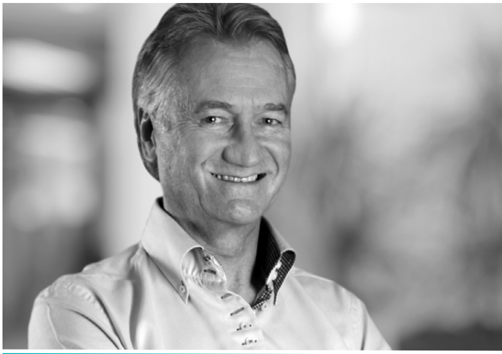
VERIMARK

VERIMARK
HOLDINGS LIMITED

'12 SUMMARISED AUDITED GROUP FINANCIAL INFORMATION

for the year ended 29 February

CHIEF EXECUTIVE OFFICER'S REPORT



MICHAEL J VAN STRAATEN
CHIEF EXECUTIVE OFFICER

The critical performance indicators for the year under review were as follows:

- Revenue decreased marginally from R461,7 million to R451,2 million (2,3%)
- Operating profit before interest decreased from R57,7 million to R49 million (15,2%)
- Profit before taxation decreased from R49,3 million to R41,9 million (15,1%)
- Headline earnings decreased from R33,5 million to R26,8 million (19,8%)
- Headline earnings per share decreased from 31,5 cents to 25,8 cents (18,1%)
- Dividend per share decreased from 15 cents to 13,5 cents (10%)
- The Verimark share performance ranked in the top 40 on the JSE (out of approximately 420 companies) over a 12 month period (last year 4th) – *Business Times survey, October 2011*

HIGHLIGHTS

HIGHLIGHTS

GENERAL

After recording two years of exceptional growth in sales (38% and 33%) and profits, it was expected (as pointed out in the previous year's CEO Report) that growth would slow and that the business would temporarily enter a period of consolidation. The high growth experienced over the previous two years exerted huge pressures on the business' infrastructure, which impacted negatively on sales growth and the control of costs. This resulted in a slight decrease in sales of 2,3% to R451,2 million and profits before tax of R41,9 million in the 2012 financial year, a decrease of 15,1% compared to the previous year.

The challenges experienced in upgrading and improving our infrastructure and systems to accommodate the much larger trading base, unfortunately negatively affected the sustained focus required of the new management team for optimal generation of sales growth and cost control.

In line with the Group's dividend policy, the Board decided on 30 March 2012 to declare a dividend of 50% of the preliminary unaudited profit attributable to shareholders.

FINANCIAL REVIEW

The main reasons for the reduction in profitability were:

MARGINAL DECREASE IN SALES AND GROSS PROFITS

Taking into account the operational gearing of the business, even a marginal variation in sales has a disproportionate impact on profitability. While the Group derived exponential benefit from this reality when high sales growth was achieved in the past, the

It was expected that given the phenomenal growth in sales of 84% achieved over the last two years, the business would enter a consolidation phase. Revenue for the year was marginally down by 2,3% to R451,2 million. The exceptional growth achieved previously resulted in Verimark literally outgrowing its infrastructure, which brought about huge pressure on the business and new management team. The challenges to upgrade our infrastructure distracted from the focus required to grow sales and contain costs.

To date good progress has been made in upgrading the infrastructure for the next growth phase. We are moving into a new custom-built, double size warehouse/head office later this year. New product introductions resulted in sales starting to increase toward the end of the year. This trend continued into the current year.

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slight decrease in sales in the year under review had the opposite effect. Challenges around upgrading the business infrastructure referred to in the previous CEO Report continued during the year under review, resulting in the anticipated cost savings being somewhat delayed. A weakening Rand in the second half of last year further negatively impacted on the gross profit margin. These challenges are discussed in more depth in the Operational Review.

EXPENSES

Despite the delays, good progress has nevertheless been made towards improving the infrastructure. Since end 2010, Verimark has been operating from two separately located warehouses. Our new custom-built warehouse/head office, which is double the size of the old one, will be completed in October this year. This will not only provide Verimark with sufficient warehouse space for its immediate and future needs, but should also give rise to major efficiencies and cost savings.

Whilst net finance expenses of R7,1 million were R1,3 million lower than in the 2011 financial year, the volatility in the Rand exchange rate in the latter half of the year has resulted in more pronounced swings in the foreign exchange gains and losses being recorded in 2012.

OPERATIONAL REVIEW

The Verimark business model is substantially different from that of typical retailers, especially relating to product selection, promotion and advertising, as well as how and where we distribute our product range.

PRODUCTS, PROMOTION AND ADVERTISING

The time and effort invested in upgrading our infrastructure unfortunately impacted on the rate of new product introductions. This trend, however, started reversing towards the end of the year, when a number of new products were launched; unfortunately too late to effectively counter the lag of the full financial year.

Our ability to maintain turnover, notwithstanding the slower new product introductions in the early part of the year, does credit to our established/older product range, which, for the most part, are brand leaders in their respective product categories.

Advertising costs were aligned with sales which resulted in a slight reduction in costs. Notwithstanding this decrease, Verimark was still rated by Nielsen in early 2012 as by far the largest TV advertiser in our industry, and also the 7th largest in South Africa.

Although the significant investment made in TV playback units (used for in-store advertising) over the previous two years did increase our costs, we are comfortable that the future benefits to be derived far outstrip the depreciation charges incurred.

The information at our disposal confirms that even though no sales growth was achieved in the year under review, Verimark maintained its dominant market leadership position and market share of at least 50%, in the direct response retailing market.

CHIEF EXECUTIVE OFFICER'S REPORT

Some of the products introduced during the year were:

- Cami Secret: Quick and easy clip on camisole
- Floorwiz Ecofibre Mop: Microfibre mop in four fashion colours
- Genie Bra: Conform fitting bra offering support, lift and style
- Microwiz: Multipurpose microfibre cleaning cloths
- Shark Steam Pocket Mop: Steam cleaner that sanitises while you clean
- Shogun Whizz: Whisk with unique push and whip action
- I-Play Stunt Racer: Radio controlled stunt car

DISTRIBUTION AND SALE OF PRODUCTS

In addition to pioneering Direct Response Television (DRTV) advertising in Africa more than two decades ago, Verimark also pioneered the distribution of DRTV products through retail. To maximise our substantial investment in product sourcing and development, as well as the brand awareness and demand created through exceptionally high levels of advertising, 78 Verimark branded stores (company and franchised) have been opened across Southern Africa over the last decade.

Although sales during the greater part of the year were flat, our retail partners maintained our space and prominence, given Verimark's trading record over three decades and the brand's growth potential. Their strategy has been validated by the positive growth in sales recorded by most of our retail partners towards the end of the year.

BUSINESS ENVIRONMENT

During the period under review, the trading results of businesses that service and supply the consumer in Southern Africa generally did not meet expectations. Although most economists believed the average consumer would be in better financial shape than in the previous year, this optimism was not confirmed by increased spend on consumer goods.

Although Verimark's financial performance over the last year was to some extent impacted by the current economic situation, this was not the main contributory factor. ▼▼

Given Verimark's unique business model, our business/financial performance has been (and will always be) impacted far more by our ability to innovate and be creative than by macroeconomic trends.

PROSPECTS

The sales trends experienced towards the end of the previous financial year have continued into the current year. This, coupled with the new product introductions since the year end, has facilitated positive growth in the first two months of the current financial year. The anticipated improvement in sales and the realisation of enhanced operational efficiencies and cost controls augur well for sustainable earnings growth.

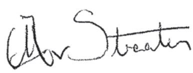
ACKNOWLEDGEMENTS

The exceptional growth recorded in the previous two years put our business infrastructure under severe pressure, resulting in our failure to achieve the targets we had set for ourselves. The new management team's abilities were stretched to the utmost in the past year and their response sometimes failed to meet expectations. However, we have gained valuable business insights from the experience.

Although our growth targets remained temporarily beyond our reach, each member of the Verimark team tried their hardest and gave their best, for which my sincere thanks.

In addition to my Verimark colleagues, I would also like to thank our non-executive directors, our retail partners and suppliers for their support over the last year.

Most importantly, a special thanks to our customers who invest in our products to help enhance their lives and lifestyles.



MJ van Straaten
Chief Executive Officer

28 May 2012

THE VERIMARK BUSINESS MODEL

PRODUCTS

- Sourced from across the globe
- Selection criteria: unique, superior quality, demonstrability, widest possible demographic demand
- Add new products every year
- Test for consumer response before roll-out
- Build into brand leaders over long term

PROMOTION AND ADVERTISING

- Conceptualise and produce DRTV commercials
- Test consumer response
- Roll-out successfully tested products
- High frequency flighting of TV commercials
- Print, in-store TV playback units and demonstrations

DISTRIBUTION OF PRODUCTS

- Store within a store in retailers
- Verimark stores
- Shows and promotions
- International

Business model maximise product sales volumes and return on investment

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 29 February

	GROUP	
	2012 R'000	2011 R'000
Revenue	**451 150**	461 654
Cost of sales	**(262 325)**	(261 567)
Gross profit	**188 825**	200 087
Other income	**1 700**	1 312
Selling expenses	**(47 413)**	(49 655)
Other operating expenses	**(94 129)**	(94 006)
Operating profit before finance income and finance expense	**48 983**	57 738
Finance income	**8 140**	2 966
Finance expense	**(15 251)**	(11 387)
Profit before taxation	**41 872**	49 317
Income taxation	**(15 064)**	(15 834)
Profit for the year	**26 808**	33 483
Other comprehensive income	**–**	–
Total comprehensive income attributable to owners of the Company	**26 808**	33 483
Basic earnings per share (cents)	**25,8**	31,5
Diluted earnings per share (cents)	**25,3**	31,3

DETERMINATION OF ATTRIBUTABLE EARNINGS AND HEADLINE EARNINGS

for the year ended 29 February

	GROUP			
	2012		2011	
	Gross R'000	**Net R'000**	Gross R'000	Net R'000
Attributable profit to owners	**–**	**26 808**	–	33 483
Loss/(profit) on sale of assets	**42**	**30**	(29)	(22)
Headline earnings		**26 838**		33 461

Weighted average shares reconciliation	**2012 Number of shares**	2011 Number of shares
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	**(6 380 870)**	(4 064 304)
Weighted average shares	**103 891 458**	106 208 024
Share options dilution	**1 924 393**	611 983
Diluted weighted average shares	**105 815 851**	106 820 007
Basic earnings per share (cents)	**25,8**	31,5
Headline earnings per share (cents)	**25,8**	31,5
Diluted basic earnings per share (cents)	**25,3**	31,3
Diluted headline earnings per share (cents)	**25,4**	31,3

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 29 February

	GROUP	
	2012	2011
	R'000	R'000
ASSETS		
Non-current assets	**31 256**	31 185
Plant and equipment	**14 298**	14 200
Intangible assets	**14 663**	14 342
Deferred taxation asset	**2 295**	2 643
Current assets	**124 186**	139 988
Inventories	**62 640**	60 274
Trade and other receivables	**49 188**	62 543
Prepayments	**211**	268
Loans receivable	**–**	234
Bank and cash balances	**12 147**	16 669
Total assets	**155 442**	171 173
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company	**92 246**	80 626
Share capital	**346**	346
Share premium	**21 378**	21 378
Share-based payment reserve	**788**	393
Retained earnings	**69 734**	58 509
Non-current liabilities	**5 645**	7 905
Interest-bearing liabilities	**5 645**	7 905
Current liabilities	**57 551**	82 642
Preference share liability	**15 857**	15 371
Trade and other payables	**31 024**	61 100
Short-term portion of interest-bearing liabilities	**3 689**	3 783
Taxation payable	**2 651**	2 388
Bank overdraft	**4 330**	–
Total equity and liabilities	**155 442**	171 173

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 29 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 2010	356	25 104	–	31 439	56 899
Total comprehensive income for the year					
Profit for the year	–	–	–	33 483	33 483
Transactions with owners recorded in equity					
Treasury shares held by Verimark Proprietary Limited	(10)	(3 726)	–	–	(3 736)
IFRS 2 share-based payment transaction	–	–	393	–	393
Contributions by and distributions to owners of the Company					
Dividend paid to equity holders of the Company	–	–	–	(6 413)	(6 413)
Balance at 28 February 2011	**346**	**21 378**	**393**	**58 509**	**80 626**
Total comprehensive income for the year					
Profit for the year	**–**	**–**	**–**	**26 808**	**26 808**
Transactions with owners recorded in equity					
IFRS 2 share-based payment transaction	**–**	**–**	**395**	**–**	**395**
Contributions by and distributions to owners of the Company					
Dividend paid to equity holders of the Company	**–**	**–**	**–**	**(15 583)**	**(15 583)**
Balance at 29 February 2012	**346**	**21 378**	**788**	**69 734**	**92 246**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 29 February

	GROUP	
	2012 **R'000**	2011 R'000
Cash flows from operating activities		
Cash generated by operations	**37 242**	49 515
Finance income	**8 140**	2 966
Finance expense	**(13 585)**	(9 970)
Income taxation paid	**(14 453)**	(21 267)
Dividend paid	**(15 583)**	(6 455)
Net cash inflows from operating activities	**1 761**	14 789
Cash outflows from investing activities	**(7 870)**	(11 420)
Acquisitions of plant and equipment to expand operations	**(7 596)**	(11 552)
Acquisitions of intangible assets to maintain operations	**(603)**	(233)
Proceeds from disposal of plant and equipment and intangible assets	**329**	365
Cash outflows from financing activities	**(2 743)**	(440)
Loans receivable collected	**232**	232
Interest-bearing liabilities repaid	**(3 934)**	(2 590)
Interest-bearing liabilities raised	**1 559**	5 894
Repurchase of own shares	**–**	(3 736)
Preference share liability repaid	**(600)**	(240)
Net (decrease)/increase in cash and cash equivalents	**(8 852)**	2 929
Cash and cash equivalents at beginning of year	**16 669**	13 740
Cash and cash equivalents at end of year	**7 817**	16 669

FINANCIAL OVERVIEW

Both headline earnings per share (HEPS) and basic earnings per share (EPS) for the year ended 29 February 2012 were 25,8 cents, compared to 31,5 cents for the previous comparable period.

Revenue for the year decreased by 2,3% to R451,2 million while gross profit decreased by 5,6% to R188,8 million. Taking into account the operational gearing of the business, even a marginal decrease or increase in sales will have a far bigger impact on profitability. As the Group benefited exponentially from this in the past when high sales growth was achieved, the slight decrease in sales in the current year was the main reason for the decrease in profits. The weakening of the Rand in the second half of the year also negatively impacted on our gross profit margin. Selling expenses declined by 4,5% primarily due to lower sales, in-store advertising and related selling costs. Other operating expenses only increased slightly by 0,1% in the effort to contain costs.

Investment of R7,6 million was made in plant and equipment to support sales and the operations of the Company and its subsidiary ("the Group"). Improvements in the customer collection process resulted in a lower trade receivables, however the cash effect of this improvement was offset by higher creditor payments at year end. Due to the operational challenges mentioned earlier, the efficiencies in inventory management were not fully realised by year end.

Bank and cash balances decreased by R8,85 million (53,1%) mainly as a result of the reduction of R8,0 million in the cash operating profits (before working capital movements).

The reduction in long-term liabilities was mainly due to the lower investment in capital expenditure in 2012.

FINAL DIVIDEND

In line with the dividend policy of 50% of profit attributable to owners of the Company, the Board of Directors ("the Board") announced, on 30 March 2012, a final dividend, based on the preliminary unaudited results for the financial year ended 29 February 2012, of R15,4 million or 13,5 cents per share (2011: R17,1 million or 15,0 cents per share). For more details refer to the SENS announcement dated 30 March 2012.

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

The sales trends experienced towards the end of the previous financial year have continued into the current year. This, and the new product introductions since the year end, have allowed for positive growth to be recorded in the first two months of the current financial year. The anticipated improvement in sales and the realisation of better operational efficiencies and cost controls augur well for sustainable earnings growth.

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

EVENTS AFTER THE REPORTING PERIOD

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

REPORTING ENTITY

Verimark Holdings Limited is a company domiciled in South Africa. The summarised audited group financial information as at and for the year ended 29 February 2012 comprises the results of Verimark Holdings Limited and its subsidiaries.

BASIS OF PREPARATION

The summarised audited group financial information for the year ended 29 February 2012 has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards and presented in accordance with the minimum content, including disclosures, prescribed by IAS 34 Interim Financial Reporting applied to year end reporting, and South African Statements and Interpretations of Statements of Generally Accepted Accounting Practice (AC 500 Series) and the requirements of the JSE Limited and Companies Act of South Africa.

The accounting policies applied in the presentation of the summarised audited group financial information are consistent with those applied in the prior year, except for any new standards and interpretations that became effective. The adoption of these standards has had no material effect on the results for the period nor has it required the restatement of any prior year amounts. The summarised audited group financial information has been presented on the historical cost basis and is presented in Rand thousands which is Verimark's functional and presentation currency.

The summarised audited Group financial information for the year ended 29 February 2012 has been prepared by SR Beecroft CA(SA), Financial Director.

RELATED PARTY TRANSACTIONS

There have been no significant changes in related party relationships and/or transactions since the prior year, other than in the normal course of business.

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 unmodified and is available for inspection at the Group's registered office. KPMG Inc. has issued an unmodified extraction opinion on this summarised audited group financial information and this opinion 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
28 May 2012

VERIMARK HOLDINGS LIMITED

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

DIRECTORS

MJ van Straaten (Chief Executive Officer)
SR Beecroft (Financial Director)
Dr JT Motlatsi*
JM Pieterse*

**Independent Non-Executive*

COMPANY SECRETARY

SJ Preller

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TRANSFER SECRETARIES

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Proprietary Limited

AUDITORS

KPMG Inc.

SPONSOR

Grindrod Bank Limited

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