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 industry, resulted in challenging trading conditions for the Group's operations during the year under review.

Overview of results

Revenue for the year under review increased by 7% from R613,1 million to R654,9 million. When revenue from Bathusi Staffing Services ("Bathusi"), the Group's associate company is included, the aggregate revenue increased from R644,9 million to R704,7 million, growth of 9% year-on-year. Gross profit decreased by 7% from R113,8 million to R106,0 million with the overall gross profit percentage declining from 18.6% in the prior year to 16.2% for the current year. This drop in the overall percentage is attributable largely to a change in revenue levels between clients with higher margins to those with lower margins in differing industry segments.

EBITDA has declined from R7,1 million to R0,9 million with the discontinued Colleges unit incurring a R4,3 million loss at EBITDA level. Continuing operations delivered an EBITDA of R5,2 million, down from R9,7 million, in part due to a number of once-off operational costs incurred in the latter part of the year under review. The operating loss for the year was R1,3 million compared to R5,6 million profit for the comparable period, with the discontinued Colleges business accounting for R6,3 million of the overall amount. Interest paid has shown a decrease from R5,0 million to R3,7 million. Interest received has decreased from R6,3 million to R1,7 million with a significant portion of the decrease being attributable to a reduction in the fair value adjustment relating to revenue. As a consequence of the discontinuance of the Colleges business in the year under review the Group has impaired R1,2 million relating to goodwill and fixed assets in that operation. The Group's associate company, Bathusi, has shown an improvement contributing a small profit from a loss in the prior period. The total comprehensive income from continuing operations decreased from R7,7 million to R4,7 million whilst comprehensive income from discontinued operations increased its loss from R1,0 million to R9,0 million therefore total comprehensive income has decreased from a profit of R6,8 million to a loss of R4,3 million for the year under review. Costs within the Group's Central Services unit were steady at R13,6 million compared with R13,5 million in the prior year. The current year segment cost allocations have been changed to reflect the Group's new centralised cost platform. The prior year business segment results have accordingly been reclassified by transferring costs of R9,9 million from Human Capital Outsourcing to Central Services. The second half of the year was affected by a number of debtor impairments, start-up costs along with extraneous expenditure incurred in the reorganisation and centralisation process of the Group's back-office functions away from the regions. A significant portion of these charges related to the Human Capital Development segment. Earnings per share from continuing operations decreased from 8,90 cents per share to 5,35 cents per share while the earnings per share from discontinued operations decreased from a loss of 1,02 cents per share to a loss of 9,61 cents per share, with the overall earnings per share declining from 7,88 cents per share to a loss of 4,26 cents per share. Headline earnings per share from continuing operations decreased from 8.90 cents per share to 5,28 cents per share and the headline earnings per share from discontinued operations increased its loss from 1,02 cents per share to a loss of 8,33 cents per share with the aggregate headline earnings per share decreasing from 7,88 cents per share to a loss of 3,05 cents per share.

Albeit that there has been an increase in revenue the average days sales outstanding ("DSO") has remained at 45 days for the year under review. The Group's investment in trade receivables has increased by R5,6 million to R92,2 million. Trade payables increased by R3,9 million from R30,4 million to R34,3 million. The Group had a net cash outflow of R4,9 million attributable in part to the overall increase in investment in working capital, especially trade debtors, some of whom paid just after year end. Despite these timing delays the overall effect in terms of day-to-day operating cash flows was minimal although it had an effect on the Group's gearing position as reflected at year end and which was higher than optimal at 55%. A return to overall profitability and improved working capital management during the 2014 financial year are anticipated to reduce gearing. Cash flows in the second half of the year reflected a turnaround from the first half of the year as DSO improved and the net investment in working capital was reduced. The net cash outflow for the first six months was R8,1 million which was offset by a positive cash inflow in the second half of the year of R3,2 million. Net asset value decreased year-on-year from 78 cents per share to 75 cents per share.

Human Capital Outsourcing

Revenue for the division increased by 7% from R552,3 million to R592,8 million. When revenue from Bathusi is taken into account, the overall revenue for the year increased by 10% from R584,0 million to R642,6 million. Operating profit for the division was consistent at R20,2 million compared to R20,4 million in the prior year. The DSO of 42 days at year end is in line with the prior year's DSO of 40 days. As referred to above, the DSO has been affected by delays in receipts from a few large clients who settled soon after year end. Revenue and gross profit in the second half of the year were adversely affected by prolonged industrial action at a national client. This also resulted in the incurrence of certain once-off costs specific to this action. The performance of the "white collar" professional draughting and engineering staffing unit was stable but is still dependent in the main on major infrastructure projects, as is the division's mega-project wage bureau unit. Performance within the "blue collar" flexible staffing units which are largely involved in the logistics, warehousing and distribution, and industrial manufacturing and engineering sectors, has remained solid, with some signs of growth emerging. Bathusi showed a steady improvement across the year, but experienced a surge in revenue in the last two months of the year with a corresponding increase in working capital requirements and thereby an increase in the Group's investment in the business. Operating costs are expected to moderate over the forthcoming year with most of the reorganisation and centralisation costs having been incurred in the financial year under review. The largest part of the centralisation process has already been completed with only a few other small areas to be finalised over the next few months.

While the ongoing debate regarding the future of the Temporary Employment Services industry has by and large been addressed at Nedlac and government, there remains some pressure on government from organised labour to impose stricter conditions on the industry. The Group maintains the view that regulation remains the best option for the industry and has positioned itself accordingly.

Human Capital Development

The segment's revenue increased by 2% from R60,8 million to R62,1 million, including R31,9 million attributable to the discontinued Colleges business. The segment recorded an increase in its overall operating loss from R1,2 million to R7,9 million with the discontinued Colleges business incurring R6,3 million of the loss. Continuing operations within the segment recorded an operating loss of R1,6 million which includes relatively substantial start-up costs of around R1,1 million for a specialised permanent resourcing and talent management unit, as well as costs relating to the delivery of the various learnership programmes which are anticipated to benefit the Group in the year ahead. An improved performance is expected from this segment's continuing operations in the year ahead.

Events after the reporting date

The Group disposed of its investment in the Colleges business with effect from 1 May 2013 thereby mitigating the losses and future operational risk from this unit.

Aside from the disposal of the Colleges business, management is not aware of any material events which have occurred subsequent to the end of March 2013. There has been no material change in the Group's contingent liabilities since the year-end.

Basis of preparation

The reviewed results for the year ended 31 March 2013 have been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards (IFRSs), the presentation and disclosure requirements of IAS 34: Interim Financial Reporting, the Companies Act of 2008, the JSE Listing Requirements and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee. They should be read in conjunction with the annual financial statements for the year ended 31 March 2012, which have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board. The accounting policies are consistent with those described and applied in the annual financial statements for the year ended 31 March 2012. The results were prepared by the Group Financial Director, Mr R Sack CA(SA).

Review opinion

The Group's auditors, Baker Tilly SVG, have reviewed the Group's financial results for the year ended 31 March 2013. 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

Outlook

The improved focus on the Group's core business operations, following the disposal of the Colleges business, should enable the Group to continue to optimise working capital management, reduce gearing and to grow its revenue streams. Opportunities to scale up the business and diversify revenue are currently being evaluated.

On behalf of the Board

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

21 June 2013
Bryanston

("Primeserv" or "the Group" or "the Company")
Incorporated in the Republic of South Africa
Registration number: 1997/013448/06 • Share code: PMV • ISIN: ZAE000039277
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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*
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Registered address: Venture House, Peter Place Park, 54 Peter Place, Bryanston, 2021
(PO Box 3008, Saxonwold, 2132)
Transfer secretaries: Computershare Investor Services (Pty) Ltd, 70 Marshall Street, Johannesburg, 2001
(PO Box 61051, Marshalltown, 2107)
Auditors: Baker Tilly SVG, Third Floor, 3 Melrose Boulevard, Melrose Arch, 2076
(PO Box 355, Melrose Arch, 2076)

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

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PRIMESERV GROUP LIMITED

REVIEWED RESULTS

for the twelve months ended

31 March 2013

Condensed Consolidated Statement of Comprehensive Income

	Reviewed 31 March 2013 R'000	Audited 31 March 2012 R'000
Revenue *	**654 893**	613 145
– Continuing operations	**623 008**	579 344
– Discontinued operations	**31 885**	33 801
Cost of sales	**(548 905)**	(499 352)
Gross profit	**105 988**	113 793
– Continuing operations	**84 262**	91 075
– Discontinued operations	**21 726**	22 718
EBITDA	**887**	7 058
– Continuing operations	**5 164**	9 735
– Discontinued operations	**(4 277)**	(2 677)
Depreciation and amortisation	**(2 210)**	(1 439)
Operating (loss)/profit	**(1 323)**	5 619
– Continuing operations	**4 942**	8 720
– Discontinued operations	**(6 265)**	(3 101)
Interest received	**1 723**	6 255
Interest paid	**(3 672)**	(4 990)
Impairment of assets – discontinued operations	**(1 203)**	–
Share of profit/(loss) from associate	**31**	(1 355)
(Loss)/profit before taxation	**(4 444)**	5 529
– Continuing operations	**2 896**	6 858
– Discontinued operations	**(7 340)**	(1 329)
Taxation	**104**	1 249
Total comprehensive (loss)/income for the year	**(4 340)**	6 778
– Continuing operations	**4 665**	7 735
– Discontinued operations	**(9 005)**	(957)
Total comprehensive (loss)/income attributable to:		
Ordinary shareholders of the Company	**(3 991)**	7 359
– Continuing operations	**5 014**	8 316
– Discontinued operations	**(9 005)**	(957)
Non-controlling shareholders' interest	**(349)**	(581)
Total comprehensive (loss)/income	**(4 340)**	6 778
Reconciliation of headline (loss)/earnings		
Net profit attributable to shareholders	**(3 991)**	7 359
After tax effect of profit on sale of fixed assets – continuing operations	**(65)**	–
Impairment of assets – discontinued operations	**1 203**	–
Headline (loss)/earnings	**(2 853)**	7 359
– Continuing operations	**4 949**	8 316
– Discontinued operations	**(7 802)**	(957)
Weighted average number of shares ('000)	**93 682**	93 377
Diluted weighted average number of shares ('000)	**93 682**	93 377
(Loss)/earnings per share (cents)	**(4,26)**	7,88
– Continuing operations	**5,35**	8,90
– Discontinued operations	**(9,61)**	(1,02)
Diluted (loss)/earnings per share (cents)	**(4,26)**	7,88
– Continuing operations	**5,35**	8,90
– Discontinued operations	**(9,61)**	(1,02)
Headline (loss)/earnings per share (cents)	**(3,05)**	7,88
– Continuing operations	**5,28**	8,90
– Discontinued operations	**(8,33)**	(1,02)
Diluted headline (loss)/earnings per share (cents)	**(3,05)**	7,88
– Continuing operations	**5,28**	8,90
– Discontinued operations	**(8,33)**	(1,02)

**** Revenue note:*** *Excludes revenue of R49,8 million (2012 : R31,7 million) from Bathusi Staffing Services (Pty) Ltd, which was deconsolidated as a result of B-BBEE transaction and has since been accounted for as an associate.*

Condensed Consolidated Statement of Financial Position

	Reviewed 31 March 2013 R'000	Audited 31 March 2012 R'000
ASSETS		
Non-current assets	**45 672**	47 299
Equipment and vehicles	**4 022**	6 878
Investment property	**7 645**	7 645
Goodwill	**13 293**	13 293
Intangible assets	**2 775**	2 992
Long-term receivables	**1 050**	1 214
Investment and loan in associate	**7 321**	5 815
Deferred tax asset	**9 566**	9 462
Current assets	**104 950**	104 087
Inventories	**847**	532
Trade receivables	**92 223**	86 641
Other receivables	**4 082**	5 419
Cash and cash equivalents	**7 798**	11 495
Non-current assets held for sale	**1 639**	–
Total assets	**152 261**	151 386
EQUITY AND LIABILITIES		
Equity	**70 017**	73 530
Capital and reserves	**71 213**	74 377
Non-controlling interest	**(1 196)**	(847)
Current liabilities	**82 244**	77 856
Trade and other payables	**34 272**	30 400
Current portion of financial liabilities	**–**	40
Taxation payable	**1 166**	1 202
Short-term vendor obligation	**201**	1 281
Short-term loan	**4 830**	4 388
Bank borrowings	**41 775**	40 545
Total equity and liabilities	**152 261**	151 386
Number of shares in issue at end of year ('000) (net of treasury and share trust shares)	**93 682**	93 682
Net asset value per share (cents)	**75**	78

Condensed Consolidated Statement of Changes in Equity

	Reviewed 31 March 2013 R'000	Audited 31 March 2012 R'000
Balance at beginning of the year	**73 530**	72 896
Attributable earnings	**(3 991)**	7 359
Dividends paid	**–**	(3 124)
Treasury shares allocated	**827**	(3 030)
Share-based payment	**–**	10
Non-controlling shareholders' interest	**(349)**	(581)
Balance at end of the period	**70 017**	73 530

Condensed Consolidated Statement of Cash Flows

	Reviewed 31 March 2013 R'000	Audited 31 March 2012 R'000
(Loss)/profit before taxation	**(4 444)**	5 529
Adjusted for non-cash items	**3 317**	3 202
Operating cash flows before working capital changes	**(1 127)**	8 731
Net working capital changes	**(688)**	(14 867)
Taxation paid	**(36)**	(1 308)
Cash flows utilised in operating activities	**(1 851)**	(7 444)
– Continuing operations	**(1 807)**	(7 986)
– Discontinued operations	**(44)**	542
Cash flows utilised in investing activities	**(2 398)**	(16 976)
– Continuing operations	**(2 386)**	(16 429)
– Discontinued operations	**(12)**	(547)
Cash flows from financing activities	**(678)**	2 829
– Continuing operations	**(678)**	2 829
– Discontinued operations	**–**	–
Dividends paid	**–**	(3 124)
Repurchase of securities	**–**	(3 030)
Returned to shareholders	**–**	(6 154)
Net decrease in cash and cash equivalents	**(4 927)**	(27 745)
Cash and cash equivalents at beginning of year	**(29 050)**	(1 305)
Cash and cash equivalents at end of year	**(33 977)**	(29 050)

Segmental Analysis

	Reviewed 31 March 2013 R'000	Audited 31 March 2012 R'000
Revenue from external customers		
Human Capital Outsourcing	**592 841**	552 309
Human Capital Development	**62 052**	60 836
Total	**654 893**	613 145
Revenue – inter-segment		
Human Capital Outsourcing	**–**	–
Human Capital Development	**4 089**	5 424
Total	**4 089**	5 424
Business segment operating profit results		
Human Capital Outsourcing	**20 171**	20 364
Human Capital Development	**(7 870)**	(1 206)
– Continuing operations	**(1 605)**	(1 895)
– Discontinued operations	**(6 265)**	(3 101)
Central Services	**(13 624)**	(13 539)
Operating (loss)/profit	**(1 323)**	5 619
Interest received	**1 723**	6 255
Interest paid	**(3 672)**	(4 990)
Impairment of assets – discontinued operations	**(1 203)**	–
Share of profit/(loss) from associate	**31**	(1 355)
(Loss)/profit before taxation	**(4 444)**	5 529
Business segment total assets		
Human Capital Outsourcing	**120 571**	111 278
Human Capital Development	**26 036**	32 346
Central Services	**5 654**	7 762
Total	**152 261**	151 386