# UNAUDITED INTERIM RESULTS

**for the six months ended 31 August 2010**

VERIMARK

## HIGHLIGHTS

Revenue up **56%** to

**R200,7 million**

(2009: R129,0 million)

Profit before tax

**R17,0 million**

(2009: Loss R11,1 million)

Basic EPS at

**R9,8 cents**

(2009: Loss per share 10,1 cents)

Headline EPS at

**R9,8 cents**

(2009: Loss per share 10,1 cents)

Continued increase in new product introductions

Continued growth in Retail and Verimark Direct footprint and revenues

Changes in management showing sustainability of improved trading results

www.verimark.co.za

**Michael van Straaten, CEO of Verimark, said:** *"It gives me great pleasure to report the results produced over the last six-month period. Turnover growth of 56% and a turnaround from a loss before tax of R11 million to a profit before tax of R17 million for the same period this year, which we believe is an exceptional achievement.*

*It is noteworthy that a complete change in the Company's top management (excluding myself) has re-affirmed Verimark's position as the market leader in the 'direct response through retail' sector, both locally and internationally."*

## FINANCIAL OVERVIEW

Headline earnings per share and earnings per share attributable to shareholders for the six months ended 31 August 2010 were 9,8 cents per share compared with a headline loss per share and loss per share attributable to shareholders of 10,1 cents for the previous comparable period.

As indicated in the trading statement issued on 14 October 2010, the turnaround in the Group's results was due to the continued positive trend in trading and profitability reported for the final six months of the previous financial year.

This excellent performance is a result of improved operational efficiencies and the re-ignition of Verimark's entrepreneurial spirit brought about by a complete overhaul in top management over a three-year period.

Turnover growth (56%) was mainly attributable to:

- the continued introduction of new innovative products that complement Verimark's existing successful product range;
- increased and significant investment in television and print advertising and other promotional activities (Verimark was rated as the 4th largest TV-advertiser in South Africa in a recent AC Nielsen survey); and
- the continued improvement in prominence and space utilisation within our Retail Partner stores as well as growth in the Company's own Verimark Direct stores.

Gross profit improved on the back of an increase in sales volumes. In addition, the increased number of Company-owned stores had a positive impact on the overall margin as full retail selling prices are achieved in these stores. This increase in margin is partly offset by an increase in the cost of operating these new stores.

Total operating costs increased mainly due to the increased sales volumes. Overall, operational expenditure has been well controlled and has improved as a percentage of sales. Foreign exchange losses amounted to R2,2 million when compared to R4,4 million for the prior period. These losses were as a result of fair value adjustments on open FECs and foreign exchange losses due to the strengthening in the Rand over the prior six months and are included in finance costs.

The Company entered into a Share-based Payment Scheme with certain key employees during the period under review. The requisite JSE and shareholder approvals were obtained for this Scheme at the Annual General Meeting and Extraordinary General Meeting on 8 July. This scheme has been treated under IFRS 2 in the Group accounts.

In summary, the financial improvement of the Group over the interim period, seen in conjunction with the record setting results of the previous six months (end of financial year February 2010), confirms that a successful and sustainable turnaround has been achieved by Verimark.

## INTERIM DIVIDEND

Despite the improvement in the overall trading results for the six months ended 31 August 2010, the Board considers it prudent not to declare a dividend, due to the Group entering its peak trading period and therefore the Group's cash is required to be retained in the business in order to fund the current growth. Dividend payments will resume in accordance with the existing payout policy should the current trend continue for the remainder of the financial year.

## ACCOUNTING POLICIES

The accounting policies applied for the six months are consistent, in all material respects, with those used in the Annual Financial Statements of the prior periods, and have been prepared in accordance with recognition and measurement criteria of International Financial Reporting Standards (IFRS) and the presentation and disclosure requirements of International Accounting Standards 34, Interim Financial Reporting, as well as AC 500 as issued by the Accounting Practices Board, the Listings Requirements of the JSE Limited and Schedule 4 of the Companies Act 61, 1973 as amended.

## SEGMENTAL ANALYSIS

The Directors previously considered the implications of IFRS 8 Operating Segments and are still 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 operation are 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.

## CHANGES TO THE BOARD

There have been no changes to the Board of Directors during the period under review.

## SUBSEQUENT EVENTS

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

## PROSPECTS

The Group's prospects for the future look positive and it is expected that the growth in revenue will continue, but at a lower rate. Over the previous twelve month period, the new management team not only successfully turned the business around, but more impressively delivered growth in revenue and profitability at an exceptional level.

The increased number of new innovative product introductions, further increases in trading space and prominence and the opening of a number of new stores; all supported by television advertising and other Verimark promotional activities, should assist the Company in achieving its growth projections for the current financial year.

Given the gratifying results of the last twelve months, the Group is committed to and confident in its ability to not only sustain its recent performance, but to continue its success record that has been built over the last thirty three years.

The interim results for the period ended 31 August 2010 have not been reviewed or audited by the Company's auditors.

On behalf of the Board

Michael van Straaten
*Chief Executive Officer*

Jeremy Thomas
*Financial Director*

Johannesburg
19 October 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited six months ended August 2010 R'000 | Unaudited six months ended August 2009 R'000 | Audited 12 months ended February 2010 R'000 |
|---|---|---|---|
| Revenue | 200 732 | 129 033 | 347 511 |
| Operating profit/(loss) before net finance expense and taxation | 21 216 | (4 346) | 28 266 |
| Finance income | 12 | 1 | 4 268 |
| Finance expense | (4 182) | (6 820) | (12 382) |
| Profit/(loss) before tax | 17 046 | (11 165) | 20 152 |
| Income tax | (6 520) | – | (6 534) |
| **Profit/(loss) for the period** | 10 526 | (11 165) | 13 618 |
| Other comprehensive income | – | – | – |
| Total comprehensive income attributable to owners of the Company | 10 526 | (11 165) | 13 618 |
| Earnings per share (cents) | 9,8 | (10,1) | 12,4 |
| Headline earnings per share (cents) | 9,8 | (10,1) | 12,4 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Unaudited six months ended August 2010 R'000 | Unaudited six months ended August 2009 R'000 | Audited 12 months ended February 2010 R'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Plant and equipment | 12 105 | 7 792 | 9 263 |
| Intangible assets | 14 264 | 14 313 | 14 286 |
| Loans receivable | 312 | 239 | – |
| Deferred taxation asset | 2 382 | 1 642 | 2 382 |
| **Non-current assets** | 29 063 | 23 986 | 25 931 |
| Inventories | 67 285 | 39 661 | 45 202 |
| Trade and other receivables | 51 448 | 56 481 | 51 966 |
| Prepayments | 684 | 366 | 191 |
| Short-term portion of loans receivable | 466 | 459 | 466 |
| Bank and cash balances | 440 | 408 | 13 740 |
| **Current assets** | 120 323 | 97 375 | 111 565 |
| **Total assets** | 149 386 | 121 361 | 137 496 |
| **EQUITY AND LIABILITIES** | | | |
| Share capital | 356 | 368 | 356 |
| Share premium | 25 104 | 26 730 | 25 104 |
| Share-based payment reserve | 196 | – | – |
| Retained earnings | 35 553 | 6 656 | 31 439 |
| **Equity attributable to the equity holders of the parent** | 61 209 | 33 754 | 56 899 |
| Preference share liability | – | 13 916 | – |
| Interest-bearing liabilities | 6 906 | 6 478 | 6 632 |
| **Non-current liabilities** | 6 906 | 20 394 | 6 632 |
| Trade and other payables | 45 893 | 31 635 | 50 138 |
| Preference share liability | 14 832 | – | 14 491 |
| Shareholders for dividend | – | 42 | 42 |
| Short-term portion of interest-bearing liabilities | 1 997 | 1 864 | 1 733 |
| Bank overdraft | 17 341 | 33 385 | – |
| Taxation payable | 1 208 | 287 | 7 561 |
| **Current liabilities** | 81 271 | 67 213 | 73 965 |
| **Total equity and liabilities** | 149 386 | 121 361 | 137 496 |


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

**Directors:** Dr JT Motlatsi *(Chairman)**, MJ van Straaten *(Chief Executive Officer)*, JE Thomas *(Financial Director)*, JM Pieterse*
**Independent non-executive*

**Company Secretary:** SJ Preller

**Registered office:** 67 CR Swart Drive, Corner CR Swart Drive and Freda Road, Bromhof Extension 48, Randburg 2194

**Postal address:** Verimark Holdings Limited, PO Box 78260, Sandton 2146

**Email address:** investors@verimark.co.za

**Transfer secretaries:** Computershare Investor Services (Proprietary) Limited

**Auditors:** KPMG Incorporated

**Sponsor:** Grindrod Bank Limited


## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital R'000 | Share premium R'000 | Retained earnings R'000 | Share-based payment reserve R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Balance at 1 March 2008** | 368 | 26 730 | 21 492 | – | 48 590 |
| Total comprehensive loss for the year | – | – | (3 671) | – | (3 671) |
| **Balance at 28 February 2009** | 368 | 26 730 | 17 821 | – | 44 919 |
| Total comprehensive income for the year | – | – | 13 618 | – | 13 618 |
| Transactions with owners recorded in equity –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 period | – | – | 10 526 | – | 10 526 |
| Transactions with owners recorded in equity – Employee share scheme – share-based payment transaction | – | – | – | 196 | 196 |
| Dividend paid | – | – | (6 412) | – | (6 412) |
| **Balance at 31 August 2010** | 356 | 25 104 | 35 553 | 196 | 61 209 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Unaudited six months ended August 2010 R'000 | Unaudited six months ended August 2009 R'000 | Audited 12 months ended February 2010 R'000 |
|---|---|---|---|
| **Net cash (outflows)/inflows from operating activities** | (25 213) | (16 530) | 38 468 |
| Cash (utilised)/generated by operations | (2 340) | (10 343) | 45 593 |
| Dividends paid | (6 412) | – | – |
| Finance income | 12 | 1 | 3 981 |
| Finance costs | (3 601) | (6 185) | (11 103) |
| Taxation paid | (12 872) | (3) | (3) |
| **Cash outflows from investing activities** | (5 653) | (4 335) | (9 892) |
| Acquisition of plant and equipment to maintain operations | (5 606) | (4 118) | (7 503) |
| Replacement of plant and equipment | – | – | (493) |
| Acquisition of intangible assets to maintain operations | (54) | (228) | (288) |
| Repurchase of own shares | – | – | (1 637) |
| Proceeds from disposal of plant and equipment | 7 | 11 | 29 |
| **Cash inflows from financing activities** | 225 | 4 682 | 1 958 |
| (Increase)/decrease in loans receivable | (312) | 2 908 | 232 |
| Interest-bearing liabilities raised | 1 288 | 2 048 | 2 851 |
| Interest-bearing liabilities repaid | (751) | (274) | (1 125) |
| **Net (decrease)/increase in cash and cash equivalents** | (30 641) | (16 183) | 30 534 |
| Cash and cash equivalents at beginning of period | 13 740 | (16 794) | (16 794) |
| **Cash and cash equivalents at end of period** | (16 901) | (32 977) | 13 740 |

## DETERMINATION OF ATTRIBUTABLE EARNINGS AND HEADLINE EARNINGS

| | Unaudited six months ended August 2010 R'000 | Unaudited six months ended August 2009 R'000 | Audited 12 months ended February 2010 R'000 |
|---|---|---|---|
| Attributable profit/(loss) (after tax) | 10 526 | (11 165) | 13 618 |
| Loss/(profit) on sale of fixed assets | 36 | (8) | (13) |
| **Headline earnings/(loss)** | 10 562 | (11 173) | 13 605 |
| Shares in issue | 114 272 328 | 114 272 328 | 114 272 328 |
| Treasury shares – VEET | (4 000 000) | (4 000 000) | (4 000 000) |
| Shares held by subsidiary | (3 400 000) | – | (3 400 000) |
| **Number of shares at period end** | 106 872 328 | 110 272 328 | 106 872 328 |
| Basic earnings/(loss) per share | 9,8 | (10,1) | 12,4 |
| Headline earnings/(loss) per share | 9,8 | (10,1) | 12,4 |
| Diluted basic earnings/(loss) per share | 9,7 | (10,1) | 12,4 |
| Diluted headline earnings per share | 9,7 | (10,1) | 12,4 |