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Letter from the CEO

Dear DAWN staff, suppliers and customers

As you know, the DAWN Group recently released its annual results. We would like to share these with you and, explain what the results mean for the future of the company.

Annual results

The Group posted an attributable loss of R637 million in the year to March, which is unacceptable to DAWN management and the board.

Our focus during the past financial year was on downsizing, including closing and consolidating businesses in the Group. However, we retained our footprint and therefore our ability to service our customers and suppliers across the territory we cover.

The costs associated with this, along with continued challenging market conditions, the impact of the widespread drought and the poor operating performance of the Group, resulted in these disappointing results.

However, despite these results, we believe these interventions were necessary to assist in returning our operations to profitability in the face of a deteriorating South African economy.

The new financial year has already yielded some positive improvements. Although April was still a loss-making month with so few trading days, the Group recorded a profit in both May and June.

For more detailed information on the DAWN Group's annual results, please read the SENS announcement, which is available on our website at www.dawnltd.co.za.

Lixil negotiations

I would like to bring to your attention the Group's recent negotiations with Lixil, the controlling shareholder of Grohe DAWN Watertech (GDW).

We have concluded a non-binding Memorandum of Understanding with Lixil to potentially sell our 49% shareholding in GDW to Lixil.

Given that DAWN does not have management control of, and cannot look forward to any cash proceeds from, GDW for the next six to seven years (due to shareholder loan repayment obligations), the successful sale of our shares would greatly benefit the Group.

Firstly, it would provide funds that we could reinvest into the master distributor side of the business and secondly, it would provide us with a long-term distribution agreement with GDW. This would allow us to focus on the core operations of the Group, and continue driving sales in South Africa and the rest of Africa.

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Our going concern status

Our auditors provided an unqualified audit report and confirmed the DAWN Group's going concern status. However, it is important to note that this status is dependent on two factors: that funding from the banks remains in place and that the economy does not deteriorate significantly.

This process of alerting shareholders to these points of caution is known as an 'emphasis of matter', and is one many listed South African companies are currently undergoing in the interests of transparency in the current economic climate.

Future plans

As mentioned, the first phase of our turnaround strategy has been implemented. We are now moving towards phase two, which focuses on our people, notably building core skills and retaining strong talent, as well as restoring the strategic and operational fundamentals of our business.

Our strategic focus areas include implementing the decentralisation of the business structure (with an emphasis on authority and accountability); driving cross-selling to regain market share; and implementing further rightsizing measures to operate successfully in the current tough economy.

Our operational focus areas are two-fold, and include the manufacturing sector and the trading sector.

In the manufacturing sector we will actively aim to improve efficiencies; re-engineer operations for lower factory breakeven points; and significantly rationalise the product spread.

In the trading sector, we will focus heavily on reclaiming master distributor status – a role our customers and suppliers require of us. We will also focus on addressing our on-time-in-full delivery; just-in-time delivery; re-energising staff; restoring supplier and customer relationships; and actively managing volume-related term agreements.

Looking ahead

Unfortunately, we are not anticipating any meaningful improvement in the economy in the year ahead. This will result in the Group continuing to experience difficult trading conditions in a very competitive environment.

As a company we will focus firmly on delivering on this short-term action plan in the hope to break even in 2018 and achieve profitability in 2019, provided there is no further significant weakening of the economy.

It is critical that we all work together towards this objective – every staff member, and every manager – as it is only through working together that we can hope to achieve a successful financial year for the company and as a result, a better future for us all.

We would like to thank our stakeholders for your continued support. DAWN is open for business, and we remain committed to adding value to our staff, customers, suppliers and shareholders.

Yours sincerely,

Edwin Hewitt