

## COMMENTARY

### PROFILE

Primeserv Group Limited focuses on delivering human resources and industrial relations products, services and solutions through its operating pillar, Primeserv HR Services. This incorporates two main areas of specialisation: namely Human Capital Development and Human Capital Outsourcing.

### OVERVIEW

Group revenue for the six months ended 30 September 2014 increased by 2% from R321.5 million to R329.2 million. Total comprehensive income attributable to shareholders of the Company increased from R3.7 million to R4.0 million for the review period. Earnings per share and headline earnings per share increased by 10% from 3.90 cents per share to 4.29 cents per share.

Trade receivables have remained constant at R100.2 million (2013: R100.8 million) at the end of the reporting period. The average days sales outstanding ("DSO") has improved from 52 days to 49 days for the period under review. Trade payables have decreased by R8.4 million from R34.0 million to R25.6 million largely due to a change in the mix of business where amounts previously held for the benefit of contractors are now increasingly required to be paid across to the relevant bargaining councils, impacting not only the levels of accounts payable, but also cash flow and borrowing costs. Cash flow from operations decreased by R1.4 million from R5.2 million to R3.8 million, in line with the reduced gross profit. Cash invested in working capital increased from an outflow of R4.9 million to R11.3 million, due to a combination of increased trade debtors and decreased trade payables during the 6 months to September 2014. A spike in project-related business in the latter part of the interim reporting period led to operating cash flows being distorted as the debtor receipts for these services were delayed until October. Cash and cash equivalents recorded a net outflow of R7.1 million for the 6 months ended September 2014. The net asset value per share increased to 87 cents per share at the end of 30 September 2014.

### HUMAN CAPITAL OUTSOURCING

Revenue in the segment was marginally better, increasing by 1% from R306.0 million to R308.0 million. The low level of revenue increase was primarily due to the expiry of certain projects and contracts at the beginning of the financial year, with the commencement of new national contracts starting in the second half of the financial year. This resulted in a revenue gap which negatively impacted gross profit and earnings. Earnings during the reporting period were further reduced by the planned costs of establishing an extended national infrastructure and expanded operational capacity related to the award of new national tenders. The segment's DSO has improved from 49 days at the end of September 2013 to 47 days at the end of the current reporting period. The blue collar staffing business performed well, while the engineering and heavy industrial staffing operations delivered stable results. The white collar professional staffing unit delivered improved revenues in what remains a constrained operating environment. Management will continue to focus on revenue growth, cost containment and cash generation.

### HUMAN CAPITAL DEVELOPMENT

Revenue from the consulting, training and talent management operations increased by 37% from R15.4 million to R21.1 million for the period under review. EBITDA improved by 15% from R1.8 million to R2.1 million, while operating profit increased by 17% from R1.6 million to R1.9 million for the six months ended 30 September 2014.

### EVENTS AFTER THE REPORTING DATE

Management is not aware of any material events which have occurred subsequent to the end of September 2014.

### BASIS OF PREPARATION

The condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standard, (IAS) 34 Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial

Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa and the JSE Listings Requirements. The accounting policies applied in the preparation of these interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the previous annual financial statements with no effect from any new accounting standards. The results were prepared by the Group Financial Director, Mr R Sack CA(SA). The results have not been reviewed or audited by the Group's external auditors.

### DIVIDEND

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

### BOARD

Professor Saul Klein, who has served on the Board since the listing of the Company has decided not to offer himself for re-election due to his international commitments. The Board wishes to thank Saul for his many years of highly appreciated and exemplary service to the Group and wishes him well in his future endeavours.

As part of the Group's ongoing transformation process, further changes to the composition of the Board are planned and announcements will follow in due course.

### OUTLOOK

The expansion of the Group's national footprint should facilitate growth at existing and new clients. The Group is actively exploring acquisitive opportunities aimed at leveraging the scalability inherent in its operations.

On behalf of the Board

**JM Judin**

*Independent Non-executive Chairman*

**M Abel**

*Chief Executive Officer*

**R Sack**

*Financial Director*

25 November 2014

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("Primeserv" or "the Group" or "the Company")

Incorporated in the Republic of South Africa

Registration number: 1997/013448/06; Share code: PMW; ISIN: ZAE000039277

www.primeserv.co.za; e-mail: productivity@primeserv.co.za

Directors: JM Judin\* (Chairman), M Abel (Chief Executive Officer), 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: 25 Rudd Road, Illovo, Sandton, 2196

(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, 20 Woodlands Drive, Woodmead, 2196

(Private Bag X6, Gallo Manor, 2052)



## PRIMESERV GROUP LIMITED UNAUDITED RESULTS

FOR THE SIX MONTHS ENDED  
30 SEPTEMBER 2014



www.primeserv.co.za

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	6 months Unaudited 30 Sep 2014 R'000	6 months Unaudited 30 Sep 2013 R'000	12 months Audited 31 Mar 2014 R'000
Revenue	329 160	321 465	638 791
Cost of sales	(281 249)	(270 095)	(540 670)
Gross profit	47 911	51 370	98 121
EBITDA	6 527	9 663	14 454
Depreciation and amortisation	(1 319)	(1 202)	(1 863)
Operating profit	5 208	8 461	12 591
Interest received	171	725	983
Interest paid	(2 881)	(3 204)	(5 766)
Profit before taxation	2 498	5 982	7 808
Taxation	317	(77)	(1 366)
Total comprehensive income	2 815	5 905	6 442
Loss from discontinued operation (net of tax) (note 1)	–	(2 002)	(2 002)
Total comprehensive income	2 815	3 903	4 440
<i>Total comprehensive income attributable to:</i>			
Ordinary shareholders of the Company	4 016	3 655	6 096
Non-controlling shareholders interest	(1 201)	248	(1 656)
Total comprehensive income	2 815	3 903	4 440
<b>Reconciliation of headline earnings</b>			
Net profit attributable to shareholders	4 016	3 655	6 096
<b>Headline earnings</b>			
– Continuing operations	4 016	5 657	8 098
– Discontinued operations	–	(2 002)	(2 002)
Weighted average number of shares ('000)	93 682	93 682	93 682
Diluted weighted average number of shares ('000)	93 682	93 682	93 682
Earnings per share and diluted earnings per share (cents)	4.29	3.90	6.51
– Continuing operations (cents)	4.29	6.04	8.65
– Discontinued operations (cents)	–	(2.14)	(2.14)
Headline earnings and diluted headline earnings per share (cents)	4.29	3.90	6.51
– Continuing operations (cents)	4.29	6.04	8.65
– Discontinued operations (cents)	–	(2.14)	(2.14)

### Note 1: Discontinued operations

	2014 1 month R'000	2014 1 month R'000
Revenue	1 460	1 460
Cost of sales	(158)	(158)
Gross profit	1 302	1 302
Operating loss	(2 002)	(2 002)
Interest paid	–	–
Impairment of assets	–	–
Loss before taxation	(2 002)	(2 002)
Taxation	–	–
Loss for the year	(2 002)	(2 002)

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS AT 30 SEPTEMBER 2014

	Unaudited 30 Sep 2014 R'000	Unaudited 30 Sep 2013 R'000	Audited 31 Mar 2014 R'000
<b>ASSETS</b>			
Non-current assets	48 908	44 140	50 567
Equipment and vehicles	3 814	4 027	3 930
Investment property	7 645	7 645	7 645
Goodwill	18 170	18 170	18 170
Intangible assets	1 751	2 350	2 269
Long-term receivables	5 940	1 050	6 860
Deferred tax asset	11 588	10 898	11 693
Current assets	108 768	112 976	102 595
Inventories	222	1 193	200
Trade receivables	100 151	100 813	94 555
Other receivables	7 207	5 785	6 748
Cash and cash equivalents	1 188	5 185	1 092
Total assets	157 676	157 116	153 162
<b>EQUITY AND LIABILITIES</b>			
Equity	73 557	70 166	70 742
Capital and reserves	81 325	74 908	77 309
Non-controlling interest	(7 768)	(4 742)	(6 567)
Current liabilities	84 119	86 950	82 420
Trade and other payables	25 571	33 962	30 545
Financial liabilities	–	4 830	–
Taxation payable	2 317	1 170	2 803
Bank borrowings	56 231	46 988	49 072
Total equity and liabilities	157 676	157 116	153 162
Number of shares in issue at end of the period (net of treasury and share trust shares) ('000)	93 682	93 682	93 682
Net asset value per share (cents)	87	80	83

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	6 months Unaudited 30 Sep 2014 R'000	6 months Unaudited 30 Sep 2013 R'000	12 months Audited 31 Mar 2014 R'000
Profit before taxation	2 498	3 980	7 808
Loss before tax from discontinued operations	–	–	(2 002)
Adjusted for non-cash items			
– continuing and discontinued operations	1 319	1 202	1 863
Operating cash flows before working capital changes	3 817	5 182	7 669
Net working capital changes	(11 290)	(4 944)	(5 460)
Taxation paid	(63)	(10)	(461)
Cash flows from operating activities	(7 536)	228	1 748
Cash flows from investing activities	473	921	(1 946)
Cash flows from financing activities	–	(201)	(5 031)
Net decrease in cash and cash equivalents	(7 063)	948	(5 229)
Cash and cash equivalents at beginning of period	(47 980)	(42 751)	(42 751)
Cash and cash equivalents at end of period	(55 043)	(41 803)	(47 980)

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	6 months Unaudited 30 Sep 2014 R'000	6 months Unaudited 30 Sep 2013 R'000	12 months Audited 31 Mar 2014 R'000
Balance at beginning of the period	70 742	66 263	66 263
Attributable earnings	4 016	3 655	6 096
Disposal of interest to minority	–	–	39
Non-controlling shareholders interest	(1 201)	248	(1 656)
Balance at end of period	73 557	70 166	70 742

## SEGMENTAL ANALYSIS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014

	6 months Unaudited 30 Sep 2014 R'000	6 months Unaudited 30 Sep 2013 R'000	12 months Audited 31 Mar 2014 R'000
<b>Revenue from external customers (continuing and discontinued operations)</b>			
Human Capital Outsourcing	308 022	306 032	605 932
Human Capital Development	21 138	16 893	34 319
– Continuing operations	21 138	15 433	32 859
– Discontinued operations	–	1 460	1 460
Total	329 160	322 925	640 251
<b>Revenue – inter-segment</b>			
Human Capital Outsourcing	–	–	–
Human Capital Development	196	242	493
Total	196	242	493
<b>Business segment operating profit results (continuing and discontinued operations)</b>			
Human Capital Outsourcing	10 505	13 794	25 347
Human Capital Development	1 869	(411)	(1 428)
– Continuing operations	1 869	1 591	574
– Discontinued operations	–	(2 002)	(2 002)
Central Services	(7 166)	(6 924)	(13 330)
Operating profit	5 208	6 459	10 589
Interest received	171	725	983
Interest paid	(2 881)	(3 204)	(5 766)
Profit before taxation	2 498	3 980	5 806
– Continuing operations	2 498	5 982	7 808
– Discontinued operations	–	(2 002)	(2 002)
<b>Business segment EBITDA (continuing and discontinued operations)</b>			
Human Capital Outsourcing	11 456	14 663	27 056
Human Capital Development	2 106	(176)	(865)
– Continuing operations	2 106	1 826	1 137
– Discontinued operations	–	(2 002)	(2 002)
Central Services	(7 035)	(6 826)	(13 739)
Total	6 527	7 661	12 452
<b>Business segment total assets</b>			
Human Capital Outsourcing	124 023	123 234	116 789
Human Capital Development	26 902	25 997	26 617
Central Services	6 751	7 885	9 756
Total	157 676	157 116	153 162