



UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

for the six months ended 31 August 2017

VERIMARK HOLDINGS LIMITED
 Incorporated in the Republic of South Africa
 Registration number: 1998/006957/06
 Share code: VMK | ISIN: ZAE000068011
 "Verimark" or "the Group"

Revenue from continuing operations ↑

13,7%

R209,7 million
 (2016: R184,4 million)

Gross profit ↑

10,6%

R88,6 million
 (2016: R80,2 million)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 August 2017 R'000	Unaudited six months ended 31 August 2016 R'000	Audited 12 months ended 28 February 2017 R'000
Continuing operations			
Revenue	209 702	184 425	439 119
Gross profit	88 648	80 172	196 320
Operating profit before net finance expense	2 787	3 511	35 832
Finance income	805	2 107	3 637
Finance expense	(1 396)	(1 722)	(2 153)
Profit before taxation	2 196	3 896	37 316
Income tax expense	(1 092)	(1 392)	(11 004)
Profit for the period	1 104	2 504	26 312
Discontinued operations			
Loss for the period from discontinued operations (after tax)	-	(155)	(487)
Profit for the period	1 104	2 349	25 825
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation reserve movement	-	(8)	324
Total comprehensive income for the period attributable to owners of the Company	1 104	2 341	26 149
Basic and diluted earnings per share (cents)	1,0	2,2	24,0
Earnings and diluted earnings per share (EPS) – continuing operations (cents)	1,0	2,3	24,4
Loss and diluted loss per share (EPS) – discontinued operations (cents)	-	(0,1)	(0,5)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

SEGMENTAL INFORMATION

	South Africa R'000	Foreign R'000	Group elimination R'000	Total R'000
31 August 2017				
Revenue	209 702	-	-	209 702
Profit before tax	2 196	-	-	2 196
Profit after tax	1 104	-	-	1 104
Segment assets	202 482	-	-	202 482
Segment liabilities	63 123	-	-	63 123
31 August 2016				
Revenue	184 425	-	-	184 425
Profit before tax	3 896	(155)	-	3 741
Profit after tax	2 504	(155)	-	2 349
Segment assets	178 471	-	-	178 471
Segment liabilities	48 299	-	-	48 299

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

DETERMINATION OF ATTRIBUTABLE EARNINGS AND HEADLINE EARNINGS

	Unaudited six months ended 31 August 2017 R'000	Unaudited six months ended 31 August 2016 R'000	Audited 12 months ended 28 February 2017 R'000
Attributable profit (after tax)	1 104	2 349	25 825
(Profit)/loss on sale of plant and equipment	(23)	(9)	41
Tax on profit/(loss) on sale of plant and equipment	6	2	(11)
Headline earnings	1 088	2 342	25 855
Shares in issue	114 272 328	114 272 328	114 272 328
Shares held by subsidiary	(7 351 959)	(6 380 870)	(6 489 958)
Number of shares at period-end	106 920 369	107 891 458	107 782 370
Basic earnings and diluted earnings per share	1,0	2,2	24,0
Headline and diluted headline earnings per share	1,0	2,2	24,0
Net asset value per share*	130,3	117,7	139,4
Net tangible asset value per share**	116,7	104,5	126,3

* Net asset value per share

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

** Net tangible asset value per share

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

COMMENTARY

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

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

OVERVIEW

The Group's total revenue increased by 13,7% to R209,7 million (2016: R184,4 million). The increase is mainly attributable to the following:

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

Gross profit increased by 10,6% to R88,6 million (2016: R80,2 million). This is lower than the 13,7% increase in revenue, as a result of price decreases and lower gross margins as well as increased advertising costs. The increased advertising costs is a result of the increased number of new product introductions, which were 85,7% higher than comparative period.

Operating costs increased by 12,1% to R87,7 million (2016: R78,2 million). This increase is directly correlated to the increase in revenue. Cost containment remains crucial, however as in the past, certain upfront costs are necessary to ensure future growth.

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

REPORTING ENTITY

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

INTERIM DIVIDEND

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

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

BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council, and the JSE listing requirements as well as the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements.

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

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

SEGMENTAL ANALYSIS

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

CHANGES TO THE BOARD

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

SUBSEQUENT EVENTS

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

STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

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

PROSPECTS

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

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

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

On behalf of the Board

Michael van Straaten
 Chief Executive Officer

Johannesburg
 12 October 2017

Directors: MM Patel (Chairman)*, JM Pieterse*, AT Nzimande*, MJ van Straaten (CEO), BM Groome

*Independent non-executive

Company Secretary: Premium Corporate Consulting Services Proprietary Limited

Registered office: 50 Clairwood Avenue, Extension 55, Hoogland, Randburg 2194

Postal address: PO Box 78260, Sandton 2146 | E-mail address: investors@verimark.co.za

Transfer secretaries: Computershare Investor Services Proprietary Limited

Auditors: KPMG Incorporated | Sponsor: Grindrod Bank Limited