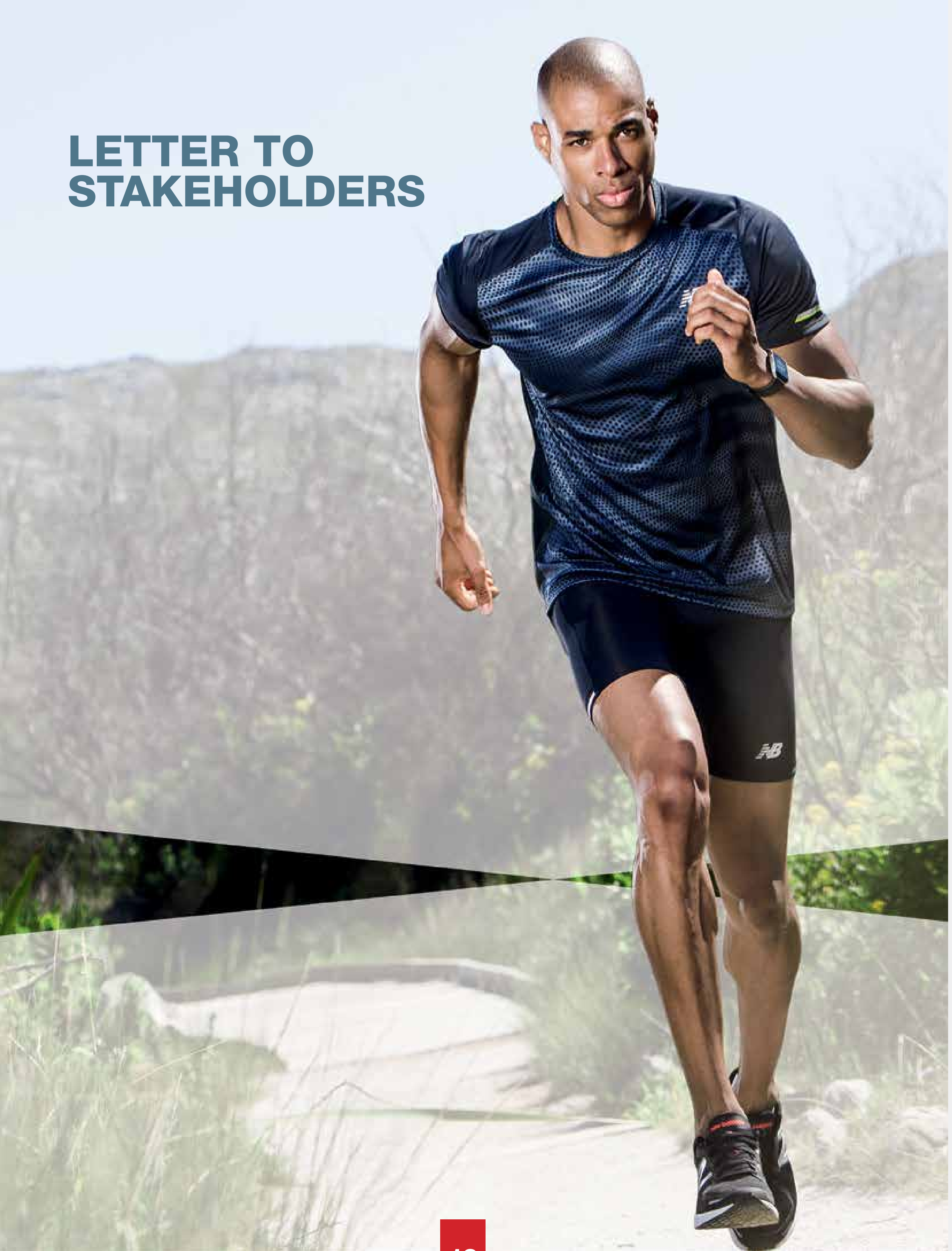
LETTER TO STAKEHOLDERS



SOCIAL, POLITICAL AND ECONOMIC ENVIRONMENT

The past year has been extremely challenging on a number of fronts. The remarkable shifts that have taken place throughout the world have profoundly shaken systems of governance and democracy. The unexpected outcome of the Brexit vote, changes in the leadership in the United States and the gains of right wing parties in Europe are a demonstration of an overwhelming move to greater self-interest and protection of national interests. Voters are revolting against the political establishment especially in the light of growing inequality. Africa in general and South Africa in particular have not been immune to the effect of these changes.

Our country has been faced with the effects of a devastating drought, low commodity prices, growing unemployment and a great deal of social unrest. The "#FeesMustFall" and ongoing service delivery protests all added to an atmosphere of uncertainty. During 2016 we were fortunate to have the steady hand of Minister of Finance Gordhan who enjoined with business and labour to present a united face to the world and overcame much of the damage caused by the removal of Minister Nene from office. This resulted in a strengthening Rand and the staving off of a credit rating downgrade.

The excellent rains towards the end of 2016 and an improvement in commodity prices resulted in a bumper maize crop and improved balance of payments. There were also signs that both business and consumer confidence were improving.

Regrettably the positive sentiment that was building was dealt a serious blow by the political eruptions that saw the Minister of Finance and his team recalled precipitously from a crucial international roadshow and then dismissed. The result of this was that three key rating agencies downgraded our foreign bonds, with two of them to so-called "junk" status. The positive trajectory of the strengthening Rand turned sharply and the currency lost 10% in a matter of days and remains under pressure. These political power plays have significantly undermined the country's ability to accelerate growth and to make any progress in improving the prospect of cutting the unacceptable levels of unemployment and poverty.

Against this background of inconsistent policy, it is no wonder that foreign direct investors are reluctant to invest at the scale required to make a significant impact on the economy. This reluctance also extends to South African corporates who are now the least geared of all emerging markets companies. More and more South African companies are focusing the bulk of their new investment on offshore markets.

Government anticipated GDP growth of 1.5% to 2% this calendar year but it is now likely that achieving even 1% will be very difficult. It is also important to consider that the growth in recent months has benefited from the break in the drought and improvements in commodity prices mentioned above. However, both these will annualise in the calendar year ahead and will no longer underpin South Africa's ability to achieve even these modest projections.

South Africa has slipped into a recession after its gross domestic product (GDP) declined 0.7% during the first quarter of 2017 after contracting by 0.3% in the fourth quarter of 2016.

While much has been written about the impact of the ratings downgrade of our external debt, the real issue now facing the country is our ability to maintain an investment grade rating for local currency bonds and our continued presence in the Emerging Market Global Bond Index, with Moody's already downgrading local debt by one level, although still investment grade.

Should we falter here the forced withdrawal of investment will cost the country dearly and will inevitably result in a significant strain on the exchange rate. Bearing in mind that the country's funding requirement to meet the budget deficit and for other needs for the coming fiscal year is in excess of R200 billion it is critical that we are able to access the large pools of savings in western economies. These will be closed off to us should our local currency be downgraded to subinvestment grade.

It is most disturbing when changes to critical leadership positions are seemingly made without a proper assessment of the impact on the economy and business. This is even more so when those entrusted with the leadership of our country seek to minimise the impact of the ratings downgrade, demonstrating a poor appreciation of the issues involved.

The economic travails noted above closely reflect the fraught political climate. The battle for the leadership of the ruling party is now well under way and the alliance partnership that has traditionally demonstrated unbreakable support for the ANC appears to be fracturing with Cosatu and the SA Communist Party calling for the President to step down. Simultaneous to this is the establishment of a new union

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confederation, SAFTU, which will compete with Cosatu for members and who are opposed to the ANC and president Zuma. The risk of heightened industrial turmoil as unions compete for members is a real threat to business and, should this transpire, will hasten the loss of employment.

The significant effect of these matters on consumers should not be underestimated and are further exacerbated by the increased tax burden, particularly on the more affluent. The weakening currency has and will continue to find its way into higher prices, eroding buying power.

In the light of the difficult economic environment, we are pleased with the steady performance of our brands. The trading review below reveals that our businesses continue to grow. We have made selective acquisitions in niche markets that will add to the range of product under our control and improve our offering to our customers.

We anticipate no respite from the very difficult trading conditions but are confident in the ability of our experienced and innovative team to achieve satisfactory growth. The strategic focus of the businesses has been sharpened and we are primed to tackle the challenges that abound.

TRADING OVERVIEW

In a particularly challenging retail environment total sales increased by 5.8%. Holdsport's low sales growth during this year follows strong growth in the comparable 2016 financial year whilst a significant foreign exchange loss weighed on operating profit.

- Group sales increased 5.8% to R1.83 billion.
- Operating profit decreased 11.4% to R273.7 million.
- Core headline earnings per share decreased 10.9% to 489.0 cents per share.
- Core headline earnings excluding the effect of foreign exchange adjustments were 522.3 cents per share, a decrease of 2.3% from the 534.5 cents for the previous financial year.
- We declared a final gross dividend of 220 cents per share, an increase of 10.0% on last year, which results in a total gross dividend of 350 cents for the year, up 9.4% on last year.

We were satisfied with the group's performance given low levels of consumer confidence, weak economic growth and a sporting goods industry which remains intensely competitive. Our strategy remains to offer customers as much unique product as possible, supported by high levels of service and to maintain a strong presence in this market.

SPORTSMANS WAREHOUSE

At a divisional level Sportsmans Warehouse's operating profit decreased by 4.4% to R268.8 million on a sales increase of 4.4%. This division generates almost three-quarters of our operating income.

We opened two new stores during the year and expanded our store in the Pavilion Shopping Centre. The first new concept 800 m^2 Sportsmans store opened in Mall of Africa and is smaller than our traditional stores. We believe this concept can trade successfully in a number of mall-based locations where our group is not currently represented. We also opened a large store in the Menlyn Shopping Centre and continue to evaluate opportunities to make our big stores bigger to facilitate the expansion of ranges and the introduction of new categories.

OUTDOOR WAREHOUSE

Outdoor Warehouse performed strongly in the previous year which set a high base for comparison. Operating profit decreased by 8.3% to R53.3 million on a sales increase of 4.5%.

During the year we relocated our Outdoor store in Nelspruit, expanded the Somerset West store and opened a new store in George.

WHOLESALE DIVISION

The Wholesale Division acquired two businesses during the year:

- **Second Skins** is a manufacturer of swimming, running, sun-protection and other sportswear, uniforms and promotional clothing. The company specialises in the production of customised performance-enhancing garments made from the latest technical fabrics for the retail trade, schools, sports clubs and corporations.
- **African Nature** is a manufacturer of cotton-based technical and outdoor clothing, specialising in the production of customised performance-enhancing garments for the game lodge and safari markets.

Total turnover increased by 25.8% during the year due to these acquisitions and increased sales to our own retail chains.

We anticipate that, strategically, the internal turnover contribution will continue to grow at a greater rate than demand from the independent market. While divisional operating profit decreased by 59.6% from last year it should be borne in mind that they carry a large proportion of the foreign exchange loss. This division now designs and produces an increasing portion of the Sportsmans and Outdoor private label products.

PROSPECTS AND APPRECIATION

Holdsport continues to face low levels of consumer confidence, weak economic growth and an intensifying competitive environment.

Household budgets are under pressure due to high food inflation, rising utility costs and increasing taxation whilst real incomes are stagnating in the low-growth environment faced by the country.

In these difficult times the group is firmly committed to its strategies to enhance returns for our stakeholders.

The ongoing positive cash flow of the business remains one of our key strengths and enabled us to steadily reduce our dividend cover and enhance shareholder returns.

The strategic focus on our design and procurement skills enables Holdsport to maintain and enhance our unique and credible offering to customers.

The group signed lease agreements for a further three new stores to be opened in the next financial year. We will expand one store during the year and our time weighted trading space will increase by at least 3.0% for the next financial year (2017: 3.4%).

Our appreciation goes out to the nearly 2 000 people who work in our various businesses. It is their energy and devotion in providing our customers with wonderfully innovative merchandise and a great shopping experience that is truly our competitive advantage.

Our suppliers are an integral part of our team and we thank them too for the skill and enterprise they bring to us and our customers.

We thank the board for giving generously of their time and expertise and for their support and wisdom.

Syd Muller
Independent Non-executive Chairman

Cape Town
20 June 2017

Kevin Hodgson
Chief Executive Officer

Cape Town
20 June 2017