

Economic and trading environment

The combination of higher interest rates, new and stricter credit legislation and rampant inflation on the back of surges in food and fuel prices have placed the South African consumer under significant pressure. This in turn has seen business and consumer confidence plummet to their lowest levels in many a year. According to the Bureau for Economic Research consumer confidence experienced its largest quarter-on-quarter decrease in 24 years during the second quarter of 2008 and as a result "growth is expected to slow notably in the non-durable and semi-durable goods retail categories and contract significantly in the durable goods category" (own emphasis).

Operational review

As a consequence of the worsening economic environment, the Group experienced its toughest trading environment and poorest operating results since its listing over 11 years ago. To this end, swift and decisive remedial action was required to address the weaknesses and imbalances highlighted in the commentary to the Group's interim results. Actions taken by management during the year under review included:

- A reduction in the fixed overheads of the Group through a reduction in headcount from 1 220 in the prior year to 765 currently, integration of the back office functions across the Group and the termination of various fixed retainer based contracts amongst others;
- A refocusing of the brown goods (e electronics) business through, inter alia, the restructuring of management and sales representatives' incentives and a product range consolidation;
- A focus on reducing the Group's inventory levels. In this regard, the total value of inventory held by the Group decreased by 13% from R419 million at 31 December 2007 to R365 million at 30 June 2008 notwithstanding the build-up of stock in the Group's power inverter range of products (as discussed below). The Group expects to report a further reduction in inventories in its interim results to 31 December 2008;
- The winding down of the Group's mobile phones business; and
- The conversion of fixed overheads into variable costs through the outsourcing of the Group's electronics service function.

Although significant progress has been made in restructuring and refocusing the Group, several initiatives are planned for the balance of the 2008 calendar year. These include:

- The consolidation of the Group's supply chain activities, most notably shipping, in order to maximise scale and volume benefits;
- Outsourcing the warehousing of the Group's brown goods products;
- Restructuring of certain of the Group's licensing arrangements; and
- The rationalisation of the Group's statutory structure.

As previously reported, sales of brown goods were compromised by supply chain challenges which resulted in late deliveries and lost sales over the key festive season trading period. As a result, total sales of brown goods were significantly lower than in the prior year. Due to the challenges set out above and an extremely competitive marketplace, gross margins in this category were under severe pressure and were significantly lower than in the prior year. As reported above, this business has been refocused and restructured in order to ensure that it delivers sustainable returns. Furthermore, and in line with our vision of being a sales and marketing organisation, the Group will continue to invest in and support its key brands in this area, namely Tedalex and Sansui, and an improved performance is expected in the new financial year.

The well publicised power supply and pricing issues opened new and exciting opportunities for the Group from which much was expected. This resulted in the launch of the power inverter range of products. However, the unexpected stabilisation of power supply and resultant suspension of load shedding slowed sales dramatically and has resulted in the Group holding excessive stocks in this category. The Group is actively seeking alternate distribution channels and markets for these products.

Sales of small domestic appliances, including sewing machines and electrical accessories, were pleasing with growth in virtually all major product categories and across all brands, notwithstanding disappointing sales of

seasonal products due to uncharacteristic weather patterns. The Group continues to dominate this market segment with the top two brands, by both value and volume, in Russell Hobbs and Salton. Several new product categories (eg Russell Hobbs floorcare) were entered into with spectacular success and further launches (eg homewares and hair care) are either planned or already underway. Total revenue from the sale of small domestic appliances increased year-on-year although gross margins were lower due to inflation out of China which the Group was not able to fully recover. Continued growth in this area is expected in the new financial year although trading conditions are expected to remain challenging.

The Group is encouraged by the dialogue it has had with the Government and relevant regulators around the need to more actively police and enforce duty protection for local production of TV, however, the timing of any remedial action is uncertain. In this regard, a number of diversification strategies are being actively pursued including the potential sale of a significant interest in the Atlantis factory to Black Economic Empowerment and/or technology partners.

Financial performance

Income statement

As a consequence of the difficult trading conditions and the factors mentioned above, Group revenue for the year was 16% lower than in the prior year. As a result of increased competition and exported inflation out of China, gross margins were under pressure, particularly in the brown goods category. The Group's gross margin declined from 21,7% in the prior year to 17,5% in the current year.

Total overheads, including restructuring costs of R12,5 million incurred during the year under review, increased marginally. The benefits of the restructuring efforts will only materialise in the new financial year.

The total charge to the income statement in respect of IFRS 2: *Share Based Payments* for the year amounted to R920 000 (2007: R903 000).

The fair value adjustment in terms of IAS 39 amounted to a loss of R2,8 million (2007: loss of R8,9 million).

Net finance costs increased marginally due to higher interest rates and the Group's high inventory levels.

Balance sheet

The Group's balance sheet remains strong with a very low level of gearing.

The Group's inventory remained at very similar levels to those in the prior year despite the build-up of the power inverter range of products inventory in the current year. Notwithstanding this build-up, the Group's total inventory has decreased by over R50 million since 31 December 2007 reflecting the concerted efforts to normalise the Group's inventory levels. Further improvements in this regard are expected.

Accounts receivable reflect a slight increase on prior year levels despite the Group's lower sales due to the non-utilisation of discounting facilities in the current year.

Cash flow

As at 30 June 2008, the Group had a net overdraft of R17,5 million compared to net cash on hand of R15,5 million as at 31 December 2007 although the non-utilisation of discounting facilities, as mentioned above, skews the direct comparability of these balances.

Management continues to focus on improving the cash generation of the Group and this will be achieved through a combination of factors including a further reduction in inventory levels and the benefits arising from the reduced overheads structure.

Prospects

Although the trading environment is not expected to improve in the near future, and whilst the restructuring exercise is not yet complete, it is the board's expectation that the Group will generate cash in the current financial year. A return to profitability is dependent upon the sale of the significant build-up of the power inverter range of products.

Distribution to shareholders

Given the Group's disappointing results and cash flow performance, the board has resolved not to declare a dividend.

Changes to the board

The following changes to the board have taken place since the date of our last report:

- Markus Jooste (non-executive director) – resigned on 24 August 2007;
- Danie van der Merwe (non-executive director) – resigned on 24 August 2007;
- Meyer Kahn (non-executive director) – resigned on 30 November 2007;
- Sheldon Cohen (previous group chief executive officer and executive director) – resigned on 30 November 2007;
- Steve Müller (non-executive director) – appointed on 30 November 2007;
- Rian du Plessis (non-executive director) – appointed on 30 November 2007;
- Leon Campher (non-executive director) – appointed on 30 November 2007 and as chairman on 1 February 2008;
- Allan Nossel (previous chief executive officer of the Electronics division and executive director) – resigned on 31 December 2007;
- Jack Cohen (previous non-executive chairman) – retired on 31 January 2008;
- Alan Coward (group chief executive officer and executive director) – appointed on 1 February 2008;
- Byron Nichles (group chief financial officer and executive director) – appointed on 1 February 2008;
- Myron Berzack (non-executive director) & Stanley Green (alternate) – resigned on 26 February 2008;
- Joe Kieser (non-executive director) – resigned on 13 June 2008;
- George Bernhardt (previous chief executive of the Manufacturing division and executive director) – retired on 30 June 2008;
- Des Oliver (managing director of the Electronics division) – appointed as an executive director on 1 July 2008; and
- Rob Marais (chief executive officer of the Appliances division and executive director) – resigned on 1 July 2008.

The board wishes to extend its gratitude to all former directors for the valuable contribution made to the Group during their tenure.

Corporate governance

The Group subscribes to the spirit of good corporate governance as set out in the King II Report and accepts the need to conduct the enterprise with integrity, transparency and equal opportunity.

Acknowledgement

The board would like to acknowledge and thank our management, staff, suppliers, customers and shareholders for their valued commitment and support during these trying times.

For and on behalf of the board

Leon Campher
Non-Executive Chairman

Alan Coward
Group Chief Executive Officer

Johannesburg
29 August 2008



| CONDENSED GROUP INCOME STATEMENT | | | |
|--|----------|---------------------------------------|--------------------------------------|
| for the year ended 30 June 2008 | | | |
| | % Change | Reviewed 12 months 30 June 2008 R'000 | Audited 12 months 30 June 2007 R'000 |
| Revenue | (16) | 1 662 931 | 1 979 662 |
| Operating (loss)/profit | (107) | (9 230) | 130 254 |
| Fair value adjustments on financial instruments | | (2 823) | (8 877) |
| Finance costs – net | | (12 971) | (12 289) |
| (Loss)/profit before tax | (123) | (25 024) | 109 088 |
| Income tax credit/(expense) | | 7 124 | (33 206) |
| (Loss)/profit for the year | (124) | (17 900) | 75 882 |
| Basic (loss)/earnings per share (cents) | (124) | (8,6) | 36,4 |
| Diluted (loss)/earnings per share (cents) | (123) | (8,5) | 36,2 |
| Headline (loss)/earnings per share (cents) | (121) | (7,7) | 36,1 |
| Diluted headline (loss)/earnings per share (cents) | (121) | (7,6) | 35,9 |
| Capital distribution (cents) | | – | 12,0 |

| CONDENSED GROUP BALANCE SHEET | | | |
|--|--|-----------------------------|----------------------------|
| as at 30 June 2008 | | | |
| | | Reviewed 30 June 2008 R'000 | Audited 30 June 2007 R'000 |
| ASSETS | | | |
| Non-current assets | | 83 725 | 64 681 |
| Property, plant and equipment | | 40 861 | 46 140 |
| Goodwill | | 1 170 | 1 170 |
| Trademarks | | 4 596 | 4 596 |
| Other financial assets | | – | 2 319 |
| Deferred tax assets | | 37 098 | 10 456 |
| Current assets | | 729 817 | 824 250 |
| Inventory | | 365 188 | 366 422 |
| Trade and other receivables | | 307 304 | 293 463 |
| Prepaid taxation | | 3 521 | 3 518 |
| Bank and cash on hand | | 53 804 | 160 847 |
| Total assets | | 813 542 | 888 931 |
| EQUITY AND LIABILITIES | | | |
| Total equity | | 506 337 | 551 163 |
| Capital and reserves | | 506 337 | 551 163 |
| Non-current liabilities | | 8 988 | 10 242 |
| Long-term borrowings | | 6 826 | 7 116 |
| Deferred tax liabilities | | 2 162 | 3 126 |
| Current liabilities | | 298 217 | 327 526 |
| Trade and other payables | | 207 749 | 291 227 |
| Derivative financial liability | | 1 704 | 139 |
| Capital distribution and dividends payable | | 159 | 146 |
| Current tax liabilities | | 1 090 | 17 989 |
| Overdraft | | 71 254 | – |
| Short-term portion of long-term borrowings | | 5 065 | 3 818 |
| Provisions | | 11 196 | 14 207 |
| Total equity and liabilities | | 813 542 | 888 931 |

| CONDENSED GROUP STATEMENT OF CHANGES IN EQUITY | | | |
|---|--|-----------------------------|----------------------------|
| for the year ended 30 June 2008 | | | |
| | | Reviewed 30 June 2008 R'000 | Audited 30 June 2007 R'000 |
| Balance as at 1 July | | 551 163 | 517 002 |
| Acquisition of minority interest | | – | (3 008) |
| (Loss)/profit for the year | | (17 900) | 75 882 |
| Capital distribution | | (25 462) | (42 438) |
| Net treasury movement | | (2 384) | 2 822 |
| Share-based payment | | 920 | 903 |
| Balance as at 30 June | | 506 337 | 551 163 |

| SUPPLEMENTARY INFORMATION | | | |
|---|--|---------------------------------|--------------------------------|
| for the year ended 30 June 2008 | | | |
| | | Reviewed 12 months 30 June 2008 | Audited 12 months 30 June 2007 |
| Shares in issue (000's) | | 211 190 | 212 190 |
| Shares in issue – weighted (000's) | | 208 646 | 208 194 |
| Diluted number of shares – weighted (000's) | | 210 435 | 209 453 |
| Net asset value per share (cents) | | 240 | 260 |
| Cost of sales (R'000) | | 1 371 293 | 1 550 928 |
| Investment revenue (R'000) | | (3 913) | (4 443) |
| Finance costs (R'000) | | 16 884 | 16 733 |
| Capital expenditure (R'000) | | 9 831 | 19 279 |
| Capital commitments (R'000) | | 1 098 | 1 637 |
| Depreciation, amortisation and impairment charge (R'000) | | 14 274 | 9 856 |
| Finance and operating lease commitments (R'000) | | 28 061 | 34 537 |
| Calculation of headline earnings | | | |
| (Loss)/profit for the year (R'000) | | (17 900) | 75 882 |
| Loss on disposal of property, plant and equipment (R'000) | | 182 | 87 |
| Impairment/(impairment reversal) of property, plant and equipment and trade marks (R'000) | | 2 461 | (1 179) |
| Total tax effects of adjustments (R'000) | | (740) | 317 |
| Headline (loss)/earnings for the year (R'000) | | (15 997) | 75 107 |

Directors

*P L Campher (Chairman), A S Coward, *W A du Plessis, *S A Levitt, *S H Müller, B Nichles, D B Oliver, *S Scafidas
**Non-executive*

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B G Drummond

Transfer secretaries

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Sponsor

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| CONDENSED GROUP CASH FLOW STATEMENT | | | |
|---|--|---------------------------------------|--------------------------------------|
| for the year ended 30 June 2008 | | | |
| | | Reviewed 12 months 30 June 2008 R'000 | Audited 12 months 30 June 2007 R'000 |
| Cash flow from operating activities | | (167 691) | (68 117) |
| Cash generated by trading | | 5 214 | 153 378 |
| Working capital changes | | (97 102) | (96 364) |
| Cash (utilised in)/generated by operations | | (91 888) | 57 014 |
| Finance costs – net | | (12 971) | (12 289) |
| Taxation paid | | (37 384) | (70 473) |
| Capital distribution paid | | (25 448) | (42 369) |
| Cash flow from investing activities | | (9 179) | (18 524) |
| Additions to property, plant and equipment | | (9 831) | (19 279) |
| Proceeds on disposal of property, plant and equipment | | 652 | 189 |
| Decrease in other financial assets | | – | 566 |
| Cash flow from financing activities | | (1 427) | 3 221 |
| Net movement in treasury shares | | (2 384) | 2 822 |
| Increase in long-term borrowings | | 957 | 399 |
| Net decrease in cash and cash equivalents | | (178 297) | (83 420) |
| Cash and cash equivalents at the beginning of the year | | 160 847 | 244 267 |
| Cash and cash equivalents at the end of the year | | (17 450) | 160 847 |

Notes

1. Basis of preparation

- The condensed financial statements have been prepared in accordance with:
- IAS 34: Interim Financial Reporting using accounting policies that are in accordance with IFRS and consistent with those applied in the prior year;
- The requirements of the South African Companies Act, 61 of 1973, as amended; and
- The Listings Requirements of the JSE Limited.

2. Auditor's review opinion

These results have been reviewed by independent external auditors Deloitte & Touche and their unmodified review opinion is available for inspection at the registered office.

3. Diluted basic and headline loss/earnings per share

Diluted basic and headline loss/earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive ordinary shares.

4. Related party transaction

The Group entered into various related party transactions. These transactions are no less favourable than those arranged with third parties.

5. Contingent liability

As disclosed in the Group's annual report for the year ended 30 June 2007 and its interim results, SARS issued a letter of intent in February 2007 to levy customs and excise duty on a wholly owned subsidiary for R28,3 million. The subsidiary has raised a formal objection, in line with the professional advice of its external legal advisers, and remains confident that its objection will be upheld.

There is no obligation, current or pending, which is considered likely to have a material adverse effect on the Group.

6. Segmental reporting

The Group markets and distributes consumer durables predominantly in southern Africa and therefore the board does not consider the disclosure of segmental information in terms of IAS 14 to be meaningful.

7. Subsequent events

Save for a legal dispute relating to the cancellation by the Group of certain orders placed amounting to approximately R40 million, no events material to the understanding of this report have occurred during the period between 30 June 2008 and the date of this report.