Reviewed results

FOR THE TWELVE MONTHS ENDED 31 MARCH 2012

PRIMESERV GROUP LIMITED

("Primeserv" or "the Group" or "the Company") • Incorporated in the Republic of South Africa
Registration number: 1997/013448/06 • Share code: PMV • ISIN: ZAE000039277
www.primeserv.co.za • e-mail: productivity@primeserv.co.za

Condensed Consolidated Statement of Comprehensive Income

for the 12 months ended 31 March 2012

	Reviewed 12 months ended 31 March 2012 R'000	Audited * 15 months ended 31 March 2011 R'000
Revenue	**613 145**	665 281
Cost of sales	**(499 352)**	(544 467)
Gross profit	**113 793**	120 814
EBITDA	**7 008**	11 417
Depreciation	**(1 389)**	(2 572)
Operating profit	**5 619**	8 845
Interest received	**6 255**	4 720
Interest paid	**(4 990)**	(4 756)
Share of loss from associate	**(1 355)**	(202)
Profit before taxation	**5 529**	8 607
Taxation	**1 249**	(1 233)
Total comprehensive income for the period	**6 778**	7 374
Total comprehensive income attributable to:		
Ordinary shareholders of the Company	**7 359**	8 229
Non-controlling shareholders' interest	**(581)**	(855)
Total comprehensive income	**6 778**	7 374
Reconciliation of headline earnings		
Net profit attributable to shareholders	**7 359**	8 229
Headline earnings	**7 359**	8 229
Weighted average number of shares ('000)	**93 377**	102 174
Diluted weighted average number of shares ('000)	**93 377**	103 166
Earnings per share (cents)	**7,88**	8,05
Diluted earnings per share (cents)	**7,88**	7,98
Headline earnings per share (cents)	**7,88**	8,05
Diluted headline earnings per share (cents)	**7,88**	7,98

** Restated*

Segmental Analysis

for the 12 months ended 31 March 2012

	Reviewed 12 months ended 31 March 2012 R'000	Audited * 15 months ended 31 March 2011 R'000
Revenue from external customers		
Human Capital Outsourcing	**552 609**	606 007
Human Capital Development	**60 536**	59 274
Total	**613 145**	665 281
Revenue – inter-segment		
Human Capital Outsourcing	**–**	–
Human Capital Development	**5 424**	109
Total	**5 424**	109
Business segment results		
Human Capital Outsourcing	**10 369**	16 564
Human Capital Development	**(1 206)**	(2 766)
Central Services	**(3 544)**	(4 953)
Operating profit	**5 619**	8 845
Interest received	**6 255**	4 720
Interest paid	**(4 990)**	(4 756)
Share of loss from associate	**(1 355)**	(202)
Profit before taxation	**5 529**	8 607
Business segment total assets		
Human Capital Outsourcing	**103 390**	85 180
Human Capital Development	**31 428**	25 239
Central Services	**16 568**	17 414
Total	**151 386**	127 833

** Restated*

Condensed Consolidated Statement of Changes in Equity

for the 12 months ended 31 March 2012

	Reviewed 12 months ended 31 March 2012 R'000	Audited * 15 months ended 31 March 2011 R'000
Balance at beginning of the period as previously reported	**72 896**	74 722
Prior year error	**–**	(4 062)
Balance at beginning of the period – restated	**72 896**	70 660
Attributable earnings for the period – restated	**7 359**	8 224
Attributable earnings for the period	**7 359**	9 281
Prior year error	**–**	(1 057)
Dividends paid	**(3 124)**	(2 596)
Treasury shares acquired	**(3 030)**	(2 651)
Share-based payment	**10**	114
Non-controlling shareholders' interest	**(581)**	(855)
Balance at end of the period	**73 530**	72 896

** Restated*

Condensed Consolidated Statement of Financial Position

as at 31 March 2012

	Reviewed 31 March 2012 R'000	Restated 31 March 2011 R'000	Restated 31 Dec 2009 R'000
ASSETS			
Non-current assets	**47 299**	30 178	25 644
Equipment and vehicles	**6 878**	6 072	4 229
Investment property	**7 645**	–	–
Goodwill	**13 293**	12 012	10 135
Intangible assets	**2 992**	601	642
Long-term receivables	**1 214**	1 214	4 227
Investment and loan in associate	**5 815**	2 874	334
Deferred tax asset	**9 462**	7 405	6 077
Current assets	**104 087**	97 655	110 973
Inventories	**532**	1 017	965
Trade receivables	**86 641**	64 922	78 871
Other receivables	**5 419**	6 466	3 362
Cash and cash equivalents	**11 495**	25 250	27 775
Total assets	**151 386**	127 833	136 617
EQUITY AND LIABILITIES			
Equity	**73 530**	72 896	70 660
Capital and reserves	**74 377**	73 162	70 071
Non-controlling interest	**(847)**	(266)	589
Non-current liabilities	**–**	632	184
Interest-bearing financial liabilities	**–**	632	184
Current liabilities	**77 856**	54 305	65 773
Trade and other payables	**30 400**	25 081	34 572
Current portion of financial liabilities	**40**	967	181
Taxation payable	**1 202**	1 702	1 473
Short-term vendor obligation	**1 281**	–	–
Short-term loan	**4 388**	–	–
Bank borrowings	**40 545**	26 555	29 547
Total equity and liabilities	**151 386**	127 833	136 617
Number of shares in issue at end of period ('000) (net of treasury and share trust shares)	**93 682**	95 231	105 455
Net asset value per share (cents)	**78**	77	67

Condensed Consolidated Statement of Cash Flows

for the 12 months ended 31 March 2012

	Reviewed 12 months ended 31 March 2012 R'000	Audited * 15 months ended 31 March 2011 R'000
Profit before taxation	**5 529**	8 607
Adjusted for non-cash items	**3 202**	2 763
Operating cash flows before working capital changes	**8 731**	11 370
Net working capital changes	**(14 867)**	1 261
Taxation paid	**(1 308)**	(2 331)
Cash flows (utilised in)/generated from operating activities	**(7 444)**	10 300
Purchase of equipment and vehicles	**(2 245)**	(4 263)
Purchase of investment property	**(7 645)**	–
Acquisition of intangible assets	**(2 789)**	–
Transactions with vendors	**–**	(587)
Repayment of long-term receivable	**–**	3 013
Movement in loan to associate	**(4 297)**	(2 540)
Cash flows utilised in investing activities	**(16 976)**	(4 377)
Decrease in non-current financial liabilities	**(1 559)**	(143)
Short-term loan	**4 388**	–
Decrease in current portion of financial liability	**–**	(65)
Cash flows generated from/(utilised in) financing activities	**2 829**	(208)
Dividends paid	**(3 124)**	(2 596)
Repurchase of securities	**(3 030)**	(2 652)
Returned to shareholders	**(6 154)**	(5 248)
Net (decrease)/increase in cash and cash equivalents	**(27 745)**	467
Cash and cash equivalents at beginning of period	**(1 305)**	(1 772)
Cash and cash equivalents at end of period	**(29 050)**	(1 305)

** Restated*

Commentary

Profile

Primeserv Group Limited is an investment holding company focusing on the delivery of human resources (HR) products, services and solutions through its operating pillar, Primeserv HR Services. This incorporates two main areas of specialisation: Human Capital Development operating as Primeserv HR Solutions and Primeserv Colleges; and Human Capital Outsourcing operating as Primeserv Outsourcing.

These divisions provide a comprehensive HR value chain that can be applied through Primeserv's Int**HR**grate™ Model in its entirety or in modular form. These divisions encompass an extensive range of HR consulting solutions and services, corporate and vocational training programmes, technical skills training centres, computer and business training colleges, as well as resourcing and flexible staffing services, supported by wage bureaus and HR logistics outsourcing operations.

Operating environment

The economic environment has displayed few signs of emerging from what has become a prolonged global recession. This, coupled with the political and regulatory pressures facing the Temporary Employment Services (TES) industry, has resulted in challenging trading conditions for the Group's operations, as previously reported.

Overview of results

The period under review is in respect of a 12-month period as compared to the prior period of 15 months. In order to facilitate comparison, annualised values based on applicable restated amounts, are detailed in the commentary below.

Revenue for the year under review was R613,1 million. Annualised revenue for the prior period was R532,2 million, reflecting growth of R80,9 million for the year under review. Annualised gross profit has increased from R96,6 million to R113,8 million.

EBITDA has declined from R9,1 million (annualised) to R7,0 million with an operating profit for the year of R5,6 million compared to R7,1 million (annualised) for the comparable period. Interest paid has shown an increase from R3,80 million (annualised) to R4,99 million. The share of loss from the Group's associate company, Bathusi Staffing Services (Pty) Ltd, has shown an increase due to the loss of its most significant client. Various sales and other initiatives are already underway to return the business to profitability. Total comprehensive income has increased from R5,9 million (annualised) to R6,8 million for the year under review. The Group has developed and progressed a number of learnership programmes. The Group has used SARS' approach in the recognition of the taxation benefits flowing from these learnerships prior to completion, recognising only the *pro rata* benefits, while absorbing the costs of development and implementation of these learnership programmes. The tax charge for the year is positive due to the re-recognition of a deferred tax asset in a previously loss-making subsidiary. Costs within the Group's Central Services unit were strictly managed despite upward inflationary pressures. The Group has recorded an increase in headline earnings per share from 6,44 cents (annualised) to 7,88 cents in respect of the current year.

Upon completion of the final phase of implementation of the Group's fully integrated accounting and payroll platform, management identified that the previously required manual integration of the payroll information into the accounting system had resulted in an overstatement of gross profit margins and hence gross profit within specific geographic regions of the Outsourcing business in which the system had not yet been fully implemented. After investigation, this has now required a restatement of results for prior years as set out in these financial results. The newly implemented system has full integration from the payroll into the accounting system and eliminates the potential for similar error. This has resulted in a decrease in the earnings per share and diluted earnings per share for the prior year of 1,03 cents and 1,1 cents, respectively.

Due to increased revenues and a movement in outstanding debtors days from 39 to 45 days for the year under review, the Group's investment in trade receivables has increased by R21,7 million. Trade payables increased by R5,3 million. As set out in the cash flow statement the Group has further applied cash to the purchase of fixed assets and acquired contracts, and also in regard to share repurchases and dividends paid. Cash flows in the new financial year are expected to reflect an improvement on the prior year.

Human Capital Outsourcing

Revenue for the division was R552,6 million, an improvement of R67,8 million on an annualised basis. The performance of the "white collar" professional draughting and engineering unit remains under pressure given the absence of any major infrastructure projects. This has had a similar effect on the division's mega-project wage bureaus. Performance within the "blue collar" flexible staffing units which are largely involved in the logistics, warehousing and distribution, and industrial manufacturing and engineering sectors, was also constrained. The introduction of value-adding products and services to both contractors and clients is gaining traction.

The ongoing much politicised and publicised debate between government, business and organised labour, in regard to the banning or increased regulation of the TES/labour broking industry, has progressed and appears to have culminated in government's view that increased regulation and not banning is required. In anticipation of an environment of increased labour law regulation, the Group decided to maintain, and in some instances, increase its overhead structure in order to uphold market-leading client centric services. The Group is of the view that the impending labour legislation will favour the larger and reputable TES providers who have the necessary IT and HR infrastructures capable of meeting the demands of a strictly regulated environment.

Human Capital Development

The segment's revenue increased from R47,4 million (annualised) to R60,5 million. The overall operating loss for the segment of R2,2 million (annualised), that was recorded in the prior period, has been reduced to R1,2 million for the year under review. This is largely as a result of an improved contribution from the corporate HR consulting and training units.

Revenue within the computer training and business colleges unit was below expectation due to less than optimal learner registrations at a number of its FET colleges during the most recent registration period. High fixed costs and the Group's commitment to facilitating the successful completion of their studies by all paying learners have resulted in the unit incurring operating losses. Consequently the future of this unit's current business model is under strategic review.

Group strategy and outlook

As part of its response to the regulatory issues facing its TES businesses, the Group made investments in new products and services allied to its existing product and service range. This expenditure related to additional office infrastructure, improved technology, new course material and the employment of more personnel so as to provide increased capacity and capability in anticipation of future requirements. These costs will affect short-term earnings, particularly in the first half of the current year.

Volume growth within existing operations and the continual review of operating expenditure to achieve optimal efficiencies remain Group imperatives. The introduction of new products and services in the spheres of business process outsourcing and permanent recruitment has been undertaken. The Group remains focussed on further developing its marketing and sales capability. All of these, taken together, are intended to enhance profitable sustainability for the Group. Nevertheless, the prevailing business and operating environment dictates that the Group's performance outlook remains conservative.

B-BBEE/Transformation

As part of the Group's ongoing BEE initiatives, and in order to address the issues relating to the ownership element of the balanced scorecard, the Group is in the process of completing the first phase of a broad-based BEE ownership participation structure.

Cancellation of shares

The Group is in the process of attending to the cancellation of certain of its shares held in the Group. A circular will shortly be issued in this regard.

Corporate Governance

The Board and the individual directors are committed to the highest values of integrity, transparency, responsibility and accountability in enforcing the best standards of corporate governance and have taken regard of the requirements and spirit of the King III report. The Group's annual report for the period ended 31 March 2011 was its first integrated report and detailed the various initiatives and statistics relating to the governance of the Group.

Changes in Board Membership

Resignation of Allan McMillan

Allan McMillan has been with the Group since its listing. In 2003 he was appointed Managing Director of the Group's Outsourcing division and was appointed to the Board as an executive director in 2004.

Due to health and other personal reasons, Allan is no longer in a position to fulfil his role and function within the Group's operations and has elected to resign as a director of the Board of Primeserv Group Limited and all relevant Group companies with immediate effect.

The Group thanks Allan for his valued contribution and wishes him well in his recovery and future endeavours.

The Group CEO has assumed operational control over the Group's Outsourcing division.

Executive Appointment of Desmond Seaton

Des has been appointed with immediate effect as an executive director with responsibility *inter alia* for legal, risk and related commercial activities and will no longer serve as a non-executive director on the Board.

Events after the reporting date

Management is not aware of any material events which have occurred subsequent to the end of March 2012. There has been no material change in the Group's contingent liabilities since the year-end.

Basis of preparation

The results for the year have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) of the International Accounting Standards Board, the AC 500 standards as issued by the Accounting Practices Board, the information as required by IAS 34 – Interim Financial Reporting, the JSE Limited Listings Requirements and the South African Companies Act, (Act 71 of 2008). The results have been prepared using the Group's accounting policies that comply with IFRS which are consistent with those applied in the financial statements for the period ended 31 March 2011 and have been prepared by the Group Financial Director, Mr R Sack.

Review opinion

The Group's auditors, Charles Orbach & Company, have reviewed the Group's financial results for the year ended 31 March 2012. A copy of their unmodified review report is available for inspection at the Company's registered office. Any reference to future financial performance included in this announcement, has not been reviewed nor reported on by the auditors.

Dividend

No final dividend is proposed for the year under review. The Group will consider the resumption of dividend payments at the close of its next reporting period.

On behalf of the Board

JM Judin	M Abel	R Sack	29 June 2012
Independent Non-Executive Chairman	*Chief Executive Officer*	*Financial Director*	Bryanston

Directors: JM Judin# (Chairman), M Abel (Chief Executive Officer), Prof S Klein# *(American),* LM Maisela*, DL Rose#, R Sack (Financial Director), DC Seaton, CS Shiceka#
 # Independent Non-Executive ** Non-Executive*

Company secretary: ER Goodman Secretarial Services cc (represented by E Goodman)

Registered address: Venture House, Peter Place Park, 54 Peter Place, Bryanston, 2021 • (PO Box 3008, Saxonwold, 2132)

Transfer secretaries: Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 • (PO Box 61051, Marshalltown, 2107)

Auditors: Charles Orbach & Company, Third Floor, 3 Melrose Boulevard, Melrose Arch, 2076 • (PO Box 355, Melrose Arch, 2076)

Sponsor: Deloitte & Touche Sponsor Services (Pty) Limited, The Woodlands, Woodlands Drive, Woodmead, 2196 • (Private Bag X6, Gallo Manor, 2052)