



DigiCore Holdings Limited

Unaudited interim group results

for the six months ended 31 December 2008



Operating profit
margin



Attributable
earnings



Headline earnings
per share

Abridged Consolidated Balance Sheet

R'000	As at 31 Dec 2008 (Unaudited)	As at 31 Dec 2007 (Unaudited)	As at 30 Jun 2008 (Audited)
Assets			
Non-current assets	268 662	163 582	222 199
Property, plant and equipment	86 948	46 177	50 053
Intangible assets - Goodwill	159 611	108 874	156 917
Investments	10 891	2 903	3 506
Deferred tax	11 212	5 628	11 723
Current assets	331 750	286 110	401 935
Inventories	102 077	88 050	89 974
Trade and other receivables	190 845	150 607	198 059
Current tax receivable	–	–	5 496
Cash and cash equivalents	38 828	47 453	108 406
Total assets	600 412	449 692	624 134
Equity and liabilities			
Capital and reserves	492 906	343 345	464 756
Equity attributable to ordinary shareholders	480 808	331 404	455 124
Share capital and premium	62 920	52 322	44 635
Distributable reserves	40 671	7 553	59 043
Retained income	377 217	271 529	351 446
Minority interest	12 098	11 941	9 632
Non-current liabilities	47 573	22 272	27 321
Interested bearing borrowings	47 573	22 272	26 809
Deferred tax	–	–	512
Current liabilities	59 933	84 075	132 057
Current portion of long-term borrowings	9 408	5 446	6 998
Provisions and accruals	9 049	8 769	20 060
Taxation	8 180	18 423	19 374
Trade and other payables	33 296	51 437	85 625
Total liabilities	600 412	449 692	624 134
Net asset value per share (cents)	223.4	155.0	212.8

Abridged Consolidated Income Statement

R'000	Six months ended	% growth	Six months ended	Year ended
	31 Dec 2008 (Unaudited)		31 Dec 2007 (Unaudited)	30 Jun 2008 (Audited)
Revenue	287 873	(7)	309 246	684 790
Cost of sales and operating expenses	(209 028)		(230 641)	(480 688)
Net operating profit for the period	78 845		78 605	204 102
Investment income	1 785		790	3 016
Finance costs	(719)		(1 353)	(4 123)
Net income from equity accounted investments	–		–	128
Profit before taxation	79 911	2	78 042	203 123
Income tax expense	(23 198)		(24 457)	(56 875)
Net profit after tax	56 713	6	53 585	146 248
<i>Attributable to:</i>				
Minority interest	2 466		5 777	5 768
Equity holders of the parent	54 247	13	47 808	140 480
Number of ordinary shares in issue ('000)	215 264		213 865	213 865
Weighted average number of ordinary shares in issue ('000)	206 180		203 444	204 527
Fully diluted number of ordinary shares in issue ('000)	217 669		213 865	218 676
Basic earnings per share (cents)	26.3	12	23.5	68.7
Headline earnings per share (cents)	26.0	12	23.3	64.7
Fully diluted earnings per share (cents)	24.9	11	22.4	64.2
Fully diluted headline earnings per share (cents)	24.7	11	22.2	60.5
Interim dividend per share (cents)	6.0		6.0	6.0
Final dividend per share (cents)				13.0
Reconciliation between basic to headline earnings:				
Attributable earnings	54 247		47 808	140 480
Profit on disposal of fixed assets	(560)		(423)	(8 210)
Headline earnings	53 687	13	47 385	132 270

Abridged Consolidated Cashflow Statement

R'000	Six months ended	Six months ended	Year ended
	31 Dec 2008 (Unaudited)	31 Dec 2007 (Unaudited)	30 Jun 2008 (Audited)
Cash flows from operating activities	(36 315)	8 937	82 277
Cash generated from operating activities	19 991	50 011	179 920
Net investment income	1 066	(563)	(1 341)
Tax paid	(28 896)	(22 772)	(65 808)
Dividends paid	(28 476)	(17 739)	(30 494)
Cash flows from investing activities	(56 350)	(12 453)	(24 361)
Cash flows from financing activities	23 087	(8 274)	(8 753)
(Decrease)/increase in cash and cash equivalents for the period	(69 578)	(11 790)	49 163
Cash and cash equivalents at the beginning of the period	108 406	59 243	59 243
Cash and cash equivalents at end of the period	38 828	47 453	108 406

Statement of changes in equity

R'000	Six months ended 31 Dec 2008 (Unaudited)	Six months ended 31 Dec 2007 (Unaudited)	Year ended 30 Jun 2008 (Audited)
Share capital and premium			
Share capital and premium at the beginning of the period	44 635	13 368	13 368
Movement in Treasury shares	(251)	219	(49 976)
Arising on shares issued for the share trust	–	–	42 508
Arising on shares issued for purchase of DigiCore Ltd	18 536	–	–
Arising on shares issued for purchase of DigiCore Europe BV	–	38 735	38 735
Share capital and premium at the end of the period	62 920	52 322	44 635
Distributable reserves			
Foreign currency translation reserve			
Balance at beginning of period	15 602	1 822	1 822
Arising during current period	749	3 326	13 780
Balance at end of period	16 351	5 148	15 602
Equity-settled share-based payment reserve			
Balance at beginning of period	5 200	711	711
Employee share option scheme	–	–	(637)
Arising during current period	–	1 694	5 126
Balance at end of period	5 200	2 405	5 200
Equity instrument to be issued			
Balance at beginning of period	38 241	–	–
Shares to be issued in respect of DigiCore Ltd transaction	(19 121)	–	38 241
Balance at end of period	19 120	–	38 241
Distributable reserves at end of period	40 671	7 553	59 043
Retained Income			
Retained income at the beginning of period	351 446	241 460	241 460
Movement in attributable earnings during the period	54 247	47 808	140 480
Dividends paid during the period	(28 476)	(17 739)	(30 494)
Retained income at the end of the period	377 217	271 529	351 446
Minority Interest			
Balance at beginning of period	9 632	6 164	6 164
Movement through business combinations	–	–	(2 300)
Share of recognised income and expenses	2 466	5 777	5 768
Minority interest at the end of the period	12 098	11 941	9 632

Segmental Report

R'000	Six months ended 31 Dec 2008 (Unaudited)	Six months ended 31 Dec 2007 (Unaudited)	Year ended 30 Jun 2008 (Audited)
Revenue			
SA Distribution	190 207	171 262	431 498
Foreign Distribution	79 293	99 733	197 321
Product development and manufacturing	99 960	140 691	294 120
Group Services	4 390	1 753	15 254
	373 850	413 439	938 193
Elimination	(85 977)	(104 193)	(253 403)
	287 873	309 246	684 790
Operating profit			
SA Distribution	30 214	20 495	43 307
Foreign Distribution	16 466	22 584	50 624
Product development and manufacturing	35 023	39 838	99 663
Group Services	(2 858)	(6 012)	10 508
Segment result	78 845	76 905	204 102
Net finance costs	1 066	1 137	(1 107)
Income from equity accounted investments	–	–	128
Profit before taxation	79 911	78 042	203 123

Notes to the abridged financial statements

1. Basis of preparation and accounting policies

The condensed consolidated interim financial statements set out in this report have been prepared in accordance and comply with International Financial Reporting Standards and are presented in terms of disclosure requirements set out in IAS 34 – Interim Financial Reporting, the Companies Act, 1973 (as amended) and the JSE Limited Listings Requirements.

The interim financial statements are based on appropriate accounting policies, consistently applied with those used in the Annual financial statements for the year ended 30 June 2008, which are supported by reasonable and prudent judgements and estimates.

These interim financial results have not been audited or reviewed.

2. Property, plant and equipment

The significant growth in property, plant and equipment is due to the purchase of new premises to replace the Head Office which was expropriated last year. The total purchase price of the buildings is R34.6 million.

A bond facility of R30 million with Absa Bank is in place to part fund the purchase of the buildings.

3. Goodwill

Goodwill during the year increased by R39.9 million through the purchase of the 49.9% shareholding in DigiCore Limited from minorities. A further R9.6 million increase relates to the revaluation of the goodwill reported in foreign currency held in DigiCore Europe BV.

4. Share capital, share premium and reserves

During the reporting period 1 398 843 shares were issued as part payment after the profit warranty for the DigiCore Limited share purchase from minorities was met for the year ended 30 June 2008.

The equity reserve was reduced by R19.1 million during the reporting period as a result of the issue of the shares for the profit warranty being met.

The balance of the 2 405 078 shares that were issued were repurchased in the market.

5. Income tax expense

The effective tax rate of 29% (2007: 31%) includes a Secondary Tax on Companies (STC) charge on the final and interim dividends declared and paid during the years ended 30 June 2008 and 30 June 2007.

6. Earnings per share

The difference between the total number of shares in issue and the weighted number of shares in issue relates to treasury shares, held by the share trust for share options given to employees that will convert in the future and treasury shares bought back to be re-issued subsequent to year-end as part payment for the DigiCore Deutschland vendor liabilities, as well as, shares issued during the reporting period in part payment for the purchase of the balance of shareholding in DigiCore Ltd (UK) from the minorities.

Post-balance sheet events

The acquisition and issuing of the shares for the acquisition of the remaining 50% shareholding in DigiCore Deutschland from the minorities was only finalized after the period end.

Except for the matter mentioned above, there have been no significant events subsequent to year-end and up to the date of this report, that would require adjustment or further disclosure.

Corporate Governance

The group endorses the Code of Corporate Practice and Conduct as set out in the King Committee Report on Corporate Governance in South Africa (2002).

Nature of business

DigiCore is a leading provider of innovative Mobile Asset Tracking, Management and Information Solutions for vehicle owners, globally.

We supply superior vehicle tracking solutions ranging from a basic track and trace product used to recover stolen vehicles (although still being interactive with the client), to complete integrated enterprise level solutions for large fleet owners such as the Royal Mail (UK), the South African Police Service, eThekweni Metro, BHP Billiton (global) and many others.

Board of directors

Prof Ben Marx joined the board of directors on 3 November 2008 as an independent non-executive director. He has also been appointed as the Chairman of the audit and risk committee.

Dividend announcement

In line with company policy, the board has declared an interim dividend of 6 cents per share (2007: 6 cents per share).

Payment will be made on Monday, 30 March 2009 to shareholders recorded in the register on Friday, 27 March 2009. The last day to trade to qualify for the dividend will be Friday, 20 March 2009 and the shares will be traded ex-dividend from Monday, 23 March 2009.

Share certificates may not be dematerialised or rematerialised between Monday, 23 March 2009 and Friday, 27 March 2009.

Commentary

The board is satisfied to announce a reasonable performance in most of its divisions and subsidiaries for the six months ended 31 December 2008.

The Group has managed to increase earnings per share by 12% to 26.3 cents per share despite a dramatic downturn in the world economy and global new vehicle sales slowing down during the interim period.

Our South African businesses have performed very well, and compensates to an extent for the decline in exports. This confirms the importance of the earlier strategies adopted in geographical, market and product diversification.

It can be seen from the performance of the United Kingdom and European subsidiaries that they were more affected by the global financial crisis than our business in South Africa. We have however seen an improvement in European sales during the first two months of 2009.

Financial results

Although turnover for the six months decreased by 7% from R309 million to R288 million for the period, we have managed to increase our operating profit margin by 2% from 25% in 2007 to 27% in 2008.

This is mainly due to higher gross profit percentages achieved on the Groups annuity based income streams, which now constitute 40% of our total revenue opposed to 27% in the comparative period.

The revenue for 2007 also included the fulfilment of part of the SAPS tender, for which no hardware revenue was included in the current reporting period. The fulfilment of the next order will only be forthcoming in the second half of the current financial year.

Cash and cash equivalents decreased from R108.4 million in June 2008 to R38.8 million due to an increase in working capital and investments made in fixed assets and our German subsidiary.

The working capital requirement increased by R52 million in the six months ended 31 December 2008. This was mainly due to increased stock levels in raw materials and finished goods being held for expected sales orders during our annual factory shutdown period, long advance ordering cycles for components and the slower demand from our distributor in Pakistan. The overstock of components will be reduced to more acceptable levels in the next few months as we are currently in the process to supply further units to the SAPS.

Local operations

Besides business from government tenders, the South African fleet management business performed very well and this afforded us higher gross profit margins, whilst overhead costs were contained. We have been pro-active in curbing costs in all areas of the business by creating plans to increase efficiencies and thus lowering costs per job completed.

We have put an embargo on hiring new employees and have no current intentions to lay off any of our staff. We will redeploy our staff in our growing SVR division.

A strategy to make ourselves more visible and accessible to the consumer was put in place in our C-track (SVR) division by opening our first flagship C-track fitment centre in Boksburg. Our brand building and other awareness initiatives will continue as it has proved to have laid the foundation for our future growth.

Probably our most important achievement in the period has been that our annuity income in these operations have grown significantly.

Crime in South Africa, including vehicle theft, will probably not decline in the current economic and political situation. We are well placed to assist the public and insurance companies to retrieve their stolen vehicles due to our higher than 90% recovery rate. The launch of our new low-cost C-track Insure in October 2008 introduces a new product at a price affordable to all vehicle owners.

International operations

The total number of units exported has declined by 60% compared to last year. This reduction is mainly due to the unstable political and economic situation in Pakistan. However these sales, mainly to the SVR market, were at low margins and the decrease has therefore not affected our profitability in the same proportion.

Fleet management unit sales to Europe and UK are also substantially

lower than last year. This is as a result of the previous reporting period including a large number of units for a tender in the UK which has not been repeated in the current reporting period. However, as in the case of Pakistan, these sales were at lower margins, accordingly the decrease in profit has not been proportional.

Some good news is that unit sales to Nigeria grew by 68% for the period. Coincidentally, unit sales to Malaysia and Indonesia also grew by 68%, although from a low base.

In the current reporting period we concluded a deal to purchase the final 50% shareholding in DigiCore Deutschland, which now becomes a wholly owned subsidiary.

The future

The board is confident that we will have an improved second half of the financial year. We trust that we will continue the roll out of units on existing tenders in the second half of the year which should boost our performance. We are further cautiously optimistic that additional tenders will be won.

The fact that we own 100% of our Germany distributor and have opened our own office in France will allow us to grow these markets more rapidly in the next eighteen months.

We are also excited about our SVR business locally and internationally and intend to establish DigiCore as a global competitor in this market.

New products and applications to be launched shortly also give us the confidence that we can maintain our position in the global market.

In conclusion, our management teams across the group remain very positive that we can weather the current economic storms. Our strategy will be to cut costs without affecting longer term growth, preserve cash and seek opportunities developing due to the economic downturn in terms of new markets and possible acquisitions.

For and on behalf of the board

NA Gasá
Chairman

NH Vlok
Chief Executive Officer

3 March 2009

Registered office

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Sponsor

PSG Capital (Pty) Limited

Auditors

PKF (Pta) Incorporated

Directorate

NA Gasá* (Chairman), NH Vlok (Chief Executive Officer),
SR Aberdeen, D du Rand, BC Esterhuyzen*, BS Khuzwayo*,
B Marx*, SS Ntsaluba*, BJ Richards#, MD Rousseau,
FJ Schindehütte

* Non-executive # British

Company secretary

DA Nieuwoudt

Registration number 1998/012601/06

JSE code: DGC ISIN: ZAE000016945

("DigiCore" or "the company" or "the group")

Website

www.digicore.com

www.ctrack.com

