it would be appreciated if proxies can be received by the transfer secretaries by 10:00 on Tuesday, 29 October 2019.
 9. Any alteration or correction made to this form of proxy other than the deletion of alternatives must be initialled by the signatory/ies.
 10. The completion and lodging of this proxy shall not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof.
 11. The Chairperson of the meeting may reject or accept a proxy that is completed other than in accordance with these instructions, provided that he is satisfied as to the manner in which a shareholder wishes to vote.
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Corporate information

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")

REGISTERED OFFICE

94 Eloff Street Ext
Village Deep
Johannesburg, 2001
PO Box 57076, Springfield, 2137

COMPANY SECRETARY

Ms Lindie Lankalebalelo

BOARD OF DIRECTORS AS AT 26 AUGUST 2019

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

* *Independent Non-Executive Director*

Non-Executive Director

SPONSOR

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

AUDITORS

BDO South Africa Incorporated
Wanderers Office Park
52 Corlett Dr
Illovo, 2196

TRANSFER SECRETARIES

Computershare Investor Services Proprietary Limited
1st Floor, Rosebank Towers
15 Biermann Ave
Rosebank, 2196

www.elliesholdings.com
www.ellies.co.za



www.elliesholdings.com