SUMMARISED AUDITED

GROUP FINANCIAL RESULTS

FOR THE YEAR ENDED
28 FEBRUARY 2011

VERIMARK
HOLDINGS LIMITED

Innovation to a better lifestyle...

CHIEF EXECUTIVE OFFICER'S REPORT

Michael van Straaten, Chief Executive Officer of Verimark, said...

"The outstanding growth recorded in sales of 38% in the previous financial year, continued during the year under review. A further 33% rise in sales this year resulted in Verimark delivering its best sales performance in its 34-year history, with sales totalling R461,7 million and a profit before tax of R49,3 million, which is an increase of 144,1% on the previous year.

This positive growth trend is in line with the new management team's commitment to return Verimark to its former levels of sales and profitability. Verimark's exceptional growth recorded over the last two years (more than six times the official retail sector's growth as reported by Statistics SA) vindicates the substantial changes made to management over the previous three years and further confirms the viability of Verimark's entrepreneurial business model."

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HIGHLIGHTS

Revenue
increased by **32,8%**
to **R461,7 million**
(2010: R347,5 million)

Operating profit before interest
increased by **103,9%**
to **R57,7 million**
(2010: R28,3 million)

Profit before tax
increased by **144,1%**
to **R49,3 million**
(2010: R20,2 million)

Headline earnings
increased by **146,3%**
to **R33,5 million**
(2010: R13,6 million)

Dividend per share declared
increased by **150,0%**
to **15,0 cents**
(2010: 6,0 cents)

Headline earnings per share
increased by **154,0%**
to **31,5 cents**
(2010: 12,4 cents)

The Verimark share showed the **fourth best growth** on the JSE over a 12-month period

Business Times survey, 7 November 2010

Verimark ranked **fourth** in the **McGregor BFA's composite index** that compares all companies on the JSE against a number of key performance criteria

Finweek, 31 March 2011

Given the continued growth in profitability and cash flow of the Group, the Board decided (in line with the Group's dividend policy) to declare a dividend of 50% of profit attributable to shareholders.

With regard to the Group's improved profitability, the main reasons were:

Increase in sales and profits

The exceptionally high growth achieved in sales was the main contributor to profitability in the year under review. The key factors that contributed to this growth are dealt with in the Operational Review.

Expenses

Although total expenses increased at a lower rate than sales, there were some expense categories that did increase at a higher rate. It became clear towards the latter part of the reporting period that the substantial increase in sales volumes was placing Verimark's operational infrastructure under huge pressure (for example, an additional Distribution Centre was required and night shifts had to be scheduled to handle the increased stock movement).

Although the new management team performed well under the various challenges it faced from such high sales growth, some expense increases could have been better controlled.

The problem areas have been identified and appropriate actions taken to remedy the situation. We are confident that these efforts will allow for improved efficiencies in future.

Finance costs were slightly higher than last year, primarily due to foreign exchange net losses on hedge contracts (R4,6 million in the current year versus a loss of R3,3 million in the previous year). Interest on the preference share liability (R1,1 million) relating to the Verimark Employment Empowerment Trust were in line with that of the previous year (R1,2 million).

OPERATIONAL REVIEW AND THE VERIMARK BUSINESS MODEL

As our business model is substantially different to that of traditional retailers or suppliers to the retail trade, it is important that shareholders and interested parties have at least a basic understanding of the key aspects of the Verimark business model to evaluate the true potential and sustainability of the Group.

Products

Products are sourced by visiting international trade fairs, retail stores and through a network of business partners and manufacturers from across the globe. The selection criteria is uniqueness, superior quality, demonstrability and the widest possible demographic demand. Our product range covers the following categories (and brands):

- Cookware and kitchenware: Bauer, Bastille, Twista, Shogun
- Home cleaning: Genesis, Floorwiz, Icon, Big Green Extreme
- Health and fitness: Maxxus, Orbitrek, V-Ssage, Iron Gym
- DIY and automotive: Diamond Guard, Prolong, Gorilla, Durablade
- Educational and fun toys: I-Play, Biggi Bubble

The Verimark product range has been built up over the last two decades, and includes long-established products (most of which are brand leaders in their respective product categories), plus new products which are added each year. To continuously identify and select products with high sales potential is not easy nor is it an exact science, but Verimark's track record over two decades confirms its superior abilities to select far more "home runs" than the international norm.

The high rate of product introductions achieved during the previous year and since, contributed to the high growth in sales in the year under review. Some of the products introduced during the year were:

- Pentagon — Electric shaver (five-in-one male grooming kit)
- Shogun — Blade sharpener; Can opener
- Maxxus — RCP3000 (three-in-one rower, cycle and personal trainer)
- Genesis — Hydrovac (water filtration, vacuum cleaner)
- I-Play — Bubble Gun (fun toy)
- Icon — Environmentally friendly laundry washing ball

Promotion and advertising strategy

Given the unique nature of the Verimark products, we identified the use of a long form television commercial, also known as Direct Response Television (DRTV) as the most suitable marketing medium to promote and sell our products. Verimark pioneered DRTV in South Africa nearly two decades ago and has been the market leader, with an estimated market share of at least 50%, ever since.

As we require a TV commercial for each product that we market, we had to develop the skills to conceptualise, script and produce this form of TV commercial. In cases where Verimark might select a success-proven product from another international DRTV company, we would use their TV commercial.

In addition to continuous and aggressive TV advertising (Verimark was rated early in 2011 as South Africa's third largest TV advertiser by Nielsen), our promotional strategy also includes print, internet, in store demonstrations and TV-playback units at most of our selling points.

It is important to note that before Verimark commits to large-scale product purchases, all new products and TV commercials are put through a consumer response test. This testing methodology, which we developed over many years, limits the risk of investing into the 'wrong' (unsuccessful) new products.

Distribution and sale of products

When products are sold through DRTV, as Verimark started doing nearly two decades ago, these products are only available by phoning the toll-free number that appears on the TV screen and placing an order with a Call Centre. Our research at the time suggested that the sales potential at retail store level is at least five times higher than the Call Centre route to market, which led Verimark to pioneer the distribution of DRTV products through retail outlets.

Today our products are available in the stores of most of the large retail groups – in most cases showcased as a 'Shop-within-a-Shop' in dedicated sales areas. To optimise the demand for our products, more than ten years ago we started to open Verimark-branded stores (company owned and franchised), located throughout the country and in the major shopping centres.

We are pleased to note that during the year under review, we have seen a continuation of the previous year's high growth in sales through our entire retail partner and own stores.

The growth in our sales was mainly due to:

- The sale of new products that complemented Verimark's existing product range.
- Improved prominence and space utilisation by Verimark at most retail stores. As in the case of the previous year, full credit must be given to most of our retail partners who identified the high growth potential that promoting Verimark products offered and will continue to offer.

ACKNOWLEDGEMENT

To deliver exceptional sales growth two years in a row, took an enormous effort from every Verimark manager and staff member. Consequently, I would like to congratulate and thank everyone for the individual effort they put in to achieve this outstanding result. Two years ago, with a completely new management team in place (excluding myself) the challenges to return Verimark to its former success record were huge. But by focusing on the key performance areas of this entrepreneurial business – innovation, creativity and operational efficiencies – we have been able to deliver what we promised.

The rapid growth in volumes and concomitant support services did not come without challenges and created a substantial amount of stress throughout the business. Given the number of changes made to the management team, it would be unrealistic to expect all those appointments to have worked out. During the period under review, we have seen a limited management churn, but, nevertheless, we are pleased with the progress we have made towards building a management team that can deliver consistent growth for our business and superior market performance.

As part of our ongoing strategy to attract and retain key management, Verimark has put a number of share incentive packages in place during the year under review. As this incentive is performance based, it is expected that further share incentives will be granted in the future, subject to Board approval and all other JSE requirements.

BUSINESS ENVIRONMENT

At a macro-economic level, it is pleasing to see that the impact of the global financial crisis, which commenced in 2008, has started to reverse. The propensity of consumers to spend has undoubtedly improved for most consumer-related business and because of Verimark's strong consumer spending orientation, we did enjoy some benefit from this improvement.

The official growth in retail sales for the year ended December 2010 was 5,2% (as per Statistics SA). Most of our trading partners showed growth beyond this figure. We are pleased that we could make a positive contribution (albeit on a small scale) to every one of our trading partners' growth, given the Verimark growth rate of 33% in the year under review.

The disparity in the official growth rates in national retail sales and Verimark's own sales growth rates achieved last year, supports Verimark's assertion that its business model is different from that of the traditional retail groups. It therefore follows that macro-economic cycles that generally impact on the consumers' ability to spend in the broad retail environment, will have less impact (positive or negative) on our business as our innovative marketing strategies, based on a direct sales model, tend to give retail sales across Verimark's counter an additional boost.

PROSPECTS

It would be unrealistic to expect that the growth rate in sales over the last two years can be maintained (we nearly doubled our sales over this period). While sales growth in the last six months of the year under review was beyond our expectations, growth over the first few months of the current financial year has returned to a more sustainable pattern.

However, given our sales record over the last two years, some of our retail partners believe Verimark is still not trading optimally in all their stores and have expressed an interest in extending our product range and space allocation. This, in conjunction with a number of new Verimark stores scheduled for opening in the year ahead, should assist us to continue growing sales in excess of that expected for the retail sector in general. This trend together with a greater focus on expense control, should allow for above average earnings growth, in the year ahead.

MJ van Straaten
Chief Executive Officer

23 May 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February

	GROUP	
	2011 R'000	2010 R'000
Revenue	**461 654**	347 511
Cost of sales	**(261 567)**	(206 833)
Gross profit	**200 087**	140 678
Other income/(expense)	**1 312**	(2 183)
Selling expenses	**(49 655)**	(36 305)
Other operating expenses	**(94 006)**	(73 924)
Operating profit before finance income and finance expense	**57 738**	28 266
Finance income	**2 966**	4 268
Finance expense	**(11 387)**	(12 382)
Profit before taxation	**49 317**	20 152
Income tax	**(15 834)**	(6 534)
Profit for the year	**33 483**	13 618
Other comprehensive income	**–**	–
Total comprehensive income attributable to owners of the Company	**33 483**	13 618
Basic earnings per share (cents)	**31,5**	12,4
Diluted basic earnings per share (cents)	**31,3**	12,4

DETERMINATION OF ATTRIBUTABLE EARNINGS AND HEADLINE EARNINGS

for the year ended 28 February

	GROUP	
	2011 R'000	2010 R'000
Profit attributable to owners	**33 483**	13 618
Profit on sale of assets	**(29)**	(13)
Tax effect	**7**	4
Headline earnings	**33 461**	13 609
Weighted average shares reconciliation		
Shares in issue at beginning of year	**114 272 328**	114 272 328
Treasury shares – VEET	**(4 000 000)**	(4 000 000)
Treasury shares – Verimark (Proprietary) Limited	**(4 064 304)**	(734 374)
Weighted average shares	**106 208 024**	109 537 954
Share options dilution	**611 983**	–
Diluted weighted average shares	**106 820 007**	109 537 954
Basic earnings per share (cents)	**31,5**	12,4
Headline earnings per share (cents)	**31,5**	12,4
Diluted basic earnings per share (cents)	**31,3**	12,4
Diluted headline earnings per share (cents)	**31,3**	12,4

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 28 February

	GROUP	
	2011 R'000	2010 R'000
ASSETS		
Non-current assets	**31 185**	25 931
Plant and equipment	**14 200**	9 263
Intangible assets	**14 342**	14 286
Deferred taxation asset	**2 643**	2 382
Current assets	**139 988**	111 565
Inventories	**60 274**	45 202
Trade and other receivables	**62 543**	51 966
Prepayments	**268**	191
Loans receivable	**234**	466
Bank and cash balances	**16 669**	13 740
Total assets	**171 173**	137 496
EQUITY AND LIABILITIES		
Equity attributable to the owners of the Company	**80 626**	56 899
Share capital	**346**	356
Share premium	**21 378**	25 104
Share based payment reserve	**393**	–
Retained earnings	**58 509**	31 439
Non-current liabilities	**7 905**	6 632
Interest-bearing liabilities	**7 905**	6 632
Current liabilities	**82 642**	73 965
Preference share liability	**15 371**	14 491
Trade and other payables	**61 100**	50 138
Shareholders for dividend	**–**	42
Short-term portion of interest-bearing liability	**3 783**	1 733
Taxation payable	**2 388**	7 561
Total equity and liabilities	**171 173**	137 496

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 28 February

	GROUP	
	2011 R'000	2010 R'000
Cash flows from operating activities		
Cash generated by operations	**49 515**	45 593
Finance income	**2 966**	3 981
Finance costs	**(9 970)**	(11 103)
Income tax paid	**(21 267)**	(3)
Dividend paid	**(6 455)**	–
Net cash inflows from operating activities	**14 789**	38 468
Cash outflows from investing activities	**(11 420)**	(8 255)
Acquisition of plant and equipment	**(11 552)**	(7 996)
Acquisition of intangible assets	**(233)**	(288)
Proceeds from disposal of plant and equipment	**365**	29
Cash (outflows)/inflows from financing activities	**(440)**	321
Decrease in loans receivable	**232**	232
Interest-bearing liabilities repaid	**(2 590)**	(1 125)
Interest-bearing liabilities raised	**5 894**	2 851
Repurchase of own shares	**(3 736)**	(1 637)
Preference share liability repaid	**(240)**	–
Net increase in cash and cash equivalents	**2 929**	30 534
Cash and cash equivalents at beginning of year	**13 740**	(16 794)
Cash and cash equivalents at end of year	**16 669**	13 740

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February

GROUP	Share capital R'000	Share premium R'000	Share based payment reserve R'000	Retained earnings R'000	**Total R'000**
Balance at 1 March 2009	368	26 730	–	17 821	**44 919**
Total comprehensive income for the year	–	–	–	13 618	**13 618**
Treasury shares held by Verimark (Proprietary) Limited	(12)	(1 626)	–	–	**(1 638)**
Balance at 28 February 2010	356	25 104	–	31 439	**56 899**
Total comprehensive income for the year	–	–	–	33 483	**33 483**
Treasury shares held by Verimark (Proprietary) Limited	(10)	(3 726)	–	–	**(3 736)**
IFRS 2 share based payment transaction	–	–	393	–	**393**
Dividend paid to owners	–	–	–	(6 413)	**(6 413)**
Balance at 28 February 2011	346	21 378	393	58 509	**80 626**

FINANCIAL OVERVIEW

Both headline earnings per share (HEPS) and basic earnings per share (EPS) for the year ended 28 February 2011 were 31,5 cents, compared to 12,4 cents for the previous comparable period.

Revenue for the year grew by 32,8% to R461,7 million and gross profit increased by 42,2% to R200,1 million. Revenue growth was mainly due to sale of new products and improved utilisation of trading space. Gross profit increased mainly due to the increase in revenue and the strengthening of the Rand versus the US Dollar.

Selling expenses grew by 36,9% primarily due to increased sales and in-store advertising costs. Other operating expenses were up by 27,2% mainly due to expansion of the business.

Investment of R11,5 million was made in plant and equipment to support the positive sales growth of the Company and its subsidiary ("the Group"). Inventories and trade receivables growth was a direct result of the sales growth.

Bank and cash balances increased by R2,9 million (21,2%) after income taxation payments of R21,3 million (2010: R3,5k).

Long-term liabilities growth was mainly in line with the increased investment in plant and equipment.

During the year the Company, through its subsidiary Verimark (Proprietary) Limited, repurchased 2,98 million of its issued shares for a consideration of R3,7 million (2010: 3,4 million shares for R1,6 million). These shares remain under the control of the Company and have been recognised as treasury shares in the Group accounts.

FINAL DIVIDEND

Due to the level of profitability achieved, the Board of Directors ("the Board") is pleased to announce that a final dividend for the financial year ended 28 February 2011, of R17,1 million or 15,0 cents per share (2010: R6,9 million or 6,0 cents per share) has been approved by the Board. This is consistent with the dividend policy of 50% of profit attributable to the owners of the Company that was approved by the Board in the prior year. This policy will be reassessed by the Board on an ongoing basis. In accordance with the settlement procedures of Strate, the following dates will apply to the final dividend payment:

- Last day to trade *cum* dividend
  Thursday, 9 June 2011
- Trading *ex* dividend commences
  Friday, 10 June 2011
- Record date
  Friday, 17 June 2011
- Dividend payment date
  Monday, 20 June 2011

Share certificates may not be dematerialised or rematerialised between Friday, 10 June 2011 and Friday, 17 June 2011, both days inclusive.

ACCOUNTING POLICIES

The summarised audited Group financial statements were extracted from the audited financial statements of the Group for the year ended 28 February 2011, which have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) and the presentation and disclosure requirements of International Accounting Standard 34 (IAS 34), the AC 500 series as issued by the Accounting Practices Board and the Companies Act No 61 of 1973. These are consistent with those of the previous year except for the application of the following revised standards: the revised IAS 27 Consolidated and Separate Financial Statements (IAS 27) and the revised IFRS 3 Business Combinations (IFRS 3). In addition, IFRS 2 Share Based Payment (IFRS 2), was applied for the first time in the current year as this is the first year that it became applicable.

SEGMENTAL ANALYSIS

The directors have considered the implications of IFRS 8 Operating Segments and are of the opinion that the operations of the Group are substantially similar to one another and that the risks and returns of these operations are likewise similar. Resource allocation and the management of the operations is performed on an aggregated basis and as such the Group is considered to be a single aggregated business and therefore there is no additional reporting required in terms of IFRS 8.

PROSPECTS

It would be unrealistic to expect that the revenue growth rate over the last two years can be maintained (revenue nearly doubled over this period). While revenue growth in the last six months of the year under review was beyond expectations, growth over the first few months of the current financial year has returned to a more sustainable pattern.

However, given Verimark's growth record over the last two years, some retail partners believe that Verimark is still not trading optimally in all their stores and have expressed an interest in extending the Company's product range and space allocation. This, in conjunction with a number of new Verimark stores scheduled for opening in the year ahead, should assist to continue growing revenues in excess of that expected for the retail sector in general. This trend together with a greater focus on expense control, should allow for above average earnings growth in the year ahead.

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's external auditors.

POST-BALANCE SHEET EVENTS

No event which is material to the understanding of this report has occurred between the financial period end and the date of this report.

AUDIT OPINION

KPMG Inc. has audited the financial statements from which the financial information set out in this report has been derived. Their audit report on the financial statements is not modified and is available for inspection at the Group's registered office.

On behalf of the Board

MJ van Straaten
Chief Executive Officer

Dr JT Motlatsi
Chairman

Randburg
23 May 2011

Verimark Holdings Limited

Incorporated in the Republic of South Africa
Registration number: 1998/006957/06
Share code: VMK
ISIN: ZAE000068011
"Verimark" or "the Company"

Directors

Dr JT Motlatsi
(Chairman)*

MJ van Straaten
(Chief Executive Officer)

SJ Preller
(Financial Director)

JM Pieterse*

**Independent non-executive*

Company Secretary

SJ Preller

Registered office

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Verimark Holdings Limited
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Transfer secretaries

Computershare Investor Services
(Proprietary) Limited

Auditors

KPMG Inc.

Sponsor

Grindrod Bank Limited

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www.verimark.co.za