

Verimark Holdings Limited
(Incorporated in the Republic of South Africa)
Registration Number: 1998/006957/06
Share Code: VMK
ISIN: ZAE000068011
("Verimark" or "the Group")

UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2017

HIGHLIGHTS

- Revenue from continuing operations increased by 13.7% to R209.7 million (2016: R184.4 million)
- Gross Profit increased by 10.6% to R88.6 million (2016: R80.2 million)

The first six months trading has been tough for most consumer related businesses tough economic conditions and heightened political instability, both of which resulted in lower consumer confidence and spend.

Notwithstanding the worsening of the South African economy, Verimark has achieved positive revenue growth. Profits are down in comparison to the prior year's six months trading due to an increase in new products introduced which resulted in higher advertising spend. The financial benefits of this increase in new product introductions will be seen in the months ahead.

OVERVIEW

The Group's total revenue increased by 13.7% to R209.7 million (2016: R184.4 million). The increase is mainly attributable to the following;

- Price decreases in March 2017 compared to the price increases in the prior year;
- Increase in advertising spend, due to the increased number of new products introduced; and
- Additional stores made available by retail partners, given the sales potential.

Gross profit increased by 10.6% to R88.6 million (2016:R80.2 million). This is lower than the 13.7% increase in revenue, as a result of price decreases and lower gross margins as well as increased advertising costs. The increased advertising cost's is a result of the increased number of new products introductions, which were 85.7% higher than comparative period.

Operating costs increased by 12.1% to R87.7 million (2016: R78.2 million).This increase is directly correlated to the increase in revenue. Cost containment remains crucial, however as in the past, certain upfront costs are necessary to ensure future growth.

Profit before taxation decreased to R2.2 million (2016: R3.9 million). Net finance charges increased by R0.98 million, which is due to changes in working capital, as cash has been utilised to ensure sufficient inventory levels for the expected sales increases over the festive season as well as increased inventory levels of the new products introduced during the period under review.

REPORTING ENTITY

Verimark is a company incorporated in the Republic of South Africa ("South Africa"). The unaudited condensed consolidated financial result comprises the unaudited consolidated results of Verimark and its subsidiaries for the six months ended 31 August 2017 ("interim financial results").

INTERIM DIVIDEND

No dividends were declared for the six months ended 31 August 2017.

Dividend payments will be reconsidered in accordance with the existing pay-out policy on completion of the current financial year.

BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements

as issued by Financial Reporting Standards Council, and the JSE listing requirements as well as the requirements of Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

These condensed consolidated interim financial results has been presented on the historical cost basis, except for financial instruments carried at fair value, and are presented in Rand thousands which is Verimark's functional and presentation currency.

The interim results as reported herein have been prepared by Verimark's Financial Director, Bryan Groome CA (SA).

SEGMENTAL ANALYSIS

During 2013, the Group expanded to Singapore where a new company was started. In terms of IFRS 8 Operating Segments the operations of the Group are split between South Africa and Foreign. Operations in Singapore have been discontinued and are reflected as discontinued operations for the six months ended 31 August 2017 as well as for the corresponding comparative period.

CHANGES TO THE BOARD

No changes to the Board occurred during the six months ended 31 August 2017.

SUBSEQUENT EVENTS

No events material to the understanding of this report have occurred in the period between the reporting date and the date of this report.

STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The only standard as at 31 August 2017, which is in issue but not yet effective and expected to have any impact on Verimark, is IFRS 16 which is effective 1 January 2019. Once the new standard becomes effective, property and other leases currently treated as operating leases will have to be capitalised and reflected as lease assets and lease liabilities on the statement of financial position. The company had operating lease commitments of R84,4 million outstanding at 31 August 2017 in respect of current property leases.

PROSPECTS

With the recent downgrade to "Junk Status" business confidence in South Africa continues to decline, resulting in lower consumer spend, which, is affecting all consumer related retailers. This trend is expected to continue, resulting in tougher retail trading environment for the remainder of the 2017 year.

Even though the trading environment will remain difficult, Verimark is confident that the increase in number of new products tested and introduced will have a positive effect on growth moving forward. As in the past, Verimark will continue to bring the best in innovation through new product introductions. As with all importers Verimark's growth and profitability continues to be dependent on the rand dollar exchange rate. To reduce the impact of currency risk, Verimark will continue to grow its international division which was re- activated a year ago.

Verimark has increased its inventory levels and its product mix to ensure maximum revenue growth over the festive season. In the past six months, necessary costs were incurred through higher inventory levels, increased advertising costs, store setup costs, which has positioned the company well to deliver an improved second half year performance.

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | | | |
|---|--|--|---|
| | Unaudited six months ended 31 August 2017 | Unaudited six months ended 31 August 2016 | Audited year ended 28 February 2017 |
| | R'000 | R'000 | R'000 |
| Continuing operations | | | |
| Revenue | 209 702 | 184 425 | 439 119 |
| Gross profit | 88 648 | 80 172 | 196 320 |
| Operating profit before net finance expense | 2 787 | 3 511 | 35 832 |
| Finance income | 805 | 2 107 | 3 637 |
| Finance expense | (1 396) | (1 722) | (2 153) |
| Profit before taxation | 2 196 | 3 896 | 37 316 |
| Income tax expense | (1 092) | (1 392) | (11 004) |
| Profit for the period | 1 104 | 2 504 | 26 312 |
| Discontinued operations | | | |
| Loss for the period from discontinued operations (after tax) | 0 | (155) | (487) |
| Profit for the period | 1 104 | 2 349 | 25 825 |
| Other comprehensive income Items that are or may be reclassified subsequently to profit or loss | | | |
| Foreign currency translation reserve movement | 0 | (8) | 324 |
| Total comprehensive income for the period attributable to owners of the Company | 1 104 | 2 341 | 26 149 |
| Basic and diluted earnings per share | 1.0 | 2.2 | 24.0 |
| Earnings and diluted earnings per share (EPS) – continuing operations | 1.0 | 2.3 | 24.4 |
| Loss and diluted loss per share (EPS) – discontinued operations | 0 | (0.1) | (0.5) |

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|
| | Unaudited as at 31 August 2017 | Unaudited as at 31 August 2016 | Audited as at 28 February 2017 |
| | R'000 | R'000 | R'000 |
| Assets | | | |
| Plant and equipment | 7 345 | 7 585 | 7 195 |
| Intangible assets | 14 620 | 14 252 | 14 157 |
| Deferred taxation asset | 4 097 | 3 778 | 4 392 |
| Non-current assets | 26 062 | 25 615 | 25 744 |
| Inventories | 99 363 | 66 292 | 83 623 |
| Trade and other receivables | 72 417 | 73 957 | 46 356 |
| Prepayments | 1 358 | 771 | 989 |
| Prepaid taxation | 2 648 | 2 531 | 790 |
| Cash and cash equivalents | 634 | 11 838 | 34 072 |
| Current assets | 176 420 | 155 389 | 165 830 |
| Total assets | 202 482 | 181 004 | 191 574 |
| Equity and liabilities | | | |
| Share capital | 357 | 360 | 357 |
| Share premium | 31 809 | 32 269 | 31 810 |
| Foreign currency translation deficit | 0 | (332) | 0 |
| Retained earnings | 107 193 | 94 694 | 118 170 |
| Equity attributable to the equity holders of the parent | 139 359 | 126 991 | 150 337 |
| Interest-bearing borrowings | 3 206 | 3 181 | 3 774 |
| Non-current liabilities | 3 206 | 3 181 | 3 774 |
| Trade and other payables | 42 218 | 40 780 | 35 409 |
| Current portion of interest-bearing borrowings | 1 102 | 516 | 1 039 |
| Bank overdraft | 16 597 | 9 536 | 1 015 |
| Taxation payable | 0 | 0 | 0 |
| Current liabilities | 59 917 | 50 832 | 37 463 |
| Total liabilities | 63 123 | 54 013 | 41 237 |
| Total equity and liabilities | 202 482 | 181 004 | 191 574 |

| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | | | | | |
|---|---------------|---------------|--------------------------------------|-------------------|----------------|
| | Share Capital | Share Premium | Foreign currency translation deficit | Retained earnings | Total |
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Balance at 29 February 2016 | 360 | 32 269 | (323) | 96 340 | 128 646 |
| Comprehensive Income | | | | | |
| Profit from continuing operations | | | | 26 313 | 26 313 |
| Loss from discontinued operations | | | | (487) | (487) |
| Other comprehensive income | | | 323 | | 323 |
| Distributions to shareholders | | | | | |
| Repurchase of shares | (3) | (459) | | | (462) |
| Dividends paid | | | | (3 996) | (3 996) |
| Balance at 28 February 2017 | 357 | 31 810 | 0 | 118 170 | 150 337 |
| Profit from continuing operations | | | | 1 104 | 1 104 |
| Distributions to shareholders | | | | | |
| Dividends paid | | | | (12 082) | (12 082) |
| Balance at 31 August 2017 | 357 | 31 810 | 0 | 107 192 | 139 359 |

| CONSOLIDATED STATEMENT OF CASH FLOWS | | | |
|--|--|--|---|
| | Unaudited six months ended 31 August 2017 | Unaudited six months ended 31 August 2016 | Audited twelve months ended 28 February 2017 |
| | R'000 | R'000 | R'000 |
| Net cash (outflows)/ inflows from operating activities | (45 627) | (1 729) | 30 132 |
| Cash generated from operations(1) | (30 300) | 8 128 | 47 375 |
| Dividends paid | (12 082) | (3 996) | (3 996) |
| Finance income received | 805 | 2 107 | 3 637 |
| Finance costs paid | (1 396) | (1 722) | (2 153) |
| Taxation paid | (2 654) | (6 246) | (14 731) |
| | | | |
| Cash outflows from investing activities | (2 887) | (1 460) | (3 220) |
| Acquisition of plant and equipment | (2 904) | (1 453) | (3 242) |
| Acquisition of intangible assets | (14) | (24) | (24) |
| Movement in assets held for Sale | 0 | 0 | 23 |
| Proceeds from disposal of plant and equipment | 31 | 17 | 23 |
| | | | |
| Cash outflows from financing activities | (506) | (372) | 282 |
| Interest-bearing borrowings repaid | (506) | (372) | 744 |
| Repurchase of own shares | 0 | 0 | (462) |
| Net (decrease)/increase in cash and cash equivalents | (49 020) | (3 561) | 27 194 |
| Cash and cash equivalents at beginning of period | 33 057 | 5 722 | 5 722 |
| Cash and cash equivalents held for sale at beginning of the period | 0 | 141 | 141 |
| Cash and cash equivalents held for sale | 0 | 0 | 0 |
| Cash and cash equivalents at end of period | (15 963) | 2 302 | 33 057 |
| | | | |
| (1) Cash generated from operations | | | |
| Profit before taxation | 2 196 | 3 741 | 37 316 |
| Loss before taxation from discontinued operations | 0 | 0 | (487) |
| Adjusted for : | | | |
| depreciation on plant and equipment | 2 122 | 2 156 | 4 278 |
| amortisation on computer software | 174 | 107 | 202 |
| (profit)/loss on disposal of plant and equipment | (23) | (10) | 41 |
| finance income | (805) | (2 107) | (3 637) |
| finance costs | 1 396 | 1 722 | 2 153 |
| Increase/(decrease) in inventory impairment | 331 | (195) | (1 159) |
| Increase/(decrease) in straight-lining accrual | 564 | (852) | 1 564 |
| foreign currency translation movement | 0 | (8) | 323 |
| Operating profit before changes in working capital | 5 955 | 4 554 | 40 594 |
| | | | |
| Increase in inventories | (16 071) | (515) | (16 882) |
| (Increase)/decrease in trade and other receivables | (26 061) | (11 986) | 15 615 |
| Increase in prepayments | (369) | (285) | (526) |
| Increase in accounts payable and accruals | 6 246 | 16 360 | 8 574 |
| | (30 300) | 8 128 | 47 375 |

| SEGMENTAL INFORMATION FOR 31 AUGUST 2017 | | | | |
|--|--------------|---------|-------------------|---------|
| | South Africa | Foreign | Group Elimination | Total |
| | R'000 | R'000 | R'000 | R'000 |
| Revenue | 209 702 | 0 | 0 | 209 702 |
| Profit before tax | 2 196 | 0 | 0 | 2 196 |
| Profit after tax | 1 104 | 0 | 0 | 1 104 |
| Segment assets | 202 482 | 0 | 0 | 202 482 |
| Segment liabilities | 63 123 | 0 | 0 | 63 123 |

| SEGMENTAL INFORMATION FOR 31 AUGUST 2016 | | | | |
|--|--------------|---------|-------------------|---------|
| | South Africa | Foreign | Group Elimination | Total |
| | R'000 | R'000 | R'000 | R'000 |
| Revenue | 184 425 | 0 | 0 | 184 425 |
| Profit before tax | 3 896 | (155) | 0 | 3 741 |
| Profit after tax | 2 504 | (155) | 0 | 2 349 |
| Segment assets | 178 471 | 0 | 0 | 178 471 |
| Segment liabilities | 48 299 | 0 | 0 | 48 299 |

| DETERMINATION OF ATTRIBUTABLE EARNINGS AND HEADLINE EARNINGS | | | |
|--|--|--|---|
| | Unaudited six months ended 31 August 2017 | Unaudited six months ended 31 August 2016 | Audited twelve months ended 28 February 2017 |
| | R'000 | R'000 | R'000 |
| Attributable profit (after tax) | 1 104 | 2 349 | 25 825 |
| (Profit)/loss on sale of plant and equipment | (23) | (9) | 41 |
| Tax on profit/(loss) on sale of plant and equipment | 6 | 2 | (11) |
| Headline earnings | 1 088 | 2 342 | 25 855 |
| Shares in issue | 114 272 328 | 114 272 328 | 114 272 328 |
| Shares held by subsidiary | (7 351 959) | (6 380 870) | (6 489 958) |
| Number of shares at period end | 106 920 369 | 107 891 458 | 107 782 370 |
| Basic earnings and diluted earnings per share | 1.0 | 2.2 | 24.0 |
| Headline and diluted headline earnings per share | 1.0 | 2.2 | 24.0 |
| Net asset value per share* | 130.3 | 117.7 | 139,4 |
| Net tangible asset value per share** | 116.7 | 104.5 | 126,3 |

*Net asset value per share

Shareholders' equity divided by the weighted average number of shares in issue at the end of the year. Shareholders' equity is the equity attributable to equity holders of the parent (which is basically total assets less total liabilities).

**Net tangible asset value per share

The net asset value of the tangible assets, divided by the weighted average number of shares in issue at the end of the year.

On behalf of the Board
Michael van Straaten
Chief Executive Officer
Johannesburg
12 October 2017

Directors:

M M Patel (Chairman)*, J M Pieterse*, AT Nzimande *, M J van Straaten (CEO), B M Groome,
*Independent Non-executive

Company Secretary:

Premium Corporate Consulting Services (Pty) Ltd

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Auditors:

KPMG Incorporated

Sponsor:

Grindrod Bank Limited

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Grindrod Bank Limited