Reviewed results

FOR THE FIFTEEN MONTHS ENDED 31 MARCH 2011

and further cautionary announcement

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
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Consolidated Statement of Comprehensive Income

for the 15 months ended 31 March 2011

	Reviewed 15 months ended 31 Mar 2011 R'000	Audited 12 months ended 31 Dec 2009 R'000
Revenue [(1)]	**665 281**	523 501
Cost of sales	**(542 947)**	(421 941)
Gross profit	**122 334**	101 560
EBITDA	**12 937**	19 144
Depreciation	**(2 572)**	(1 660)
Operating profit	**10 365**	17 484
Interest received	**4 720**	4 533
Interest paid	**(4 756)**	(6 259)
Share of loss from associate	**(202)**	(225)
Profit before taxation	**10 127**	15 533
Taxation	**(1 659)**	(3 745)
Total comprehensive income for the period	**8 468**	11 788
Total comprehensive income attributable to:		
Ordinary shareholders of the Company	**9 281**	11 451
Non-controlling shareholders' interest	**(813)**	337
Total comprehensive income	**8 468**	11 788
Reconciliation of headline earnings		
Net profit attributable to shareholders	**9 281**	11 451
After-tax effect of profit on sale of fixed assets	**–**	4
Headline earnings	**9 281**	11 455
Weighted average number of shares ('000)	**102 174**	108 980
Diluted weighted average number of shares ('000)	**103 166**	108 980
Earnings per share (cents)	**9,08**	10,51
Diluted earnings per share (cents)	**9,00**	10,51
Headline earnings per share (cents)	**9,08**	10,51
Diluted headline earnings per share (cents)	**9,00**	10,51

[(1)] **Revenue note:** *Excludes revenue of R64,3 million (Dec 2009: R55,7 million) from Bathusi Staffing Services (Proprietary) Limited, which was deconsolidated as a result of a B-BBEE transaction and has since been accounted for as an associate.*

Segmental Analysis

for the 15 months ended 31 March 2011

	Reviewed 15 months ended 31 Mar 2011 R'000	Audited 12 months ended 31 Dec 2009 R'000
Revenue from external customers		
Human Capital Outsourcing	**606 007**	478 101
Human Capital Development	**59 274**	45 400
	665 281	523 501
Business segment results		
Human Capital Outsourcing	**18 084**	19 214
Human Capital Development	**(2 766)**	2 036
Central Services	**(4 953)**	(3 766)
	10 365	17 484
Interest received	**4 720**	4 533
Interest paid	**(4 756)**	(6 259)
Share of loss from associate	**(202)**	(225)
Profit before taxation	**10 127**	15 533

Consolidated Statement of Financial Position

as at 31 March 2011

	Reviewed 31 Mar 2011 R'000	Audited 31 Dec 2009 R'000
ASSETS		
Non-current assets	**28 171**	24 064
Equipment and vehicles	**6 072**	4 229
Goodwill	**12 012**	10 135
Intangible assets	**601**	642
Long-term receivables	**1 214**	4 227
Investment and loan in associate	**2 874**	334
Deferred tax asset	**5 398**	4 497
Current assets	**97 655**	110 973
Inventories	**1 017**	965
Trade receivables	**64 922**	78 871
Other receivables	**6 466**	3 362
Cash and cash equivalents	**25 250**	27 775
Total assets	**125 826**	135 037
EQUITY AND LIABILITIES		
Equity	**78 056**	74 722
Capital and reserves	**78 124**	73 977
Non-controlling interest	**(68)**	745
Non-current liabilities	**632**	184
Long-term vendor obligation	**591**	–
Interest-bearing financial liabilities	**41**	184
Current liabilities	**47 138**	60 131
Trade and other payables	**17 914**	28 930
Current portion of financial liabilities	**116**	181
Taxation payable	**1 702**	1 473
Short-term vendor obligation	**851**	–
Bank borrowings	**26 555**	29 547
Total equity and liabilities	**125 826**	135 037
Number of shares in issue at end of period ('000) (net of treasury and share trust shares)	**95 231**	105 455
Net asset value per share (cents)	**82**	71

Consolidated Condensed Statement of Changes in Equity

for the 15 months ended 31 March 2011

	Reviewed 15 months ended 31 Mar 2011 R'000	Audited 12 months ended 31 Dec 2009 R'000
Balance at beginning of the period	**74 722**	68 093
Attributable earnings for the period	**9 281**	11 451
Dividends paid	**(2 596)**	(2 741)
Share movements	**(2 652)**	(2 318)
Share-based payment reserve	**114**	(100)
Non-controlling shareholders' interest	**(813)**	337
Balance at end of the period	**78 056**	74 722

Consolidated Condensed Statement of Cash Flows

for the 15 months ended 31 March 2011

	Reviewed 15 months ended 31 Mar 2011 R'000	Audited 12 months ended 31 Dec 2009 R'000
Cash flows from operating activities	**10 300**	23 196
Cash flows from investing activities	**(7 029)**	(3 101)
Cash flows from financing activities	**(208)**	(174)
Returned to shareholders – dividends paid	**(2 596)**	(2 741)
Net increase in cash and cash equivalents	**467**	17 180
Cash and cash equivalents at beginning of period	**(1 772)**	(18 952)
Cash and cash equivalents at end of period	**(1 305)**	(1 772)

Commentary

Profile

Primeserv Group Limited is an investment holding company focusing on delivering 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 through two divisions, Primeserv HR Solutions and Primeserv Colleges; and Human Capital Outsourcing operating through the Group's largest division, 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 training colleges, as well as resourcing and flexible staffing services, supported by wage bureaus and HR logistics outsourcing operations.

Operating environment

The economic environment for the fifteen months to 31 March 2011 continued to be challenging. Both business and consumer confidence remained under pressure. This situation was further exacerbated by the persistent debate relating to the Temporary Employment Services ("TES") industry. The resulting uncertainty affected the Group's operations with businesses curtailing expenditure relating to skills development, training and employment. Notwithstanding this, the Group's overall results were encouraging and it is well positioned for an anticipated economic upturn.

Overview of results

The Group's year-end was changed during the review period from the end of December to the end of March in order to better align the financial reporting period with the underlying operating activities. As a consequence various comparisons with the prior period have not been stated in the commentary below. Sales revenue for the 15 months was R665,3 million realising a gross profit of R122,3 million but with lower margins compared to the prior period as new customers were brought on board. Both EBITDA and operating profit have also shown a decrease compared with the prior reporting period. Working capital management improved during the review period as evidenced by the significant reduction in interest paid from R6,3 million to R4,8 million even though the current period was for 15 months. The effective tax rate has also been reduced from 24% in the prior year to 16% in the current reporting period as a consequence of allowances claimed for increased learnership training. Total comprehensive income attributable to shareholders of the Group declined by 19% from R11,5 million to R9,3 million. Earnings per share and headline earnings per share decreased by 14% from 10,51 cents per share to 9,08 cents per share and diluted earnings per share and diluted headline earnings per share were down from 10,51 cents per share to 9,00 cents per share.

Cash flows from operating activities have shown a marked improvement compared to the position at the end of the 12 months to 31 December 2010 with the Group being cash positive for the 15-month review period. The Group further invested in the upgrading of its colleges' infrastructure as well as in new computer equipment and further course development.

The balance sheet has continued to strengthen. A significant portion of the long-term receivables balance has been reclassified as other receivables due to the finalisation of settlement arrangements by a debtor. The investment in trade receivables reflects an improvement of R14,0 million from R78,9 million to R64,9 million. Cash and cash equivalents were relatively stable at R25,3 million at the end of March 2011 compared to R27,8 million at the end of December 2009. Bank borrowings were reduced by R3,0 million from R29,6 million to R26,6 million. The Group's level of gearing was consistent at 2,7% compared to 2,9% at the end of the previous financial year. The net asset value per share increased by 15% from 71 cents per share to 82 cents per share.

Human Capital Outsourcing

The division's revenue increased by 27% from R478,1 million to R606,0 million in the 15-month review period. Operating profit was R18,1 million compared to R19,2 million, attributable to a mix of customers with lower overall margins. Trading in the "white collar" professional draughting and engineering unit as well as in the division's mega-project wage bureaus remains subdued following the completion and/or cancellation of a number of major infrastructure projects nationwide. The "blue collar" flexible staff units involved in the logistics, warehousing and distribution arena delivered a largely unchanged set of results, albeit that those in the construction industry were affected by reduced manpower demand. The division is further investing both internally and in partnership with outsourced service providers in its information technology platforms and HR productivity systems so as to provide management information-based solutions and services focused on improving HR efficiency and economic performance for its customers.

The unabated political, regulatory and social discourse regarding the future of the TES industry created a negative trading environment for the division, however, the recently proposed legislation and ensuing government, NEDLAC and industry-wide discussions appear to make a redrafting of the proposed legislation increasingly likely. The Group believes that increased regulation will be the optimal solution for all parties concerned, particularly in view of the critical need to ensure job creation throughout South Africa.

Human Capital Development

The segment improved its revenue from R45,4 million to R59,3 million when compared to the last financial year. Learner registrations at the computer training and business colleges were significantly better than at the same time last year. The technical training unit delivered a weak performance due primarily to uncertainty relating to the state of the SETAs within which it operates and the consequent reluctance of businesses to commit to training expenditure. The division carried out further learnership training in the transportation and artisan sectors and expects to increase these numbers in the year ahead. The HR Consulting unit performed well during the review period.

Group strategy and outlook

Primeserv's strategy is that of an investment holding company in the services industry, and whilst the Group focuses on organically and acquisitively developing its existing staffing, skills development and HR consulting operations so as to broaden its service and product offerings, it is also actively seeking to diversify its revenue streams through a series of corporate activities. This strategy is aimed at enhancing the ongoing sustainability and growth of the Group.

The pace of the country's economic recovery is expected to remain constrained in the short term. The Group is cautiously optimistic regarding performance in the year ahead. This general forecast has not been reviewed nor reported on by the Company's auditors.

B-BBEE

The Group is strongly committed to ongoing transformation and continues to focus on improving its B-BBEE credentials. The Group was once again highly rated with regard to its B-BBEE scorecard, receiving a ranking of number 22 in terms of the 2011 Financial Mail/Empowerdex survey.

Corporate governance

The Board and the individual directors are committed to the values of integrity, transparency, responsibility and accountability in enforcing the highest standards of corporate governance. King III became effective on 1 March 2010 and accordingly the Group is in the process of reviewing and evaluating its compliance with King III and a detailed programme will be adopted to ensure optimal compliance on an apply or explain basis within the timeline required by the JSE.

Events after the reporting date

Management is not aware of any material events which have occurred subsequent to the end of March 2011. There has been no material change in the Group's contingent liabilities since the period-end.

Acquisitions and new contracts

The following acquisitions were made:

- The HR Consulting unit acquired, as a going concern, the business of Sincedisa Consulting cc with effect from 1 March 2010. The business is an HR consulting business allied to the Group's existing business. The acquisition price is determined based upon future earnings and will not exceed R3,5 million. The purchase price is estimated, as required by IFRS 3, at R2,1 million. The purchase price is payable in cash in three instalments. The first payment was in July 2010 with subsequent payments in April 2011 and April 2012. Assets valued at R0,2 million have been acquired and attributable goodwill of R1,9 million has been calculated.

  Included in the results for the period are net profits before tax of R0,8 million attributable to this business, resulting in an increase in earnings of 0,59 cents per share.
- At the end of the review period the Group concluded a transaction that entailed the payment of compensation arising out of the termination of service agreements for the provision of temporary employment services with customers of the vendor and the conclusion of such contracts with the Group instead. The consideration payable is based upon future sales to customers in terms of these contracts. There was no impact flowing from this transaction in the financial review period as the effective date was 1 May 2011.

Accounting policies

The results for the fifteen months have been prepared in accordance with the Group's accounting policies which are consistent with the previous period and these comply with International Financial Reporting Standards and the AC 500 standards, as issued by the Accounting Standards Board. This report has been prepared in accordance with IAS 34 – Interim Financial Reporting, the South African Companies Act and the JSE Limited Listings Requirements.

Review opinion

The results for the fifteen months ended 31 March 2011 have been reviewed by the Company's auditors, Charles Orbach & Company, and their unmodified review opinion is available for inspection at the Company's registered offices.

Further cautionary announcement

Further to the cautionary announcement released on SENS on 20 May 2011 and published in the press on 23 May 2011, shareholders are advised that negotiations remain in progress which, if successfully concluded, may have a material effect on the price of the Company's securities. Accordingly, shareholders are advised to continue to exercise caution when dealing in the Company's securities until a full announcement is made.

Dividend declaration

Notice is hereby given that Primeserv has declared a final dividend (dividend declaration number 12) for the 15 months ended 31 March 2011 of 2,50 cents per share, payable to shareholders recorded in the register of the Company at the close of business on the record date as set out below. The salient dates applicable to the dividend are as follows:

Last day to trade "CUM" dividend	Friday, 15 July 2011
First day to trade "EX" dividend	Monday, 18 July 2011
Record date	Friday, 22 July 2011
Payment date	Monday, 25 July 2011

No share certificates may be dematerialised or rematerialised between Monday, 18 July 2011 and Friday, 22 July 2011, both days inclusive.

On behalf of the Board

JM Judin – *Independent Non-Executive Chairman*
M Abel – *Chief Executive Officer*
R Sack – *Financial Director*
29 June 2011
Bryanston

Directors: JM Judin# (Chairman), M Abel (Chief Executive Officer), Prof S Klein# *(American),* LM Maisela#, AT McMillan *(British),* 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)

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