

Harris Technology Group Limited **ASX:HT8**

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ASX and Media Release

Chairman's Address – 2018 Annual General Meeting

Good afternoon ladies and gentlemen. My name is Andrew Plympton, Chairman of Harris Technology Group Limited, and I welcome you to our 2018 Annual General Meeting. On behalf of the Board, I would like to address shareholders on the 2018 financial year, and our outlook for 2019.

The Group's results during the 2018 financial year were impacted by a combination of changing market conditions, a broadly competitive pricing environment, and reduction in margins.

In particular, the results reflected a decrease in revenue contributions from the Group's distribution business, Anyware, which has historically represented the Group's largest revenue generator. The performance of Anyware reflects the recent shift in market demand away from traditional PC hardware products which Anyware supplies, towards newer generation products such as tablets and hand held devices.

The Harris Technology e-commerce business operated by the Group generally performed in line with expectations, with margins being maintained during the year.

During the year, we undertook a review of our operations with a particular focus on reducing costs wherever possible and attempting to find ways to become more efficient.

Due to our focus on addressing challenges with the Anyware distribution business, and supporting growth of our e-commerce business, we placed on hold the execution of planned initiatives to develop alternative business opportunities with innovative and efficient supply chain strategies, particularly our Manufacturer to Consumer (M2C) strategy with our joint venture partners in Hong Kong.

During the course of the year, it became apparent to us that the Anyware business was failing to perform to an acceptable level, and despite close attention to increase sales opportunities and further reduce costs, the business continued to underperform.

In essence the major contributing factors to the underperformance of Anyware can be summarised as follows:

- Saturation of market competitors and therefore fierce competition
- Continuous shrinking margins of the IT B2B sector
- Due to the competitive nature of the sector, cash flow pressures due to extended credit terms to customers and long term stock holding
- Infrastructure requirements to operate from multiple warehouses

The Directors took the view in the second quarter of the year that the Group should either undertake acquisitions in this sector to complement the Anyware business and build scale, or alternatively seek to divest of the business.

We also contracted an industry specialist in the M&A sector to assist to identify either opportunities to consolidate other businesses into the Group, or in the alternative to seek potential buyers of the business.

Subsequent to 30 June 2018, we decided to sell the Anyware business to Leader Computers Pty Ltd, a national IT hardware distributor headquartered in Adelaide. As shareholders know, we successfully completed the sale in October 2018. The sale of the business has relieved certain financial pressures faced by the Group with Leader Computers taking over staff and entitlements, and lease of warehouses, and has also allowed us to conclude previous trade financing arrangements with our bankers.

With the sale of this loss-making subsidiary completed, we can now concentrate on pursuing growth of our Harris Technology e-commerce business, and opportunities to realise the full potential of the emerging online M2C market, a sector in which we have developed key relationships and valuable know-how.

We continue to explore opportunities for organic and acquisitive growth, and I look forward to providing updates to shareholders in this respect.

On behalf of the Board, I would like to take this opportunity to thank all shareholders for their ongoing support.

-ENDS-

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