# INTEGRATED ANNUAL REPORT

For the year ended 28 February 2014

VERIMARK HOLDINGS LIMITED

## IMPROVEMENTS

**IN WORKING CAPITAL MANAGEMENT CONTRIBUTE AN ADDITIONAL R13,3 MILLION TO CASH RESOURCES**


## THE JOURNEY OF VERIMARK

**GROSS MARGINS IMPROVE TO 40,3% (2013: 36,4%) AS A RESULT OF OPERATIONAL EFFICIENCY IMPROVEMENTS**

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W This icon refers to further information on our website

P This icon refers to further information on pages within this report


## About this report

Verimark's integrated report covers the Group's South African and international operations for the period from 1 March 2013 to 28 February 2014. The report aims to provide Verimark's stakeholders with an accurate, complete and balanced view of the Group's performance. Since the release of the Verimark annual report for the year ended 28 February 2013, there has been no significant change to the structure, ownership and products other than the unwinding of Verimark's BEE ownership structure.

The consolidated report further incorporates the data on all other entities as prescribed by International Financial Reporting Standards (IFRS). We are still refining our controls and governance around these measures. Our reporting is based on the requirements as set out in the revised Code of and Report on Governance Principles for South Africa (King III), the JSE Listings Requirements, IFRS, the Companies Act, 71 of 2008, as amended, and the draft guidelines on integrated reporting provided by the Integrated Reporting Committee (IRC) of South Africa.

Statements contained throughout the integrated report regarding prospects of the Group have not been reviewed or reported on by the Group's external auditors.

The complete integrated report is available on the Group's corporate website W www.verimark.co.za. The integrated report with summarised financial details can be requested in print format from the Company Secretary (see corporate information on P 92).

## Responsibility

The Audit and Risk Committee and the Board of Directors acknowledge their responsibility to ensure the integrity of the integrated report. The report has been reviewed by the Audit and Risk Committee and the Board. The annual financial statements included in this integrated annual report have been prepared by the Financial Director, Shaun Beecroft and have been audited by the external auditors, KPMG Inc.

This integrated report has been approved by the Verimark Board of Directors and has been signed on their behalf by the Chairman, Mr JT Motlatsi and the Chief Executive Officer, Mr MJ van Straaten.

## Feedback

We welcome feedback on any aspect of our performance or reporting. If you would like to provide feedback or obtain additional information, please contact Shaun Beecroft (shaunb@verimark.co.za).

# FINANCIAL STATISTICS


| | 2014 | 2013 |
|---|---|---|
| Sales growth (%) | **(5,2)** | 0,7 |
| Gross margin (%) | **40,3** | 36,4 |
| Operating margin (%) | **6,9** | 3,7 |
| Return on shareholders' equity (%) | **15,2** | 10,2 |
| Revenue (R'000) | **430 473** | 454 091 |
| Gross profit (R'000) | **173 367** | 165 171 |
| Profit before tax (R'000) | **23 411** | 15 245 |
| Earnings before interest, taxation, depreciation and amortisation (EBITDA) (R'000) | **38 566** | 23 486 |
| Earnings attributable to owners (R'000) | **17 481** | 8 891 |
| Operating profit (R'000) | **29 644** | 16 587 |
| Headline earnings (R'000) | **17 589** | 8 743 |
| Cash generated by operations (R'000) | **39 194** | (1 668) |
| Shareholders' equity (R'000) | **115 177** | 87 449 |
| Total assets (R'000) | **160 379** | 203 323 |
| **Ordinary share performance** | | |
| Earnings per share (cents) | **17,0** | 8,5 |
| Headline earnings per share (cents) | **16,9** | 8,4 |
| Diluted earnings per share (cents) | **17,0** | 8,4 |
| Diluted headline earnings per share (cents) | **16,9** | 8,2 |
| Dividend per share (cents) | **0** | 0 |
| **Share statistics** | | |
| Listing price (R) | **2,50** | 2,50 |
| Lowest price traded (R) | **0,65** | 0,70 |
| Highest price traded (R) | **1,03** | 1,34 |
| Closing price (R) | **0,69** | 1,05 |
| **EBITDA reconciliation** | | |
| EBITDA (R) | **38 566 394** | 23 485 531 |
| Interest (R) | **(6 233 019)** | (1 341 306) |
| Depreciation (R) | **(8 369 697)** | (6 580 762) |
| Amortisation (R) | **(552 730)** | (318 124) |
| Profit before tax (R) | **23 410 948** | 15 245 339 |

## Definitions

**EBITDA** Calculated as operating profit before net finance income/(expense), taxation, depreciation and amortisation.

**Headline earnings per share** Net profit after taxation adjusted to exclude (loss)/profit on sale of fixed assets divided by the weighted average number of shares in issue at the end of the year.

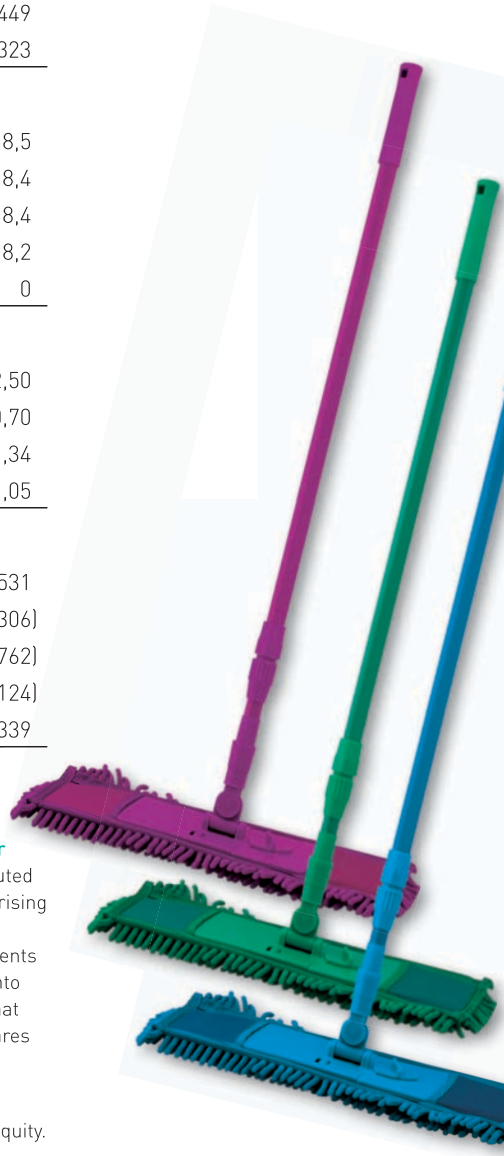
**Net asset value per share** Shareholders' equity divided by the weighted average number of shares in issue at the end of the year. Shareholders' equity is the equity attributable to equity holders of the parent (which is basically total assets less total liabilities).

**Operating profit** Net profit after depreciation and profit/(loss) after sale of assets but before net finance income/(expense) and taxation.

**Return on shareholders' equity** Profit/(loss) for the year as a percentage of average shareholders' equity.

**Diluted headline earnings per share** Ordinary shares are diluted by potential ordinary shares arising from directors' share options warrants, convertible instruments (e.g. debentures convertible into ordinary shares), contracts, that may be settled in ordinary shares (share based payments).

**Debt to equity** Total interest-bearing debt divided by total equity.



**Ecofibre mop**

The Ecofibre mop uses no harsh chemicals, so it's environmentally friendly as well as a super-effective cleaner.

# THE VERIMARK JOURNEY

**After 37 years in business Verimark has come a long way, and in the process made an indelible mark on South Africa's retail landscape.**

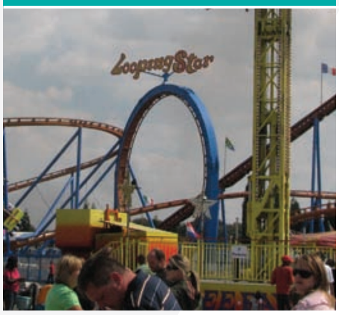
We pioneered a number of new business concepts and a vast amount of innovative products and gained a reputation as the market leader in our industry.

We were the first company to distribute DRTV products through retail stores.

We pioneered the store within a store concept and opened our own Verimark direct stores.

We use an integrated marketing strategy incorporating TV and print advertising and the use of in-store TV playback units and demonstrations. Verimark is one of the most recognised multi-channel retailers in South Africa.

## 1977
We started operating and sold our first product at the Rand Easter Show.



## 1979
We pioneered the sale of unique household products using in-store demonstrations in retail outlets.

## 1984
Verimark developed, patented and was the first company to introduce a home exercise machine (Gymtrim) to South Africans.


## 1989
We pioneered direct response television (DRTV) advertising in South Africa.


## 1995
We exhibited the Verimark product range at the largest DRTV show in Las Vegas for the first time.


## 1997 and 1999
The Verimark CEO was a finalist for South Africa's Best Entrepreneur Award, sponsored by Ernst & Young and ABSA.

## 1999
Verimark was selected as one of South Africa's Top 20 non-listed companies by Arthur Andersen and Wits Business School.

## 2005
Verimark listed on the main board of the JSE in 2005.

The majority of our brands are rated best sellers in their particular product categories.

We have relocated to our newly-built, double-the-size head office and warehouse in Randburg and the new warehouse management systems and the improved infrastructure have resulted in improved service levels, working capital management, operational efficiencies and cost savings.

Verimark listed on the main board of the JSE in 2005.

**These factors, together with our entrepreneurial spirit and our passion for innovation and creativity have resulted in Verimark becoming the benchmark, globally, in the direct response retail space.**

**1990**
We became the first company to distribute DRTV products through retail stores.

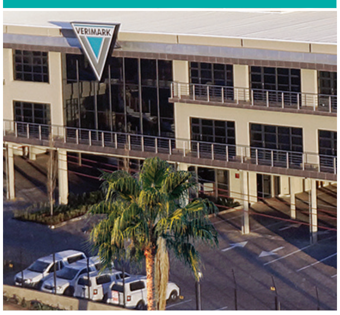
**1992**
We pioneered the store within a store concept and Verimark trading areas were set up within third-party retail stores.

**1994**
We opened our first owned Verimark Direct store in Sandton City.

**2010**
In the second half of the 2010 financial year we turned the business around and recorded the best six-month period in Verimark's history.


**2011**
Verimark recorded the fourth best growth in share price on the JSE over a 12-month period.

**2013**
We centralised the head office, warehousing and distribution centre on one property.



# ABOUT US

**There are probably not many households in South Africa without at least one of Verimark's products in their home. Our trusted brands, such as Bauer, Bastille, Genesis and Shogun are just a few examples of the familiar names to our consumers.**

**Verimark is the largest seller and distributor of direct response television products (DRTV) in Southern Africa.** We operate throughout South Africa and neighbouring countries, providing our consumers with unique and innovative products of consistently high quality standards which are supported by a well-trained workforce.

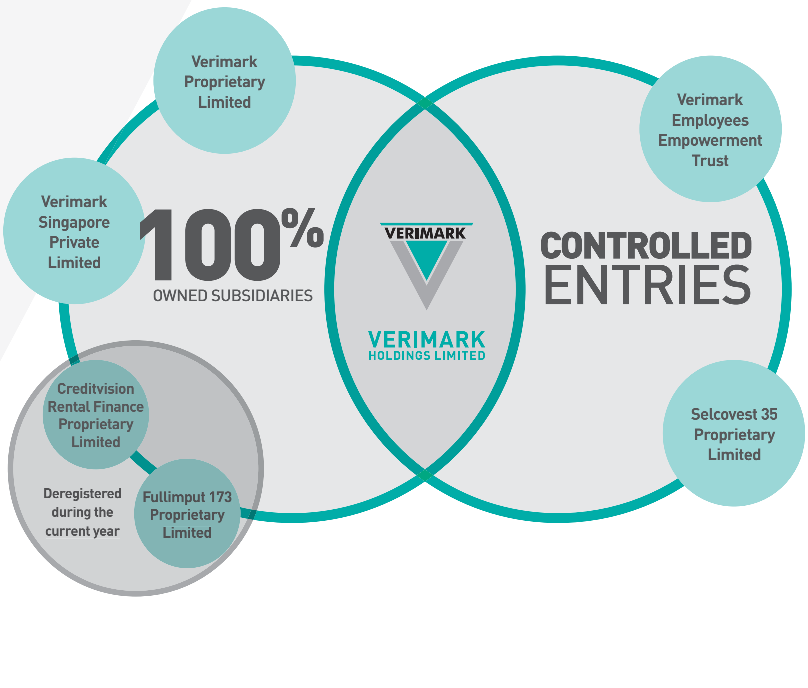
**Verimark has an extensive retail footprint which extends not only to 81 Verimark Direct outlets, but also to approximately 2 000 individual stores from our major retail customers.** Verimark products are generally available throughout the various retail shopping centres in South Africa and are often visible in prime locations of its retail customers.

Our centralised distribution model has provided a sustainable advantage to the Group and by capitalising on improved warehousing technologies continues to deliver improvement in cost control. **The distribution centre based in Randburg, Gauteng dispatched more than 460 000 parcels via 85 000 deliveries during the year ended 28 February 2014.**

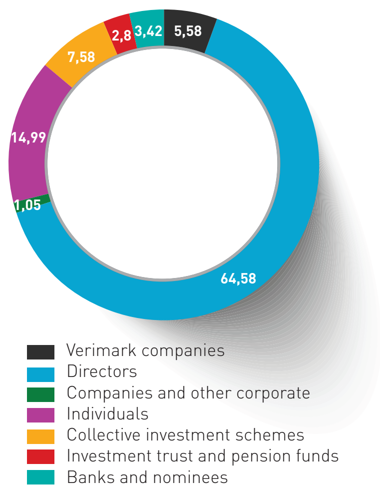
**Verimark utilises its well-developed product strategy to consistently provide a source of new products and innovation.** Its excellent relationships with existing suppliers and worldwide industry leaders not only provide Verimark with new and innovative products, but ensure that it is able to maintain and enhance its high standard of quality.

In addition to the extensive Verimark warranty provided to users of its products, Verimark promotes the regular servicing of certain key products such as vacuum cleaners to extend the product's life. **There are currently 11 Verimark-approved service centres situated across South Africa that provide these additional services to the consumers.**

**Verimark continues to create value by increasing sales through innovation, differentiation and improving profitability through supply chain optimisation.**




VERIMARK SHAREHOLDER SPREAD



# OUR BUSINESS MODEL

**Our business model is very different from that of traditional retailers or suppliers to the retail trade. Our continuous advertising on television, together with in-store demonstrations of our products and online sales, which are all supported by the excellent service delivered by our sales staff and call centre, have made Verimark one of the most recognised multi-channel retailers in South Africa. The majority of our brands are rated best sellers in their particular product categories. We are headquartered at our new custom built warehouse and head office facility in Randburg, South Africa.**

### 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 – long and short form
- Print, in-store TV playback units and demonstrations

### Distribution of products

- Store within a store in retailers
- Verimark stores
- Shows and promotions
- Online shopping
- Call centres
- International

### Business model maximises product sales volumes and return on investment


**Pops-a-Lot**

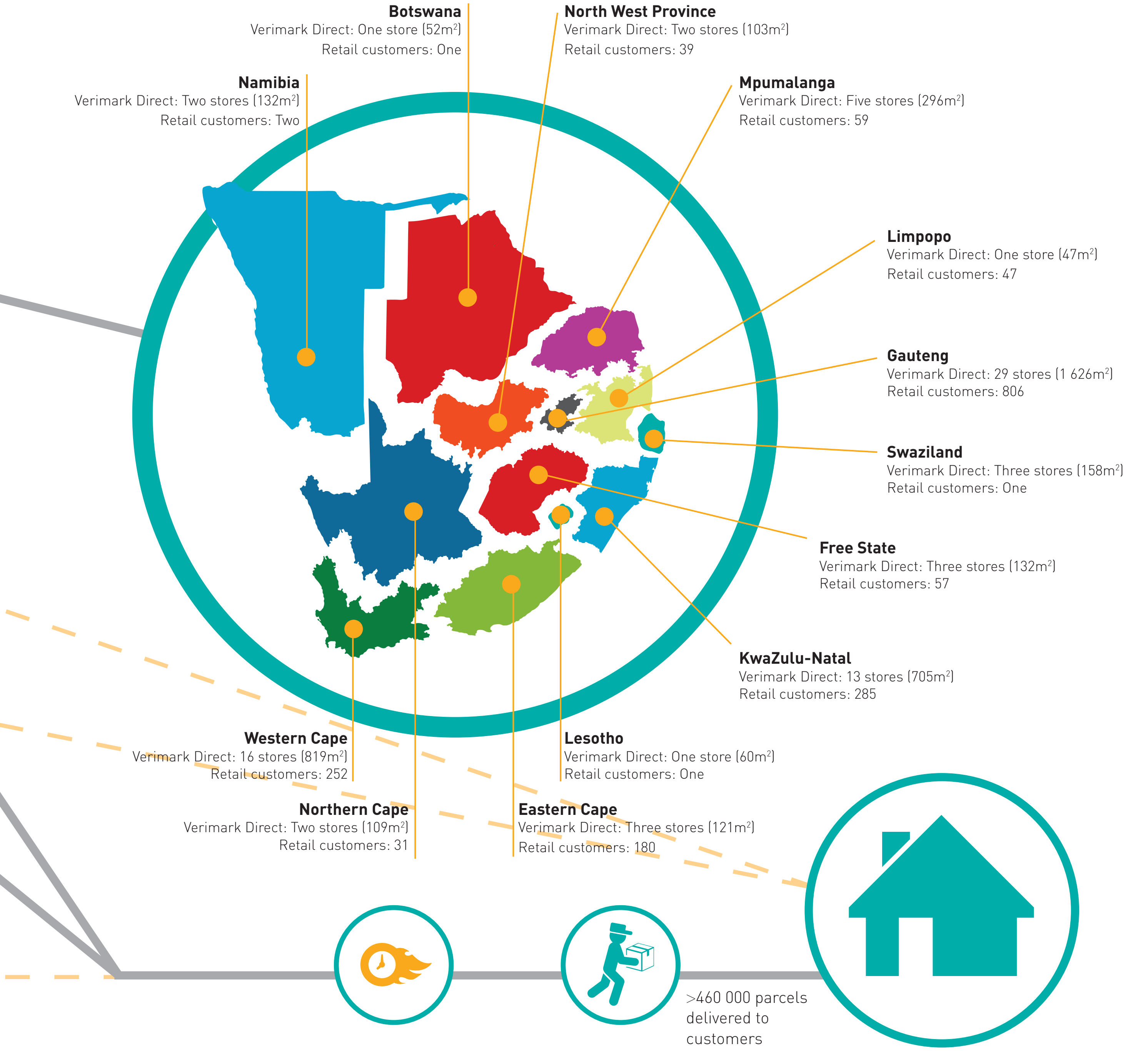
Healthy and delicious microwave popcorn!

Everyone loves popcorn – now with just three easy steps and in just two and a half minutes you can enjoy the lightest... fluffiest... healthiest... microwave popcorn ever!

# OUR DELIVERY


## TRUSTED BRANDS

| HEALTH & BEAUTY | HOUSEWARE | COOKWARE | CLEANING |
|---|---|---|---|
| Jean Robère, ROX, genie bra, STRUTZ | Genesis, TOBI, TWISTA, FLUFFWiZ, POPS-A-LOT, SHOGUN | BAUER PRO, bastille | Genesis, FLOORWiZ, MicroWiZ, HAUSMEISTER |




| DIY | AUTOMOTIVE | TOYS | EXERCISE & FITNESS |
|---|---|---|---|

Educational Laptop

Portable Game Station

# OUR STRATEGIC AGENDA

**We will place extra emphasis on ensuring that costs are contained and that the local business increases in profitability.**

## Passion for innovation

Innovation has driven our successful track record and will drive our future success. By sourcing and developing innovative products and championing our brands we ensure their longevity in the market – and our profitability. Unlike the trend internationally, several of our brands have proven to stay in demand over many years – a testimony to their appeal and the quality on which we pride ourselves. Innovation thus remains a core priority and we will optimise the wealth of Intellectual Property accumulated over the past 37 years. By continuing our focus on the sourcing of the best innovations, as well as selective product development – combined with the best talent – we will optimise our future growth.

### CHALLENGES AND OPPORTUNITIES

Given the number of product categories Verimark operates within and the skill levels required to maintain our market leader position in each of these, we are continuously expanding our capacity and capability in all relevant parts/divisions of the business.

## Operational excellence

Verimark's investment in centralising its warehousing and head office operations over the past four years is starting to bear fruit. The new headquarters were completed in January 2013 and all operations and warehousing across the previous four separate sites were moved to one site in Randburg, Johannesburg. In addition to the site consolidation, the investment in new warehouse technologies and processes has been successfully implemented during the year under review.

As a result, substantial improvements and efficiencies are starting to flow from these initiatives. We have also extended our online and electronic data interchange (EDI) ordering system to make the process of delivering products and parts to our stores and service centres simpler and faster.

### CHALLENGES AND OPPORTUNITIES

In order to mitigate the depressed consumer environment we will continue to keep a tight control over our inventory, logistic operations and costs. Our focus will be on extracting further operational efficiencies as the use of the new technology becomes embedded into our daily processes. Verimark will continue to capitalise on the initiatives undertaken and pursue further operational improvements which will have a positive effect on our service support and customer satisfaction.

## Our talent pool

Given Verimark's 37 year success record, a vast level of skill, experience and know-how has been accumulated in the business. This forms a critical part of our Intellectual Property (IP) and allows all new and existing managers a major advantage to optimise their performance.

As in the past, we are always scouting for dynamic, passionate and talented individuals to accelerate our future growth. To bolster our investment in training our sales force, our new headquarters boasts a large and modern training facility to ensure that they are fully equipped.

### CHALLENGES AND OPPORTUNITIES

Verimark has a unique business model in the retail space, and together with our extensive range of products that cover many diverse product categories, and a shortage of "Verimark- specific" skills in the South African market, expanding our talent pool – from an executive level, through to the sales, marketing and new product division – is an ongoing process as the Group continues along its growth path.

## New market opportunities

In addition to reactivating the supply of our proven products and TV commercials to the ever-increasing demand internationally, there are a number of markets across the globe that could benefit from Verimark's combined direct-retail model. On a case-by-case basis Verimark will consider expansion opportunities either where there is undeniable demand for our products, or where there are cost-saving opportunities and a strategic benefit for the Group.

### CHALLENGES AND OPPORTUNITIES

Depending on the Rand's further weakening, it will be difficult to achieve the sales growth figures of two to three years ago (38% and 32%). Notwithstanding this uncertainty, we will continue our focus on our core market in South Africa to optimise growth. We have also been approached by potential partners in markets that could provide higher growth opportunities for the Group and will continue to assess our options in this regard. We have had partnership enquiries from several countries in South East Asia, across Europe, the two Americas and Africa. We are busy evaluating these growth opportunities.

# SUMMARY OF COMPANY RISKS

High-level risks and associated mitigation measures are shown in the following table:

| Risk | Impact | Mitigation |
|---|---|---|
| **Economic outlook** | | |
| Ongoing uncertain economic conditions may impact consumer confidence | This could negatively affect our ability to achieve our sales forecasts. | Verimark's direct sales business is not impacted to the same extent as the retail business during times of uncertainty. Introducing innovative products that are relevant to consumers greatly assists with mitigating the impact of uncertain economic conditions, while improved systems and processes limit the impact of cost increases on the Company. |
| **Product offering** | | |
| Failure to introduce suitable/ innovative new products | Will result in poor business performance. | Verimark has achieved historical success in establishing a core product range. Many of these have become brand leaders in their categories and produce ongoing sustainable levels of income for the Group each year. An established network of business partners and manufacturers, together with ongoing research for unique products at trade fairs and retail stores across the globe, assists us in continuously improving our product offering. Our success rate at selecting products is much higher than the average for our industry. In addition, the planned expansion of our product development and category management team will increase our ability to effectively identify new and innovative products and get them into the market faster. |
| **Product cost** | | |
| Currency fluctuations of the Rand against the US Dollar (the currency of payment for most of our product purchases) | Adversely affects the purchase price of imported products. | Verimark continuously evaluates our foreign liabilities and pending-purchases exposure in order to determine whether forward cover is required. This is taken under expert advisement and we are comfortable with our foreign exposure strategy at present. In most cases – where it is applicable – we would adjust our selling prices when our product prices change. |
| **Selling channels** | | |
| Loss of in-store retail space and favourable in-store positioning | Could adversely affect our sales through retail outlets. | It is largely understood by retailers that the in-store positioning of Verimark products is essential to ensuring product sales. Given our proven sales record and strong relationships with our retail partners, it is understood that any reduction in space and/or prominence of Verimark branding will have a direct impact on their own sales of Verimark products. |
| **Operational risk** | | |
| Any weakness in or failure of our systems, processes and controls | Any weakness or failure of system, processes and controls will negatively affect our ability to effectively manage our business, control inventory and contain costs. | A number of improvements have been made in Verimark's processes and systems over the past year. |
| Inadequate control of Group assets, in particular inventory | Inadequate control of Group assets could result in financial loss to the business. | High risk assets are assessed/identified on a continuous basis. Verimark has invested in systems and improved processes and believes that good progress has been made in mitigating this risk. |

| Risk | Impact | Mitigation |
|---|---|---|
| **Operational risk** (continued) | | |
| Inadequate distribution centre facilities | Lack of distribution facilities will impact on our ability to maintain our customer service levels and control inventory loss, etc. | The new warehouse and head office facility is fully operational and we believe that this risk has been adequately mitigated and appropriately addressed. |
| Supplier failure | Supplier failure could result in failure to meet sales targets because of lack of availability of inventory. | In most cases, Verimark has alternative suppliers for its products. |
| Inability to comply with legislation | New or amended health, safety and environmental legislation could result in increased costs and non-compliance could lead to fines. | Verimark complies with the various health, safety and environmental legislation in place in South Africa. |
| Energy and water supply risk | Energy and water supply shortages could adversely affect our ability to operate. | We are aware of the need to reduce our electricity and water consumption. Our new premises have been built with green principles in mind (see sustainability – environment, P 29). |
| The Consumer Protection Act (CPA) and its implications | The introduction of the new CPA allows consumers more rights against retailers and suppliers than before. This could result in an increase in costs to deal with consumer claims (legitimate and frivolous). | Continuous improvement in our systems and processes has reduced the risk and implications that the CPA regulations may hold for the Group. We believe we have sufficient insurance in place to cover any additional risk the CPA may pose. |
| **Cost control** | | |
| Cost increases not controlled | Competitiveness and long-term profitability negatively affected by cost increases. | We believe that the improvements in our systems and processes, together with the consolidation into our new premises, have assisted management in maintaining strict cost control over expenses. Continued strict cost control is expected to be maintained into the future. |
| **Labour and key employees** | | |
| Succession planning | Business will be negatively impacted by lack of managerial skills and experience to maintain continuity of business performance. | It is important that Verimark retains and develops skills for its unique business model. Verimark continues to review, develop and expand its management capability. |
| **Brand and reputation** | | |
| External expectations relating to the Verimark brand, including products and its corporate reputation, not met | Should customers and stakeholders no longer trust the brand, sales could deteriorate and shareholder value be lost. | Verimark maintains high standards of corporate governance, product stewardship and customer service to ensure it retains its positioning as a trusted brand. The Company is focused on improving product support service by increasing the number of franchised service outlets across the country in order to ensure that quality is maintained and product defaults are managed quickly. |

# OUR STAKEHOLDER ENGAGEMENT

**We engage, consult and listen throughout the year to what our stakeholders have to say to and about us. The key issues these individuals and groups raise are shown in the following table.**

| | | | |
|---|---|---|---|
| Shareholders, potential investors and investment analysts* | • Roadshows to investors<br>• Presentations<br>• Year end presentations<br>• Annual report<br>• Annual general meetings<br>• Website | Annually | Issues raised by shareholders and the investor community which included:<br>• Financial performance<br>• Cash position<br>• Net debt position<br>• Dividends<br>• Strategy going forward |
| Providers of debt | The Company borrows from South African banks. Regular meetings are held with its bankers. Details of its bankers are to be found on the inside back cover of this report. | As and when required | Management assesses key covenants and ratios prescribed in loan agreements regularly, any breaches or potential breaches due to market conditions are anticipated, and agreements reached with bankers going forward.<br>Regular meetings are held with Verimark's bankers to assist their understanding of the business. |
| Suppliers | • Face-to-face meetings<br>• Telephonic<br>• Email | As and when required | Verimark regularly communicates with all its suppliers on the status of orders and delivery dates. |
| Government and regulators | • Face-to-face meetings<br>• Correspondence | As and when required | • Company tax matters<br>• Various discussions on employment topics with Department of Labour |
| Employees | • Face-to-face meetings | Ongoing regular engagement | • Employees are kept informed on business issues, what is expected of them and which codes they are expected to adhere to<br>• Employees understand they are free to join a trade union |
| Customers | • DRTV<br>• Brochures<br>• In-store shops<br>• Verimark stores<br>• Telephonic<br>• Website | Ongoing | • High quality products<br>• Service delivery<br>• Maintaining customer relationships<br>• New product introductions |
| Business partners (retail partners) | • Face-to-face meetings<br>• Correspondence<br>• Telephonic | Ongoing | • In-store space<br>• Positioning of in-store space<br>• New product registration<br>• Service levels |

* See P 85 for breakdown of shareholdings.

While Verimark fulfils its obligations as a corporate citizen by being a key contributor to the greater wellbeing of society in the form of direct and indirect employment opportunities, meeting customer demand, etc, it is of paramount importance that it maintains a robust stakeholder engagement process.

We are aware that our corporate reputation is based on how well Verimark functions against the legitimate interests and expectations of stakeholders and we rely on the contribution and support of an array of stakeholders for the continued success and sustainability of Verimark's business.

# LEADERSHIP


## Twista is the most versatile food processor you'll ever own!

Verimark is the leading innovator of kitchen essentials and the Twista brand is renowned for its top quality cutting tools. The **Twista One Chop** is the latest kitchen sensation that will slice... dice... and chop quicker and easier than ever before!

Twista is so easy to use - the unique "V" shaped blade holds your food securely in position, then push down on the lid for perfect slices every time! The super strong stainless blades are tough enough for even hard fruits and vegetables.

Twista comes with interchangeable blades that simply snap into place and include the dicer blade and wedge cutter and press plates. The spring loaded design allows for continuous chopping straight into the built in container, so Twista is guaranteed to save you time and effort in the kitchen! It's easy to clean and when you're done it all fits conveniently together for compact storage.

# OUR CORPORATE PHILOSOPHY

## Our mission

To bring the best innovations from across the globe to consumers in South Africa and other selected territories.

## Our vision

To be the best in each area of our business operations.

## Our passion

To search the world for, and develop, the best product innovations that enhance the lifestyles of our customers.

To provide our customers with the best possible service.

To provide our shareholders with excellent returns on their investment.

# THE BOARD

**Dr James T Motlatsi** (64)
*Independent Non-Executive Chairman*
PhD Social Science

Appointed: 1 July 2005
Committees: Audit and Risk, Remuneration, Social and Ethics

**Michael J van Straaten** (60)
*Chief Executive Officer*
BComm Hons, CA(SA)

Appointed: 1 July 2005
Committees: All by invitation

**Shaun Beecroft** (50)
*Financial Director*
BComm, CTA, CA(SA)

Appointed: 6 December 2011
Committees: All by invitation

**Mitesh Patel** (40)
*Independent Non-Executive Director*
BCompt (Hons), CA(SA)

Appointed: 28 May 2012
Committees: Social and Ethics *(Chairman)*, Audit and Risk, Remuneration

**Johann M Pieterse** (63)
*Independent Non-Executive Director*
BCom CTA, MCompt, CA(SA)

Appointed: 3 November 2005
Committees: Audit and Risk *(Chairman)*, Remuneration, Social and Ethics

*Full CV's of the directors can be found at www.verimark.co.za*

# CHAIRMAN'S REPORT

## Overview

South Africa's sluggish growth during 2013 resulted in perhaps one of the most demanding years since the global economic crisis some five years ago.

**The past year was characterised by weakened consumer demand that has stemmed from, amongst others, a slowdown in unsecured credit extension, labour strikes and an overall reduction in consumer confidence.**

These factors, coupled with the weakening of the Rand, created a challenging trading environment in which Verimark and other import-dependent retail operations had to operate.

These conditions had a negative impact on revenue. However, the improved operational efficiencies and the implementation of various cost reduction initiatives resulted in a profit before tax (adjusted for the once-off gain on the unwind of the BEE structure) increase of 5,7% being reported for the year ended 28 February 2014.

## BBBEE scheme

After due consideration, it was agreed by all parties that the existing BBBEE scheme be dissolved as the dividend payments received did not cover the outstanding amounts due in terms of its funding structure. The scheme was unwound on 27 February 2014 and the Verimark shares held were transferred in consideration for the redemption of the preference shares that were originally issued to fund the scheme.

Going forward, the Company will consider its options with regard to putting in place a suitable and sustainable empowerment structure.

## Dividend

Given the current low level of profitability achieved in the financial year under review and the cash flow impact of the expected subdued trading conditions in the first six months of the new financial period, the Board considered it prudent not to declare a final dividend for the 2014 financial year (2013: nil cents per share).

## Board and governance

The Group aims to achieve best governance practice and recognises that sound governance has a positive impact on long-term equity performance. Governance processes are therefore continually enhanced to ensure compliance with legislation, regulation, governance codes and listings requirements.

**In an environment of increasing risk awareness locally and internationally, the Group continuously aims to improve its risk governance and compliance to maintain its competitive advantage and to give shareholders confidence in the Group's ability to sustain value in the longer term.**

Respect for our stakeholders, our employees and the environment is a key business principle and we are confident that we have appropriate systems in place, not only to protect the brand and our business but also to provide our various stakeholders with long-term benefits.

## Directorate

There were no changes to the Board since the issuance of our previous annual report. Verimark has a stable Board with three of the five members having tenure of more than eight years. All of the non-executive directors, including myself as the Chairman, are independent in terms of the King lll definition and the JSE Listings Requirements

## Appreciation

I would like to thank Verimark's Board of Directors, both collectively and individually, for demonstrating the necessary commitment, skill and expertise in delivering effectively on their fiduciary responsibilities over the year.

I extend my appreciation to Micke and the management team for the many hours and effort put into our operations during this challenging period.

My thanks are also extended to the Verimark staff, to our suppliers, customers and stakeholders for their continued contributions and ongoing support of our business.

While the challenges we encountered in this past year are unlikely to abate in the next six months, the directors nevertheless have full confidence in the management team's ability to sustain performance.

**Dr James T Motlatsi**
*Chairperson*

22 May 2014

**Dr James T Motlatsi**

*Independent Non-Executive Chairman*

# CHIEF EXECUTIVE OFFICER'S REPORT

**Michael van Straaten**
*Chief Executive Officer*

## How would you summarise the 2013 year?

A 2013 proved to be a challenging year for importers and retailers and yet another tough year for consumers. As I noted in our previous annual report, the continued depreciation of the Rand will impact negatively on the retail trade, particularly those that import. In addition South African consumers have experienced, and continue to experience, enormous pressure due to increased living expenses, which, together with South Africa's high level of unsecured domestic debt, has resulted in a contraction in discretionary spend.

That said, and despite the macroeconomic limitations, the Group is starting to see the benefits of the last 24 months of centralising and consolidation.

**The Company's headquarters and warehousing facilities were successfully relocated in early 2013 to a single site – Verimark now boasts a state-of-the-art distribution and warehousing centre.**

This has allowed for much better control of operations and costs, which contributed to the Group managing in a very tough operating environment, and has put us in a good position to take advantage of future growth opportunities.

Notwithstanding the impact of a depreciating currency, Verimark does not waver in its commitment to sourcing the latest and best innovative, quality products and making these available to consumers at competitive prices – this strategy has resulted in Verimark maintaining its dominant position as the market leader in our industry. Taking into account sales through all our retail partners and our own stores, our research indicates that Verimark's market share is more than 50%.

While the retail sector is under sustained pressure, the Verimark business model, by virtue of it being based on direct selling, is less affected by the macroeconomic environment than a typical retailer.

**It is important to note that Verimark has weathered these macroeconomic cycles several times in its 37-year operating history and emerged stronger each time. We continue to look at options to smooth the effects of a depreciating Rand and we perpetually work harder and smarter to increase sales.**

## How would you describe the financial performance over the past year?

A Verimark remained focused on staying competitive in a difficult trading environment and extracting the maximum efficiencies from our logistics, supply chain and support services, as well as from the centralisation of our warehousing operations. As a result we fared reasonably well under the circumstances.

The Group's revenue dropped 5% to R430 million (2013: R454 million), mainly due to the slowdown in sales volumes that resulted from increasing our selling prices. This adjustment was unfortunately necessary, given the continued depreciation of the Rand against the Dollar (approximately 45% during the two years from 1 March 2012 to 28 February 2014). Even though our cost of product over this period increased similarly (±45%), we elected not to increase our selling prices to the same extent, given the impact that would have had on our sales volumes.

**Despite this, gross margins improved to 40,3% from 36,4% driven largely by the operational efficiencies and cost savings initiatives. Now that the move to the new warehouse has been completed, coupled with improved inventory control systems, we have seen marked improvements.**

The expected reduction in the gross profit due to the reduced revenue was more than offset by the improvement in operational efficiencies and cost savings initiatives implemented during the year, resulting in a net increase in gross profit of R8,2 million. If one "factors out" the increase in depreciation costs that resulted from the capital investment in our new distribution centre and additional new stores, together with the costs relating to our expansion into Singapore, our fixed operating costs increased by only 2%, compared to the previous year. In addition to the improvements mentioned above, the benefits of the improved efficiencies and processes have resulted in the strengthening of the Group's balance sheet. Working capital reduced by R13,3 million and our net cash position improved by R20 million year on year.

This has put us in a good position to take advantage of future growth opportunities and improvement in economic conditions.

## What impact has the continued financial pressure on retailers and consumer spending had on the business?

A The Group had to absorb the impact of the weakening Rand. It was necessary to increase prices on certain products, for instance – but clearly not to the full extent of the Rand depreciation.

# CHIEF EXECUTIVE OFFICER'S REPORT continued

However, and despite the pressures conventional retailers may be under, a number of our retail partners plan to increase Verimark's floor space and/or prominence in their outlets – proof that the Verimark products are, as in the past, still very much in demand, and also that Verimark's TV and other advertising does increase foot traffic into their stores as well as promoting their brand.

**To put this in context, Verimark's TV advertising exposure is well beyond that of most retailers (as per Nielsen's research report) and substantially ahead of our competitors.**

Going forward, we are looking at a number of strategies to reduce product costs to benefit the consumer, which should result in increased sales.

## *What were some of the winning products you introduced during 2013?*

A **Pops-a-lot** Make the healthiest, most delicious microwave popcorn ever.

**Renovator** The ultimate DIY oscillating power tool you'll never want to be without.

**Rox** Clinically proven to help you look years younger in just minutes – guaranteed.

**Dual Saw** Cuts through virtually anything with its patented counter-rotating blades.

**Twista One Chop** Slice, dice and chop quicker and easier than ever before.

**Strutz** Comfort, support and immediate pain relief for sore feet.

**Jean Robère Perfect Curl** Create sensational spirals in seconds – without burning, tangling or pulling.

**i-Play Wall Racer** Race up walls and even on the ceiling with the gravity defying racer.

## *What effort is the Group making to differentiate itself from other retailers in an increasingly competitive market?*

A We have no doubt that Verimark's business model has become the benchmark, not only locally but globally, when it comes to the integration of direct response marketing into broader retail offerings. As pointed out earlier, the Verimark business model is different from that of typical retailers and suppliers to the retail trade.

**Most of our retail partners recognise the benefits in terms of potential sales growth that Verimark's products deliver and we have built strong relationships with these retailers as a supplier and trading partner.**

This, and the trend towards increasing Verimark's exposure, affirms our view that the Group's performance is less impacted by the macroeconomic environment and more by our ability to innovate. Thus our focus is unwavering: to continue our proven record of superior product innovation and to promote, market and sell these in the most creative and effective way. This will require further building our management team by finding the best talent to ensure optimal and profitable growth moving forward.

## *Where do you see the greatest opportunities for the Group going forward?*

A We will continue to capitalise on opportunities in the local market. We will also be looking at opportunities elsewhere in the world, where we can replicate the Verimark model. We have unpacked the Verimark strategy for the year ahead in more detail on P 8 and 9; however as a brief summary, we will focus on a few areas:

- Ensuring that we remain product-focused as a business and defend our position as leading innovators;
- Maintain focus on our home market and will place extra emphasis on ensuring the local business grows and increases profitability;
- Introduction of success proven products with TV commercials internationally;
- Assess potential regions in which the Verimark business model can be replicated in other international markets;
- In order to accelerate our 37-year growth record, a bigger focus will be placed on recruiting the best available talent to share in the vast pool of Intellectual Property accumulated in the business and to complement our existing management; and
- Focusing on improving service levels, operational efficiencies and cost containment through maximising the benefits of the investments in our core operations.

**The Company has made significant investments over the past few years. We have improved operational efficiencies, introduced new systems and invested in our people. We are already reaping the benefits of these investments and will continue to focus on further optimisation opportunities going forward.**

## Appreciation

I thank the Board and the executive team for their support during a difficult year. Our management and our staff are vital to this business and I thank them for their dedication to building the Verimark brand. Thank you to our customers for investing in our products, we hope that we have managed to enhance the way you live your life. We are excited about the opportunities going forward.

**MJ van Straaten**
*Chief Executive Officer*

22 May 2014

# GOVERNANCE

**Now you can have that glamorous salon look every day, faster and easier than ever before.**

With the introduction of the amazing new **Jean Robère Perfect Curl** you can transform your look and create sensational spirals or flowing waves in seconds – without tangling or pulling. Perfect Curl works on long and short hair and is the most convenient way to give your hair volume, body and bounce.

This ingenious styling system is so easy to use – simply retract the clip and insert a strand of hair, then twirl the hair up the length of the wand. The innovative spiral curl guides your hair without tangling or pulling, and the cool tip design keeps your hands out of harm's way so you'll never burn your fingers or forehead again. The cera-coat barrel won't damage, scorch or break your hair.

# GOVERNANCE REPORT

Definitions used in this section

**Act**
The Companies Act, 71 of 2008, as amended

**Board**
Board of Directors of Verimark

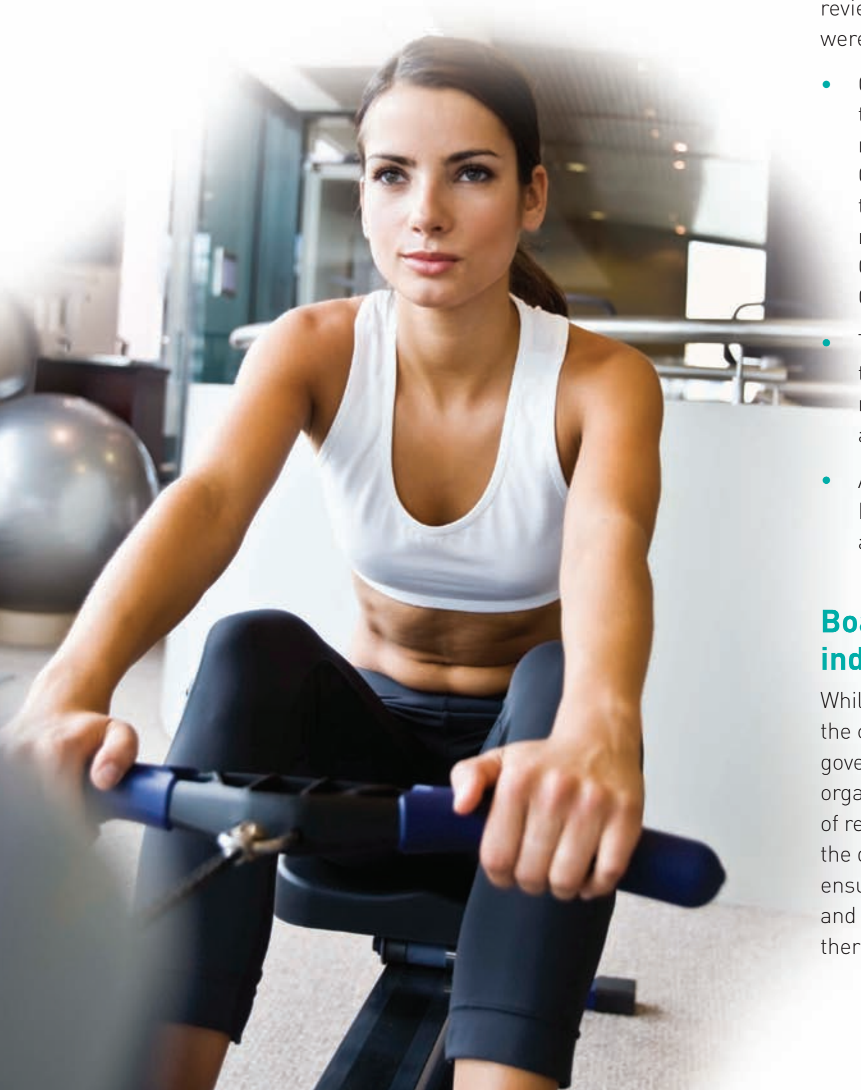
**JSE**
JSE Limited

**King Code**
Code of Corporate Practices and Conduct set out in the King III Report

**Verimark**
Verimark Holdings Limited

Verimark is listed on the JSE and is subject to the JSE Listings Requirements, the guidelines contained in the King Code, the Act, as well as any other legislation applicable to companies in South Africa. To the best of the Board's knowledge, Verimark has complied with the provisions set out in the JSE Listings Requirements. In addition, the Company supports the principles set out in the King Code.

A report setting out how the Company has applied the 75 principles of the King Code during the period under review and, highlighting any exceptions, is available on the website.



## Governance and management systems

Verimark recognises that good corporate governance is key to the integrity of the organisation and its ability to manage risk and perform at optimum levels. It is for this reason that Verimark is committed to the highest levels of ethical and accountable business conduct.

## Key changes for the year under review

The Board's governance policies and procedures are continually updated to ensure ongoing adherence to the JSE Listings Requirements, the King Code and current legislation. The Board approved revised Board and committee terms of reference. During the period under review, the following changes were made:

- On 13 February 2014, the Board agreed to replace the Audit and Risk Committee meeting with two separate meetings, namely the Audit Committee and the Risk Committee;
- The Board charter and the committee terms of reference were reviewed and approved; and
- An amendment to the Board policy was approved and adopted by the Board.

## Board balance and independence

While the Board acts as the custodian of corporate governance within the organisation, a clear allocation of responsibilities among the directors of the Company ensures a balance of power and authority. At Board level, there is a clear division of responsibilities. The roles of the Board Chairman and the Chief Executive Officer are separated. The directors' contracts do not exceed three years, as recommended in the King Code, and no independent non-executive director has been with the Company for longer than 10 years. The independent non-executive directors are considered by the Board to be independent in mind, character and judgement. The structure of the Board is closely aligned to the recommendations of the King Code, with the three non-executive directors being independent. The independence of these directors is assessed annually. The Chair of the Board is an independent non-executive director.

## The Board's governance role

Good governance is effectively about strong leadership. The Board's role is to direct, govern and be in effective control of the Company.

The Board charter and the Company's Code of Ethics define the roles, responsibilities and behaviours of the Board in ensuring a successful, ethical and sustainable business.

The Board is required to make decisions on matters of a material and significant nature and is accountable for the Company's sustainability. The matters on which it makes decisions include the Company's financial and operating results, major acquisitions and disposals, considerable capital expenditure and the strategic direction of the business. It is also accountable for ensuring Verimark maintains a safe and healthy workplace, has a responsible approach to its product selection and the marketing of its products, complies with the Consumer Protection Act, takes steps to ensure that Verimark limits its impact on the environment as much as possible by its management of waste and its use of energy, in the form of electricity and fuel, and water.

Not only does the Board direct the development of the Company strategy but it is incumbent upon its members to assess the short- and long-term impacts of the strategy on all stakeholders.

## Board expertise

The Board needs the appropriate balance of skills and experience within its ranks to fulfil its mandate. The members of the Verimark Board have a wide range of skills and financial, technical and commercial expertise that can guide the decision-making of the Board. Biographic details of the Board members are available on the Group's corporate website W www.verimark.co.za.

## Board committees

While the Board remains accountable and responsible for the performance and affairs of the Company, it delegates certain functions to management and the Board committees who assist it with the discharge of its duties. Appropriate structures for this delegation are in place, as are appropriate monitoring and reporting systems.

Each Board committee acts within written terms of reference. The Chairman of each Board committee reports at each scheduled meeting of the Board and minutes of Board committee meetings are provided to the Board. All Board committees are chaired by independent directors. Besides the Social and Ethics Committee members, all are independent non-executive directors. The Company Secretary attends all Board and Board committee meetings.

All directors, and Chairmen of the Board committees are required to attend annual general meetings to answer any questions shareholders may raise.

The attendance of the directors at the Board meetings is set out below.

### Committee roles and responsibilities

The attendance of the directors at the Board committee meetings is set out below.

### Audit and Risk Committee

The Audit and Risk Committee is responsible for assessing the risks which may impact on the ability of the Company to deliver in line with its strategy, while maintaining high standards of economic, environmental, social and governance practices. For a list of the identified risks see P 10 and 11. To ensure an increased focus on risks, the Board has separated the Audit and Risk Committee meetings into two separate focused meetings. Messrs MM Patel (Chairman), JM Pieterse, MJ van Straaten and SR Beecroft have been appointed as members of the Risk Committee.

The members of the Audit and Risk Committee will be re-elected at the upcoming annual general meeting. Please refer to the report prepared in terms of section 94(7)(f) of the Act set out on P 36 of this report.

### Remuneration and Nomination Committee

The committee is responsible for approving executive remuneration, controlling the effectiveness of the Company's Human Resources policy, ensuring that remuneration levels and conditions of service of all employees are appropriate and that a succession plan is in place for directors, nominates successors for key positions in the Company, evaluates share option schemes and trusts, potential new directors and maintains the procedure and policy for the appointments to the Board.

The remuneration paid to the directors is disclosed on P 84 of the report.

The Group's proposed Remuneration Policy will be endorsed by the shareholders by way of a non-binding advisory vote in terms of the King Code at the upcoming annual general meeting.

The Chairman of the Board is not the Chairman of the combined committee, however the Chairman of the Board is a full active member of the combined committee.

### Social and Ethics Committee

The committee is responsible for monitoring the Company's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:

- social and economic development, including the Company's standing in terms of the goals and purposes of the ten principles set out in the United Nations Global Compact Principles, the OECD (Organisation for Economic Co-operation and Development) recommendations regarding corruption, the requirements of the Employment Equity Act and the Broad-based Black Economic Empowerment Act;
- good corporate citizenship, including the promotion

**Board and Board committee meeting attendance**

| Name | Appointment date | Board | Audit and Risk | Social and Ethics | Remuneration and Nomination |
|---|---|---|---|---|---|
| Dr JM Motlatsi<br>Independent Non-Executive Chairman | 1 July 2005 | 4/5[1] | 5/6 | 2/2 | 2/3 |
| JM Pieterse<br>Independent Non-Executive Director | 3 November 2005 | 5/5 | 6/6[1] | 2/2 | 3/3[1] |
| MM Patel<br>Independent Non-Executive Director | 28 May 2012 | 5/5 | 6/6 | 2/2[1] | 3/3 |
| MJ van Straaten<br>Chief Executive Officer (Executive) | 1 July 2005 | 5/5 | 6/6[2] | 2/2 | 3/3[2] |
| SR Beecroft<br>Financial Director (Executive) | 6 December 2011 | 5/5 | 6/6[2] | 2/2 | 3/3[2] |

[1] Chairman [2] By invitation

# GOVERNANCE REPORT continued

of equality, prevention of unfair discrimination and reduction of corruption, contribution to development of the communities in which the Group's activities are predominantly conducted, or within which its products or services are predominantly marketed; recording any sponsorship, donations and charitable giving; the environment, health and public safety (including the impact of the Company's activities and of its products or services); consumer relationships, (including the Company's advertising, public relations and compliance with the consumer protection laws); and

- labour and employment, including the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; the Company's employment relationships, and its contribution toward the educational development of its employees.

## Company Secretary

The Company Secretary, appointed on 1 August 2013, plays a pivotal role in guiding and assisting the Board in the delivery of its mandate. The appointment and removal of the Company Secretary is a matter for the Board. The Company Secretary is responsible for providing the Board, collectively, and directors, individually, with guidance on the discharge of their responsibilities in terms of legislative and regulatory requirements.

The directors have unlimited access to the advice and services of the Company Secretary. The Company Secretary ensures that the Board and its committees are supplied with comprehensive and timely information and that the directors have all the relevant information and facts they need to discharge their responsibilities.

The Board has satisfied itself that the Company Secretary has the appropriate competence and experience and, as the Company Secretarial duties are outsourced to an independent firm, has maintained an arm's-length relationship with the directors.

## Retirement and re-election of directors

One-third of the non-executive directors retire by rotation every three years and may offer themselves for re-election by the shareholders at the Company's annual general meeting. Messrs MM Patel and SR Beecroft retire and have advised that they are available for re-election. Their biographical details are provided on P 15 of this integrated report to enable shareholders to make an informed decision in respect of their possible re-election.

## Induction and development

The Company Secretary assists the Chairman with the induction and orientation of directors, including arranging specific training, if required.

## Independent advice

Individual directors may seek independent professional advice on any matter connected with the discharge of their responsibilities as directors, at the expense of the Company, after consulting with the Chairman or the Chief Executive Officer.

## Directors' share dealings

The Group has an approved trading policy in terms of which dealing in the Group's shares by directors and employees is prohibited during closed periods.

The directors of the Company keep the Company Secretary advised of all their dealings in securities. The Company Secretary monitors that the directors receive approval from the Chairman, or a designated director, for any dealings in securities and ensures adherence to closed periods for share trading.

## Conflicts of interest

Directors are required to inform the Board of conflicts or potential conflicts of interest they may have in relation to particular items of business. Directors are obliged to recuse themselves from discussions or decisions on matters in which they have a conflicting interest. Directors are required to disclose their shareholding in the Company and other directorships they hold at least annually and as and when the changes occur.

During the financial year ended 28 February 2014, none of the directors had a significant interest in any contract or arrangement entered into by the Company or its subsidiaries, other than as disclosed on P 34 to the annual financial statements.

## Code of ethics

The Group's values commit employees to high standards of integrity, behaviour and ethics in dealing with stakeholders.

The directors believe that the ethical standards of the Group, as stipulated in the Code of Ethics, are monitored and are being met. Where there is non-compliance the appropriate disciplinary action is taken, as Verimark responds to offences and prevents recurrence.

## Internal controls

Internal control systems were introduced to provide management and the Board with reasonable assurance as to the integrity and reliability of the financial statements.

Management monitors the functioning of the internal control systems and makes recommendations to the Audit and Risk Committee of the Board.

Responsibility for the adequacy and operation of these systems is delegated to the executive directors. These records and systems are designed to safeguard assets and prevent and detect fraud.

## Going concern

The annual financial statements contained in this annual report have been prepared on the going concern basis.

The directors report that, after making enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Group continues to adopt the going concern basis in preparing the annual financial statements.

# KING CODE OF GOVERNANCE COMPLIANCE ASSESSMENT

| | |
|---|---|
| Applied | ✓ |
| Partially applied | ★ |
| Not applied | ✗ |
| Not applicable | – |

The table below records the respects in which Verimark applies the principles of King III:

| Chapter 1 – Ethical leadership and corporate citizenship | |
|---|---|
| The board should provide effective leadership based on an ethical foundation | ✓ |
| The board should ensure that the company is and is seen to be a responsible corporate citizen | ✓ |
| The board should ensure that the company's ethics are managed effectively [note 1] | ★ |
| **Chapter 2 – Board and directors** | |
| The board should act as the focal point for and custodian of corporate governance | ✓ |
| The board should appreciate that strategy, risk, performance and sustainability are inseparable | ✓ |
| The board and its directors should act in the best interests of the company | ✓ |
| The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act [note 2] | – |
| The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board | ✓ |
| The board should appoint the chief executive officer and establish a framework for the delegation of authority | ✓ |
| The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent | ✓ |
| Directors should be appointed through a formal process | ✓ |
| The induction and ongoing training and development of directors should be conducted through formal processes [note 3] | ✗ |
| The board should be assisted by a competent, suitably qualified and experienced company secretary | ✓ |
| The evaluation of the board, its committees and the individual directors should be performed every year [note 4] | ★ |
| The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities | ✓ |
| A governance framework should be agreed between the group and its subsidiary boards | ✓ |
| Companies should remunerate directors and executives fairly and responsibly | ✓ |
| Companies should disclose the remuneration of each individual director and prescribed officer | ✓ |
| Shareholders should approve the company's remuneration policy | ✓ |

| Chapter 3 – Audit committees | |
|---|---|
| The board should ensure that the company has an effective and independent audit committee | ✓ |
| The audit committee members should be suitably skilled and experienced independent non-executive directors | ✓ |
| The audit committee should be chaired by an independent non-executive director | ✓ |
| The audit committee should oversee integrated reporting | ✓ |
| The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities [note 8] | ✗ |
| The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function | ✓ |
| The audit committee should be responsible for overseeing of internal audit [note 7] | ✗ |
| The audit committee should be an integral component of the risk management process | ✓ |
| The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process | ✓ |
| The audit committee should report to the board and shareholders on how it has discharged its duties | ✓ |
| **Chapter 4 – The governance of risk** | |
| The board should be responsible for the governance of risk | ✓ |
| The board should determine the levels of risk tolerance [note 9] | ✗ |
| The risk committee or audit committee should assist the board in carrying out its risk responsibilities | ✓ |
| The board should delegate to management the responsibility to design, implement and monitor the risk management plan | ✓ |
| The board should ensure that risk assessments are performed on a continual basis | ✓ |
| The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks | ✓ |
| The board should ensure that management considers and implements appropriate risk responses | ✓ |
| The board should ensure continual risk monitoring by management | ✓ |
| The board should receive assurance regarding the effectiveness of the risk management process | ✓ |
| The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders | ✓ |

# KING CODE OF GOVERNANCE COMPLIANCE ASSESSMENT continued

| | |
|---|---|
| Applied | ✓ |
| Partially applied | ★ |
| Not applied | ✗ |
| Not applicable | – |

| Chapter 5 – The governance of information technology | |
|---|---|
| The board should be responsible for information technology (IT) governance [note 5] | ✓ |
| IT should be aligned with the performance and sustainability objectives of the company | ✓ |
| The board should delegate to management the responsibility for the implementation of an IT governance framework [note 5] | ✗ |
| The board should monitor and evaluate significant IT investments and expenditure [note 5] | ✗ |
| IT should form an integral part of the company's risk management | ✓ |
| The board should ensure that information assets are managed effectively | ✓ |
| A risk committee and audit committee should assist the board in carrying out its IT responsibilities [note 5] | ✓ |

| Chapter 6 – Compliance with laws, rules, codes and standards | |
|---|---|
| The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards | ✓ |
| The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business [note 6] | ✓ |
| Compliance risk should form an integral part of the company's risk management process | ✓ |
| The board should delegate to management the implementation of an effective compliance framework and processes | ✓ |

| Chapter 7 – Internal audit | |
|---|---|
| The board should ensure that there is an effective risk-based internal audit function [note 7] | ✗ |
| Internal audit should follow a risk-based approach to its plan [note 7] | ✗ |
| Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management [note 7] | ✗ |
| The audit committees should be responsible for overseeing internal audit [note 7] | ★ |
| Internal audit should be strategically positioned to achieve its objectives [note 7] | ✗ |

| Chapter 8 – Governing stakeholder relationships | |
|---|---|
| The board should appreciate that stakeholders' perceptions affect a company's reputation | ✓ |
| The board should delegate to management to deal proactively with stakeholder relationships | ✓ |
| The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company | ✓ |
| Companies should ensure the equitable treatment of shareholders | ✓ |
| Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence | ✓ |
| The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible | ✓ |

| Chapter 9 – Integrated reporting and disclosure | |
|---|---|
| The board should ensure the integrity of the company's integrated report | ✓ |
| Sustainability reporting and disclosure should be integrated with the company's financial reporting | ✓ |
| Sustainability reporting and disclosures should be independently assured [note 8] | ✗ |

**Notes**

1. Whilst various processes and policies are in place (for e.g. a code of conduct), no formal assessment of the ethics performance is undertaken. No ethics related concerns were highlighted via the whistleblowing and other control processes.
2. It has not been necessary to consider business rescue proceedings.
3. Given the experience of the members of the Board, mentorship and professional development programmes have not been considered necessary.
4. No formal evaluation processes are in place. This will be implemented in the future.
5. A formalised IT governance framework has not been developed. The formalisation of the framework and governance process should be completed in the forthcoming year.
6. Changes to the laws and regulations which materially impact the Company are brought to the attention of the Board by the Financial Director.
7. The Group does not have an independent internal audit function. The Audit and Risk Committee together with the external auditors fulfils this function as the size of the Group does not justify the cost of developing and maintaining an internal audit function. The Board remains ultimately responsible to oversee internal financial processes.
8. There was no external assurance on the integrated report. The Board will consider the benefits of obtaining external assurance on the integrated report relative to the cost implications thereof going forward.
9. The risk management processes are currently being enhanced and the risk tolerance and appetite levels have not yet been set formally.

*The full King Code of Governance assessment can be found at www.verimark.co.za*

# SOCIAL, ETHICS AND TRANSFORMATION REPORT

The Chairman of the Social and Ethics Committee (the Committee) reports to shareholders on the matters within the Committee's mandate for the period ended 28 February 2014, in accordance with the requirements of the Companies Act, 71 of 2008, as amended.

## Composition and meetings

In accordance with the relevant provisions of the Companies Act and applying the recommendations of King III, the Social and Ethics Committee consists of a majority of independent non-executive directors, one of whom chairs the Committee's meetings. The Group Chief Executive Officer and Financial Director are also members of this committee. At the annual general meeting in August 2013, shareholders confirmed the appointments of these members.

The Committee met twice during the period under review. At each of its meetings, it receives reports from management, and in turn reports on relevant matters within its mandate to the Board.

The following table of attendance at Social and Ethics Committee meetings reflects the Committee's meetings held during the year and the attendance of these meetings by its members during the year:

| | 16 May 2013 | 3 October 2013 |
|---|---|---|
| MM Patel (Non-Executive – Chairman) | ✔ | ✔ |
| JT Motlatsi (Non-Executive) | ✔ | ✔ |
| JM Pieterse (Non-Executive) | ✔ | ✔ |
| MJ van Straaten | ✔ | ✔ |
| SR Beecroft | ✔ | ✔ |

## Responsibilities

The Social and Ethics Committee has adopted formal terms of reference as incorporated in the Board Charter which have been approved by the Board of Directors. The terms of reference are reviewed and amended as necessary. The Committee has conducted its affairs in compliance with these terms of reference and has discharged its responsibilities contained therein.

The objectives and responsibilities of the Committee are recorded in its written charter and are aligned with the Committee's statutory functions as set out in the Companies Act and form the basis of an annual work plan. In summary the Committee has a duty to:

- monitor social, economic, governance, employment and environmental activities of the Group;
- bring matters relating to these activities to the attention of the Board as appropriate; and
- report annually to shareholders on the matters within the scope of its responsibilities.

The Committee's monitoring role also includes the monitoring of relevant legislation, other legal requirements or prevailing codes of best practice, specifically with regard to matters relating to social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships, as well as labour and employment.

## Achievements in 2014

During 2014, the Committee continued to focus on developing, enhancing and improving its activities within its mandate. Activities undertaken during 2014 included the following:

- The Group's Code of Ethics was updated during the year and has been


# SOCIAL, ETHICS AND TRANSFORMATION REPORT continued

included in the Company's induction processes;

- An independently monitored whistleblowing hotline has been made available to employees across the Group, whereby employees can report suspected fraud and/or activities which are considered to be transgressions of the Group's Code of Conduct. All logged calls were reported to relevant managers. Corrective action has been implemented where necessary to improve controls and to prevent recurrence of the incident. Reports detailing the tip-offs received, how these tip-offs have been investigated and the corrective measures taken are submitted to the Social and Ethics Committee as appropriate;
- The Committee reviewed the progress made on the Group's corporate social investment initiatives; and
- The Group's adherence to the various laws and regulations (including consumer protection laws) are continuously monitored and reported to the Committee. The Group continues to strive to ensure that all laws and regulations applicable to itself are adhered to, or has plans in place to ensure that a process is in place to ensure adherence.

## Plans for the 2015 period

The Committee plans to continue improving its monitoring activities and enhance the process for making appropriate recommendations to the Board relating to environmental, social and employee development initiatives.

The Group's corporate social investment initiatives are expected to gain momentum in the new year. A formal Corporate Social Investment Policy is expected to be finalised and presented during the year ahead.

Verimark reported a "non-compliant" BBBEE status during the 2014 year in accordance with the BBBEE codes. The Committee has noted that the Group put a strategy in place to improve its current BBBEE status.

The Committee monitors the Group's activities in respect of the environment, health and safety (including employee and public) and does so while having regard to any relevant legislation, other legal requirements or prevailing codes of best practice. The Committee has recommended certain improvements in these processes to be implemented in the forthcoming year.

A self-evaluation of the Committee is expected to be undertaken during the 2015 period.

## Conclusion

No material non-compliance with legislation and regulation, or non-adherence with codes of best practice, relevant to the areas within the Committee's mandate has been brought to its attention, and, based on its monitoring activities to date, the Committee has no reason to believe that any such non-compliance or non-adherence has occurred.

**MM Patel**
*Chairman*

# CORPORATE ACCOUNTABILITY

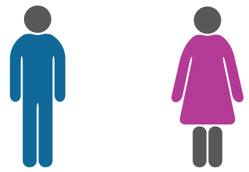
## Our environment

- Due to the nature of our business, Verimark has little direct impact on the environment. Whilst we generally consume water and energy, our consumption is low. We generate limited emissions to air. Even though our carbon footprint is relatively small, our new head office and warehouse premises was built with green principles in mind:
  - The lighting installed in the warehouse uses specialised energy efficient systems;
  - Solar heating has been used for water heating and staff hygiene facilities; and
  - The windows in the building are double glazed and together with new energy efficient air conditioner systems should result in further energy usage reductions.
- Due to the size of our warehouse structure, we will be investigating the viability of harnessing more solar energy for powering our facility in the future.
- Our highest impact is generally in the form of waste (paper, cardboard and wood [pallets]). Where possible, for internal storage purposes, we attempt to reuse our cardboard boxes. Only once we believe that the cardboard can no longer be utilised, do we have it collected for recycling. These efficiency measures have led to a 42% reduction in cardboard usage over the last two years.
- In addition to the above, improved warehouse pallet management has resulted in the total Rand pallet expense incurred in 2014 being lower than that recorded in 2011.
- We will be exploring the viability of further cost savings opportunities via the use of pallets made from recycled materials.
- We will continue to focus on distribution load consolidations to reduce the fuel used by our third party logistics providers.

## Our employees

- One of the cornerstones of our success is the investment in training and equipping our employees to ensure that they can provide our customers with the highest level of service:
  - We train in excess of 2 500 employees on an annual basis;
  - In addition, we recruit approximately 260 seasonal employees over the peak season. We recruit employees from all walks of life, with the majority being young students and school leavers; and
  - We have a formal training centre with experienced trainers who provide in excess of 3 000 hours of training per annum.
- We pride ourselves on that fact that we provide these young employees with the opportunity to be trained in sales skills/techniques and product knowledge. Often one's first employment is quite daunting, but at Verimark we provide these young students the opportunity to increase their confidence and experience. Whether they remain at Verimark in the long term or not, they have been provided with a great foundation upon which to build their careers.
- R1,2 million is spent on training.
- 95% of employees trained are HDSAs and 54% are female.

### TOTAL WORKFORCE



| | |
|---|---|
| **2014:** 573 | **2014:** 758 |
| **2013:** 548 | **2013:** 664 |
| **2012:** 586 | **2012:** 751 |
| **2011:** 554 | **2011:** 630 |
| **2010:** 625 | **2010:** 641 |

# CORPORATE ACCOUNTABILITY continued

### Our workforce

| Category | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Full-time | 263 | 305 | 323 | 335 | **329** |
| Part-time | 1 003 | 879 | 1 014 | 877 | **1 002** |
| **Total** | **1 266** | **1 184** | **1 337** | **1 212** | **1 331** |

| Category | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| HDSA | 1 130 | 1 054 | 1 198 | 1 090 | **1 230** |
| White | 136 | 130 | 139 | 122 | **101** |
| **Total** | **1 266** | **1 184** | **1 337** | **1 212** | **1 331** |

## Our community

- Whilst we believe that our main benefit to the community is equipping first time employees and seasonal employees with the skills, techniques and confidence which provide an excellent foundation for future opportunities, we do engage in assisting various charitable causes.
- We have made great progress along our journey with our community:
  - During the past year the Verimark Community Fund was established;
  - The foundation of all our projects is to provide hope and opportunity for the youth in South Africa. All our projects/efforts are targeted at education, creating hope and building confidence in the young members of our society; and
  - The various projects undertaken during the past year range from providing blankets to crèches in impoverished areas and donating educational toys to needy children's homes to donating products to various charitable institutions for fundraising activities.
- In addition to the philanthropic nature of our projects, we encourage our staff to recommend projects and take part in projects where we, as Verimark employees, can actively participate.
- One of the major projects undertaken during the year was to provide support to Vuleka School in Northriding. Our employees opened their hearts and wallets to raise enough funds to provide running shoes, soccer boots and balls for all the children at the school for use in their sporting activities.

  In addition to this, a full family fun day was hosted at the school for all the children and parents to enjoy with heart-warming memories to savour.
- Verimark teamed up with "In the Spirit of Riding", a family motorcycling group, to provide and deliver a number of educational products to needy children's homes throughout Gauteng and Polokwane.
- Using our entrepreneurial spirit, which forms the life blood of Verimark, we sought to provide small entrepreneurs with the opportunity to develop. Our waste cardboard and pallets, which were previously discarded, are now provided, at a nominal price, to a small start-up vendor thereby allowing him the opportunity to create employment and grow his business. The vendor started with a small vehicle and has progressed to acquiring a larger vehicle and employing more people to assist with the waste removal and resale. The income earned from the sale of the waste is transferred to the Verimark Community Fund to assist funding of future projects.

# FINANCIALS


The secret is in the patented counter rotating blade technology, making it the only saw with two blades that simultaneously rotate in opposite directions! **Dual Saw**'s inverted rotation moves its two blades equally both forward and backward – this eliminates the usual kickback, vibrations and sparks that other saws cause.

The laser-honed, tungsten carbide-tipped blades cut hard and soft metals, hard wood, PVC, Formica, iron, plastics, aluminium, wood, copper, stainless steel and more. Our optional Diamond Blades add the versatility of a wet saw to cut stone, ceramics, tiles and more without overheating or warping.

**Dual Saw** comes in a CS450 and a more professional CS650 model and includes a variety of accessories including a sturdy carry case.

**DIY tools are a home essential. With the introduction of the revolutionary Dual Saw, you can cut through virtually anything without changing your saw blade.**

# DIRECTORS' RESPONSIBILITY STATEMENT

The financial statements of Verimark Holdings Limited have been audited in compliance with section 30 of the Companies Act, 71 of 2008, of South Africa. Mr Shaun Beecroft (Financial Director, CA(SA)) was responsible for supervising the preparation of the financial statements. These financial statements for the year ending 28 February 2014 were approved on 22 May 2014.

The directors are responsible for the preparation and fair presentation of the Group and Company annual financial statements of Verimark Holdings Limited, comprising the statements of financial position at 28 February 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be going concerns in the year ahead.

The auditor is responsible for reporting on whether the financial statements are fairly presented in accordance with the applicable financial reporting framework.

## Approval of the Group and Company annual financial statements

The Group and Company annual financial statements of Verimark Holdings Limited, as identified in the first paragraph, were approved by the Board of Directors on 22 May 2014 and are signed on its behalf by:

**Dr JT Motlatsi**
*Chairman*

**MJ van Straaten**
*Chief Executive Officer*

22 May 2014

# COMPANY SECRETARY'S CERTIFICATE

In terms of the Companies Act, 71 of 2008, the Company Secretary, S Wilke has certified that, to the best of her knowledge and belief, the Company has, in respect of the financial year reported upon, lodged with the Registrar of Companies all returns required of a public company in terms of the Act and that all such returns are true, correct and up to date.

**Premium Corporate Consulting Services Proprietary Limited**
*Company Secretary*

22 May 2014

# DIRECTORS' REPORT

for the year ended 28 February 2014

The directors have pleasure in submitting their report for the financial year ended 28 February 2014.

## Nature of business

Verimark Holdings Limited (Verimark) is a retail company that sources, develops and distributes unique superior quality products in the housewares, exercise and fitness, health, DIY, automotive, educational toys and personal comfort categories, both locally and internationally.

## Financial statements

The net profit attributable to ordinary shareholders for the year ended 28 February 2014 amounted to R17,6 million (2013: R8,9 million). This translates into headline earnings per share of 16,9 cents (2013: 8,4 cents) per share based on the weighted average number of shares (net of treasury shares) in issue during the year.

The results and financial position of the Company and the Group are contained in the financial statements on P 38 to 86 of the report.

## Going concern

The financial statements have been prepared using the appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors have reasonable expectations that the Company and its subsidiaries have adequate resources to continue as going concerns in the foreseeable future.

## Independent auditor

The independent auditor, KPMG Inc., will be re-appointed at the forthcoming annual general meeting. All non-audit services provided by KPMG Inc. are tabled and approved by the Audit and Risk Committee.

## Impairment of investment in subsidiary reflected in the Company accounts

The cumulative impairment loss against the investment in Verimark Proprietary Limited in the books of Verimark Holdings Limited (Company) amounts to R204 381 003.

On consolidation, the investment in the subsidiary is eliminated, and thus there is no effect on earnings as reported by the Group.

Due to the accounting principles applied for reverse listings per IFRS 3, the goodwill was not impacted by this impairment. Refer to notes 4 and 5 for further explanation.

## Share capital and share premium

Details of the authorised and issued share capital and the share premium are provided in notes 11 and 12 of these financial statements.

The authorised and issued share capital has not changed during the current financial year. 4 000 000 issued shares previously under the control of VEET (Verimark Employees Empowerment Trust) have been transferred back to the Van Straaten Family Trust as part of the BBBEE unwinding. No shares have been granted to employees to date.

At the 2010 annual general meeting, a general authority was granted by shareholders to allow the Company to acquire its own shares in terms of the Companies Act. The directors consider it advantageous, for the Company, for this general authority to continue. Such authority will be used if the directors consider that it is in the best interests of the Company and shareholders to effect such acquisitions having regard to prevailing circumstances and cash resources of the Company. Shareholders will be asked to consider a similar special resolution to this effect at the forthcoming annual general meeting.

During 2011 the Company, through its subsidiary Verimark Proprietary Limited, repurchased 2 980 870 of its issued shares for a consideration of R3 735 925, bringing the total number of shares to 6 380 870 and the total cost to R5 373 405.

No shares were purchased during the year ended 28 February 2014. These shares are treated as treasury shares in the Group financial statements.

## Dividends

Due to the lower level of profitability achieved in the financial year ended 28 February 2014, the Board considered it prudent that no final dividend be declared in relation to the 28 February 2014 results (2013: Rnil or nil cents per share).

This is not in line with the dividend policy of 50% of profit attributable to owners of the Company.

The policy will be reassessed on an ongoing basis as and when dividends become due and payable.

## Directors and Company Secretary

The names of the directors and Company Secretary are:

### Executive directors

**MJ van Straaten**
Chief Executive Officer

**SR Beecroft**
Financial Director

### Non-executive directors

**Dr JT Motlatsi**
Independent Non-Executive Chairman

**JM Pieterse**
Independent Non-Executive Director, Audit and Risk Committee and Remuneration Committee Chairman

**MM Patel**
Independent Non-Executive Director, Social and Ethics Committee Chairman

### Company Secretary

Premium Corporate Consulting Services Proprietary Limited

## Changes to the Board

In terms of the Company's memorandum of incorporation, each year, one-third of Verimark's directors retire and their re-election is subject to the approval of shareholders at the annual general meeting. All new appointments will be confirmed by shareholders at the annual general meeting.

# DIRECTORS' REPORT continued

for the year ended 28 February 2014

## Broad based black economic empowerment (BBBEE)

In terms of Verimark's BBBEE initiative in 2006, Teba Development purchased 11,5 million shares in Verimark, 4 million of which were held for the benefit of Verimark employees. The purchase was funded by the Van Straaten Family Trust and facilitated through Mirror Ball. In terms of the agreement with Teba Development, 4 million shares were transferred to the control of the Verimark Employees Empowerment Trust (VEET). The BBBEE scheme has subsequently been dissolved, due to the shares being out of the money and therefore transferred back to the Van Straaten Family Trust as consideration for the preference shares held in Selcovest 35 Proprietary Limited.

## IFRS 2 Share Based Payment transaction

On 1 March 2010 certain key managers of Verimark Proprietary Limited were issued 3 050 000 shares of Verimark Holdings Limited. Management's effective holding is 0,79% (2013: 2,54%). This is treated as a cash settled share based payment transaction in Verimark Proprietary Limited and an equity settled share based payment transaction in the Group Financial Statements of Verimark Holdings Limited.

The members of management who benefited from this transaction are M Adam, T Bezuidenhout, N du Plessis, R du Plessis, C Hoadley, H Lourens and D Rabie. These managers are considered to be key management and as such are treated as related parties to the Company for purposes of IAS 24 Related Party Transaction, disclosures. R du Plessis resigned in July 2013, and according to the rules of the scheme forfeited all benefits. The number of options has consequently reduced to 900 000 shares.

## Directors' shareholding

At 28 February 2014, the directors and their associates (as defined in terms of the JSE Listings Requirements) had the following direct and indirect beneficial interest in the share capital of the Company:

| Director | Direct | Indirect | Total number of shares held | Percentage of issued share capital |
|---|---|---|---|---|
| MJ van Straaten and associates | – | 72 000 000 | 72 000 000 | 63,01 |
| SR Beecroft and associates | – | – | – | – |
| Dr JT Motlatsi and associates | – | – | – | – |
| JM Pieterse and associates | – | 1 791 525 | 1 791 525 | 1,57 |
| MM Patel and associates | – | – | – | – |

No change in directors' shareholding occurred between the end of the financial year and the date of approval of the annual financial statements.

## Interest of directors in contracts

During the financial year, no contracts were entered into in which directors and officers of the Company had an interest which significantly affected the Group.

## Litigation

The Company engages in a certain level of litigation in its ordinary course of business. The directors have considered all pending litigation and are of the opinion that, unless specifically provided for, none of these claims will result in a loss to Verimark Proprietary Limited.

## Subsidiaries and controlled entities

### Subsidiaries

Verimark Proprietary Limited (Reg. No. 1989/006800/07)

Verimark Singapore Pte Limited (Reg. No. 201224523D)

### Controlled entities

Verimark Employees Empowerment Trust (Trust No. IT2016/07) (VEET)

Selcovest 35 Proprietary Limited (Reg. No. 2005/018106/07) (Selcovest)

These are controlled entities as they are considered special purpose entities (SPEs).

The Group established the consolidated structured entities in the form of VEET and Selcovest for BBBEE purposes, as explained in the paragraph dealing with broad based black economic empowerment. The Group does not have any direct or indirect shareholdings in these entities.

In terms of IFRS 10, these consolidated structured entities have been consolidated into the financial results of the Group as it has been ascertained that control of the entities rests with Verimark as Verimark has power over the relevant activities of VEET and Selcovest. In addition, it is envisaged that Verimark would benefit from the Empowerment Trust by being able to retain and promote skills from its workforce. Verimark is also entitled to benefit from any surplus (after discharging its liabilities) in the Trust upon its termination by the Trustees.

The directors draw attention to the fact that during the current year the Van Straaten Family Trust called on the preference share liability to be repaid. VEET was unable to repay the amount in cash, and therefore transferred the issued share capital back to the Van Straaten Family Trust as payment for the outstanding preference shares. This has resulted in the treasury shares reflected in the Group being used to settle the preference share liability. This has decreased the current liabilities and increased the equity of the Group. In addition the annual interest charge will cease. Refer to notes 11, 12 and 15 for further details.

The attributable interest of the Group in the aggregate net profits/(losses) after taxation of the subsidiaries and controlled entities is set out below:

| | 2014<br>R | 2013<br>R |
|---|---|---|
| Verimark Proprietary Limited | **12 565 779** | 12 706 124 |
| Creditvision Rental Finance Proprietary Limited (deregistered) | **–** | (1 142) |
| Verimark Singapore Pte Limited | **(965 799)** | 246 693 |
| Verimark Employee Empowerment Trust | **–** | – |
| Selcovest 35 Proprietary Limited | **6 061 414** | (1 176 272) |

## Borrowing powers

As defined by the memorandum of incorporation, the borrowing powers of the directors shall allow them to exercise all powers of the Company to borrow money, to mortgage or encumber its undertaking and property or any part thereof, and to issue debenture stock (whether secured or unsecured) and other securities (with special privileges, if any, as to allotment of shares, attending and voting at general meetings, appointment of directors otherwise than may be sanctioned by a general meeting) whether outright as a security for any debt, liability obligation of the Company or any third party. For the purposes of this provision, the borrowing powers of the Company shall be unlimited.

## Subsequent 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.

## Business and registered address

50 Clairwood Avenue, Ext 55
Hoogland, Randburg 2122.

## Postal address

PO Box 78260, Sandton 2146.

## Special resolutions

A special resolution was passed by the Board of Directors of Verimark Proprietary Limited, authorising the entity to provide financial assistance to a related party, in terms of section 45 of the Companies Act.

'A special resolution was passed by Selcovest 35 Proprietary Limited, a consolidated structured entity of Verimark Holdings Limited, authorising the entity to dispose of the shares held by it to the Van Straaten Family Trust as consideration for the redemption of the preference shares held in Selcovest 35 Proprietary Limited.'

Signed on behalf of the Board:

**Dr JT Motlatsi**
*Chairman*

**MJ van Straaten**
*Chief Executive Officer*

Johannesburg
22 May 2014


**Mighty Sealer**
Mighty Sealer is the number one long lasting quick fix rubber sealant that sticks to almost any surface to seal, coat and protect for years. It works well on roofs, skylights, gutters, pipes and more to form a flexible watertight coating that you can even paint.

# AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee (the Committee) is pleased to present its report for the financial year ended 28 February 2014 in terms of section 94 (7)(f) of the Companies Act, 71 of 2008, as amended (the Companies Act).

The Committee has adopted formal terms of reference, delegated to it by the Board of Directors, as its charter. The charter is in line with the Companies Act, the King Code and Report on Governance for South Africa (King Code) and the JSE Listings Requirements

The shareholders appointed the Committee for the 2014 financial year at the annual general meeting in August 2013. The Committee consists solely of independent non-executive directors who are all financially literate. The Group's external auditors, KPMG, are permanent invitees at scheduled committee meetings. All executive directors attend by invitation.

The main objective of the Committee is to provide to the Board critical and independent advice on compliance audit and risk management within the Group. The Committee has been authorised by the Board of Directors to:

- investigate and undertake any activity within the terms of reference and is authorised to seek any information regarding the financial affairs and corporate governance of the Group; and
- obtain external legal or professional advice to assist in the performance of its duties at the cost of the Group.

During the year under review the Committee performed the following statutory duties:

- Reviewed and recommended for adoption by the Board such financial information as is publicly disclosed which for the year included:
  - the interim results for the six months ended 31 August 2013; and
  - the annual financial statements for the year ended 28 February 2014;
- Considered and satisfied itself that the external auditors KPMG Inc. are independent;
- Approved the external auditors' budgeted fees and terms of engagement for the 2014 financial year;
- Investigated the option to co-source the internal audit function for the year ahead;
- Confirmed adequate whistleblowing facilities were in place and reviewed and considered action taken with regard to incident reports;
- Held separate meetings with management and the external auditors to discuss any problems and reservations arising from the year-end audit and other matters that they wished to discuss;
- Noted that it had not received any complaints, either from within or outside the Company, relating to either the accounting practices, the content or auditing of the financial statements, the internal financial controls or any other related matter;
- Recommended to the Board the re-appointment of KPMG Inc. as the Group auditors and Mr J Wessels as the registered auditor responsible for the audit for the year ending 28 February 2015, which will be considered at the forthcoming annual general meeting;
- Evaluated and satisfied itself as to the appropriateness of the expertise and experience of the Company's Financial Director; and
- Satisfied itself as to the expertise, resources and experience of the Company's finance function.

I am pleased to report that all issues that were brought to our attention were properly considered by the Committee and where weaknesses in specific controls have been identified, management undertook to implement the appropriate corrective actions to mitigate that risk.

Following the review by the Committee of the annual financial statements of Verimark Holdings Limited for the year ended 28 February 2014 and the result of the external auditor, the Committee is of the view that they fairly present, in all material aspects, the financial position at that date and the results of operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Companies Act. The Committee has satisfied itself of the integrity of the remainder of the integrated annual report.

Having achieved its objectives for the financial year, the Committee has recommended the annual financial statements and integrated annual report for the year ended 28 February 2014 for approval to the Verimark Holdings Limited Board. The Board has subsequently approved the financial statements, which will be open for discussion at the forthcoming annual general meeting.

**JM Pieterse**
*Chairman*

22 May 2014

# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Verimark Holdings Limited**

We have audited the Group financial statements and financial statements of Verimark Holdings Limited, which comprise the statements of financial position at 28 February 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes as set out on P 38 to 86.

## Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Verimark Holdings Limited at 28 February 2014, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Companies Act of South Africa.

## Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 28 February 2014, we have read the Directors' report, the Audit and Risk Committee's report and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

**KPMG Inc.**
*Per J Wessels*
Chartered Accountant (SA)
Registered Auditor
Director

KPMG Crescent
85 Empire Road
Parktown, Johannesburg

22 May 2014

# GROUP STATEMENT OF FINANCIAL POSITION

as at 28 February 2014

| | Note | GROUP 2014 R | GROUP 2013 R |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **32 056 852** | 36 211 845 |
| Plant and equipment | 3 | **13 527 249** | 18 577 743 |
| Intangible assets | 4 | **14 893 159** | 14 426 479 |
| Deferred taxation asset | 6 | **3 636 444** | 3 207 623 |
| **Current assets** | | **128 322 104** | 167 111 579 |
| Inventories | 7 | **66 279 720** | 87 494 520 |
| Trade and other receivables | 8 | **60 228 714** | 77 809 834 |
| Prepayments | | **419 275** | 353 718 |
| Cash and cash equivalents | 10 | **1 394 395** | 1 453 507 |
| **Total assets** | | **160 378 956** | 203 323 424 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | **115 177 260** | 87 448 631 |
| Share capital | 11 | **359 757** | 346 420 |
| Share premium | 12 | **32 268 689** | 21 378 068 |
| Foreign currency translation (deficit)/reserve | | **(167 550)** | 13 233 |
| Share based payment reserve | 13 | **468 137** | 1 124 077 |
| Retained earnings | | **82 248 227** | 64 586 833 |
| **Non-current liabilities** | | **4 384 176** | 5 944 059 |
| Interest-bearing borrowings | 14 | **4 384 176** | 5 944 059 |
| **Current liabilities** | | **40 817 520** | 109 930 734 |
| Preference share liability | 15 | **–** | 17 012 124 |
| Trade and other payables | 17 | **29 453 439** | 59 325 810 |
| Current portion of interest-bearing borrowings | 14 | **2 547 967** | 3 479 809 |
| Taxation payable | | **392 125** | 1 649 876 |
| Bank overdraft | 10 | **8 423 989** | 28 463 115 |
| **Total liabilities** | | **45 201 696** | 115 874 793 |
| **Total equity and liabilities** | | **160 378 956** | 203 323 424 |

# GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2014

| | | GROUP | |
|---|---|---|---|
| | Note | 2014 R | 2013 R |
| **Revenue** | 18 | **430 472 661** | 454 091 053 |
| **Cost of sales** | | **(257 105 692)** | (288 920 448) |
| **Gross profit** | | **173 366 969** | 165 170 605 |
| Other income | 19 | **9 666 688** | 1 806 129 |
| Selling expenses | | **(38 136 634)** | (42 099 657) |
| Other operating expenses | | **(115 253 056)** | (108 290 432) |
| **Operating profit before finance income/(expense)** | 20 | **29 643 967** | 16 586 645 |
| Finance income | 21 | **4 107 361** | 6 390 769 |
| Finance expense | 21 | **(10 340 380)** | (7 732 075) |
| **Profit before taxation** | | **23 410 948** | 15 245 339 |
| Taxation expense | 22 | **(5 749 554)** | (6 367 191) |
| **Profit for the year** | | **17 661 394** | 8 878 148 |
| **Other comprehensive income** | | | |
| Items that are or may be reclassified to profit or loss | | | |
| Foreign currency translation reserve movement | | **(180 783)** | 13 233 |
| **Total comprehensive income for the year** | | **17 480 611** | 8 891 381 |
| **Earnings per share** | | | |
| Basic earnings per share (cents) | 30 | **17,0** | 8,5 |
| Diluted earnings per share (cents) | 30 | **17,0** | 8,4 |

# GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2014

| | Share capital R | Share premium R | Share based payment reserve R | Foreign currency translation (deficit)/ reserve R | Retained earnings R | Total R |
|---|---|---|---|---|---|---|
| **Balance at 1 March 2012** | 346 420 | 21 378 068 | 787 925 | – | 69 734 032 | 92 246 445 |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | – | – | – | – | 8 878 148 | 8 878 148 |
| Foreign currency translation reserve movement | | | | 13 233 | | 13 233 |
| **Transactions with owners recorded in equity** | | | | | | |
| Share based payment transaction | – | – | 336 152 | – | – | 336 152 |
| **Contributions by and distributions to owners of the Company** | | | | | | |
| Dividend paid to shareholders | – | – | – | – | (14 025 347) | (14 025 347) |
| **Balance at 28 February 2013** | **346 420** | **21 378 068** | **1 124 077** | **13 233** | **64 586 833** | **87 448 631** |
| **Total comprehensive income for the year** | | | | | | |
| Profit for the year | | | | | **17 661 394** | **17 661 394** |
| Other comprehensive income | | | | | | |
| Foreign currency translation reserve movement | | | | **(180 783)** | | **(180 783)** |
| **Transactions with owners recorded in equity** | | | | | | |
| Share based payment transaction credit | | | **(655 940)** | | | **(655 940)** |
| Treasury shares transferred/on settlement of preference share liability | **13 337** | **10 890 621** | **–** | **–** | **–** | **10 903 958** |
| **Contributions by and distributions to owners of the Company** | | | | | | |
| Dividend paid to shareholders | **–** | **–** | **–** | **–** | **–** | **–** |
| **Balance at 28 February 2014** | **359 757** | **32 268 689** | **468 137** | **(167 550)** | **82 248 227** | **115 177 260** |

# GROUP STATEMENT OF CASH FLOWS

for the year ended 28 February 2014

| | Note | GROUP 2014 R | GROUP 2013 R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from/(utilised by) operations | 24.1 | 39 193 838 | (1 668 300) |
| Finance income received | | 4 107 361 | 6 390 769 |
| Finance expense paid | | (9 132 246) | (6 015 801) |
| Income taxation paid | 24.2 | (7 436 126) | (8 281 581) |
| Dividend paid | 24.3 | – | (14 025 347) |
| **Net cash inflows/(outflows) from operating activities** | | 26 732 827 | (23 600 260) |
| **Cash outflows from investing activities** | | (4 238 185) | (10 754 773) |
| Acquisitions of plant and equipment to expand operations | | (5 407 053) | (11 576 575) |
| Acquisitions of intangible assets to maintain operations | | – | (81 643) |
| Proceeds from disposal of plant and equipment | | 1 168 868 | 903 445 |
| **Cash outflows from financing activities** | | (2 514 628) | (471 701) |
| Interest-bearing borrowings repaid | | (2 998 789) | (5 046 264) |
| Interest-bearing borrowings raised | | 484 161 | 5 114 563 |
| Preference share liability repaid | | – | (540 000) |
| **Net increase/(decrease) in cash and cash equivalents** | | 19 980 014 | (34 826 734) |
| Cash and cash equivalents at beginning of year | | (27 009 608) | 7 817 126 |
| **Cash and cash equivalents at end of year** | 24.4 | (7 029 594) | (27 009 608) |

# COMPANY STATEMENT OF FINANCIAL POSITION

as at 28 February 2014

| | | COMPANY | |
|---|---|---|---|
| | Note | 2014 R | 2013 R |
| **ASSETS** | | | |
| **Non-current assets** | | **78 849 334** | 120 024 778 |
| Investment in subsidiary companies | 5 | **78 849 334** | 120 024 778 |
| **Current assets** | | **440 258** | 513 380 |
| Loan receivable | 9 | **158 898** | 158 898 |
| Prepayments | | **21 386** | – |
| Cash and cash equivalents | 10 | **259 974** | 354 482 |
| **Total assets** | | **79 289 592** | 120 538 158 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the Company** | | **64 370 412** | 107 271 711 |
| Share capital | 11 | **380 908** | 380 908 |
| Share premium | 12 | **316 702 119** | 316 702 119 |
| Accumulated losses | | **(252 712 615)** | (209 811 316) |
| **Current liabilities** | | **14 919 180** | 13 266 447 |
| Amounts owing to subsidiary company and other related party | 16 | **14 919 180** | 13 056 867 |
| Trade and other payables | 17 | **–** | 209 580 |
| **Total equity and liabilities** | | **79 289 592** | 120 538 158 |

# COMPANY STATEMENT OF COMPREHENSIVE INCOME

for the year ended 28 February 2014

| | | COMPANY | |
|---|---|---|---|
| | Note | 2014 R | 2013 R |
| **Dividends received** | 18 | **–** | 15 426 764 |
| Operating expenses | | **(1 725 855)** | (1 464 777) |
| Impairment of investment in and loans to subsidiary companies | | **(41 175 444)** | – |
| **(Loss)/profit before taxation** | | **(42 901 299)** | 13 961 987 |
| Taxation expense | | **–** | – |
| **(Loss)/profit for the year** | | **(42 901 299)** | 13 961 987 |
| Other comprehensive income | | **–** | – |
| **Total comprehensive income for the year** | | **(42 901 299)** | 13 961 987 |

# COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 28 February 2014

| | Share capital R | Share premium R | Accumulated losses R | Total R |
|---|---|---|---|---|
| **Balance at 1 March 2012** | 380 908 | 316 702 119 | (208 346 539) | 108 736 488 |
| **Total comprehensive income for the year** | | | | |
| Profit for the year | – | – | 13 961 987 | 13 961 987 |
| **Contributions by and distributions to owners of the Company** | | | | |
| Dividend paid to shareholders | – | – | (15 426 764) | (15 426 764) |
| **Balance at 28 February 2013** | **380 908** | **316 702 119** | **(209 811 316)** | **107 271 711** |
| **Total comprehensive income for the year** | | | | |
| Loss for the year | **–** | **–** | **(42 901 299)** | **(42 901 299)** |
| **Contributions by and distributions to owners of the Company** | | | | |
| Dividend paid to shareholders | **–** | **–** | | |
| **Balance at 28 February 2014** | **380 908** | **316 702 119** | **(252 712 615)** | **64 370 412** |

# COMPANY STATEMENT OF CASH FLOWS

for the year ended 28 February 2014

| | Note | COMPANY 2014 R | COMPANY 2013 R |
|---|---|---|---|
| (Loss)/profit before taxation | | **(42 901 299)** | 13 961 987 |
| Impairment of investment in and loans to subsidiary companies | | **41 175 444** | – |
| **Cash (utilised by)/generated from operating activities** | | **(1 725 855)** | 13 961 987 |
| Increase in prepayments | | **(21 386)** | – |
| (Decrease)/increase in trade and other payables | | **(209 580)** | 41 404 |
| **Cash (outflows)/inflows from operating activities** | | **(1 956 821)** | 14 003 391 |
| Dividend paid | 24.3 | **–** | (15 426 764) |
| **Net cash outflows from operating activities** | | **(1 956 821)** | (1 423 373) |
| **Cash inflows from financing activities** | | **1 862 313** | 1 421 608 |
| Loans received from subsidiary company and other related party | | **1 862 313** | 1 421 608 |
| **Net decrease in cash and cash equivalents** | | **(94 508)** | (1 765) |
| Cash and cash equivalents at beginning of year | | **354 482** | 356 247 |
| **Cash and cash equivalents at end of year** | 24.4 | **259 974** | 354 482 |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 28 February 2014

## 1. Accounting policies

### 1.1 Reporting entity

Verimark Holdings Limited (the Company) is a company domiciled in South Africa. The address of the Company's registered office is included in the directors' report. The Group financial statements, comprising Verimark Holdings Limited and its subsidiaries (together referred to as the Group), and the Company financial statements incorporate the principal accounting policies, set out below. Hereafter, the Company separate financial statements and Group financial statements are collectively referred to as the financial statements. Where reference is made to "the Group" in the accounting policies, it should be interpreted as referring to the Company where the context requires, and unless otherwise noted.

### 1.2 Basis of preparation

#### 1.2.1 Statement of compliance

The Group and separate financial statements have been prepared in accordance with International Financial Reporting Standards, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the requirements of the Companies Act, 71 of 2008.

The financial statements were authorised for issue by the Board of Directors on 22 May 2014.

#### 1.2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair value. The methods used to measure fair values are discussed further in note 2.

#### 1.2.3 Functional and presentation currency

The financial statements are presented in South African Rand (Rand), which is the Company's functional currency. All financial information has been rounded to the nearest Rand.

#### 1.2.4 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only the period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.3.18.

### 1.3 Significant accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in note 1 to all periods presented in these financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 March 2013.

- IFRS 10 Consolidated Financial Statements (2011)
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

The nature and effects of the changes are explained below.

#### Subsidiaries

As a result of the adoption of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 March 2013. No changes to the control conclusions were made as a result of the change in accounting policy.

As a result of IFRS 12, the Group has expanded its disclosures about its interests in subsidiaries.

#### Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Company has included additional disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no material impact on the measurements of the Group's assets and liabilities.

### Presentation of items of other comprehensive income (OCI)

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of comprehensive income, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

### 1.3.1 Basis of consolidation: subsidiaries

**Investment in subsidiaries**

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the Group financial statements from the date on which control commences until the date on which control ceases.

Intra-Group balances and any unrealised gains and losses or income and expenses arising from intra-Group transactions, are eliminated in preparing the Group financial statements.

Investments in subsidiary companies are stated at cost less accumulated impairment losses in the Company's separate financial statements.

**Loss of control**

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

### 1.3.2 Revenue

Revenue from the sale of merchandise is measured at the fair value of the consideration received or receivable, excluding value added tax and is net of discounts and rebates allowed.

Revenue is recognised when substantially all the risks and rewards of ownership transfer (which is on the date of delivery or the date when funds are received for cash sales), flow of economic benefits is probable, the associated costs and possible return of the merchandise can be estimated reliably, the amount of revenue can be measured reliably and there is no continuing management involvement with the merchandise.

The Group receives a once off franchise fee for new franchise arrangements. This fee is received upfront upon the conclusion of a franchise agreement. The revenue is recognised when the agreement has been concluded and the franchise fee is received or receivable.

Dividend income is recognised in profit or loss on the date that the right to receive payment is established. In the Company's separate financial statements, dividend income is regarded as revenue.

Other income consists of Skills Development Levy refunds for training provided and ad hoc fees charged to franchisees which are recognised on receipt of funds.

### 1.3.3 Finance income/(expense)

Finance income/(expense) comprises interest payable on borrowings calculated using the effective interest method, interest receivable on funds invested, foreign exchange gains and losses, gains and losses on derivative instruments that are recognised in profit or loss and dividends (interest) on preference shares classified as liabilities.

Interest income and interest expense is recognised in profit or loss as it accrues, using the effective interest method. Foreign exchange gains and losses are recognised when currency gains and losses occur. Interest on preference shares is recognised as it accrues using the effective interest method. Foreign exchange gains and losses are reported on a gross basis.

### 1.3.4 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities but they intend to settle tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference and available tax losses can be utilised. Deferred tax assets

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 1. Accounting policies continued

## 1.3 Significant accounting policies continued

### 1.3.4 Income tax expense continued

are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In respect of dividends declared up to 31 March 2012, secondary tax on companies (STC) is provided at a rate of 10% on the amount by which dividends declared by the Company exceed dividends received. STC is recognised as part of the current tax charge in the statement of comprehensive income when the related dividend is declared. To the extent that it is probable that the entity with STC credits will declare dividends of its own, against which unutilised STC credits may be utilised, a deferred tax asset is recognised for such STC credits.

Dividends withholding tax is a tax on shareholders receiving dividends and is applicable to all dividends declared on or after 1 April 2012.

The Company withholds dividends tax on behalf of its shareholders at a rate of 15% on dividends declared. Amounts withheld are not recognised as part of the Company's tax charge, but rather as part of the dividend paid recognised directly in equity.

Where withholding tax is withheld on dividends received, the dividend is recognised as the gross amount with the related withholding tax recognised as part of the tax expense unless it is otherwise reimbursable in which case it is recognised as an asset.

### 1.3.5 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held and for the effects of all dilutive potential ordinary shares.

### 1.3.6 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating segment's operating results are reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

### 1.3.7 Plant and equipment

#### Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of plant and equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "other income" in profit or loss.

#### Borrowing costs

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of qualifying assets as part of the cost of that asset.

#### Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

#### Capital work in progress

Capital work in progress comprises assets that are being assembled (development in stores) and which are not yet ready for the required use. Capital work in progress is transferred to Company owned store equipment once assembly is complete. Capital work in progress is not depreciated.

#### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. Depreciation is recognised on the depreciable amount of an item of plant and equipment.

The depreciable amount is the difference between the cost of an item of plant and equipment and its residual value.

Residual value is the estimated amount that the entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of age and in the condition expected at the end of its useful life.

The useful lives for the current and comparative periods were:

| | |
|---|---|
| Computer equipment | 3 years |
| Manufacturing structures and handling equipment | 4 – 5 years |
| Motor vehicles | 4 – 5 years |
| Office furniture and equipment | 5 – 10 years |
| Shop fittings | 3 years |
| Company owned (Co-owned) stores equipment | 3 years |
| Media equipment | 2 years |

The residual values, if not insignificant, depreciation method and useful lives of plant and equipment are reviewed at each financial year end and adjusted if appropriate.

## 1.3.8 Intangible assets

**Goodwill**

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss. Goodwill is measured at cost less any accumulated impairment losses.

**Other intangibles**

Computer software and trademarks that are acquired by the Group, and which have a finite useful life, are measured at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite, from the date they are available for use. The useful lives are as follows:

| | |
|---|---|
| Trademarks | 10 years |
| Computer software | 3 years |

The residual values, if not insignificant, amortisation method and useful lives of intangible assets are reviewed at each financial year end and adjusted if appropriate.

## 1.3.9 Impairment of assets

**Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated at reporting date. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined at the cash-generating unit (CGU) level to which the asset belongs. A CGU is the smallest identifiable asset group that generates cash inflows that are largely independent from other assets and groups.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets on a pro-rata basis. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value, less costs to sell. In assessing value in use, the estimated future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill is allocated to cash-generating units and is tested for impairment at each reporting date and whenever there is an indication that goodwill has been impaired.

An impairment loss is recognised in profit or loss when the carrying amount exceeds its recoverable amount. An impairment loss in respect of goodwill is not reversed.

**Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor.

The Group considers evidence of impairment for receivables

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 1. Accounting policies continued

### 1.3 Significant accounting policies continued

#### 1.3.9 Impairment of assets continued

at both a specific and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment. In assessing impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted by management's judgement as to whether actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### 1.3.10 Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing inventories to their present location and condition and is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Obsolete, redundant and slow moving inventories are identified on a regular basis and are written down to their estimated net realisable values.

#### 1.3.11 Leases

**Operating leases – lessee**

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against profit or loss on a straight-line basis over the period of the lease. The leased assets are not recognised on the statement of financial position.

**Finance leases – lessee**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the future minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### 1.3.12 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

#### 1.3.13 Financial instruments

**Non-derivative financial assets**

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit and loss) are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Non-derivative financial assets comprise loans and receivables.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade and other receivables, loans receivable and cash and cash equivalents.

Loans and receivables are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are recognised at amortised cost using the effective interest method less any impairment losses.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks and other financial institutions, as well as short-term call deposits with financial institutions.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### Non-derivative financial liabilities

The Group initially recognises financial liabilities (secured and unsecured liabilities) on the date that they are originated. All other liabilities are recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire, or when there is a substantial modification of the original terms.

Non-derivative financial liabilities comprise loans and borrowings, bank overdrafts, trade and other payables and preference shares. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost, using the effective interest method.

#### Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposure. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and any changes therein are recognised in profit or loss as they arise.

The Group holds derivative financial instruments, in the form of forward exchange contracts. Hedge accounting is not applied to these derivative instruments which economically hedge monetary assets and liabilities denominated in foreign currencies.

#### Offset

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.3.14 Share capital

#### Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### Preference share capital

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

#### Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or re-issued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings or share premium.

### 1.3.15 Foreign currency transactions

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date. Gains and losses arising on translation are credited to or charged to profit or loss.

### 1.3.16 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Rand at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Rand at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such an item are considered to form part of the net investment in the foreign operation and are recognised in other comprehensive income, and presented in the foreign currency translation reserve in equity.

### 1.3.17 Employee benefits

#### Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution funds are recognised as an employee benefit expense in profit or loss in the periods during

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 1. Accounting policies continued

### 1.3 Significant accounting policies continued

#### 1.3.17 Employee benefits continued

which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

**Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**Share based payment transactions**

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. The expense is measured at grant date and recognised over the vesting period in profit or loss.

Share based payment arrangements in which the Group receives goods or services as consideration for its equity instruments are accounted for as equity settled share based payment transactions.

#### 1.3.18 Estimations and judgements applied by directors in applying the accounting policies

The following estimations and judgements have been exercised in applying the accounting policies:

**Impairment of investment in subsidiary company**

Management continuously considers the recoverability of the investment in and loans to the subsidiaries. The fair value of the investment is determined by reference to the quoted share price at the reporting date or an appropriate valuation technique (usually discounted cash flow). If the value of any investment has decreased below the carrying amount of the investment, the value is written down to recoverable amount.

**Impairment of long outstanding trade receivables, including returns and credit notes**

Management identifies impairment of trade receivables, including returns and credit notes, on an ongoing basis. The estimation of the requirement for impairment is based on the current collectability of the trade receivables, as well as management's experience of the collection history of trade receivables. The fair value of trade receivables is estimated at the present value of future cash flows discounted at the present market rate of interest at the reporting date. Management believes that the allowance for impairment is conservative and there are no significant trade receivables that are doubtful and have not been impaired.

**Impairment of goodwill**

Goodwill is assessed for impairment indicators at each reporting date. Impairment indicators include such events as a decline in the earnings of the underlying subsidiary, diminution in investment value, reduction of quoted share price, etc. Where such an indication of impairment exists the goodwill is assessed for impairment. Impairment losses on goodwill are not reversed.

**Impairment of inventory**

Obsolete inventory is identified on a continuous basis and an impairment allowance is raised when necessary. This identification is based on physical inspection as well as the rate of sale relative to the inventory quantity on hand. Once identified, such inventory will be offered to customers at a discount. Un-saleable inventory is scrapped and the scrap value recovered where possible.

#### 1.3.19 New standards and interpretations not yet adopted

A number of standards, amendments to standards and interpretations issued are not yet effective for the year ended 28 February 2014, and have not been applied in preparing these financial statements. These standards are disclosed in note 31 to the financial statements.

## 2. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods that follow below. When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

### 2.1 Trade and other receivables

The fair value of trade and other receivables with a repayment term of less than one year approximates the amortised cost less impairment losses discounted at the effective rate of interest at the reporting date.

### 2.2 Loans and borrowings repayable on demand

The fair value of interest-free borrowings that are repayable on demand cannot be reliably determined. The carrying amount is deemed to reflect fair value.

### 2.3 Cash and cash equivalents

The carrying value of cash and cash equivalents is deemed to reflect the fair value.

### 2.4 Trade and other payables

The fair value of trade and other payables with a repayment term of less than one year approximate the amortised cost, using the effective rate of interest at the reporting date.

### 2.5 Interest-bearing borrowings

The carrying value of interest-bearing liabilities is deemed to reflect the fair value as the applicable interest rate approximates market rates at each reporting date.

### 2.6 Derivative financial instruments

The fair value of forward exchange contracts are based on current market related currency exchange rates, taking into account appropriate contractual forward prices.

### 2.7 Share based payment transactions

The fair value of the employee share purchases is measured using the Monte Carlo simulation method. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility (based on a valuation of the Company's historic volatility, particularly over the historic period commensurate with the expected term), expected repayments, expected term of the instrument, expected dividends and the risk-free rate.

Service and non-market conditions attached to the transaction are not taken into account in determining fair value.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 3. Plant and equipment

| | Computer equipment R | Manufacturing structures and handling equipment R |
|---|---|---|
| **GROUP** | | |
| **Cost** | | |
| **Balance at 1 March 2013** | **2 775 759** | **6 634 305** |
| Additions | **776 217** | **94 620** |
| Disposals | **(35 621)** | **(1 290 523)** |
| Transfers | **–** | **–** |
| **Balance at 28 February 2014** | **3 516 355** | **5 438 402** |
| **Balance at 1 March 2012** | 2 172 354 | 2 031 564 |
| Additions | 304 301 | 3 119 134 |
| Disposals | (9 659) | – |
| Transfers | 308 763 | 1 483 607 |
| **Balance at 28 February 2013** | 2 775 759 | 6 634 305 |
| **Accumulated depreciation and impairment losses** | | |
| **Balance at 1 March 2013** | **1 946 286** | **1 897 801** |
| Disposals | **(9 446)** | **(1 202 082)** |
| Depreciation for the year | **632 017** | **1 086 978** |
| **Balance at 28 February 2014** | **2 568 857** | **1 782 697** |
| **Balance at 1 March 2012** | 1 602 946 | 1 420 021 |
| Disposals | (9 659) | – |
| Depreciation for the year | 352 999 | 477 780 |
| **Balance at 28 February 2013** | 1 946 286 | 1 897 801 |
| **Carrying amounts** | | |
| **At 28 February 2014** | **947 498** | **3 655 705** |
| At 28 February 2013 | 829 473 | 4 736 504 |

### Leased assets

The Company leases office furniture and equipment and manufacturing structures and handling equipment under instalment sale agreements from Absa Bank Limited and Wesbank, a division of FirstRand Bank Limited. The leased assets secure the lease obligations (see note 14). At 28 February 2014, the carrying value of leased motor vehicles is Rnil (2013: R1 182 211), shop fittings is Rnil (2013: R264 079), office equipment is R1 779 647 and manufacturing structures and handling equipment is R2 796 493 (2013: R4 319 988).

### Assessment of useful lives, residual value and depreciation methods

During the year ended 28 February 2014, the Group conducted a review of the estimated useful lives, residual values and depreciation methods of plant and equipment. There were no changes required.

| Office furniture and equipment R | Motor vehicles R | Co-owned stores equipment R | Media equipment R | Shop fittings R | Capital work in progress R | Total R |
|---|---|---|---|---|---|---|
| **5 225 464** | **3 239 740** | **4 832 258** | **7 104 158** | **17 228 447** | **1 870 501** | **48 910 632** |
| **1 171 806** | **5 088** | **142 877** | **77 678** | **1 389 642** | **1 749 125** | **5 407 053** |
| **(693 769)** | **(2 966 810)** | **(8 906)** | **(20 775)** | **(50 427)** | **–** | **(5 066 831)** |
| **955 141** | **56 034** | **655 057** | **618 076** | **–** | **(3 303 718)** | **(1 019 410)** |
| **6 658 642** | **334 052** | **5 621 286** | **7 779 137** | **18 567 662** | **315 908** | **48 231 444** |
| 4 164 094 | 5 474 289 | 4 242 855 | 6 018 829 | 14 945 496 | 821 373 | 39 870 854 |
| 753 931 | – | 70 266 | 285 483 | 2 296 683 | 4 828 420 | 11 658 218 |
| – | (2 234 549) | (104 804) | (1 923) | (13 732) | (172 130) | (2 536 797) |
| 307 439 | – | 623 941 | 801 769 | – | (3 607 162) | (81 643) |
| 5 225 464 | 3 239 740 | 4 832 258 | 7 104 158 | 17 228 447 | 1 870 501 | 48 910 632 |
| **3 633 717** | **2 002 804** | **3 381 584** | **5 613 544** | **11 857 153** | **–** | **30 332 889** |
| **(589 106)** | **(2 194 100)** | **(1 707)** | **(779)** | **(1 171)** | **–** | **(3 998 391)** |
| **568 013** | **461 752** | **931 245** | **1 001 447** | **3 688 245** | **–** | **8 369 697** |
| **3 612 624** | **270 456** | **4 311 122** | **6 614 212** | **15 544 227** | **–** | **34 704 195** |
| 3 448 379 | 2 689 241 | 2 614 771 | 4 067 692 | 9 729 752 | – | 25 572 802 |
| – | (1 714 114) | (96 646) | (153) | (104) | – | (1 820 676) |
| 185 338 | 1 027 677 | 863 459 | 1 546 005 | 2 127 505 | – | 6 580 763 |
| 3 633 717 | 2 002 804 | 3 381 584 | 5 613 544 | 11 857 153 | – | 30 332 889 |
| **3 046 018** | **63 596** | **1 310 164** | **1 164 925** | **3 023 435** | **315 908** | **13 527 249** |
| 1 591 747 | 1 236 936 | 1 450 674 | 1 490 614 | 5 371 294 | 1 870 501 | 18 577 743 |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 4. Intangible assets

| | Goodwill R | Trademarks R | Computer software R | Total R |
|---|---|---|---|---|
| **GROUP** | | | | |
| **Cost** | | | | |
| **2014** | | | | |
| **Balance at beginning of year** | **13 996 651** | **200 000** | **2 320 009** | **16 516 660** |
| Transfers | **–** | **–** | **1 019 410** | **1 019 410** |
| **Balance at end of year** | **13 996 651** | **200 000** | **3 339 419** | **17 536 070** |
| **2013** | | | | |
| **Balance at beginning of year** | 13 996 651 | 200 000 | 2 238 366 | 16 435 017 |
| Additions | – | – | 81 643 | 81 643 |
| Disposals | – | – | – | – |
| **Balance at end of year** | 13 996 651 | 200 000 | 2 320 009 | 16 516 660 |
| **Accumulated amortisation and impairment losses** | | | | |
| **2014** | | | | |
| **Balance at beginning of year** | **–** | **200 000** | **1 890 181** | **2 090 181** |
| Amortisation for the year | **–** | **–** | **552 730** | **552 730** |
| **Balance at end of year** | **–** | **200 000** | **2 442 911** | **2 642 911** |
| **2013** | | | | |
| **Balance at beginning of year** | – | 200 000 | 1 572 057 | 1 772 057 |
| Amortisation for the year | – | – | 318 124 | 318 124 |
| Disposals | – | – | – | – |
| **Balance at end of year** | – | 200 000 | 1 890 181 | 2 090 181 |
| **Carrying amounts** | | | | |
| **At 28 February 2014** | **13 996 651** | **–** | **896 508** | **14 893 159** |
| At 28 February 2013 | 13 996 651 | – | 429 828 | 14 426 479 |

### Impairment testing of cash-generating units containing goodwill

Goodwill arose on 1 July 2005 when Verimark Holdings Limited acquired all of the shares in Verimark Proprietary Limited in terms of a reverse listing. A consideration of R275 000 000, satisfied by the issue of 110 000 000 ordinary shares, was paid.

In terms of IFRS 3 (2004) Business Combinations for acquisitions before 1 January 2010, the legal subsidiary is recognised as the accounting parent. The financial effects of the transaction are disclosed in the consolidated annual financial statements. The goodwill arises on consolidation in terms of reverse listing principles. Refer to note 28 for further explanation.

For the purpose of impairment testing, the entire goodwill amount is allocated to the Company's operating subsidiary, Verimark Proprietary Limited (Verimark) (cash-generating unit (CGU)). The recoverable amount of Verimark was based on a value in use calculation performed by the directors based on a five-year forecast.

No impairment of goodwill has been identified in the current financial year.

## 4. Intangible assets (continued)

The following key assumptions were made in the fair value determination:

- Revenue growth year 1 – 5 ranging between 4% and 15%
- Terminal growth rate of 5%
- Cost of equity 21,87%
- After tax cost of debt 6,48%
- Weighed cost of capital (WACC) 21,22%
- Tax rate of 28%

The value in use valuation reflected a CGU value of R189 million which is greater than the carrying value of the investment and related goodwill.

A sensitivity analysis of the value in use calculation showed that no impairment was required at 28 February 2014 even if the WACC and terminal growth rates were adjusted.

**Valuation sensitivity analysis**

| | | WACC | | |
|---|---|---|---|---|
| | | **20,22%** | **21,22%** | **22,22%** |
| | 4% | 193 855 433 | 181 659 916 | 170 780 369 |
| Terminal growth rate | 5% | 202 691 563 | **189 087 123** | 177 202 172 |
| | 6% | 212 365 053 | 197 679 880 | 184 605 202 |

| | COMPANY | |
|---|---|---|
| | **2014** | 2013 |
| **5. Investment in subsidiary companies** | | |
| **Number of shares held** | | |
| – Verimark Proprietary Limited | **116** | 116 |
| – Creditvision Rental Finance Proprietary Limited | **–** | 1 |
| – Verimark Singapore Pte Limited | **100** | 100 |
| | **%** | % |
| **Percentage holding** | | |
| – Verimark Proprietary Limited | **100** | 100 |
| – Creditvision Rental Finance Proprietary Limited | **–** | 100 |
| – Verimark Singapore Pte Limited | **100** | 100 |

Creditvision Rental Finance Proprietary Limited was a dormant company. The company was deregistered in the current year.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | COMPANY 2014 R | COMPANY 2013 R |
|---|---|---|
| **5. Investment in subsidiary companies** (continued) | | |
| **Verimark Proprietary Limited** | | |
| – Opening balance | **119 985 944** | 119 985 944 |
| – Impairment | **(41 137 324)** | – |
| **Closing balance** | **78 848 620** | 119 985 944 |
| **Reconciliation of original cost** | | |
| Original cost | **283 229 623** | 283 229 623 |
| Total impairment | **(204 381 003)** | (163 243 679) |
| **Carrying value** | **78 848 620** | 119 985 944 |
| **Creditvision Rental Finance Proprietary Limited** | | |
| – Cost of shares | **–** | 1 |
| – Loan to subsidiary company | **–** | 38 119 |
| **Closing balance** | **–** | 38 120 |
| **Verimark Singapore Pte Limited** | | |
| – Cost of shares | **714** | 714 |
| **Closing balance** | **714** | 714 |
| **Net investment in subsidiary companies** | **78 849 334** | 120 024 778 |

The annual impairment of the carrying value of the investment in the subsidiary Verimark Proprietary Limited is based on the market value of the listed company's share, due to the effect of the reverse listing.

The Group established consolidated structured entities in the form of VEET and Selcovest for BBBEE purposes, as explained in the paragraph dealing with broad based black economic empowerment in the directors' report. The Group does not have any direct or indirect shareholdings in these entities.

In terms of IFRS 10, these consolidated structured entities (CSEs) have been consolidated into the financial results of the Group as it has been ascertained that control of the entities rests with Verimark as Verimark has power over the relevant activities of VEET and Selcovest, respectively. In addition, it is envisaged that Verimark would benefit from the Empowerment Trust by being able to retain and promote skills from its workforce. Verimark is also entitled to benefit from any surplus (after discharging its liabilities) in the Trust upon its termination by the Trustees.

Verimark has no contractual obligations to provide funding to the consolidated structured entities.

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **6. Deferred taxation asset** | | |
| Balance at beginning of year | **3 207 623** | 2 294 653 |
| Current year movement in profit or loss | **428 821** | 912 970 |
| – net deductible temporary differences | **428 821** | 912 970 |
| **Balance at end of year** | **3 636 444** | 3 207 623 |

## 6. Deferred taxation asset (continued)

Deferred tax is recognised at a rate of 28% (2013: 28%) and comprises temporary differences arising on:

| | Assets R | Liabilities R | Total R |
|---|---|---|---|
| **2014** | | | |
| – Leave pay accrual | **684 302** | | **684 302** |
| – Doubtful debts allowance | **89 954** | | **89 954** |
| – Prepayments | | **(95 915)** | **(95 915)** |
| – Lease straight-line accruals | **632 134** | | **632 134** |
| – Depreciation/wear and tear on shop fittings | **2 163 854** | | **2 163 854** |
| – Share based payment liability | **154 062** | | **154 062** |
| – Unearned interCompany profits | **8 053** | | **8 053** |
| | **3 732 359** | **(95 915)** | **3 636 444** |
| **2013** | | | |
| – Leave pay accrual | 876 414 | | 876 414 |
| – Doubtful debts allowance | 129 472 | | 129 472 |
| – Prepayments | | (82 809) | (82 809) |
| – Lease straight-line accruals | 299 028 | | 299 028 |
| – Depreciation/wear and tear on shop fittings | 1 658 827 | | 1 658 827 |
| – Share based payment liability | 312 437 | | 312 437 |
| – Unearned interCompany profits | 14 254 | | 14 254 |
| | 3 290 432 | (82 809) | 3 207 623 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **Unrecognised deferred tax assets** | | | | |
| Deferred tax assets have not been recognised in respect of the following: | | | | |
| Tax losses | **3 614 017** | 2 920 134 | **3 460 146** | 2 556 231 |

As a result of the legal parent company being expected to mainly earn non-taxable income in the form of dividends in the future, a deferred tax asset has not been recognised in respect of the estimated assessable loss of R12 907 204 (2013: R10 429 051) for the Group and R12 357 664 (2013: R9 129 397) for the Company.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **7. Inventories** | | |
| Merchandise | **59 872 684** | 78 884 324 |
| Merchandise in transit | **9 936 814** | 17 797 802 |
| Impairment of inventory | **(3 529 778)** | (9 187 606) |
| | **66 279 720** | 87 494 520 |
| Refer to note 20 for details of inventory written off during the year. | | |
| **8. Trade and other receivables** | | |
| Trade receivables | **53 933 241** | 67 955 582 |
| Sundry debtors | **1 173 441** | 2 586 024 |
| Advance payments made to foreign suppliers | **5 253 432** | 7 672 206 |
| Staff receivables | **(1 083)** | 6 684 |
| Franchise loans receivable | **130 932** | 159 723 |
| Deposits | **167 104** | 46 146 |
| Impairment of trade receivables | **(428 353)** | (616 531) |
| | **60 228 714** | 77 809 834 |

## Security

Trade receivables have been ceded as security for banking facilities (refer to note 10).

| | COMPANY 2014 R | COMPANY 2013 R |
|---|---|---|
| **9. Loan receivable** | | |
| **Verimark Employees Empowerment Trust** | **158 898** | 158 898 |
| The loan is unsecured, interest-free and repayable on demand. | | |
| | **158 898** | 158 898 |
| *Less:* Current portion | **(158 898)** | (158 898) |
| Long-term portion included in non-current assets | **–** | – |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **10. Cash and cash equivalents** | | | | |
| Bank balances and cash on hand | **1 394 395** | 1 453 507 | **259 974** | 354 482 |
| Bank overdraft | **(8 423 989)** | (28 463 115) | **–** | – |
| | **(7 029 594)** | (27 009 608) | **259 974** | 354 482 |

The following security and facilities have been provided in respect of banking facilities provided to the Group:

### Company and CSEs

- None.

### Verimark Proprietary Limited (legal subsidiary)

#### Absa Bank Limited

**Security**

- Cession of trade receivables.

In addition, the gearing calculated as interest-bearing debt to shareholders' funds must be maintained at 100% or lower at all times. The value of trade receivables ceded to the bank, current to 90 days must at all times be at least equal to 150% of the primary lending facility utilised. These conditions have been met in the current and prior year.

#### Verimark Singapore Pte Limited

A fixed deposit of R128 119 is pledged to secure a guarantee provided by a bank in favour of a third party. The fixed deposit bears interest at 0,25% (2013: 0,25%) per annum and has a maturity of 365 days.

Refer to note 24.4 for split between bank balances and cash on hand.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **11. Share capital** | | | | |
| **Authorised** | | | | |
| 200 000 000 ordinary shares of 0,3333 cents each | **666 667** | 666 667 | **666 667** | 666 667 |
| **Issued** | | | | |
| 114 272 328 (2013: 114 272 328) ordinary shares of 0,3333 cents each | **381 024** | 381 024 | **380 908** | 380 908 |
| 0 (2013: 4 000 000) treasury shares of 0,3333 cents each held by VEET | **–** | (13 337) | **–** | – |
| 6 380 870 (2013: 6 380 870) treasury shares of 0,3333 cents each held by Verimark Proprietary Limited | **(21 267)** | (21 267) | **–** | – |
| | **359 757** | 346 420 | **380 908** | 380 908 |
| **Shares** | | | | |
| Number of shares at beginning of year | **114 272 328** | 114 272 328 | **114 272 212** | 114 272 212 |
| Treasury shares held by VEET | **–** | (4 000 000) | **–** | – |
| Treasury shares held by Verimark Proprietary Limited | **(6 380 870)** | (6 380 870) | **–** | – |
| **Number of shares held externally at end of year** | **107 891 458** | 103 891 458 | **114 272 212** | 114 272 212 |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014<br>R | 2013<br>R | 2014<br>R | 2013<br>R |
| **12. Share premium** | | | | |
| Premium on total issued shares | **37 620 827** | 37 620 827 | **316 702 119** | 316 702 119 |
| Repurchase of own shares (treasury shares) | | | | |
| – VEET | **–** | (10 890 621) | **–** | – |
| – Verimark Proprietary Limited | **(5 352 138)** | (5 352 138) | **–** | – |
| **Balance at end of year** | **32 268 689** | 21 378 068 | **316 702 119** | 316 702 119 |

## 13. Share based payment reserve

On 1 March 2010 the Group established a share based payment scheme whereby certain key members of management were granted share options in Verimark Holdings Limited.

Management were given an indirect shareholding through Verimark Proprietary Limited. Management's effective holding is 0,79% (2013: 2,54%). This is treated as a cash settled share based payment in Verimark Proprietary Limited as Verimark has not granted its own shares to its employees. The scheme is therefore valued at each reporting date which is 28 February in Verimark Proprietary Limited. The scheme is treated as an equity settled share based payment transaction in the Group.

An expense has been recognised in Verimark Proprietary Limited as it will be receiving the services and benefits of the share based payment scheme over the service period.

The share based payment scheme is to be settled by physical delivery of shares as follows:

| Grant date | Number of instruments | Vesting conditions | Contractual life of grant |
|---|---|---|---|
| Share grant to key management on 1 March 2010 | 900 000 | Five years service, payment of 10% of annual bonus received by employees as well as dividends received relating to the shares to be taken as repayment of grant loan. | 5 years |

| | Number of shares | | Weighted exercise price | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014<br>R | 2013<br>R |
| Options at beginning of year | **2 900 000** | 3 050 000 | **0,65** | 0,65 |
| Granted during the year | **–** | – | **–** | – |
| Forfeited during the year | **(2 000 000)** | (150 000) | **–** | – |
| Exercised during the year | **–** | – | **–** | – |
| **Outstanding at end of year** | **900 000** | 2 900 000 | **0,65** | 0,65 |
| Exercisable at end of year | **–** | – | | |

## 13. Share based payment reserve (continued)

The value of the share based payment scheme has been based on the following factors:

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| Fair value at grant date | **1 969 811** | 1 969 811 |
| Spot price on grant date | **0,67** | 0,67 |
| Option price | **0,65** | 0,65 |
| Spot price on valuation date | **0,69** | 1,05 |
| | **%** | % |
| Expected volatility | **73,87** | 73,87 |
| Expected dividend yield | **5,77** | 5,77 |
| Risk-free interest rate | **7,36** | 7,36 |
| Option life | **5 years** | 5 years |
| | **R** | R |
| **Reserve and expense** | | |
| Opening balance of reserve | **1 124 077** | 787 925 |
| Share based payment expense for the year | **117 036** | 336 152 |
| Reversal of cumulative expense in respect of forfeited shares | **(772 976)** | – |
| **Closing balance of reserve** | **468 137** | 1 124 077 |

The fair value of the share based payment at grant date was determined using the Monte Carlo simulation valuation technique, which is in line with standard market practice.

The shares were valued as options due to management not sharing in any downside risks.

The expected volatility is based on a historical period equal to the remaining contractual life of the options.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **14. Interest-bearing borrowings** | | |
| **Secured local loans** | | |
| **Investec Bank Limited** | **4 400 251** | 4 715 587 |
| The loan bears interest at prime less 2%. The loan has been secured by the residential property of a director, Mr MJ van Straaten. | | |
| The loan is repayable on 8 September 2023. The loan facility allows full repayment and drawdown at the discretion of the directors during the 20 year period. | | |
| **Wesbank, a division of FirstRand Bank Limited** | **2 180 257** | 4 379 549 |
| Instalment sale agreements, bearing interest at prime less 0,25% and are repayable over approximately 24 months (2013: 36 months). The loans are secured by the financed assets (refer to note 3). | | |
| **Van Straaten Family Trust** | **351 635** | 328 732 |
| The loan bears interest at a variable rate of 78% of the prime interest rate. | | |
| The loan was repayable on 17 March 2010 (refer to note 15). | | |
| **Balance at end of year** | **6 932 143** | 9 423 868 |
| *Less:* Current portion | **(2 547 967)** | (3 479 809) |
| – Investec Bank Limited | **(329 340)** | (329 725) |
| – Wesbank, a division of FirstRand Bank Limited | **(1 866 992)** | (2 821 352) |
| – Van Straaten Family Trust | **(351 635)** | (328 732) |
| **Long-term portion included in non-current liabilities** | **4 384 176** | 5 944 059 |

| | GROUP | |
|---|---|---|
| | 2014 R | 2013 R |
| **15. Preference share liability** | | |
| Balance at beginning of year | **17 012 124** | 15 857 342 |
| Interest for the year | **1 185 231** | 1 694 782 |
| Repayment (dividend) | **–** | (540 000) |
| Redemption of preference shares as part of BEE unwinding | **(18 197 355)** | – |
| **Balance at end of year** | **–** | 17 012 124 |
| *Less:* Short-term portion included in current liabilities | **–** | (17 012 124) |
| **Long-term portion included in non-current liabilities** | **–** | – |

The rights of redeemable preference shares are discussed below. Interest is calculated cumulatively at a variable rate of 78% of the prime interest rate. The preference shares were fully repayable by the first business day following 17 March 2010. As a result the preference share liability was classified as short-term.

1 000 variable rate cumulative redeemable non-participating preference shares with a par value of R0,01 each and a premium of R10 999,99 per share and including, without limitation, all concomitant and any outstanding preference dividend, undeclared dividends, unpaid dividends and arrear interest, as the case may be, were issued to the Van Straaten Family Trust by Selcovest 35 Proprietary Limited (Selcovest). The consideration received was utilised by Selcovest to purchase 4 000 000 ordinary shares in Verimark Holdings Limited. The redeemable preference shares were classified as liabilities as Selcovest (a controlled entity of the Group) could not avoid an obligation to pay dividends declared and to redeem the preference shares on redemption date. Holders of the redeemable preference shares receive a cumulative dividend which is payable at the discretion of Selcovest, resulting from dividends received by Selcovest on its investment in Verimark Holdings Limited.

The ordinary shareholders of Selcovest do not have the right to retain any dividends until such time as the preference shares are fully redeemed. Thereafter the preference shares do not have the right to participate in any additional dividends declared to ordinary shareholders. The preference shares do not carry any voting rights. The investment held by VEET in Selcovest stands as a guarantee to the Van Straaten Family Trust for the redemption of the preference shares on redemption date.

On 27 February 2014 the preference shares were redeemed in full. The 4 000 000 Verimark Holdings shares held by Selcovest 35 Proprietary Limited were transferred to the Van Straaten Family Trust as consideration for the redemption of the preference shares.

| | COMPANY | |
|---|---|---|
| | 2014 R | 2013 R |
| **16. Amounts owing to subsidiary company and other related party** | | |
| Verimark Proprietary Limited | **14 769 467** | 12 907 154 |
| Selcovest 35 Proprietary Limited | **149 713** | 149 713 |
| | **14 919 180** | 13 056 867 |

The loans are unsecured, interest-free and repayable on demand.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **17. Trade and other payables** | | | | |
| Trade payables | **14 044 653** | 45 692 585 | **–** | – |
| Accruals | **7 141 177** | 4 957 866 | **–** | 209 580 |
| Payroll accruals | **3 886 821** | 4 529 697 | **–** | – |
| Commissions | **1 195 109** | 1 459 644 | **–** | – |
| Royalties and licence fees | **824 538** | 1 398 624 | **–** | – |
| Store opening and space rentals | **103 520** | 219 435 | **–** | – |
| Straight-line accrual | **2 257 621** | 1 067 959 | **–** | – |
| **Closing balance** | **29 453 439** | 59 325 810 | **–** | 209 580 |
| **18. Revenue** | | | | |
| Sale of merchandise | **430 472 661** | 454 091 053 | **–** | – |
| Dividend income from subsidiary | **–** | – | **–** | 15 426 764 |
| | **430 472 661** | 454 091 053 | **–** | 15 426 764 |
| **19. Other income** | | | | |
| Other income (refer to note 1.3.2) | **2 272 863** | 1 618 805 | **–** | – |
| Profit on disposal of plant and equipment | **100 428** | 187 324 | **–** | – |
| Gain on settlement of preference share liability | **7 293 397** | – | **–** | – |
| | **9 666 688** | 1 806 129 | **–** | – |

## 20. Operating profit before finance income/(expense)

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| Operating profit before finance income and finance expense is arrived at after charging/(crediting): | | |
| Amortisation of computer software (intangible assets) | 552 730 | 318 124 |
| Auditor's remuneration | 955 568 | 1 057 000 |
| – current year | 809 327 | 700 000 |
| – prior year (over)/under-provision | (10 977) | 90 000 |
| – other services | | |
| – PWC | 35 000 | 63 000 |
| – NEXIA SAB-T | 100 800 | 174 000 |
| – KPMG | – | 30 000 |
| – ANG + CO | 21 418 | – |
| Depreciation on plant and equipment | 8 369 697 | 6 580 763 |
| Directors' emoluments for services as directors | 6 951 596 | 6 299 547 |
| Employee costs | 67 123 474 | 67 478 612 |
| Inventory adjustments and impairments | 8 335 635 | 14 865 782 |
| Operating lease charges: | 28 479 641 | 22 776 954 |
| – property | 24 478 895 | 21 004 521 |
| – motor vehicles | 1 377 641 | 754 264 |
| – other office equipment | 1 433 443 | 572 362 |
| – lease straight-lining | 1 189 662 | 445 807 |
| Retirement benefits contributions | 4 204 412 | 4 065 452 |
| Share based payment (credit)/expense (refer to note 13) | (655 940) | 336 152 |

## 21. Finance (income)/expense

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **Finance income** | | |
| Foreign exchange gains – realised | (4 070 852) | (6 322 216) |
| Interest income from financial assets | (36 509) | (68 553) |
| | (4 107 361) | (6 390 769) |
| **Finance expense** | | |
| Foreign exchange losses – realised | 7 137 557 | 4 088 098 |
| Interest expense from financial liabilities | 1 994 689 | 1 927 703 |
| Interest on preference shares | 1 185 231 | 1 694 782 |
| Interest on loan (VSFT) – unrealised | 22 903 | 21 492 |
| | 10 340 380 | 7 732 075 |
| **Net finance expense/(income)** | 6 233 019 | 1 341 306 |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **22. Tax expense** | | |
| **South African normal taxation** | | |
| **Current taxation** | **6 178 375** | 5 823 626 |
| – current year expense | **6 122 978** | 5 823 626 |
| – prior year underaccrual | **55 397** | – |
| **Secondary tax on companies** | **–** | 1 456 535 |
| **Deferred taxation** | **(428 821)** | (912 970) |
| – current year (credit)/charge | **(428 821)** | (912 970) |
| **Total income taxation** | **5 749 554** | 6 367 191 |

| | % | % |
|---|---|---|
| **Reconciliation of tax rate** | | |
| Current year's charge as a percentage of profit before taxation | **24,6** | 41,8 |
| Non-deductible expenditure | **(5,1)** | 0,9 |
| Exempt income | **8,7** | – |
| Assessed tax losses | **–** | (5,1) |
| Prior year under accrual | **(0,2)** | – |
| Secondary tax on companies | **–** | (9,6) |
| **Standard taxation rate** | **28,0** | 28,0 |

Provision for taxation for the Company has not been made as no taxable income was earned during the current year. This is consistent with prior year.

## 23. Related party transactions

### 23.1 Identity of related parties

Details of subsidiary companies and controlled entities are disclosed in note 5.

Details of shareholders are included in note 36.

The directors of the Company are MJ van Straaten, SR Beecroft, Dr JT Motlatsi, JM Pieterse and MM Patel. Managers subject to the share based payment transaction are considered key management. Details of the share based payment transaction are included in note 13.

Directors' emoluments are disclosed in notes 20 and 32.

# 23. Related party transactions (continued)

## 23.1 Identity of related parties (continued)

At 28 February 2014, the directors and their associates (as defined in terms of the JSE Listings Requirements) had the following direct and indirect beneficial interest in the share capital of the Company:

| | Direct | Indirect | Total number of shares held | Percentage of issued share capital |
|---|---|---|---|---|
| **Director** | | | | |
| MJ van Straaten and associates | – | 72 000 000 | 72 000 000 | 63,01 |
| SR Beecroft and associates | – | – | – | – |
| Dr JT Motlatsi and associates | – | – | – | – |
| JM Pieterse and associates | – | 1 791 525 | 1 791 525 | 1,57 |
| MM Patel and associates | – | – | – | – |

Details of security provided by directors are disclosed in note 14.

In terms of Verimark's BBBEE initiative in 2006, Teba Development purchased 11,5 million shares in Verimark, 4 million of which were held for the benefit of Verimark employees. The purchase was funded by the Van Straaten Family Trust and facilitated through Mirror Ball. In terms of the agreement with Teba Development, 4 million shares were transferred to the control of the Verimark Employees Empowerment Trust (VEET). On 27 February 2014 the BBBEEE structure was dissolved, due to the adverse financial position of the Trust as a result of the devaluation of the share price. The shares therefore reverted back to the Van Straaten Family Trust as consideration for the preference shares held in Selcovest.

There are no post-employment benefits, service contracts or termination benefits for directors.

| | COMPANY | |
|---|---|---|
| | 2014<br>R | 2013<br>R |
| **23.2 Related party transactions** | | |
| **23.2.1 Loans to/(from) subsidiary companies** | | |
| **Creditvision Rental Finance Proprietary Limited** | – | 38 119 |
| **Closing balance** | – | 38 119 |
| The loan was unsecured, interest-free and has no fixed terms of repayment (refer to note 5). | | |
| **Verimark Proprietary Limited** | | |
| Opening balance | (12 907 154) | (11 484 832) |
| Advances from subsidiary | (1 862 313) | (1 422 322) |
| **Closing balance** | (14 769 467) | (12 907 154) |

Refer to note 16.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **23. Related party transactions** (continued) | | | | |
| **23.2 Related party transactions** (continued) | | | | |
| **23.2.2 Other related party loans (payable)/receivable** | | | | |
| **Selcovest 35 Proprietary Limited** | | | | |
| **Closing balance** | | | **(149 713)** | (149 713) |
| Refer to note 16. | | | | |
| **Verimark Employee Empowerment Trust** | | | | |
| **Closing balance** | | | **158 898** | 158 898 |
| The loan is unsecured, interest-free and repayable on demand. Refer to note 9. | | | | |
| **Van Straaten Family Trust** | | | | |
| Opening balance | **(328 732)** | (307 240) | | |
| Interest accrued | **(22 903)** | (21 492) | | |
| **Closing balance** | **(351 635)** | (328 732) | | |
| Refer to note 14. | | | | |
| **23.2.3 Directors and key management purchases of goods** | | | | |
| SR Beecroft | **1 484** | 4 050 | | |
| TP Bezuidenhout | **502** | 955 | | |
| N du Plessis | **749** | – | | |
| R du Plessis | **3 319** | 2 547 | | |
| C Hoadley | **112** | – | | |
| MJ van Straaten | **39 761** | 19 566 | | |
| | **45 927** | 27 118 | | |

Sale of goods to directors is done at a discount of 67% and sale of goods to key management is done at a discount of 25% for goods with a selling price below R1 000 and 20% for goods with a selling price above R1 000.

# 23. Related party transactions (continued)

## 23.2 Related party transactions (continued)

### 23.2.4 The following employees participate in the share incentive scheme referred to in note 13:

| | 2014 Number of shares | 2013 Number of shares |
|---|---|---|
| M Adam | **150 000** | 150 000 |
| T Bezuidenhout | **150 000** | 150 000 |
| N du Plessis | **150 000** | 150 000 |
| R du Plessis | **–** | 2 000 000 |
| C Hoadley | **150 000** | 150 000 |
| H Lourens | **150 000** | 150 000 |
| D Rabie | **150 000** | 150 000 |
| | **900 000** | 2 900 000 |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **23.2.5 Directors and key management personnel compensation** | | | | |
| **Directors** | | | | |
| Short-term employee benefits | **6 951 596** | 6 299 547 | **587 100** | 270 693 |
| Post-employment benefits | **–** | – | **–** | – |
| Other long-term benefits | **–** | – | **–** | – |
| Termination benefits | **–** | – | **–** | – |
| Share based payment benefits | **–** | – | **–** | – |
| | **6 951 596** | 6 299 547 | **587 100** | 270 693 |
| **Key management** | | | | |
| Short-term employee benefits | **4 324 063** | 5 525 936 | **–** | – |
| Post-employment benefits | **–** | – | **–** | – |
| Other long-term benefits | **–** | – | **–** | – |
| Termination benefits | **–** | – | **–** | – |
| Share based payment benefits | **(655 940)** | 336 152 | **–** | – |
| | **3 668 123** | 5 862 088 | **–** | – |
| | **10 619 719** | 12 161 635 | **587 100** | 270 693 |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **24. Notes to the cash flow statement** | | |
| **24.1 Cash generated from/(utilised by) operations** | | |
| Profit before taxation | **23 410 948** | 15 245 339 |
| Adjustment for: | | |
| – amortisation of computer software | **552 730** | 318 124 |
| – depreciation on plant and equipment | **8 369 697** | 6 580 763 |
| – profit on disposal of plant and equipment | **(100 428)** | (187 324) |
| - profit on settlement of preference share liability | **(7 293 397)** | – |
| – finance income | **(4 107 361)** | (6 390 769) |
| – finance expense | **10 340 380** | 7 732 075 |
| – (decrease)/increase in inventory impairment allowance | **(5 657 828)** | 6 657 568 |
| – increase in straight-lining accrual | **1 189 662** | 445 807 |
| – foreign currency translation movement | **(180 783)** | 13 233 |
| – share based payment (credit)/expense | **(655 940)** | 336 152 |
| **Operating profit before working capital charges** | **25 867 680** | 30 750 968 |
| Decrease/(increase) in inventories | **26 872 628** | (31 510 897) |
| Decrease/(increase) in trade and other receivables | **17 581 120** | (28 622 058) |
| Increase in prepayments | **(65 557)** | (142 360) |
| (Decrease)/increase in trade and other payables | **(31 062 033)** | 27 856 047 |
| | **39 193 838** | (1 668 300) |
| **24.2 Taxation paid** | | |
| Amounts owing at beginning of year | **(1 649 876)** | (2 651 296) |
| Current year charges | **(6 178 375)** | (7 280 161) |
| Amounts owing at end of year | **392 125** | 1 649 876 |
| | **(7 436 126)** | (8 281 581) |

| | GROUP 2014 R | GROUP 2013 R | COMPANY 2014 R | COMPANY 2013 R |
|---|---|---|---|---|
| **24. Notes to the cash flow statement** (continued) | | | | |
| **24.3 Dividend paid** | | | | |
| Amount owing at beginning of year | – | – | – | – |
| Current year charge | – | (14 025 347) | – | (15 426 764) |
| Amount owing at end of year | – | – | – | – |
| | – | (14 025 347) | – | (15 426 764) |
| **24.4 Cash and cash equivalents** | | | | |
| Cash and cash equivalents included in the cash flow statement comprise the following: | | | | |
| Bank balances | 1 325 395 | 1 384 488 | 259 974 | 354 482 |
| Bank overdraft | (8 423 989) | (28 463 115) | – | – |
| Cash on hand | 69 000 | 69 019 | – | – |
| | (7 029 594) | (27 009 608) | 259 974 | 354 482 |
| **25. Retirement benefits** | | | | |
| The Group provides retirement benefits for all its permanent employees through defined contribution pension and provident schemes which are subject to the Pension Funds Act, 1956 as amended. The Group contributes 6,67% and employees contribute 5%. The total value of contributions to the above schemes was | 4 204 412 | 4 065 452 | | |

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **26. Commitments** | | |
| **26.1 Future operating lease commitments entered into by the Group** | | |
| **Motor vehicles and office equipment** | | |
| – payable within one year | 3 069 729 | 2 112 088 |
| – payable in year 2 to 5 | 5 155 993 | 3 957 067 |
| | 8 225 722 | 6 069 155 |
| **Property** | | |
| – payable within one year | 18 220 457 | 14 719 994 |
| – payable in year 2 to 5 | 30 597 971 | 35 545 560 |
| | 48 818 428 | 50 265 554 |

The Group leases various motor vehicles under operating leases which expire after 36 to 48 months. Office equipment under operating leases is leased for a period of 60 months and these contracts expire on various dates.

The leases for property include Company owned stores, regional offices and the head office premises. The period of the new head office lease is from 1 September 2012 to 31 August 2022 with a 7% escalation in the rental payment for the first five years and 6% in the last five years. Verimark may terminate the lease after five years.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **26. Commitments** (continued) | | |
| **26.2 Future instalment sale commitments entered into by the Group** | | |
| **Motor vehicles and office equipment** | | |
| – payable within one year | **1 866 992** | 2 821 352 |
| – payable in year 2 to 5 | **313 265** | 1 558 197 |
| | **2 180 257** | 4 379 549 |

| | Future minimum lease payments 2014 R | Interest 2014 R | Present value of minimum lease payments 2014 R | Future minimum lease payments 2013 R | Interest 2013 R | Present value of minimum lease payments 2013 R |
|---|---|---|---|---|---|---|
| Instalment sale liabilities | | | | | | |
| Less than one year | **1 952 072** | **85 080** | **1 866 992** | 3 050 566 | 229 214 | 2 821 352 |
| In two to five years | **326 066** | **12 801** | **313 265** | 1 598 735 | 40 538 | 1 558 197 |
| **Total** | **2 278 138** | **97 881** | **2 180 257** | 4 649 301 | 269 752 | 4 379 549 |

The Group leases office furniture and equipment and manufacturing structures under instalment sale agreements.

| | GROUP 2014 R | GROUP 2013 R |
|---|---|---|
| **26.3 Future operating lease commitments entered into for property occupied by franchisees** | | |
| **Property** | | |
| – payable within one year | **55 382** | 1 017 956 |
| – payable in year 2 to 5 | **–** | 524 444 |
| | **55 382** | 1 542 400 |

Verimark Proprietary Limited, in certain instances, enters into lease agreements with landlords for and on behalf of its franchisees. The terms and conditions of the leases, as signed by Verimark Proprietary Limited, are agreed to by the franchisees in terms of their individual franchise agreements. The amounts charged by the landlords are on-charged to the franchisees as appropriate.

## 26.4 Advertising commitments

The Group has an advertising commitment with its biggest customer for the period 1 April 2013 to 31 March 2014. The amount still to be expensed after the financial year end amounts to R478 438 (2013: R462 041).

## 26.5 Capital commitments

Capital expenditure authorised but not yet contracted for amounts to R8 200 000 (2013: R13 872 350) in respect of assets to be acquired to expand operations of the Company. Included in the amount is R1 200 000 (2013: R240 000) in respect of intangible assets. These acquisitions will be financed through finance received from instalment sale agreements and cash generated from operations.

## 26. Commitments (continued)

### 26.6 Guarantees

- Absa Bank Limited issued R1 000 000 (2013: R1 000 000) guarantee in favour of Oracle Airtime Sales (DSTV) on behalf of the Group.
- Absa Bank Limited issued guarantees amounting to R1 611 566 in favour of various parties.

## 27. Financial instruments

### 27.1 Overview

The Group's activities expose it to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency risk and interest rate risk).

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Audit and Risk Committee and Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. Risk management is carried out by the management team under policies approved by the Board of Directors, and includes the overall risk management covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

### 27.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the Group's receivables from customers.

#### Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group has a significant customer which represents approximately 75% (2013: 74%) of the trade receivables balance at year end. Refer to note 27.7.

The Group has policies to ensure that sales of products are made to customers with an appropriate credit history. An established credit policy exists under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review of creditworthiness includes external ratings when available and in some cases bank references.

The majority of the Group's customers are established retail houses and this further limits exposure to credit risk. More than 85% of the Group's customers have been transacting with the Group for more than five years and losses have occurred infrequently. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are specific loss components that relate to individually significant exposures as well as provision for returns post year end, relating to pre year end sales.

#### Bank balances

The Group limits its exposure to credit risk by banking with reputable financial institutions. Management do not expect any counterparty to fail to meet its obligations.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 27. Financial instruments (continued)

### 27.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group receives sales revenue on a monthly basis and uses it to reduce its borrowings as well as earn interest income once deposited in the bank account. The Group ensures that it has sufficient cash on demand or overdraft facilities to meet expected operational expenses, including the servicing of financial obligations. In addition the Group maintains the following lines of credit with financial institutions:

**Facilities**

- General banking facility – R30 000 000
- Credit card facility – R350 000
- Fleet card facility – R400 000
- Guarantee facility – R2 750 000
- Letters of credit – R6 000 000
- Absa vehicle and commercial asset finance – credit line – R1 000 000
- Forward exchange contract facility – R10 000 000
- Forward exchange settlement limit – R21 000 000

Date of review for all banking facilities is August 2014.

The Group is currently in a cash negative position of R7,0 million (2013: R27,0 million). The Group's credit (overdraft) facility with Absa Bank is monitored and renegotiated where necessary. The facility is available for use when required.

The Group prepares cash flow forecasts on a regular basis to monitor cash flows and is experienced in managing cyclical flows.

The Group makes use of bankers' acceptances where necessary. In future the Group will continue to convert overseas suppliers to using "cash against documents" instead of "letters of credit" for foreign imports.

### 27.4 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### 27.4.1 Currency risk

The Group is exposed to currency risk on purchases that are denominated in a currency other than the functional currency, the South African Rand (ZAR). The currency in which these transactions are primarily denominated is the US Dollar (USD) and the Singapore Dollar (SGD).

The Group enters into forward exchange contracts to limit exposure to foreign currency transactions.

The Group's foreign bank accounts are denominated in USD and SGD. These are maintained to facilitate easier purchases of transactions denominated in foreign currency and to limit currency risk.

#### 27.4.2 Interest rate risk

The Group's interest rate risk arises from borrowings (loans, instalment sale agreements and preference shares). The Group generally adopts a policy of ensuring that its exposure to changes in interest rates is on a variable rate basis.

## 27. Financial instruments (continued)

### 27.5 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to maintain an optimal capital structure to reduce the cost of capital. Loan finance relates mostly to interest-bearing loans obtained from reputable financial institutions.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and also the level of dividends paid to ordinary shareholders.

The Board of Directors monitors the shareholder spread in order to improve investor relations.

There were no changes in the Group's approach to capital management during the year. The Group is subject to certain externally imposed requirements. Refer to notes 10, 14 and 15 for further details.

The Board also ensures compliance with the covenants required by Absa Bank as part of the facilities granted to the Group.

The capital structure of the Group consists of equity and debt, which includes borrowings net of cash and cash equivalents.

### 27.6 Summary of financial assets/(liabilities) classification

The fair values of financial assets and liabilities approximate the carrying amounts shown in the statement of financial position and are carried as follows:

| | 28 February 2014 R | 28 February 2013 R |
|---|---|---|
| **GROUP** | | |
| Trade and other receivables | **54 808 178** | 70 091 482 |
| Cash and cash equivalents | **1 394 395** | 1 453 507 |
| Interest-bearing borrowings | **(4 384 176)** | (5 944 059) |
| Preference share liability | **–** | (17 012 124) |
| Trade and other payables | **(29 453 439)** | (59 325 810) |
| Current portion of interest-bearing borrowings | **(2 547 967)** | (3 479 809) |
| Bank overdraft | **(8 423 989)** | (28 463 115) |
| **COMPANY** | | |
| Loans receivable | **158 898** | 158 898 |
| Cash and cash equivalents | **259 974** | 354 482 |
| Amounts owing to subsidiary company and other related party | **(14 919 180)** | (13 056 867) |
| Trade and other payables | **–** | (209 580) |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 27. Financial instruments (continued)

### 27.7 Credit risk

| | GROUP 2014 R | GROUP 2013 R | COMPANY 2014 R | COMPANY 2013 R |
|---|---|---|---|---|
| **Exposure to credit risk** | | | | |
| The carrying amount of financial assets represents the maximum credit exposure and was: | | | | |
| Loan receivable | **-** | – | **158 898** | 158 898 |
| Trade and other receivables | **54 808 178** | 70 091 482 | **–** | – |
| Cash and cash equivalents | **(7 029 594)** | (27 009 608) | **259 974** | 354 482 |
| | **47 778 584** | 43 081 874 | **418 872** | 513 380 |
| The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was: | | | | |
| Domestic | **53 330 954** | 66 922 789 | | |
| Foreign – Singapore | **602 287** | 1 032 793 | | |
| | **53 933 241** | 67 955 582 | | |
| **Trade receivables excluding any impairment** | | | | |
| The maximum exposure to credit risk for trade receivables at the reporting date by type of customer was: | | | | |
| Retailer customer | **52 486 703** | 66 395 927 | | |
| Franchisee customer | **1 446 538** | 1 559 655 | | |
| | **53 933 241** | 67 955 582 | | |

The Group's most significant customer, a domestic retailer, accounts for R44 032 729 (2013: R55 063 725) of the trade receivables' carrying amount at 28 February 2014. Normal trading terms are 30 to 60 days, depending on the type of customer. No trade terms have been renegotiated during the year.

The directors do not consider there to be any associated credit risk with sundry debtors or franchise loans receivable.

| | 2014 Gross R | 2014 Impairment allowance R | 2013 Gross R | 2013 Impairment allowance R |
|---|---|---|---|---|
| GROUP | | | | |
| Impairment allowance | | | | |
| The ageing of trade receivables at the reporting date was: | | | | |
| Not past due | **27 556 907** | **–** | 64 453 180 | – |
| Past due 30 to 120 days | **25 918 264** | **(18 183)** | 3 369 049 | (483 178) |
| Past due more than 120 days | **458 070** | **(410 170)** | 133 353 | (133 353) |
| **Total** | **53 933 241** | **(428 353)** | 67 955 582 | (616 531) |

Based on historic default rates and the Group's returns policy, the Group believes that no impairment allowance is necessary in respect of receivables not past due or past due by up to 120 days. The amount provided for in the past due 30 to 120 days relates to specific customer claims that the Group is in the process of resolving. This balance includes the Group's most significant customers and relates to customers that have good trade records.

# 27. Financial instruments (continued)

## 27.7 Credit risk (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

| | GROUP | |
|---|---|---|
| | 2014 R | 2013 R |
| Balance at beginning of year | **(616 531)** | (616 531) |
| Impairment allowance reversed | **188 178** | – |
| **Balance at end of year** | **(428 353)** | (616 531) |

The impairment allowance has been raised against trade receivables that are considered to be impaired due to uncollectable amounts and credit claims.

The Group believes that the amounts that are past due by more than 30 days, and which have not been provided for, are still collectable, based on historic payment behaviour and underlying customer credit ratings.

No other financial assets are considered to be impaired.

## 27.8 Liquidity risk

### Profile of loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. The terms and conditions of outstanding loans were as follows:

| | | | | 28 February 2014 | | 28 February 2013 | |
|---|---|---|---|---|---|---|---|
| | Currency | Nominal interest rate* | Year of maturity | Face value R | Carrying amount R | Face value R | Carrying amount R |
| **GROUP** | | | | | | | |
| Secured bank loans – Investec | ZAR | Prime -2% | 2023 | **4 400 251** | **4 400 251** | 4 715 587 | 4 715 587 |
| Secured bank loans – Wesbank | ZAR | Prime -0,25% | 2014 – 2016 | **2 180 257** | **2 180 257** | 4 379 549 | 4 379 549 |
| Interest-bearing loan – VSFT | ZAR | 78% of prime | 2010 | **351 635** | **351 635** | 328 732 | 328 732 |
| Redeemable preference shares | ZAR | 78% of prime | 2010 | **–** | **–** | 17 012 124 | 17 012 124 |
| **Total liabilities** | | | | **6 932 143** | **6 932 143** | 26 435 992 | 26 435 992 |

Refer to notes 3, 10 and 14 for the security provided for the bank loans. Refer to note 15 for further information on the preference share liability and guarantee thereon.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 27. Financial instruments (continued)

### 27.8 Liquidity risk (continued)

**Profile of loans and borrowings** (continued)

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

| | Carrying amount R | Contractual cash flows R | 6 months or less R | 6 to 12 months R | >1 year R |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **28 February 2014** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Secured loans | **6 932 143** | **8 622 106** | **1 637 345** | **1 289 710** | **5 695 051** |
| Trade and other payables | **29 453 439** | **29 453 439** | **29 453 439** | **–** | **–** |
| | **36 385 582** | **38 075 545** | **31 090 784** | **1 289 710** | **5 695 051** |
| **28 February 2013** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Redeemable preference shares | 17 012 124 | – | – | – | – |
| Secured loans | 9 423 868 | 11 290 545 | 2 123 257 | 1 798 479 | 7 368 809 |
| Trade and other payables | 58 257 851 | 58 257 851 | 58 257 851 | – | – |
| | 84 693 843 | 69 548 396 | 60 381 108 | 1 798 479 | 7 368 809 |

# 27. Financial instruments (continued)

## 27.8 Liquidity risk (continued)

### Profile of loans and borrowings (continued)

| | Carrying amount R | Contractual cash flows R | 6 months or less R | 6 to 12 months R | >1 year R |
|---|---|---|---|---|---|
| **COMPANY** | | | | | |
| **28 February 2014** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | – | – | – | – | – |
| Amounts owing to subsidiary companies and other related party | 14 919 180 | 14 919 180 | – | 14 919 180 | – |
| | 14 919 180 | 14 919 180 | – | 14 919 180 | – |
| **28 February 2013** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | 209 580 | 209 580 | 209 580 | – | – |
| Amounts owing to subsidiary companies and other related party | 13 056 867 | 13 056 867 | – | 13 056 867 | – |
| | 13 266 447 | 13 266 447 | 209 580 | 13 056 867 | – |

### Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The Group had no financial instruments carried at fair value by valuation method at 28 February 2014.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly on indirectly.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| **Level 2** | | | | |
| Forward exchange contracts | – | – | – | – |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 27. Financial instruments (continued)

## 27.9 Market risk

### 27.9.1 Currency risk

**Exposure to currency risk**

The Group's exposure to foreign currency risk stated in South African Rand was as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| Bank and cash balances | **(2 907 894)** | (12 754 529) | **–** | – |
| **Gross exposure at year end** | **(2 907 894)** | (12 754 529) | **–** | – |
| Forward exchange contracts for future purchases | **–** | – | **–** | – |

The following significant exchange rates applied during the year:

| | Average rate | | Reporting date mid-spot rate | |
|---|---|---|---|---|
| | 2014 R | 2013 R | 2014 R | 2013 R |
| GROUP | | | | |
| US Dollar | **9,97** | 8,87 | **10,79** | 8,84 |
| Singapore Dollar | **7,93** | 7,15 | **8,52** | 7,14 |

**Sensitivity analysis**

A 10 percent strengthening/weakening of the South African Rand (ZAR) against the currencies noted above at 28 February 2014 would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013.

| | Profit/loss and equity R |
|---|---|
| GROUP | |
| **28 February 2014** | |
| Rand effect | **44 868** |
| **28 February 2013** | |
| Rand effect | 561 419 |

# 27. Financial instruments (continued)

## 27.9 Market risk (continued)

### 27.9.2 Interest rate risk

**Profile**

At the reporting date the interest rate profile of the Group and Company's interest-bearing financial instruments was:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 R** | 2013 R | **2014 R** | 2013 R |
| Variable rate instruments | | | | |
| Financial assets | **1 325 395** | 1 384 488 | **259 974** | 354 482 |
| Financial liabilities | **(15 356 132)** | (54 899 107) | **–** | – |
| | **(14 030 737)** | (53 514 619) | **259 974** | 354 482 |

No financial assets or liabilities are exposed to fixed interest rates.

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as for 2013.

| | Profit or loss | | Equity | |
|---|---|---|---|---|
| | 100 bp increase R | 100 bp decrease R | 100 bp increase R | 100 bp decrease R |
| GROUP | | | | |
| **28 February 2014** | | | | |
| Variable rate instruments | **(139 617)** | **139 617** | **(100 525)** | **100 525** |
| Cash flow sensitivity (net) | **(139 617)** | **139 617** | **(100 525)** | **100 525** |
| **28 February 2013** | | | | |
| Variable rate instruments | (535 146) | 535 146 | (3 545) | 3 545 |
| Cash flow sensitivity (net) | (535 146) | 535 146 | (3 545) | 3 545 |

## 27.10 Capital management

The debt to adjusted capital ratio at the end of the reporting period was as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2014 R** | 2013 R | **2014 R** | 2013 R |
| Total liabilities | **45 201 696** | 115 874 793 | **14 919 180** | 13 266 447 |
| *Less:* Cash and cash equivalents | **(1 394 395)** | (1 453 507) | **(259 974)** | (354 482) |
| | **43 807 301** | 114 421 286 | **14 659 206** | 12 911 965 |
| **Total equity** | **115 177 260** | 87 448 631 | **64 370 412** | 107 271 711 |
| **Adjusted debt to capital ratio** | **0,38** | 1,3 | **0,23** | 0,12 |

Refer to note 27.5 for details on how the entity manages its capital.

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 28. Application of IFRS 3 (2004) and reverse listing – preparation and presentation of consolidated financial statements

In a reverse acquisition, the acquirer is the entity whose equity interest has been acquired (the legal subsidiary) and the issuing entity (the legal parent) is the acquiree. Although legally the issuing entity is regarded as the parent and the entity whose equity interests have been acquired is regarded as the subsidiary, the legal subsidiary is the acquirer as it has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

Consolidated financial statements prepared following a reverse listing are issued under the name of the legal parent, but are a continuation of the financial statements of the legal subsidiary (i.e. the acquirer for accounting purposes). Because such group financial statements represent a continuation of the financial statements of the legal subsidiary:

- The assets and liabilities of the legal subsidiary are recognised and measured in those group financial statements at their pre combination carrying amounts;
- The retained earnings and other equity balances recognised in the group financial statements are the retained earnings and other equity balances of the legal subsidiary, immediately before the business combination; and
- The amount recognised as issued equity instruments in the group financial statements shall be determined by adding to the issued equity of the legal subsidiary immediately before the business combination, the cost of the combination. However the equity structure appearing in the consolidated financial statements (that is the number and type of equity instruments issued) reflects the equity structure of the legal parent, including the equity instruments issued by the legal parent to effect the combination.

Reverse acquisition accounting applies only in the group financial statements. Therefore, in the legal parent's separate financial statements, the investment is accounted for in accordance with the requirements in IAS 27 Consolidated and Separate Financial Statements on accounting for investments in an investor's separate financial statements.

## 29. Segmental information

During the prior year the Group expanded to Singapore where a company was started. Per IFRS 8 *Operating Segments* the operations of the Group are now split between South Africa and Foreign.

| | South Africa R | Foreign R | Group elimination R | Total R |
|---|---|---|---|---|
| **For the year ended 28 February 2014** | | | | |
| Revenue | **427 333 216** | **3 436 818** | **(297 373)** | **430 472 661** |
| Profit/(loss) before tax | **24 447 146** | **(1 007 432)** | **(28 766)** | **23 410 948** |
| Profit/(loss) for the year | **18 647 904** | **(965 799)** | **(20 711)** | **17 661 394** |
| Segment assets | **157 125 172** | **3 282 550** | **(28 766)** | **160 378 956** |
| Segment liabilities | **44 605 317** | **4 168 493** | **(3 572 114)** | **45 201 696** |
| **For the year ended 28 February 2013** | | | | |
| Revenue | 453 633 | 2 273 | (1 815) | 454 091 |
| Profit before tax | 15 049 | 247 | (51) | 15 245 |
| Profit for the year | 8 668 | 247 | (37) | 8 878 |
| Segment assets | 203 114 | 3 434 | (3 225) | 203 323 |
| Segment liabilities | 115 875 | 3 174 | (3 174) | 115 875 |

The Group has assessed external customers and determined that a customer in the retail sector which constitutes 47% (2013: 48%) is the only major customer due to the amount of revenue received and the amount of expenses included in profit or loss. External revenue is categorised per similar group of products as follows:

- Cookware and kitchenware – Bauer, Bastille, Twista, Shogun
- Home cleaning – Genesis, Floorwiz, Microwiz
- Health and fitness – Maxxus, Orbitrek, V-ssage
- DIY and automotive – Diamond Guard, Prolong, Durablade, Pool Gobbler
- Educational and fun toys – i-Play
- Beauty – Cami Secret, Genie Bra, Rox.

These products are distributed countrywide to all customers with no geographical differentiation. Refer to note 27.7 for further details and information on the Group's major customers.

## 30. Earnings per share

The calculation of basic earnings per share is based on profit after tax of R17 661 394 (2013: R8 878 148) attributable to the ordinary shareholders and a weighted average of 103 902 417 (2013: 103 891 458) ordinary shares in issue during the year.

The calculation of headline earnings is based on the net profit attributable to ordinary shareholders of R17 589 086 (2013: R8 743 275) and a weighted average of 103 902 417 (2013: 103 891 458) ordinary shares in issue during the year.

| | GROUP | |
|---|---|---|
| | 2014<br>R | 2013<br>R |
| Profit per statement of comprehensive income | **17 661 394** | 8 878 148 |
| Adjustments: | | |
| Profit on sale of plant and equipment | **(100 428)** | (187 324) |
| Tax effect | **28 120** | 52 451 |
| **Headline earnings** | **17 589 086** | 8 743 275 |
| **Weighted average shares reconciliation** | | |
| Number of shares at beginning of year | **114 272 328** | 114 272 328 |
| Treasury shares held by VEET weighted for the period | **(3 989 041)** | (4 000 000) |
| Treasury shares held by Verimark Proprietary Limited weighted for the period | **(6 380 870)** | (6 380 870) |
| **Weighted average number of shares held externally at end of year** | **103 902 417** | 103 891 458 |
| Share options dilutive portion | **9 986** | 2 094 538 |
| **Diluted weighted average shares** | **103 912 403** | 105 985 996 |
| Basic earnings per share (cents) | **17,0** | 8,5 |
| Headline earnings per share (cents) | **16,9** | 8,4 |
| Diluted basic earnings per share (cents) | **17,0** | 8,4 |
| Diluted headline earnings per share (cents) | **16,9** | 8,2 |

## 31. International Financial Reporting Standards issued but not yet effective

At the date of authorising the financial statements for the year ended 28 February 2014, the following standards and interpretations, which are expected to have an impact on the Group, were issued but not yet effective:

| Standard/Interpretation | | Effective date<br>Periods beginning on or after |
|---|---|---|
| IFRS 9 (2009) | Financial Instruments | To be decided |
| IFRS 9 (2010) | Financial Instruments | To be decided |

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations not applicable).

### IFRS 9 Financial Instruments

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

The effective date for IFRS 9 (2010 and 2009) still needs to be announced. The adoption of IFRS 9 (2010) is expected to have an impact on the Group and Company's financial assets, but not any impact on the Group and Company's financial liabilities.

## 32. Directors' emoluments

| | Basic salary R | Allowances and other benefits R | Incentive bonuses R | Pension and medical aid contributions R | Total R |
|---|---|---|---|---|---|
| **GROUP** | | | | | |
| **28 February 2014** | | | | | |
| **Executive directors paid by subsidiary** | | | | | |
| MJ van Straaten+ | **3 997 856** | **120 000** | **–** | **522 949** | **4 640 805** |
| SR Beecroft+ | **1 471 546** | **–** | **–** | **252 145** | **1 723 691** |
| | **5 469 402** | **120 000** | **–** | **775 094** | **6 364 496** |
| **Non-executive directors paid by Company** | | | | | |
| JM Pieterse | **241 950** | **–** | **–** | **–** | **241 950** |
| JT Motlatsi | **189 850** | **–** | **–** | **–** | **189 850** |
| MM Patel | **155 300** | **–** | **–** | **–** | **155 300** |
| | **587 100** | **–** | **–** | **–** | **587 100** |
| **Total** | **6 056 502** | **120 000** | **–** | **775 094** | **6 951 596** |
| **28 February 2013** | | | | | |
| **Executive directors paid by subsidiary** | | | | | |
| MJ van Straaten+ | 3 832 360 | 139 566 | – | 423 690 | 4 395 616 |
| SR Beecroft+ | 1 467 376 | 4 050 | – | 161 812 | 1 633 238 |
| | 5 299 736 | 143 616 | – | 585 502 | 6 028 854 |
| **Non-executive directors paid by Company** | | | | | |
| JM Pieterse | 108 413 | – | – | – | 108 413 |
| JT Motlatsi | 112 680 | – | – | – | 112 680 |
| MM Patel | 49 600 | – | – | – | 49 600 |
| | 270 693 | – | – | – | 270 693 |
| **Total** | 5 570 429 | 143 616 | – | 585 502 | 6 299 547 |

+ Director of the subsidiary Verimark Proprietary Limited and Verimark Holdings Limited.

There are no prescribed officers in the Group.

Refer to note 23.2.3 for additional disclosure on transactions with directors.

## 33. Subsequent 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.

## 34. Going concern

The financial statements have been prepared using the appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The directors have reasonable expectations that the Company and its subsidiaries have adequate resources to continue as going concerns in the foreseeable future.

## 35. Dividends

Due to the lower level of profitability achieved in the financial year ended 28 February 2014, the Board considered it prudent that no final dividend in relation to the 28 February 2014 results (2013: Rnil or nil cents per share) be declared.

This is not in line with the dividend policy of 50% profit attributable to owners of the Company.

The policy will be reassessed on an ongoing basis as and when dividends become due and payable.

## 36. Shareholder spread

| | Number of share-holders | % of share-holders | Number of shares | % of shares in issue |
|---|---|---|---|---|
| **Public shareholders** | | | | |
| Companies and other corporate | 48 | 4,63 | 1 198 781 | 1,05 |
| Individuals | 912 | 88,03 | 17 132 136 | 14,99 |
| Collective investment schemes | 9 | 0,87 | 8 661 317 | 7,58 |
| Investment trusts and pension funds | 51 | 4,92 | 3 198 078 | 2,80 |
| Banks and nominees | 11 | 1,06 | 3 909 621 | 3,42 |
| **Non-public shareholders** | | | | |
| Directors | 4 | 0,39 | 73 791 525 | 64,58 |
| Treasury | 1 | 0,10 | 6 380 870 | 5,58 |
| **Total** | **1 036** | **100,00** | **114 272 328** | **100,00** |
| **Size of shareholding** | | | | |
| **Public shareholders** | | | | |
| 1 – 1 000 | 332 | 32,05 | 147 482 | 0,13 |
| 1 001 – 10 000 | 421 | 40,64 | 1 980 079 | 1,73 |
| 10 001 – 100 000 | 242 | 23,36 | 7 782 845 | 6,81 |
| 100 001 – 1 000 000 | 30 | 2,90 | 6 005 556 | 5,26 |
| 1 000 001 and over | 6 | 0,58 | 18 183 971 | 15,91 |
| **Non-public shareholders** | | | | |
| 1 – 1 000 | 0 | 0,00 | 0 | 0,00 |
| 1 001 – 10 000 | 0 | 0,00 | 0 | 0,00 |
| 10 001 – 100 000 | 0 | 0,00 | 0 | 0,00 |
| 100 001 – 1 000 000 | 0 | 0,00 | 0 | 0,00 |
| 1 000 001 and over | 5 | 0,47 | 80 172 395 | 70,16 |
| **Total** | **1 036** | **100,00** | **114 272 328** | **100,00** |

# NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 28 February 2014

## 36. Shareholder spread (continued)

| | Number of share-holdings | % of share-holding | Number of shares | % of shares in issue |
|---|---|---|---|---|
| **Geographical holdings by owner** | | | | |
| South Africa | 1 023 | 98,73 | 109 533 286 | 95,86 |
| Mauritius | 1 | 0,10 | 3 699 124 | 3,24 |
| Namibia | 4 | 0,39 | 699 660 | 0,61 |
| United Kingdom | 1 | 0,10 | 150 987 | 0,13 |
| Belgium | 1 | 0,10 | 81 621 | 0,07 |
| Germany | 1 | 0,10 | 59 000 | 0,05 |
| Other countries | 5 | 0,48 | 48 650 | 0,04 |
| **Total** | **1 036** | **100,00** | **114 272 328** | **100,00** |

### Major shareholders

The Van Straaten Family Trust and Prime Rentals cc hold 63,01% of the issued share capital of the Company. The beneficiaries of the Trust and the members of the Close Corporation are the CEO, MJ van Straaten and his family. To the best of the directors' and the Company's knowledge, the following shareholders hold 5% or more of the Company's issued share capital. No changes occurred between the end of the financial year and the date of issuing the annual report.

| | Number of shares | % of issued shares |
|---|---|---|
| **Beneficial shareholders holding 5% or more of the issued share capital** | | |
| The Van Straaten Family Trust and Prime Rentals cc | 72 000 000 | 63,01 |
| Momentum Investments | 8 044 462 | 7,04 |
| Verimark Proprietary Limited | 6 380 870 | 5,58 |
| Total number of shareholders | 1 036 | |
| **Total number of shares in issue** | **114 272 328** | |
| **Volume traded during the period** | **5 359 522** | |
| **Ratio of volume traded to shares issued (%)** | **4,69** | |
| **Share price performance (cents)** | | |
| Opening price 1 March 2013 | 1,00 | |
| Closing price 28 February 2014 | 0,69 | |
| Closing high for the period | 1,03 | |
| Closing low for the period | 0,65 | |

SHAREHOLDERS

## Strutz is designed to provide immediate relief to those with sore feet caused by poor arch support...

Endorsed by world leading podiatrists, orthopedists, chiropractors, athletic trainers and athletes, **Strutz** reduces heel, arch and ball of foot pain caused by flat feet, fallen arches and plantar fasciitis and is ideal for those who spend hours on their feet.

Unlike traditional arch support products on the market, the **Strutz** patented internal shock absorber dampens shockwaves that travel throughout the body as it compresses and rebounds itself while the wearer engages in activity, giving you lasting comfort and support.

## Simply slip them on and instantly feel relieved!

**Strutz** are made from a breathable fabric and comfortable compression band to hug your feet for the perfect fit combined with a shock absorbing core and durable non-slip sole so you can wear **Strutz** with every shoe you own – including sneakers, sandals and heels – or even barefoot!

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the annual general meeting of Verimark members will be held in the boardroom at the offices of Verimark, 50 Clairwood Avenue, Ext 55 Hoogland, Randburg 2154 on Thursday, 7 August 2014 at 10:00.

Shareholders or their proxies may participate in the meeting by way of a teleconference call and, if they wish to do so:

- must contact the Company Secretary (by email at the address sw@premcorp.co.za) by no later than 10:00 on Tuesday, 5 August 2014 in order to obtain a pin number and dial-in details for that conference call;
- will be required to provide reasonably satisfactory identification; and
- will be billed separately by their own telephone service providers for their telephone call to participate in the meeting.

This notice of meeting includes the attached proxy form.

## Attendance and voting

In terms of section 59(1)(a) and (b) of the Companies Act, 71 of 2008, as amended (the Act), the Board of Directors (Board) has set the record date for the purpose of determining which shareholders are entitled to:

- receive notice of the annual general meeting, ie the notice record date (being the date on which a shareholder must be registered in the Company's share register in order to receive notice of the annual general meeting) as Friday, 23 May 2014; and
- participate in and vote at the annual general meeting, ie the meeting record date (being the date on which a shareholder must be registered in the Company's share register in order to participate in and vote at the annual general meeting) as Friday, 1 August 2014; and
- the last day to trade is Friday, 25 July 2014.

If you are a registered shareholder as at the meeting record date, you may attend the annual general meeting in person. Alternatively, you may appoint a proxy (who need not be a shareholder of the Company) to represent you at the annual general meeting. Any appointment of a proxy may be effected by using the attached proxy form and, in order for the proxy to be effective and valid, must be completed and delivered in accordance with the instructions contained in the attached proxy form.

If you are a beneficial shareholder and not a registered shareholder as at the meeting record date:

- and wish to attend the annual general meeting, you must obtain the necessary letter of authority to represent the registered shareholder of your shares from your Central Securities Depositary Participant (CSDP) or broker;
- and do not wish to attend the annual general meeting, but would like your vote to be recorded at the annual general meeting, you should contact the registered shareholder of your shares through your CSDP or broker and furnish them with your voting instructions; and
- you must not complete the attached proxy form.

Please note that all participants at the annual general meeting will be required to provide reasonably satisfactory identification to the chairman of the annual general meeting, before being entitled to participate in or vote at the annual general meeting. Forms of identification that will be accepted include original and valid identity documents, driver's licences and passport.

## Purpose of the meeting

The purpose of this meeting is to:

- present the directors' report and the audited annual financial statements of the Group for the year ended 28 February 2014;
- present the Audit and Risk Committee report;
- present the Social and Ethics Committee report;
- consider any matters raised by shareholders; and
- consider and if deemed fit, pass, with or without modification, the resolutions set out below:

In order for a proposed ordinary resolution to be approved by shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting.

In order for a proposed special resolution to be approved by shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution by shareholders present or represented by proxy at the annual general meeting.

In addition, the purpose of this annual general meeting is to further consider any matters raised by shareholders to consider and if deemed fit, to pass, with or without modification, the resolutions set out below:

### Ordinary Resolution Number 1 – Adoption of the annual financial statements

That the annual financial statements for the Company and the Group for the year ended 28 February 2014, including the directors' report and the auditor's report therein, be adopted.

### Ordinary Resolution Number 2 – Re-appointment of auditors

To re-appoint KPMG Inc. (KPMG) upon the recommendation of the Audit and Risk Committee as the independent registered auditors of the Group and to note Mr J Wessels as the individual determined by KPMG to be responsible for performing the functions of the auditor and who will undertake the audit of the Company for the ensuing financial year.

## Ordinary Resolution Number 3 – Re-election of directors

To re-elect Mr MM Patel and Mr SR Beecroft, as directors by way of separate resolutions, who retire in accordance with the provisions of the memorandum of incorporation at this annual general meeting, and being eligible, offer themselves for election.

## Ordinary Resolution Number 4 – Election of the Audit and Risk Committee members

Subject to the approval of Ordinary Resolutions Number 3, to elect, by way of separate resolutions, Mr JM Pieterse (Chairman), Dr JT Motlatsi and Mr MM Patel as members of the Audit and Risk Committee until the next annual general meeting.

The Board is satisfied that the above mentioned directors are suitably skilled and experienced independent non-executive directors and that they collectively have the appropriate experience and qualifications to fulfil their Audit and Risk Committee obligations as set out in section 94 of the Act.

A brief *curriculum vitae* of the directors set out in Ordinary Resolutions Numbers 3 and 4 reflecting their experience and qualifications, is available on the Group's corporate website W www.verimark.co.za and forms an integral part of this notice of annual general meeting.

## Ordinary Resolution Number 5 – General authority to issue shares, and to sell treasury shares, for cash

To authorise the directors of the Company and/or any of its subsidiaries from time to time, by way of a general authority, to:

- allot and issue 17 140 850 shares or options (which number represents up to 15% of the Company's equity shares at the date of this notice) in respect of, all or any of the authorised but unissued ordinary shares in the capital of the Company; and/or
- sell or otherwise dispose of or transfer, or issue any options in respect of, ordinary shares in the capital of the Company purchased by subsidiaries of the Company;
- issue shares for cash, to such person/s on such terms and conditions and at such times as the directors in their discretion deem fit, subject to the following limitations:
  - the securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
  - any such issue may only be made to public shareholders as defined by the JSE Listings Requirements and not to related parties;
  - the number of ordinary shares issued for cash shall not in any one financial year in the aggregate exceed 15% (fifteen percent) of the number of issued ordinary shares;
  - this general authority is valid until the earlier of the Company's next annual general meeting or expiry of a period of 15 (fifteen) months from the date that this authority is given;
  - an announcement giving full details, including the impact on the net asset value per share, net tangible asset value per share, earnings per share and headline earnings per share, and, if applicable, diluted earnings per share and diluted headline earnings per share, will be released when the Company has issued ordinary shares representing, on a cumulative basis within 1 (one) financial year, 5% (five percent) or more of the number of ordinary shares in issue prior to the issue;
  - in determining the price at which an issue of ordinary shares may be made in terms of this authority, the maximum discount permitted will be 10% (ten percent) of the weighted average traded price on the JSE of the ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the Company and the party subscribing for the shares; and
  - whenever the Company wishes to use ordinary shares, held as treasury stock by a subsidiary of the Company, such use must comply with the JSE Listings Requirements as if such use was a fresh issue of ordinary shares.

In terms of the JSE Listings Requirements, a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at the general meeting must be cast in favour of Ordinary Resolution Number 5 for it to be approved, excluding the Designated Adviser and the controlling shareholders together with their associates.

## Ordinary Resolution Number 6 – Advisory endorsement

To consider and endorse, by way of a non-binding advisory vote, the Remuneration payable by the Company set out on P 84 available on our website, for the financial year ended 28 February 2014, in accordance with the provisions of the King III Report.

# NOTICE OF ANNUAL GENERAL MEETING continued

## Special Resolution Number 1 – Approval of non-executive directors' fees

To approve the annual fees payable to the non-executive directors for their services as directors of the Company for the period 7 August 2014 until the next annual general meeting as follows:

| Committee | Chairman attendance fees R | Members attendance fees R |
|---|---|---|
| Board | 27 450 | 10 100 |
| Audit and Risk Committee | 20 750 | 7 350 |
| Remuneration and Nomination Committee | 20 750 | 7 350 |
| Social and Ethics Committee | 20 750 | 7 350 |
| Annual general meeting | 27 450 | 10 100 |

Fees are per meeting attended.

## Special Resolution Number 2 – Financial assistance in terms of sections 44 and 45 of the Act

That the Board may authorise the Company (for a period of two years from the date on which this resolution is passed), to the extent required in terms of sections 44 and/or 45 of the Act, subject to compliance with the requirements of the Act, the memorandum of incorporation and the JSE Listings Requirements, to provide any direct or indirect financial assistance to any of its present or future subsidiaries and/or any other company or entity that is or becomes a related or inter-related company to Verimark or the Group.

### Reason for and effect of this special resolution

The reason for and effect of this special resolution is that, from time to time, the Company may be required to provide any direct or indirect financial assistance to any of its present or future subsidiaries and/or any other company or entity that is or becomes a related or inter-related company to Verimark or the Group.

## Special Resolution Number 3 – Acquisition of own securities

That the mandate given to the Company (or any of its wholly owned subsidiaries) providing authorisation, by way of a general approval, to acquire the Company's own securities, upon such terms and conditions and in such amounts as the directors may from time to time decide, but subject to the Company's memorandum of incorporation, the provisions of the Companies Act 71 of 2008 (the Act) and the Listings Requirements of JSE Limited (JSE Listings Requirements) be extended, provided that:

- Any repurchase of securities must be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counterparty;
- At any point in time, the Company may only appoint one agent to effect any repurchase on the Company's behalf;
- This general authority be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution (whichever period is shorter);
- An announcement be published as soon as the Company has cumulatively repurchased 3% (three percent) of the initial number (the number of that class of share in issue at the time that the general authority is granted) of the relevant class of securities and for each 3% (three percent) in aggregate of the initial number of that class acquired thereafter, containing full details of such repurchases;
- Repurchases by the Company, and/or its subsidiaries, in aggregate in any one financial year may not exceed 20% (twenty percent) of the Company's issued share capital as at the date of passing this special resolution or 10% (ten percent) of the Company's issued share capital in the case of an acquisition of shares in the Company by a subsidiary of the Company;
- Repurchases may not be made at a price greater than 10% (ten percent) above the weighted average of the market value of the securities for the 5 (five) business days immediately preceding the date on which the transaction was effected;
- Repurchases may not be made by the Company and/or its subsidiaries during a prohibited period as defined by the JSE Listings Requirements unless a repurchase programme is in place where the dates and quantities of securities to be traded during the relevant period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and
- The Company may not enter the market to proceed with the repurchase of its ordinary shares until the Company's sponsor has confirmed the adequacy of the Company's working capital for the purpose of undertaking a repurchase of securities in writing to the JSE.

## Ordinary Resolution Number 7 – Authority to implement resolutions passed at the annual general meeting

That any director or Company Secretary of the Company be authorised to do all such things, perform all acts and sign all such documentation as may be required to give effect to the ordinary and special resolutions adopted at this annual general meeting.

The directors, after considering the effect of the maximum repurchase permitted, must be of the opinion that if such repurchase is implemented:

- The Company and the Group will be able, in the ordinary course of business, to pay their debts for a period of 12 months after the date of this notice;

- The assets of the Company and the Group will be in excess of the liabilities of the Company and the Group, the assets and liabilities being recognised and measured in accordance with the accounting policies used in the latest audited annual Group financial statements for a period of 12 months after the date of this notice;
- The share capital and reserves will be adequate for the ordinary business purposes of the Company and the Group for a period of 12 months after the date of this notice; and
- The working capital of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of this notice.

The reason for the passing of the above special resolution is to grant the Company a general authority in terms of the Act for the acquisition by the Company or any of its subsidiaries of securities issued by the Company, which authority shall be valid until the earlier of the next annual general meeting, or the variation or revocation of such general authority by special resolution by any subsequent general meeting of the Company; provided that the general authority shall not extend beyond 15 (fifteen) months from the date of this general meeting. The passing and registration of this special resolution will have the effect of authorising the Company or any of its subsidiaries to acquire securities issued by the Company.

The following information, which is required by the JSE Listings Requirements with regard to the resolution granting a general authority to the Company to repurchase its securities, appears on the pages of the financial statements to which this notice of general meeting is annexed, as indicated below:


| | |
|---|---|
| Directors | P 15 |
| Major shareholders | P 86 |
| Directors' interests in securities | P 34 |
| Share capital | P 59 |
| Responsibility statement | P 32 |
| Material changes | P 84 |


## Litigation

There are no legal or arbitration proceedings, either pending or threatened against the Company or its subsidiaries, of which the Company is aware, which may have, or have had in the recent past, being at least the previous 12 months, a material effect on the financial position of the Company or its subsidiaries.

## Solvency and liquidity statement

The Board of Directors of the Company confirm that the Company will not enter into a transaction to distribute capital and reserves in terms of Ordinary Resolution Number 3 or to repurchase shares in terms of Special Resolutions Numbers 2 and 3 unless:

a) The Company and its subsidiaries (collectively the Group) will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date of that distribution or repurchase;

b) The assets of the Company and the Group, valued in accordance with the accounting policies used in the latest audited Group annual financial statements, will exceed the liabilities of the Company and the Group for a period of 12 months after the date of that distribution or repurchase;

c) The share capital and reserves of the Company and the Group will be adequate for ordinary business purposes for a period of 12 months after the date of that distribution or repurchase; and

d) The working capital available to the Company and the Group will be adequate for the ordinary business purposes for a period of 12 months after the date of that distribution or repurchase.

### The directors of the Company hereby state that:

a) The intention of the directors of the Company is to utilise the authority if, at some future date, the cash resources of the Company are in excess of its requirements. In this regard the directors will take account of, *inter alia*, an appropriate capitalisation structure for the Company, the long-term cash needs of the Company and will ensure that any such utilisation is in the interests of the shareholders; and

b) The method by which the Company intends to repurchase its securities and the date on which such repurchase will take place, has not yet been determined.

## JSE Limited Listings Requirements

In terms of the JSE Listings Requirements, any shares currently held by the Verimark Share Incentive Scheme will not have their votes at the annual general meeting taken into account in determining the results of voting on Special Resolution Number 3 and Ordinary Resolution Number 5.

**Premium Corporate Consulting Services Proprietary Limited**
*Company Secretary*

22 May 2014

# SHAREHOLDERS' DIARY

| | |
|---|---|
| Financial year end | 28 February |
| Announcement of annual results | 27 May 2014 |
| Annual general meeting | 7 August 2014 |
| Announcement of interim results | 13 October 2014 |

# ADMINISTRATION

## Verimark Holdings Limited

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

## Directors

Dr JT Motlatsi *(Chairman)**
MJ van Straaten *(Chief Executive Officer)*
SR Beecroft *(Financial Director)*
JM Pieterse*
MM Patel*
*Independent Non-Executive

## Company Secretary

Premium Corporate Consulting Services Proprietary Limited
(Registration number 2003/09512/07)
33 Kingfisher Drive
Fourways 2188
South Africa
PO Box 2424, Fourways 2055

## Auditors

KPMG Inc.
KPMG Crescent
85 Empire Road
Parktown 2193
Private Bag 9, Parkview 2122

## Sponsor

Grindrod Bank Limited
4th Floor
Grindrod Tower
8A Protea Place
Sandton
PO Box 78011, Sandton 2146

## Registered office

50 Clairwood Avenue,
Ext 55 Hoogland
Randburg 2154
PO Box 78260, Sandton 2146

## Bankers

Absa Bank Limited
3rd Floor
ABSA Towers East
170 Main Street
Johannesburg 2001

## Transfer secretaries

Computershare Investor Services Proprietary Limited
70 Marshall Street
Johannesburg
PO Box 61051
Marshalltown 2107
Tel: 0861 100 950
Fax: (011) 688 5217
email: web.queries@computershare.co.za

# FORM OF PROXY

## VERIMARK HOLDINGS LIMITED

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

## To be completed by registered certificated shareholders and dematerialised shareholders with own-name registration only

For use in respect of the annual general meeting of the Company to be held at 50 Clairwood Avenue, Ext 55 Hoogland, Randburg 2154 on Thursday, 7 August 2014 at 10:00. Ordinary shareholders who have dematerialised their shares with a CSDP or broker, other than with own-name registration, must arrange with the CSDP or broker concerned to provide them with the necessary Letter of Representation to attend the annual general meeting or the ordinary shareholders concerned must instruct their CSDP or broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned

I/We (full name in block letters) ______________________________

of (address) ______________________________

Telephone (work) ______________ (home) ______________ (mobile) ______________

being the registered owner/s of ______________ ordinary shares in the Company hereby appoint

______________________________ or failing him/her

______________________________ or failing him/her,

the chairperson of the annual general meeting, as my/our proxy to act for me/us and on my/our behalf at the annual general meeting which will be held for the purpose of considering and, if deemed fit, passing, with or without modification, the ordinary and special resolutions to be proposed thereat and at any adjournment thereof; and to vote for and/or against the ordinary and special resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name(s), in accordance with the following instructions:

* Please indicate with an "X" in the appropriate spaces below how you wish your votes to be cast; unless otherwise instructed, my/our proxy may vote as he/she thinks fit.

| | Number of votes | | |
|---|---|---|---|
| | For | Against | Abstain |
| Ordinary Resolution Number 1 – Adoption of the annual financial statements | | | |
| Ordinary Resolution Number 2 – Re-appointment of auditors | | | |
| Ordinary Resolution Number 3 – Re-election of directors | | | |
| 3.1 Mr MM Patel | | | |
| 3.2 Mr SR Beecroft | | | |
| Ordinary Resolution Number 4 – Election of Audit and Risk Committee members | | | |
| 5.1 Mr JM Pieterse (Chairman) | | | |
| 5.2 Dr JT Motlatsi | | | |
| 5.3 Mr MM Patel | | | |

# FORM OF PROXY continued

| | Number of votes | | |
|---|---|---|---|
| | For | Against | Abstain |
| Ordinary Resolution Number 5 – General authority to issue shares and to sell treasury shares for cash | | | |
| Ordinary Resolution Number 6 – Advisory endorsement | | | |
| Special Resolution Number 1 – Approval of non-executive directors' fees | | | |
| 1.1 Board Chairman | | | |
| 1.2 Board member | | | |
| 1.3 Audit and Risk Committee Chairman | | | |
| 1.4 Audit and Risk Committee member | | | |
| 1.5 Remuneration and Nomination Committee Chairman | | | |
| 1.6 Remuneration and Nomination Committee member | | | |
| 1.7 Social and Ethics Committee Chairman | | | |
| 1.8 Social and Ethics Committee member | | | |
| 1.9 Annual general meeting Chairman | | | |
| 1.10 Annual general meeting member | | | |
| Special Resolution Number 2 – Financial assistance | | | |
| Special Resolution Number 3 – Acquisition of own shares | | | |
| Ordinary Resolution Number 7 – Authority to implement resolutions | | | |

Signed this ______________________ day of ______________________ 2014

Signature ______________________

Assisted by (if applicable) ______________________

# NOTES TO THE FORM OF PROXY

## Summary of holders' rights in respect of proxy appointments as set out in sections 56 and 58 of the Act including instructions and notes to the proxy form

1. Section 56 grants voting rights to holders of beneficial interests in certain circumstances, namely if the beneficial interest includes the right to vote on the matter, and the person's name is on the Company's register of disclosures as the holder of a beneficial interest. A person who has a beneficial interest in any securities that are entitled to be voted on by him/her, may demand a proxy appointment from the registered holder of those securities, to the extent of that person's beneficial interest, by delivering such a demand to the registered holder, in writing, or as required by the applicable requirements of a CSDP.
2. A proxy appointment must be in writing, dated and signed by the person appointing a proxy.
3. This proxy form will not be effective at the meeting unless received at the Company's transfer office, Computershare Investor Services Proprietary Limited (Computershare) by no later than 10:00 on Tuesday, 5 August 2014. If a shareholder does not wish to deliver this proxy form to that address, it may also be posted, at the risk of the shareholder, to Computershare, PO Box 61051, Marshalltown 2107).
4. This form is for use by registered shareholders who wish to appoint another person (a proxy) to represent them at the meeting. If duly authorised, companies and other corporate bodies who are registered shareholders may appoint a proxy using this form, or may appoint a representative in accordance with paragraph 12 below.

   Other shareholders should not use this form. All beneficial shareholders who have dematerialised their shares through a CSDP or broker, must provide the CSDP or broker with their voting instruction. Alternatively, if they wish to attend the meeting in person, they should request the CSDP or broker to provide them with a letter of representation in terms of the custody agreement entered into between the beneficial shareholder and the CSDP or broker.
5. This proxy shall apply to all ordinary shares registered in the name of the shareholder who signs this proxy form at the meeting record date unless a lesser number of shares is inserted.
6. A shareholder may appoint one person of his own choice as his proxy by inserting the name of such proxy in the space provided. Any such proxy need not be a shareholder of the Company. If the name of the proxy is not inserted, the chairman of the meeting will be appointed as proxy. If more than one name is inserted, then the person whose name appears first on the proxy form and who is present at the meeting will be entitled to act as proxy to the exclusion of any persons whose names follow. The proxy appointed in this proxy form may delegate the authority given to him in this proxy form by delivering to the Company, in the manner required by these instructions, a further proxy form which has been completed in a manner consistent with the authority given to the proxy in this proxy form.
7. Unless revoked, the appointment of a proxy in terms of this proxy form remains valid until the end of the meeting, even if the meeting or part thereof is postponed or adjourned.
8. If:

8.1 a shareholder does not indicate on this instrument that the proxy is to vote in favour of or against or to abstain from voting or any resolution; or

8.2 the shareholder gives contradictory instructions in relation to any matter; or

8.3 any additional resolution/s which are properly put before the meeting; or

8.4 any resolution listed in the proxy form is modified or amended,

then the proxy shall be entitled to vote or abstain from voting, as he thinks fit, in relation to that resolution or matter. If however, the shareholder has provided further written instructions which accompany this form and which indicate how the proxy should vote or abstain from voting in any of the circumstances referred to in 8.1 to 8.4, then the proxy shall comply with those instructions.

9. If this proxy is signed by a person (signatory) on behalf of the shareholder, whether in terms of a power of attorney or otherwise, then this proxy form will not be effective unless:

9.1 it is accompanied by a certified copy of the authority given by the shareholder to the signatory; or

9.2 the Company has already received a certified copy of that authority.

10. The chairman of the meeting may, in his discretion, accept or reject any proxy form or other written appointment of a proxy which is received by the chairman prior to the time when the meeting deals with a resolution or matter to which the appointment of the proxy relates, even if that appointment of a proxy has not been completed and/or received in accordance with these instructions. However the chairman shall not accept any such appointment of a proxy unless the chairman is satisfied that it reflects the intention of the shareholder appointing the proxy.

# NOTES TO THE FORM OF PROXY continued

11. Any alternations made in this proxy form must be initialled by the authorised signatory/ies.

12. This proxy form is revoked if the shareholder who granted the proxy:

12.1 gives written notice of such revocation to the Company, so that it is received by the Company by not later than 10:00 on Tuesday, 5 August 2014; or

12.2 subsequently appoints another proxy for the meeting; or

12.3 attends the meeting himself in person.

13. All notices which a shareholder is entitled to receive in relation to the Company shall continue to be sent to that shareholder and shall not be sent to the proxy.

14. If duly authorised, companies and other corporate bodies who are shareholders of the Company having shares registered in their own names may, instead of completing this proxy form, appoint a representative to represent them and exercise all of their rights at the meeting by giving written notice of the appointment of that representative. That notice will not be effective at the meeting unless it is accompanied by a duly certified copy of the resolution/s or other authorities in terms of which that representative is appointed and is received at the Company's transfer office, at the address provided below by no later than 10:00 on Tuesday, 5 August 2014. If a shareholder does not wish to deliver that notice to that address, it may also be posted, at the risk of the shareholder to Computershare, PO Box 61051, Marshalltown 2107.

15. The completion and lodging of this form of proxy does not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person to the exclusion of any proxy appointed by the shareholder.

16. The chairman of the annual general meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these instructions, provided that he shall not accept a proxy unless he is satisfied as to the manner in which a shareholder wishes to vote.

**Transfer secretaries' office**
Computershare Investor Services Proprietary Limited
70 Marshall Street,
Johannesburg 2001
(PO Box 61051
Marshalltown 2107)


Verimark prides itself on sourcing only the very best products from around the world. **Rox** is an incredible beauty breakthrough which will help you look years younger without risky surgery or painful injectable treatments. Simply apply a small amount of the **Rox** serum around your eyes to temporarily remove lines, wrinkles, eliminate eye-bags and even revive tired, puffy eyes and so doing virtually eliminate the signs of ageing. It's gentle on your skin and dries to form a super-fine web that flattens and smoothes out wrinkles while concealing imperfections so you look years younger. It works in minutes and lasts for up to 10 hours.

**Rox**'s clinically proven formula was developed by a leading skincare laboratory, and is manufactured in Europe to the highest international specifications.


**Clinically proven to help you look years younger in just minutes... guaranteed!**

**VERIMARK HOLDINGS LIMITED**
50 Clairwood Avenue, Ext 55 Hoogland
Randburg 2122

www.verimark.co.za