

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

“ The first half’s trading conditions remained challenging as consumer confidence weakened further due to higher interest rates, negligible economic growth and trading disruptions due to erratic power supply that resulted from load shedding. The continued devaluation of the Rand against the US Dollar again made it necessary to adjust selling prices. Sales volumes, revenue and profitability have been affected but, pleasingly, the efforts introduced over the last year to enhance sales are beginning to take effect with the value of products sold to consumers, through the till, at retail level increasing by nearly 6%. The Group, however, experienced different levels of sales growth of the various retail chains, with the majority of outlets showing good growth, whilst one other reported a slowdown. This resulted in the Group’s total sales increasing by only 0,5%. As with all other South African importers, Verimark continues to experience the harsh and difficult effects of the significant devaluation of the South African Rand against the US Dollar. The Rand devalued by 12,3% over the last six month period; and since March 2011 to the date of this report, it has lost half of its value against the Dollar, moving from R6,87/USD (March 2011) to around R13,90/USD at the end of September 2015. Despite the demanding external factors, the Group remains focused on improving those internal factors over which it has some control, including the increased rate of new product introductions, the implementation of a stringent cost containment process and improving operating efficiencies. Although the foreign exchange exposure has been managed carefully over the last eighteen months, the recent acceleration of the currency’s weaknesses resulted in a higher than expected net foreign exchange loss of R1,5 million, compared to a R212 000 net foreign exchange profit reported in the same period last year. ”

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 August 2015 R'000	Unaudited six months ended 31 August 2014 R'000	Audited 12 months ended 28 February 2015 R'000
Continuing operations			
Revenue	183 514	182 640	415 374
Operating (loss)/profit before net finance expense and taxation	(2 976)	(4 047)	18 108
Finance income	616	1 063	2 376
Foreign exchange gains realised	515	1 054	2 365
Interest income from financial assets	101	9	11
Finance expense	(2 472)	(1 288)	(3 480)
Foreign exchange losses realised	(2 055)	(842)	(1 935)
Interest expense from financial liabilities	(417)	(446)	(1 545)
(Loss)/profit before taxation	(4 832)	(4 272)	17 004
Tax credi/(expense)	1 190	899	(5 010)
(Loss)/profit for the period	(3 642)	(3 373)	11 994
Discontinued operations			
Loss for the period from discontinued operations (after tax)	(367)	(602)	(736)
(Loss)/profit for the period	(4 009)	(3 975)	11 258
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation reserve movement	(245)	51	1
Total comprehensive income for the period attributable to owners of the Company	(4 254)	(3 924)	11 259
(Loss)/earnings per share (EPS) – continuing operations	(3,4)	(3,1)	11,1
(Loss)/earnings per share (EPS) – discontinued operations	(0,3)	(0,6)	(0,7)
Headline (loss)/earnings per share (HEPS)	(3,6)	(3,7)	10,4
Headline (loss)/earnings per share (EPS) – continuing operations	(3,3)	(3,1)	11,1
Headline (loss)/earnings per share (EPS) – discontinued operations	(0,3)	(0,6)	(0,7)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited as at 31 August 2015 R'000	Unaudited as at 31 August 2014 R'000	Audited as at 28 February 2015 R'000
ASSETS			
Non-current assets	30 576	30 850	30 848
Plant and equipment	9 836	11 517	11 264
Intangible assets	14 589	14 798	14 623
Deferred taxation asset	6 151	4 535	4 961
Current assets	134 646	150 514	147 674
Inventories	70 380	78 552	79 531
Trade and other receivables	61 678	67 744	64 073
Prepayments	662	618	496
Prepaid taxation	498	672	498
Assets held for sale	1 037	2 555	2 632
Cash and cash equivalents	391	373	444
Total assets	165 222	181 364	178 522
EQUITY AND LIABILITIES			
Equity attributable to the equity holders of the parent	116 085	111 222	125 968
Share capital	360	360	360
Share premium	32 269	32 269	32 269
Foreign currency translation deficit	(412)	(117)	(167)
Share-based payment reserve	–	436	–
Retained earnings	83 868	78 274	93 506
Non-current liabilities	3 686	4 210	4 085
Interest-bearing borrowings	3 686	4 210	4 085
Current liabilities	45 451	65 932	48 469
Trade and other payables	35 458	35 983	33 327
Liabilities directly associated with assets held for sale	83	285	301
Current portion of interest-bearing borrowings	966	1 706	1 422
Bank overdraft	8 810	27 934	13 285
Taxation payable	134	24	134
Total liabilities	49 137	70 142	52 554
Total equity and liabilities	165 222	181 364	178 522

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital R'000	Share premium R'000	Foreign currency trans- lation reserve/( deficit) R'000	Share based payment reserve R'000	Retained earnings R'000	Total R'000
Balance at 1 March 2013	346	21 378	13	1 124	64 587	87 448
Comprehensive Income						
Profit from continuing operations					18 627	18 627
Loss from discontinued operations					(966)	(966)
Other comprehensive income			(181)			(181)
Transactions with owners recorded in equity						
IFRS 2 share-based payment transaction				(656)		(656)
Treasury shares transferred on settlement of preference share liability	14	10 891				10 905
Balance at 28 February 2014	360	32 269	(168)	468	82 248	115 177
Comprehensive Income						
Profit from continuing operations					11 994	11 994
Loss from discontinued operations					(736)	(736)
Other comprehensive income			1			1
Transactions with owners recorded in equity						
IFRS 2 share-based payment reversal				(468)		(468)
Balance at 28 February 2015	360	32 269	(167)	–	93 506	125 968
Comprehensive Income						
Loss from continuing operations					(3 642)	(3 642)
Loss from discontinued operations					(367)	(367)
Other comprehensive income			(245)			(245)
Distributions to shareholders						
Dividends paid					(5 629)	(5 629)
Balance at 31 August 2015	360	32 269	(412)	–	83 868	116 085

- Revenue up 0,5% to R183,5 million (2014: R182,6 million)
- Operating loss reduced by 26,5% to R2,98 million (2014: Loss R4,1 million)
- Headline loss per share at (3,6) cents (2014: (3,7) cents)
- Cash position improved by R4,4 million from 28 February 2015 and by R17,9 million from 31 August 2014
- Sales revenue through retail outlets (through the till) showing improvement
- Reduction in operating loss following efficiency gains as well as a reduction in expenses

SEGMENTAL INFORMATION

	South Africa R'000	Foreign R'000	Group elimi- nation R'000	Total R'000
Revenue	183 092	422	–	183 514
Loss before tax	(4 832)	(367)	–	(5 199)
Loss after tax	(3 642)	(367)	–	(4 009)
Segment assets	164 185	1 037	–	165 222
Segment liabilities	(49 220)	(3 271)	3 188	(49 137)

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 August 2015 R'000	Unaudited six months ended 31 August 2014 R'000	Audited 12 months ended 28 February 2015 R'000
Net cash inflows/(outflows) from operating activities	7 279	(16 887)	486
Cash generated from/ utilised by) operations	14 764	(15 622)	8 679
Dividends paid	(5 629)	–	–
Finance income received	616	1 064	2 378
Finance costs paid	(2 472)	(1 290)	(3 480)
Taxation paid	–	(1 039)	(7 091)
Cash outflows from investing activities	(1 653)	(1 403)	(3 791)
Acquisition of plant and equipment	(1 622)	(1 284)	(3 690)
Acquisition of intangible assets	(37)	(181)	(181)
Proceeds from disposal of plant and equipment	6	62	80
Cash outflows from financing activities	(855)	(1 016)	(1 425)
Interest-bearing borrowings repaid	(855)	(1 016)	(1 425)
Net increase/(decrease) in cash and cash equivalents	4 771	(19 306)	(4 730)
Cash and cash equivalents at beginning of period	(12 841)	(7 030)	(7 030)
Cash and cash equivalents held for sale	(349)	–	(1 081)
Cash and cash equivalents at end of period	(8 419)	(26 336)	(12 841)

DETERMINATION OF ATTRIBUTABLE (LOSS)/EARNINGS AND HEADLINE (LOSS)/EARNINGS

	Unaudited six months ended 31 August 2015 R'000	Unaudited six months ended 31 August 2014 R'000	Audited 12 months ended 28 February 2015 R'000
Attributable (loss)/profit (after tax)	(4 009)	(3 975)	11 258
Loss/(profit) on sale of plant and equipment	138	2	(14)
Tax on (loss)/profit on sale of plant and equipment	(38)	(1)	4
Headline (loss)/earnings	(3 909)	(3 974)	11 248
Shares in issue	114 272 328	114 272 328	114 272 328
Shares held by subsidiary	(6 380 870)	(6 380 870)	(6 380 870)
Number of shares at period end	107 891 458	107 891 458	107 891 458
Basic (loss)/earnings per share	(3,7)	(3,7)	10,4
Headline (loss)/earnings per share	(3,6)	(3,7)	10,4
Net asset value per share	107,6	103,1	116,8
Net tangible asset value per share	94,1	89,4	103,2

**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.

OVERVIEW

The Group's total revenue increased 0,5% to R183,5 million (2014: R182,6 million). Despite the average cost of product increasing over the period, Verimark has again elected not to increase selling prices to the same extent, given the impact that it would have had on sales volumes.

Containing costs has proved challenging, but success has been achieved with selling and operating expenses reducing by 0,8% which is commendable in the current, demanding, operating environment.

It was mentioned during the release of the annual results for the year ended 28 February 2015 that the inventory levels, at year end, were increased to ensure sufficient cover for the closure of factories during the Chinese New Year holidays. As expected, the inventory held within the Group has returned to normal operating levels. Cash generated by the operating activities amounted to R7,3 million (2014: R16,9 million cash utilised by operating activities).

The operating loss for the six months ended 31 August 2015 reduced significantly by 26,5% to R2,98 million from the R4,1 million reported in the same period last year.

The Group's headline loss per share reduced marginally to 3.6 cents from 3.7 cents as reported in the same period last year.

In addition to cost improvement initiatives, Verimark continues to drive improvements in working capital management in order to strengthen its overall cash position. These efforts ensured that the cash position improved by R4,4 million since 28 February 2015 and by R17,9 million from 31 August 2014.

The discontinuation of Verimark's Singapore operation is in progress and should reach completion within the next few months. The Group remains committed to limit losses during this period. Losses reported in the current period from this operation amounted to R367 000 and is significantly less than the R602 000 loss reported in 2014.

REPORTING ENTITY

Verimark Holdings Limited is a company domiciled in South Africa. The condensed group financial information as at and for the period ended 31 August 2015 comprise the results of Verimark Holdings Limited and its subsidiaries.

INTERIM DIVIDEND

In light of the overall trading results for the six months ended 31 August 2015 the Board has considered it prudent not to declare a dividend.

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 requirements of the 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.

The condensed consolidated financial information 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, Shaun Beecroft CA (SA).

SEGMENTAL ANALYSIS

Per IFRS 8 Operating Segments the operations of the Group are split between South Africa and Foreign.

CHANGES TO THE BOARD

There were no changes to the board during the period ended 31 August 2015.

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.

PROSPECTS

While the economic environment is expected to remain challenging over the next 18 months, Verimark's continued focus and proven record of expanding its innovative product range should benefit its sales growth.

Efforts to improve the Group's performance are becoming evident with the increased rate of new product introductions, containment of supply chain and operating costs, strengthening in the cash position and focus on making the business more efficient. The Board is therefore confident that the medium- and long-term prospects of Verimark remain positive.

RESULTS

The interim results for the period ended 31 August 2015, together with the statements regarding the prospects of the Group, have not been reviewed or audited by the Group's auditors.

On behalf of the Board

MJ van Straaten

Chief Executive Officer

SR Beecroft

Financial Director

Johannesburg

12 October 2015