THE MEASURABLE LOGISTICS COMPANY

VALUE GROUP LIMITED

- HEADLINE EARNINGS UP 7%
- SUSTAINABLE MARGIN IMPROVEMENT
- RESILIENT CASH FLOWS

# REVIEWED FINANCIAL RESULTS AND CAUTIONARY ANNOUNCEMENT

FOR THE YEAR ENDED 28 FEBRUARY 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| R000's | % change | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|---|
| **Revenue** | | 1 351 611 | 1 368 117 |
| Cost of sales | | (754 764) | (819 728) |
| *Gross profit* | 9 | 596 847 | 548 389 |
| Other income | | 4 637 | 2 682 |
| Operating expenses | | (459 112) | (412 787) |
| *Operating profit* | | 142 372 | 138 284 |
| Share of (loss)/profit of associate net of taxation | | (13) | 673 |
| Investment income | | 17 412 | 28 937 |
| Finance costs | | (31 167) | (46 648) |
| *Net profit before taxation* | | 128 604 | 121 246 |
| Taxation (note 2) | | (37 234) | (36 261) |
| *Net profit for the year* | | 91 370 | 84 985 |
| Other comprehensive income net of taxation | | — | — |
| *Total comprehensive income for the year* | 8 | 91 370 | 84 985 |
| **Earnings per share (cents)** (note 3) | | | |
| – **Basic** | | 50,8 | 46,3 |
| – **Headline** | 7 | 52,4 | 48,8 |
| – Diluted basic | | 50,3 | 47,2 |
| – Diluted headline | 4 | 51,9 | 49,7 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| R000's | % change | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|---|
| **Assets** | | | |
| *Non-current assets* | | 736 026 | 681 108 |
| Property, vehicles, plant and equipment | | 704 506 | 654 845 |
| Intangible assets | | 25 716 | 20 969 |
| Investments and loans | | 2 518 | 2 655 |
| Deferred tax | | 3 286 | 2 639 |
| *Current assets* | | 328 047 | 349 903 |
| Inventories | | 43 250 | 52 742 |
| Trade and other receivables | | 179 915 | 185 758 |
| Cash and cash equivalents | | 104 882 | 111 403 |
| *Non-current assets held for sale* | | 152 | 655 |
| *Total assets* | | 1 064 225 | 1 031 666 |
| **Equity and liabilities** | | | |
| *Equity* | | 485 006 | 429 909 |
| *Non-current liabilities* | | 209 432 | 249 842 |
| Interest-bearing borrowings | | 98 375 | 142 814 |
| Deferred tax | | 111 057 | 107 028 |
| *Current liabilities* | | 369 787 | 351 915 |
| Trade and other payables | | 283 486 | 272 504 |
| Current portion of interest-bearing borrowings | | 73 250 | 68 451 |
| Current tax payable | | 13 051 | 10 960 |
| *Total equity and liabilities* | | 1 064 225 | 1 031 666 |
| Net asset value per share (cents) | 11 | 267,8 | 240,2 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| R000's | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|
| **Cash flows from operating activities** | 166 049 | 168 858 |
| Cash generated by operations | 220 309 | 225 288 |
| Net finance costs | (13 755) | (17 711) |
| Changes in working capital | 28 924 | (5 854) |
| Taxation paid | (31 761) | (19 698) |
| *Cash available from operating activities* | 203 717 | 182 025 |
| Dividends paid | (37 668) | (13 167) |
| **Cash flows from investing activities** | (134 409) | (125 387) |
| **Cash flows from financing activities** | (38 161) | (34 615) |
| *Net change in cash and cash equivalents* | (6 521) | 8 856 |
| Cash and cash equivalents at beginning of year | 111 403 | 102 547 |
| *Cash and cash equivalents at end of year* | 104 882 | 111 403 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| R000's | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|
| **Ordinary share capital and premium** | 194 | 194 |
| Balance at beginning of year | 194 | 13 831 |
| Share buy back | — | (13 637) |
| **Treasury shares** | (28 323) | (32 746) |
| Balance at beginning of year | (32 746) | (12 558) |
| Treasury shares sold | 4 423 | 3 945 |
| Treasury shares acquired | — | (24 133) |
| **Share-based payment reserve** | 746 | 772 |
| Balance at beginning of year | 772 | 563 |
| Share-based payment expense | 258 | 375 |
| Transfer to retained income | (284) | (166) |
| **Retained income** | 512 389 | 461 689 |
| Balance at beginning of year | 461 689 | 392 480 |
| Transfer from share-based payment reserve | 284 | 166 |
| Loss on disposal of treasury shares | (3 244) | (2 754) |
| Dividends paid | (37 710) | (13 188) |
| *Total comprehensive income for the year* | 91 370 | 84 985 |
| Net profit for the year | 91 370 | 84 985 |
| Other comprehensive income for the year | — | — |
| *Total capital and reserves* | 485 006 | 429 909 |

## SEGMENT INFORMATION

| R000's | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|
| **Total segment revenue** | 1 485 609 | 1 505 885 |
| General distribution | 1 073 095 | 1 086 181 |
| Truck rental and other | 333 153 | 350 348 |
| Head office and other | 79 361 | 69 356 |
| **Less: Inter-segment revenue** | 133 998 | 137 768 |
| General distribution | 3 449 | 7 525 |
| Truck rental and other | 51 471 | 61 191 |
| Head office and other | 79 078 | 69 052 |
| **External segment revenue** | 1 351 611 | 1 368 117 |
| General distribution | 1 069 646 | 1 078 656 |
| Truck rental and other | 281 682 | 289 157 |
| Head office and other | 283 | 304 |
| **Business segment results** | | |
| General distribution | 103 715 | 104 409 |
| Truck rental and other | 45 456 | 42 430 |
| Head office and other | (6 799) | (8 555) |
| *Business segment results* | 142 372 | 138 284 |
| Share of (loss)/profit of associate net of taxation | (13) | 673 |
| Investment income | 17 412 | 28 937 |
| Finance costs | (31 167) | (46 648) |
| *Net profit before taxation* | 128 604 | 121 246 |
| **Total segment assets** | | |
| General distribution | 491 990 | 436 426 |
| Truck rental and other | 426 321 | 442 663 |
| Head office and other | 140 110 | 147 283 |
| *Segment assets* | 1 058 421 | 1 026 372 |
| Investments and loans | 2 518 | 2 655 |
| Deferred tax | 3 286 | 2 639 |
| *Total assets* | 1 064 225 | 1 031 666 |

## NOTES

**1. Statement of compliance**

The financial results have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa and are presented in accordance with IAS 34: Interim Financial Reporting. The basis for the preparation of the financial results is consistent with that applied in the preparation of the annual financial statements for the year ended 28 February 2009, except for the changes required by IAS 1: Presentation of Financial Statements, IFRS 8: Operating Segments and Circular 3/2009: Headline Earnings.

The previously reported audited headline earnings and audited diluted headline earnings have been restated in terms of Circular 3/2009 issued in August 2009. Gains and losses on sale of assets initially held for rental, now transferred to inventory, are now included in the calculation of headline earnings. Gains and losses on assets initially held for rental were previously excluded in the calculation of headline earnings in terms of Circular 8/2007.

| | Restated 2009 | As previously stated 2009 |
|---|---|---|
| Headline earnings per share (cents) | 48,8 | 48,9 |
| Diluted headline earnings per share (cents) | 49,7 | 49,8 |

The Group's auditors, Charles Orbach & Company have reviewed these results. Their unqualified review opinion is available for inspection at the company's registered office.

| R000's | Reviewed 2010 | Restated Audited 2009 |
|---|---|---|
| **2. Taxation** | | |
| Secondary tax on companies included in taxation | 3 346 | 1 369 |
| **3. Headline earnings** | | |
| **3.1 Reconciliation between basic and headline earnings** | | |
| Basic earnings | 91 370 | 84 985 |
| Loss on disposal of property, vehicles, plant and equipment less taxation | 2 852 | 2 972 |
| – Previously stated | 2 852 | 3 263 |
| – Adjustment: Circular 3/2009 | — | (291) |
| Impairment of intangible assets less taxation | — | 1 488 |
| *Headline earnings* | 94 222 | 89 445 |
| **3.2 Number of ordinary shares in issue** | | |
| – Actual | 194 436 033 | 194 436 033 |
| – Weighted average | 179 717 904 | 183 359 591 |
| – Diluted | 181 643 617 | 180 039 679 |
| **4. Supplementary information** | | |
| Depreciation | 64 447 | 62 334 |
| Amortisation of intangible assets | 9 499 | 11 044 |
| Impairment of intangible assets | — | 2 067 |
| *Depreciation, amortisation and impairment* | 73 946 | 75 445 |

## COMMENTARY

### INTRODUCTION

Value Group Limited and its subsidiaries provide a comprehensive range of tailored logistical solutions throughout southern Africa. The major operating divisions specialise in providing a diversified range of supply chain services, which encompass distribution, transport, clearing and forwarding, warehousing, fleet management, forklift and commercial vehicle rental and leasing.

### FINANCIAL REVIEW

The Group produced commendable results despite the effects of the recessionary economic environment. Although turnover in the first 6 months was down on the prior period, the growth of the customer base in the second 6 months had a marked effect on volume and turnover recovery. This contributed to turnover being only marginally down from R1,368 billion in 2009 to R1,351 billion in 2010. Of particular importance was the continued focus on resource allocation and cost control which contributed positively to increasing gross profit margins from 40% to 44% and operating margins from 10,1% to 10,5%. The culmination of the above contributed to net profit before tax increasing by 6% from R121,2 million to R128,6 million.

## COMMENTARY – *continued*

The reduction in interest bearing debt from R211,3 million to R171,6 million contributed to reducing net finance costs to R13,8 million and increasing headline earnings by 7% from 48,8 cents to 52,4 cents per share. Headline earnings' growth was partially negated by increased STC costs arising from the declaration of a final and maiden interim dividend.

Substantial focus on working capital management contributed significantly to the Group's generation of cash from operating activities. Although debtor collections were hampered due to the last day of the financial year falling on a Sunday, cash flows remained strong. These cash flows funded the Group's dividend outflows of R37,7 million, R133,8 million of capital expenditure and R39,7 million reduction of interest bearing debt.

The Group's balance sheet remains financially sound with net asset value increasing by 11,5% from 240,2 cents to 267,8 cents per share.

### OPERATIONAL REVIEW

**General distribution segment**

The segment performed well despite the decline in volumes in the first half of the financial year. Revenue was marginally down from R1,079 billion to R1,070 billion. Operating margins of 9,7% were consistent with that of the previous year, which resulted in flat operating profit of R103,7 million.

**Truck rental segment**

The economic downturn had a profound effect on the poor vehicle utilisations and activity levels experienced in the first half of the financial year. Turnover reduced from R289,2 million in 2009 to R281,7 million in 2010. Nevertheless, a substantial amount of management time and effort was spent on improving the segment's profitability. Management changes, defleeting of excess older vehicles and renewed focus on selling the services have contributed positively to the profitability of the segment. Operating profit increased by R3 million over the previous year with operating margins improving from 14,7% to 16,1%.

### CAPITAL COMMITMENTS

The Group has and will continue to invest heavily in upgrading its vehicle, IT and depot infrastructure. These resources will provide the platform for the future sustainable growth of the Group.

Budgeted capital expenditure for the 2011 financial year amounts to R215,1 million comprising R106,9 million for vehicle additions and replacements, R77,6 million for materials handling equipment and the balance of R30,5 million pertaining to IT infrastructure and application upgrades. The bulk of this expenditure will be funded by interest bearing debt with the balance being funded by operating cash flows.

### BBBEE UPDATE AND CAUTIONARY ANNOUNCEMENT

The Group is committed to the growth and development of the South African economy and its people through Black Economic Empowerment (BEE). Various initiatives have been implemented to address inequalities of the past while simultaneously ensuring sustainability into the future.

The Group has entered into discussions relating to a BEE transaction in terms of which the Group proposes to facilitate equity ownership by Dr Nakedi Mathews Phosa, Mano Padiyachy, both directors of Value Group, as well as selected black employees in terms of an employment empowerment scheme ("the proposed BEE transaction"). The proposed BEE transaction will be subject to shareholder approval and approval by the JSE.

The Group will publish a detailed announcement relating to the proposed BEE transaction in due course. Shareholders are advised that the proposed BEE transaction may have a material effect on the price of the company's securities. Accordingly, shareholders are advised to exercise caution when dealing in the company's securities until a detailed announcement is made.

### CHANGE IN DIRECTORATE FROM EXECUTIVE TO NON-EXECUTIVE

Dr Nakedi Mathews Phosa has tendered his resignation as an executive director due to his current commitments. The Board would like to thank Dr Phosa for the valuable contributions he has made as an executive director. Dr Phosa will become a non-executive director of the Group effective 11 May 2010.

### PROSPECTS

Management is focused on growing the Group organically and through acquisitions. Subsequent to year end, the Group procured new accounts which will contribute to increased volumes and activity while leveraging off the upgraded infrastructure base. In addition, increased synergies between business divisions has yielded supply chain opportunities which have generated new revenue streams.

Various potential acquisitions have been evaluated but did not meet the Group's criteria. Management continues to explore acquisition opportunities which best fits the Group's strategy and operational activities.

Lastly, realignment of costs to operational activity undertaken over the last year has and will continue to yield margin improvements. Accordingly, the Group is well positioned to benefit from improved consumer demand and associated volume growth from its existing and new customer base. Volumes in the current year have increased over the comparative period. Operational performance over the last two months has been in line with management's expectations. Excluding the costs associated with the pending BEE deal, management is cautiously optimistic that headline earnings will increase in the 2011 financial year. This forecast has not been reviewed nor reported on by the Group's auditors.

### DECLARATION OF FINAL DIVIDEND (NUMBER 7)

The Board has resolved to declare a final dividend of 10 cents per ordinary share. This dividend is covered 3,2 times by second half headline earnings and is payable as follows:

| | |
|---|---|
| Declaration date | Tuesday, 11 May 2010 |
| Last day to trade *cum* dividend | Friday, 18 June 2010 |
| Trading ex-dividend commences | Monday, 21 June 2010 |
| Record date | Friday, 25 June 2010 |
| Payment date | Monday, 28 June 2010 |

Share certificates may not be dematerialised or rematerialised between 21 June 2010 and 25 June 2010, both days inclusive.

For and on behalf of the Board

**C D Stein** *Chairman* **S D Gottschalk** *Chief Executive Officer*

Johannesburg

11 May 2010



**Value Group Limited**
(Incorporated in the Republic of South Africa)
(Registration number 1997/002203/06) ISIN: ZAE000016507 Share code: VLE
Directors: C D Stein* (Chairman), S D Gottschalk (CEO), C L Sack, I M Groves*, N M Phosa*, M Padiyachy *Non-executive director
Sponsor: Investec Bank Limited