



**COMPANY PROFILE AND FINANCIAL  
PERFORMANCE**

**FOR THE PERIOD ENDED  
29 FEBRUARY 2008**



## NATURE OF BUSINESS AND PRODUCTS

Kagisano is a financial services enterprise that targets the financial needs of clients in the Living Standards Measurement ("LSM") 4 to 7 bands with a broad range of financial services products to its customers, which include:

- Credit products
- Cellular products
- Insurance products
- Other financial solutions

The product range is also offered as a solution to companies, resulting in a synergistic co-operation with the employer, which benefits the company employee.

The company deals primarily with customers through its national network of more than 100 branded outlets which is supported by its in-house call centre and website.

Kagisano's target market of clients is in the LSM 4 to 7 band, a target market not effectively serviced by the prominent market players in the financial services industry, due to their focus on the higher income brackets.

*Kagisano has migrated  
From a Micro Finance  
Institution to a fully  
fledged broad based  
Financial Services  
Provider.*



Since its inception, Kagisano has elected to comply with the regulations of its industry, adhering initially to the requirements of the Micro Finance Regulatory Council ("MFRC") and the Financial Services Board ("FSB") and more recently providing product and solutions compliant with the National Credit Act ("NCA"). The group operates only in South Africa.

## NAME CHANGE

Kagisano decided to change the company brand to CREDIT U. The philosophy for the changes was the growth of the company from a micro lender to a broad based financial services provider.

The new name CREDIT U signals the refreshed financial contract with current and potential customers.

CREDIT U will forge stronger and more enduring relationships with customers built on recognising their needs and selfworth.

## PRODUCTS AND SERVICES

### Credit Products

Kagisano offers a range of unsecured credit products, such as educational, emergency and home improvement loans, that suit the need and risk profiles of applicants.

### Cellular Products

Kagisano Mobile acts as the group's cellular service provider where bulk airtime is purchased from service providers, packaged and sold to Kagisano clients together with state of the art handsets. This product range is updated quarterly to stay in line with current market trends and the current cellular contract term is twenty four (24) months.

### Insurance Products

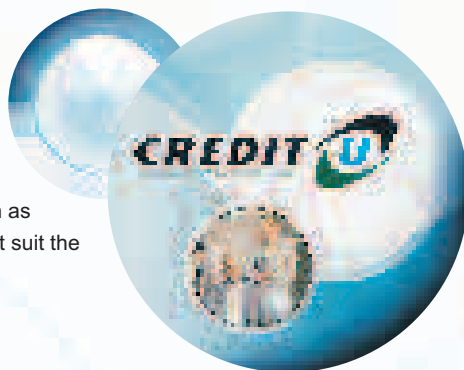
Kagisano Insurance is registered with the Financial Services Board and the current products include:

- Credit life, as part of all credit transactions being granted by Kagisano; and
- Protection Plan (Funeral Benefit) with added benefits.

### Other Financial Solutions

Through other service providers, Kagisano also offers access to medical, insurance, housing and vehicle finance through its outlets and call centre. Some of these products are currently still being tested.

These products are also offered as a solution to companies, resulting in a synergistic co-operation with the employer, which benefits the company employee.



## STRATEGY AND FOCUS

The group will continue to focus its strategy on the following strategic areas:

- Providing innovative products and services to our identified markets and servicing our clients' needs through interaction and fast turnaround times;
- Strong investment into credit risk management and collection techniques;
- Expanding infrastructure and distribution models to ensure effective and efficient client service;
- Rendering service excellence through our existing branch and client service infrastructure; and motivated and trained staff compliment. Strong focus on Return on Assets and Return on Equity.

The key focus areas will enhance service delivery to Kagisano's clients, improve returns to its shareholders and operate as a cost sensitive business through:

- Sustained industry aligned growth;
- Improving the quality of credit with specific emphasis on the further development of credit evaluation methods;
- Further refine credit underwriting, enhance collection processes and instill a trust relationship between Company and Client.
- Support the NCR to establish a culture of responsible borrowers;
- Innovation and expansion of products and services in the current market;
- Improve costs to advances ratio;
- Secure long term funding at competitive rate;
- Lower the cost of funding.

## DISTRIBUTION CHANNELS

Kagisano deals primarily with clients through its national distribution network that consist of:

- More than 100 branded outlets through South Africa
- Broker network operating nationally
- Call centre based at Head Office

Each Kagisano branch has a modern interior layout and provides a personal interface to address the client's needs. Kagisano's broker network is supported from Head Office and distributes all products.

The call centre markets Kagisano's products to potential and existing clients to ensure client retention and to assist clients with the product take up.

Kagisano has a roll-out strategy on new branches, while the total number of branches is expected to grow to 200 in 2010. The intention is also to grow the company's broker network extensively over the next two years as well as its call centre.





## **NATIONAL CREDIT ACT**

Kagisano remains of the opinion that the National Credit Act has, to a large extent, assisted in preventing the development of a "sub-prime" lending problem in South Africa. It has however had a number of unintended consequences and need to be revisited so that negative consequences can be identified and removed.

Kagisano continues to believe that the impact of the National Credit Act on its industry segment will create opportunities for further consolidations, as smaller lenders face a margin squeeze caused by the rising cost of compliance on the one hand and lower yields on the other hand. This consolidation is not happening as fast as Kagisano expected during its last review as both the industry and the Credit Regulator have been given time to adapt to the new compliance regime.

## **FINANCIAL REVIEW**

Total revenue increased by 39% to R140.5 million from R100.8 million in the previous interim period ended 28 February 2007. This growth in revenue is due to good performance through all three main segments of the group. Revenue from Loans increased by 19% while sales from the Cellular division increased by 126%.

Gross profit margins for the mobile division continue to increase and are slightly higher in percentage terms at 36% (August 2007: 33%).

Operating profit grew by 11% to R31.4 million, representing 22% of revenue.

Growth in net profits was negatively affected by the increase of prime lending rates but somewhat mitigated by the utilization of previously un-utilised tax losses.

Basic earnings per share as well as headline earnings per share diluted by 3% to 15.6cps from 16.1cps. This is as result of the dilution effect of the shares issued during our recent listing.

Net asset value per share has increased by 17%, from 93.5 cents (August 2007) to 109.1 cents.

### **Loans and advances**

Net advances have increased by 63% from R120 million to R194 million during the 6 months under review and 200% from the previous interim period.

### **Non-Performing Loans (NPLs)**

Significant developments and improvements on our scoring and vetting systems have enabled us not only to increase the volume but also enhance the quality of all new loans approved. Non Performing Loans have increased marginally from 27.8% at 31 August 2007 to 28.7% in February 2008, due to seasonality. However, this is still within the group's target range of 25 - 30% and in line with the industry.

Kagisano is concerned that the implementation of the NCA has impacted negatively on the Court's interpretation of the legitimate PRE-NCA regime. This is causing legal uncertainty especially in the Magistrate's Courts. This will hopefully be restored soon and the industry will be able to return to normality. When viewed against the backdrop of the recently increased cost of credit and the slowdown in the economy we expect the NPL's to remain in the upper end of the target range of 25 - 30%.

The group is monitoring the impairment models as applied during the last audit and believe that the empirical evidence gathered so far will allow it to re-calibrate the models especially as to the ratio between actual write-offs and the provisions.

### **Non-current assets**

Non-current assets increased by 51% compared to the previous interim period. The majority of this increase can be attributed to the strong focus on infrastructure expansion as well as the acquisition and development of new business management systems.

The 81% increase in property, plant and equipment and software expenditure is in line with our strategy for 2008 to align ourselves to ensure effective and efficient client service.

### **Borrowings**

The group's debt increased as a result of the growth in advances. Kagisano will continue to raise debt using the balance sheet in line with the forecast growth in advances.

As indicated in a recently announced transaction Kagisano rationalised and restructured its existing R120 million loan facility and secured another R100 million long term loan facility. The new funding structure will significantly reduce the average cost of funding within the group.

Cash raised in terms of the new loan facility will be utilised to grow the group's advances book and avail themselves of the opportunities prevailing in the unsecured lending environment.

### Segment report

<b>R'000</b>	<b>Credit</b>	<b>Cellular</b>	<b>Insurance</b>	<b>Corporate</b>	<b>Elimination</b>	<b>Consolidated</b>
Revenue	102 101	33 223	5 196	-	-	140 521
Net income before taxation	21 284	7 198	2 940	(8 183)	-	18 026
Assets	233 729	42 273	7 756	4 419	(5 520)	288 620
Liabilities	144 517	35 044	5 083	114 039	(141 320)	162 357





### **Basis of preparation**

The financial report is prepared in accordance with IAS 34 Interim Financial Reporting and Schedule 4 of the South African Companies Act, 1973, as amended. Kagisano prepares its accounts in accordance with International Financial Reporting Standards. The accounting policies applied are consistent with the prior period annual financial statements. All IFRS and IFRIC interpretations issued and effective at 31 August 2007 have been applied.

### **Post balance sheet events**

The directors are not aware of any matter or circumstance arising since the end of the financial other than the conclusions of the announced funding rationalization and restructuring transaction.

### **Contingencies**

Guarantees to the value of R752 758 were issued through ABSA Bank Limited on properties leased by the group.

### **Corporate governance**

The group subscribes to the principles of, and implements where possible, the recommendations of the King II Code on Corporate Governance.

### **Dividends**

No dividends are proposed for the current period. Cash generated will be retained and utilised to grow and expand the business of the group.

### **Audit opinion**

The auditors, Deloitte & Touche, have issued their review opinion on the group's financial statements for the period ended 29 February 2008. The review was conducted in accordance with International Standards on Auditing. A copy of their audit report is available for inspection at the company's registered office.



**Condensed Interim Consolidated Income Statement**  
for the period ended 29 February 2008

R'000	Reviewed 29 February 2008	Reviewed 28 February 2007	Audited 31 August 2007
<b>Total revenue</b>	<b>140 531</b>	<b>100 850</b>	<b>204 559</b>
<b>Revenue from loans and advances</b>	<b>107 297</b>	<b>86 126</b>	<b>167 434</b>
Net impairment charge on loans and advances	(16 728)	(19 490)	(20 554)
<b>Risk adjusted revenue from loans and advances</b>	<b>90 569</b>	<b>66 636</b>	<b>146 880</b>
Gross profit from other products and services	12 011	3 431	8 367
Other income	633	1 007	315
<b>Net revenue from operations</b>	<b>103 213</b>	<b>71 074</b>	<b>155 562</b>
Other interest income	191	123	467
Finance costs	(8 374)	(3 650)	(9 536)
Operating costs	(71 791)	(42 891)	(101 346)
<b>Net income before taxation</b>	<b>23 239</b>	<b>24 655</b>	<b>45 147</b>
Income tax expense	(5 213)	(8 518)	(13 293)
<b>Attributable earnings</b>	<b>18 026</b>	<b>16 136</b>	<b>31 854</b>
Basic earnings (cents)	15.6	16.1 <sup>#</sup>	31.3
Dividends per share (cents)	-	3.5 <sup>#</sup>	3.5
<b>Number of shares in issue ('000)</b>			
Total shares in issue (Net of treasury shares)	115 750	100 000	115 750
Weighted number of shares in issue	115 750	100 000	101 640

**# The basic earnings and dividend per share are based on the pre-listing share capital of 100 shares which were subdivided to 100 000 000 shares in April 2007**

**Condensed Interim Consolidated Balance Sheet**  
as at 29 February 2008

R'000	Reviewed 29 February 2008	Reviewed 28 February 2007	Audited 31 August 2007
<b>Assets</b>			
<b>Non-current assets</b>	<b>38 076</b>	<b>23 627</b>	<b>29 784</b>
<b>Current assets</b>	<b>291 402</b>	<b>91 219</b>	<b>152 739</b>
Loans and advances	194 466	64 798	119 523
Other current assets	58 860	26 421	33 216
<b>Total assets</b>	<b>291 402</b>	<b>114 846</b>	<b>182 523</b>
<b>Equity and liabilities</b>			
<b>Equity</b>	<b>126 263</b>	<b>49 628</b>	<b>108 237</b>
Issued share capital	42 891	-	42 891
Reserves	83 372	36 992	65 346
<b>Non-current liabilities</b>	<b>3 763</b>	<b>1 764</b>	<b>2 158</b>
<b>Current liabilities</b>	<b>161 376</b>	<b>63 454</b>	<b>72 128</b>
Borrowings	114 000	30 432	30 500
Other current liabilities	47 376	33 022	41 628
<b>Total liabilities</b>	<b>165 139</b>	<b>65 218</b>	<b>74 286</b>
<b>Total equity and liabilities</b>	<b>291 402</b>	<b>114 846</b>	<b>182 523</b>
Number of shares in issue (Net of treasury shares)	115 750	100 000	115 750
Net asset value per share (cents)	109.08	49.63	93.51

## Condensed Interim Consolidated Statement of Changes in Equity for the period ended 29 February 2008

R'000	Issued share capital and premium	Retained earnings	Minority interest	Total equity
<b>Balance at 1 July 2005</b>	-	8 640	(405)	8 235
Profit for the period	-	28 352	-	28 352
Business combinations	-	-	405	405
<b>Balance at 1 September 2006</b>	-	36 992	-	36 992
Shares acquired by staff share incentive trust	(4 750)	-	-	(4 750)
Shares issued during the period	52 000	-	-	52 000
Share issue expenses	(4 359)	-	-	(4 359)
Profit for the period	-	31 854	-	31 854
Dividends	-	(3 500)	-	(3 500)
<b>Balance at 31 August 2007</b>	42 891	65 346	-	108 237
Profit for the period	-	18 026	-	18 026
<b>Balance at 29 February 2008</b>	42 891	83 372	-	126 263

## Condensed Interim Consolidated Cash Flow Statement for the period ended 29 February 2008

R'000	Reviewed 29 February 2008	Reviewed 28 February 2007	Audited 31 August 2007
Cash flows from operating activities	(69 245)	(57)	(45 004)
Cash flows from investing activities	(6 569)	(2 866)	(9 301)
Cash flow from financing activities	82 290	4 057	51 711
<b>Net cash movement for the period</b>	<b>6 476</b>	<b>1 134</b>	<b>(2 594)</b>
Cash at the beginning of the period	4 064	6 658	6 658
<b>Total cash at end of the period</b>	<b>10 540</b>	<b>7 792</b>	<b>4 064</b>

## ADMINISTRATION DETAILS

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\* Non-executive

## OUR NATIONAL FOOTPRINT

Current operational outlets (2007: 100 operational)  
Planned outlets (2010: 200 operational)

## OUR NATIONAL FOOTPRINT

[www.kagisano.co.za](http://www.kagisano.co.za)

