LINKING PEOPLE WITH
SERVICE EXCELLENCE

CSG

2019
ABRIDGED CONSOLIDATED ANNUAL RESULTS

for the year ended
31 March

CSG Group is a multi-disciplinary **support services group offering a wide range of services in facilities, security and risk solutions and staffing** services in Southern Africa to an array of clients across a multitude of sectors/industries.

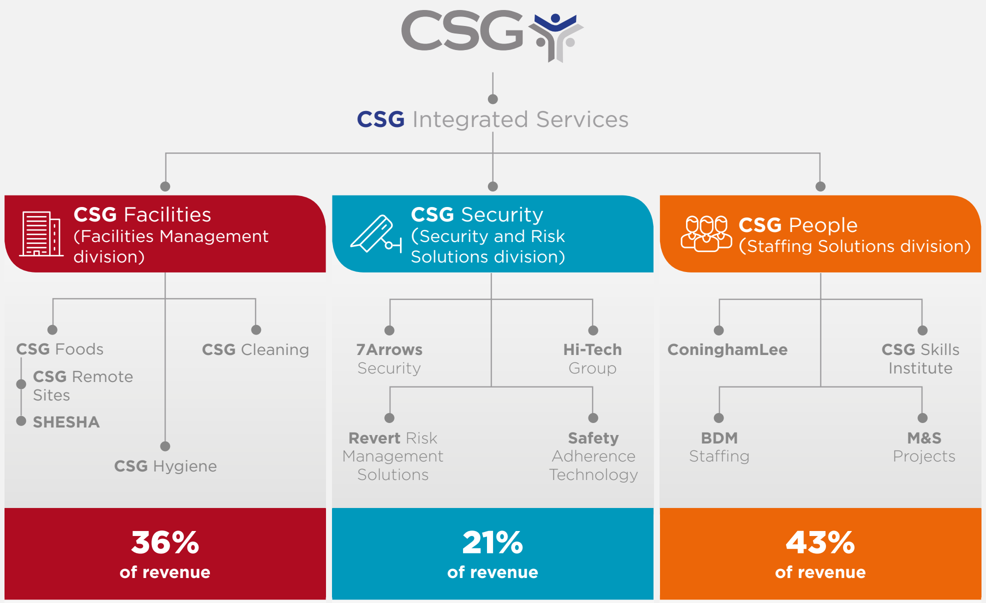
Vision

The CSG Group will embrace **technology** and expand organically and acquisitively into a well-recognised leading brand in all chosen specialist **outsource sectors**.

We will choose segments with high barriers to entry while offering a full range of quality services domestically and across Africa, providing **excellence and value** to customers and all stakeholders.

Mission

The CSG Group's mission is to be the leading strategic **outsource partner** of choice for **facilities management, security and risk solutions and staffing solutions**.



The division offers the management of **staff restaurants** and the **supply of meals** to students, patients in hospitals, corporate head offices, mines and construction sites.

Specialised cleaning is performed in the hospitality, healthcare and commercial industries. It also offers **remote site (camp) services** which includes accommodation, catering, laundry, cleaning and maintenance.

Our Integrated Services division provides the **entire basket of services, one point of contact, one invoice.**

The division focuses on providing a full suite of **integrated security services** to both residential and commercial clients, which includes safety surveillance and access control.

Our security services are grouped together under alarm monitoring and armed response and specialised security risk services.

The division includes the provision of temporary outsourced personnel, permanent placements, time keeping, payroll services, human resource and industrial relations services as well as outsourced services on a contracting basis.

Commentary

CSG Holdings Limited (CSG) is a multi-disciplinary support services group offering a wide range of services in facilities, security and risk solutions, and staffing services in Southern Africa to an array of clients across a multitude of sectors/industries.

CSG's mission to be a leading strategic outsourced partner of choice for staffing solutions, facilities management and security in South Africa remains unchanged. We have consolidated and increased our basket of services offered to clients. Our strategy continues to focus on growing into service delivery that is more technology based, and has successfully resulted in CSG providing a full suite of integrated security services to both residential and commercial clients as part of our integrated facilities management service.

Our strategic partnership with our BEE partners continues to add valuable access to the expertise and experience, and ensures that our 30% BEE shareholding is maintained.

Financial performance

The CSG group had a satisfactory year, despite the challenging business environment and trading conditions. A few negative once-off events during the year impacted our performance, although we feel comfortable with our normalised EBITDA as base for the 2020 financial year.

The group's revenue of R2,16 billion increased by 1%, operating profit of R62,10 million was 63% lower and headline earnings decreased 74% to R28,90 million.

Earnings per share declined by 229% and headline earnings per share declined by 74% in comparison to that reported for the year ended 31 March 2018. This decline was due to the once-off negative adjustments, impairments relating to the security division and overall performance of the group.

Divisional review

CSG Facilities (Facility Management division)

Revenue rose by 2% to R773,39 million contributing R58,14 million to the operating profit of the group.

Both CSG Foods (which now includes the remote sites business) and Afriboom Cleaning continued to perform well as a result of a combination of organic growth, cost savings initiatives and effective procurement.

Afriboom's greenfield project, CSG Hygiene, had a minor negative impact on earnings.

Global Industrial Projects' earnings declined significantly from the previous year, due to a substantial mining contract that could not be retained as a result of the mining charter's focus on local procurement. This contract was awarded to a local BEE start-up company, following the 8 years of service from Global Industrial Projects. The effect on Global Industrial Project was approximately R13 million.

CSG Security (Security and Risk Solutions division)

Revenue of R457,55 million improved by 7% compared to the same period last year and negatively contributed R15,04 million to the operating profit of the group. The decrease is as a result of various reasons.

Integration and consolidation of security acquisitions made during 2018 took longer than anticipated. Pressure on consumer spending and the increase in fuel prices had a significant impact on this sector.

In addition, the set-up costs and initial operational losses of approximately R5,5 million were incurred as a result of the new centralised control room in Pretoria, which contributed to the decrease in operating profit.

CSG expects to realise the benefit of these investments in infrastructure and operational capacity over the longer term.

The loss-making business of Hi-Tech White River was sold after year end, effective 1 May 2019 and contributed a loss of operating profit of approximately R4,2 million for the 2019 financial year and is disclosed under discontinued operations. The Hi-Tech guarding division realised some losses, but management have been successful in turning this business around and it is back on track and performing as budgeted. The remainder of the Hi-Tech Group performed in line with the previous year.

CSG established a centralised security structure, which included the bolstering of our operational infrastructure (to open new branches in Port Elizabeth, Durban, etc) in Revert Risk Management to the cost of approximately R3,8 million.

As previously communicated the group used this year to consolidate and integrate the acquisitions made during the 2018 financial year, building a strong base to take the security and risk solution division to the next level. Unfortunately an amount of approximately R25,93 million has been written off in 7 Arrows in relation to the recoverability of bad debt that accrued during the integration period of this business from Stallion and other bolt-on acquisitions. As a result of the current performance of the security division, the goodwill raised on acquisitions had to be impaired.

CSG People (Staffing Solution division)

Revenue decreased by 3% to R926,14 million contributing R42,36 million to the operating profit of the group.

The performance of the staffing division during the 2019 year was substantially down from the previous year due to a number of reasons. Some of the most important being fraudulent activities and malpractices, of approximately R9 million over a period of time, by a senior manager in BDM Staffing (corrective action has been taken), a sizable BDM Staffing contract coming to an end, bad debts mostly from the construction industry written off in both BDM and M&S Projects, as well as the initial adverse effect of management changes in ConinghamLee and CSG Skills Institute.

Outlook

Security remains an important aspect of all walks of life with a move towards the use of a combination of human resources and technology to curb new crime tendencies.

The design, planning and operational issues relating to the centralised control room in Pretoria have now been resolved and management believes that this will improve the outlook for this division in the coming years. The centralised control room currently has a promising pipeline, the benefit of which is expected to flow through in the 2020/2021 financial years.

CSG Foods now has a centralised kitchen strategy and is looking to expand its client base.

Afriboom is diversifying successfully into the commercial and health markets. CSG Hygiene, is being well received in the market, is growing exceptionally and should be profitable by the end of the next financial year.

ConinghamLee and CSG Skills Institute position the businesses for growth. M&S Project is excited about the opportunities in the petrochemical and oil sector. BDM Staffing expecting improved financial performance in line with previous years.

We recently appointed a Group Business Development Manager to head-up our aggressive organic growth strategy, ensuring marketing and sales synergies between the various group companies are unlocked as well as offering clients a total integrated solution.

The CSG group is well positioned for growth as a result of its successful diversification strategy, the creation of the centralised services within the security division, various other solid growth platforms created and new greenfield projects commenced.

Dividend

The board decided to retain cash, reduce debt and therefore no dividend will be paid for the year, and the Board will re-assess the six months results ending 30 September 2019 to consider whether an interim dividend can be paid.

The highlights below refer to continuing operations

Revenue

↑ **R2,16 billion**
(2018: R2,13 billion)

(Loss)/profit after tax

↓ **(R140,80) million**
(2018: R116,17 million)

Operating profit

↓ **R62,10 million**
(2018: R166,36 million)

EBITDA

↓ **R97,60 million**
(2018: R186,96 million)

(Loss)/earnings per share

↓ **(28,01) cents** per share
(2018: 21,83 cents per share)

Headline earnings per share

↓ **5,58 cents** per share
(2018: 21,85 cents per share)

Net asset value per share

↓ **87,02 cents** per share
(2018: 121,50 cents per share)

Cash conversion rate

↑ **154%**
(2018: 123%)

Abridged consolidated statement
of financial position
as at 31 March 2019

	Notes	Audited 2019 R'000	Restated* Audited 2018 R'000
Assets			
Non-current assets		396 030	593 495
Property, plant and equipment		80 442	82 780
Intangible assets	7	18 957	135 370
Goodwill	8	244 601	331 114
Trade and other receivables		3 006	–
Loans to subsidiaries, joint ventures and associates		916	–
Loans receivable		36 493	38 716
Deferred taxation		11 615	5 515
Current assets		473 584	421 265
Inventories		11 921	12 298
Current income tax receivable		10 728	4 370
Current portion of loans receivable		26 830	8 889
Current portion of loans to subsidiaries and joint ventures		–	–
Trade and other receivables		366 922	342 174
Bank and call deposits		57 183	53 534
Assets in disposal group classified as held-for-sale		310	–
Total assets		869 924	1 014 760

** Figures have been restated as allowed by IFRS 3 Business Combinations (refer note 6).*

	Notes	Audited 2019 R'000	Restated* Audited 2018 R'000
Equity and liabilities			
Capital and reserves		466 655	641 457
Stated capital	4.2	318 883	311 770
Treasury shares	4.1	(1 216)	(824)
Share-based payment reserve		–	53
Foreign currency translation reserve		(9 726)	(12 531)
Retained earnings		145 700	327 197
Equity attributable to owners of the parent		453 641	625 665
Non-controlling interest		13 014	15 792
Non-current liabilities		163 857	151 762
Interest-bearing liabilities		133 466	122 186
Borrowings		26 668	–
Deferred taxation		3 723	29 576
Current liabilities		239 412	221 541
Current portion of interest-bearing liabilities		34 744	54 032
Current portion of loans from subsidiaries		–	–
Bank overdrafts and invoice discounting		39 910	12 386
Trade and other payables		161 589	150 229
Trade payables and accruals		161 128	144 457
Contingent consideration		461	5 772
Current income tax payable		3 169	4 894
Total equity and liabilities		869 924	1 014 760
Shares in issue ('000)		521 288	515 150
Net asset value per share (cents)		87,02	121,50
Net tangible asset value per share (cents)		37,29	33,20

** Figures have been restated as allowed by IFRS 3 Business Combinations (refer note 6).*

Abridged consolidated statement of profit and loss and other comprehensive income

for the year ended 31 March 2019

	Notes	Audited 2019 R'000	Restated* Audited 2018 R'000
Continuing operations			
Revenue		2 157 074	2 116 003
Cost of sales		(1 717 450)	(1 656 132)
Gross profit		439 624	459 871
Operating expenses		(377 523)	(294 576)
Operating profit/(loss)		62 101	165 295
Profit/(loss) on sale of property, plant and equipment		1 248	38
Impairment of non-financial assets	7	(200 179)	–
Share of profits in joint ventures		916	–
Contingent payment relating to business acquisition	3	(1 304)	808
Net financing (costs)/income		(13 781)	(14 786)
Investment income		8 591	5 758
Finance cost		(22 372)	(20 544)
(Loss)/profit before taxation		(150 999)	151 356
Taxation		10 196	(35 606)
(Loss)/profit from continuing operations		(140 803)	115 749
Discontinued operations		(3 070)	422
(Loss)/profit for the year		(143 873)	116 171
Other comprehensive income			
Subsequently reclassified to profit and loss			
– Foreign currency translation reserve		2 806	1 289
Total comprehensive (loss)/income		(141 067)	117 460
(Loss)/profit for the year attributable to:			
Owners of the parent		(147 990)	111 545
Non-controlling interest		4 117	4 626
		(143 873)	116 171

** Restated as allowed by IFRS 5 Non-current Assets Held For Sale.*

	Notes	Audited 2019 R'000	Restated* Audited 2018 R'000
Total comprehensive (loss)/income attributable to:			
Owners of the parent		(145 184)	112 834
Non-controlling interest		4 117	4 626
		(141 067)	117 460
Weighted average shares in issue ('000)		517 297	510 858
Diluted weighted average shares in issue ('000)		517 297	511 514
Earnings per share attributable to the owners of the parent			
(Loss)/profit for the year			
Basic (loss)/earnings per share (cents)		(28,61)	21,83
Diluted (loss)/earnings per share (cents)		(28,61)	21,81
Dividend per share (cents)		–	–
(Loss)/profit for the year from continuing operations			
Basic (loss)/earnings per share (cents)		(28,01)	21,75
Diluted (loss)/earnings per share (cents)		(28,01)	21,72
(Loss)/profit for the year from discontinued operations			
Basic (loss)/earnings per share (cents)		(0,60)	0,08
Diluted (loss)/earnings per share (cents)		(0,60)	0,09

** Restated as allowed by IFRS 5 Non-current Assets Held For Sale.*

Abridged consolidated statement of cash flows

for the year ended 31 March 2019

	Notes	Audited 2019 R'000	Audited 2018 R'000
Cash flow from operations		47 773	139 759
Cash generated by operations		78 420	185 172
Interest received		2 787	4 030
Finance cost		(3 754)	(18 533)
Taxation paid		(26 578)	(32 263)
Cash flow from discontinued operations		(3 102)	1 353
Cash flow from investing activities		(19 023)	(169 743)
Additions to property, plant and equipment		(19 342)	(56 115)
Proceeds on disposal of property, plant and equipment		13 282	6 618
Additions to intangible assets		(284)	(350)
Proceeds on disposal of intangible assets		–	588
Acquisition of subsidiaries	6	(1 848)	(120 484)
Movement in loans receivable and loans to subsidiaries, joint ventures and associates		(10 831)	–
Discontinued operation		–	–
Cash flow from financing activities		(52 625)	49 240
Dividends paid		(32 560)	(31 171)
Net purchase of treasury shares		(392)	422
Issue of ordinary shares	4.2	1 102	1 102
Movement in interest-bearing liabilities and borrowings		(20 775)	78 887
Discontinued operations		–	–
(Decrease)/increase in cash resources		(23 875)	19 256
Cash resources at the beginning of the year		41 148	21 892
Cash resources at the end of the year		17 273	41 148

Abridged consolidated statement of changes in equity

for the year ended 31 March 2019

	Notes	Total attributable to equity holders of the parent R'000	Non-controlling interest R'000	Total equity R'000
Equity at 1 April 2017 (Audited)		511 817	16 264	528 082
Total comprehensive income for the period		112 834	4 626	117 460
Dividend paid		(25 692)	(5 479)	(31 171)
Acquisition of shares from non-controlling interest		(880)	380	(500)
Share based payment reserve		53	–	53
Treasury shares		422	–	422
Ordinary shares issued		27 112	–	27 112
Equity at 31 March 2018 (Audited)		625 665	15 792	641 457
Change in accounting policy IFRS 9		(7 894)	–	(7 894)
Total comprehensive (loss)/income for the period		(145 184)	4 117	(141 060)
Dividend paid		(25 758)	(6 803)	(32 560)
Acquisition of shares from non-controlling interest		93	(93)	–
Treasury shares	4.1	(392)	–	(392)
Ordinary shares issued	4.2	7 113	–	7 113
Equity at 31 March 2019 (Audited)		453 641	13 013	466 655

Segmental reporting

for the year ended 31 March 2019

	Audited 2019 R'000	Restated Audited 2018 R'000
Revenue		
CSG Facilities	773 389	756 743
CSG Security	457 548	425 982
CSG People	926 137	951 873
Total group	2 157 074	2 134 598
Operating profit	62 101	166 358
CSG Facilities	58 135	69 216
CSG Security	(15 042)	43 123
CSG People	42 358	74 869
Head office	(23 350)	(20 850)
Profit before taxation	(150 999)	151 941
CSG Facilities	57 638	75 398
CSG Security	(217 087)	35 488
CSG People	41 162	71 310
Head office	(32 712)	(30 255)

Notes to the abridged consolidated financial results

for the year ended 31 March 2019

1. Nature of operations

CSG is a holding company incorporated and domiciled in South Africa. The main business is to provide facilities management which includes contract catering, cleaning and food services, security and risk solutions, as well as outsourced personnel services, including recruitment and specialised staffing solutions to a range of clients.

2. Responsibility for annual results

The preparation of these annual results has been supervised by the chief financial officer, Willie Scott CA(SA), in terms of section 29(1)(e) of the Companies Act 2008, as amended (the Companies Act). This report is extracted from the audited information, but is not itself audited. The directors take full responsibility for the preparation of this report and warrant that the financial information has been correctly extracted from the underlying audited annual financial statements.

The summarised annual results is prepared in accordance with IFRS, IAS 34 *Interim Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncement as issued by the Financial Reporting Accountants Council.

Accounting policies are in terms of IFRS and consistent with those in previous annual financial statements except for the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue* from contract customers.

3. Contingent consideration

	2019 R'000	2018 R'000
Remeasurement of contingent consideration relating to business acquisitions	(1 304)	808

Additional contingent considerations have been raised for both the Pinnacle and SOS Protec acquisitions. (refer to note 6). These were settled during the 2020 financial year. The adjustments were accounted for as fair value adjustments (Level 3) on the consolidated statements of profit and loss and other comprehensive income and calculations were based on year to date actual results. The outstanding contingent considerations relating to the Industroserve and Siyaya acquisitions were settled in a combination of shares and cash during the 2019 year and the difference was accounted for as a remeasurement adjustment in the consolidated statements of profit and loss and other comprehensive income.

The above balance represents the net fair value adjustments on these three acquisitions.

4. Ordinary shares

4.1 Treasury share

Treasury shares relate to the purchase of shares by the CSG Share Incentive Trust ("Trust") to fulfill its obligation in terms of share option schemes and subsidiary Hi-Tech Asset Proptection Proprietary Limited.

4.2 Ordinary shares issued

During July 2018, an additional 1 312 502 shares were issued to predetermined participants resulting from an exercise of options pursuant to a specific issue of options by CSG. On 12 November 2018, 2 146 579 shares were issued relating to the sale of shares agreement of Hi-Tech White River and on 18 November 2018, 2 679 331 shares were issued relating to the Industroserve acquisition.

5. Capital commitments and contingencies

The group had no significant outstanding capital commitments or contingencies as at 31 March 2019.

6. Business combinations

6.1 Acquisition of White River Hi-Tech Security Services in 2016

On 1 November 2018, CSG acquired 100% of the issued ordinary share capital of White River Hi-Tech Security Services Proprietary Limited (Hi-Tech White River), thereby obtaining control. Hi-Tech White River is incorporated in South Africa and is a well-known armed response company in the White River and Hazyview area. The company is included within CSG Security.

The purchase consideration was payable based on the financial performance of Hi-Tech White River for the 12-month period immediately following the first 12 months after performance of the Hi-Tech acquisition date. Based on the projected profits for the performance guarantee period, a liability was raised.

In 2018, the final purchase consideration for Hi-Tech White River was calculated as R6,5 million. Of this, R4 million was settled in cash before year-end. The remainder was settled in CSG shares in the current financial year.

In November 2018, 2 146 579 CSG shares were issued at R1,14 per share (agreed VWAP). The difference between the accrual and the final purchase price was accounted for as a remeasurement in the consolidated statements of profit and loss and other comprehensive income (refer to note 3).

6.2 Acquisition of Golden Dividend 402 Proprietary Limited (trading as Industroserve) in 2018

On 1 May 2017, CSG acquired 100% of the issued shares in Golden Dividend 402 Proprietary Limited, trading as Industroserve, a cleaning company in the Mpumalanga area, for a maximum amount of R22,5 million. The company is included within CSG Facilities.

The company was acquired to expand the current footprint and to boost the commercial cleaning component of the CSG Facilities division by gaining access to its customer list.

The purchase consideration was payable based on the financial performance of Industroserve for the 12-month period immediately following the effective date of the acquisition. Based on the projected profits for the performance guarantee period, an accrual was raised in the prior year.

In 2019, the final purchase consideration for Industroserve was calculated as R12,62 million. Of this, R7,5 million was settled in cash in the prior year. An additional cash payment of R1,56 million was made in the current financial year and in November 2018, 2 679 331 CSG shares were issued at R1,33 per share (agreed VWAP). The difference between the accrual previously raised and the final purchase price was accounted for as a remeasurement in the consolidated statements of profit and loss and other comprehensive income (refer to note 3).

6.3 Acquisition of CSG Skills Institute Proprietary Limited (previously known as Siyaya Hygiene and Cleaning Skills Institute) in 2018

On 1 June 2017, CSG acquired 100% of the issued shares in Siyaya Hygiene and Cleaning Skills Institute Proprietary Limited, a training company, together with the shareholder's loan account held by the previous shareholder for a maximum amount of R5,25 million. The company is included within CSG People.

The company was acquired primarily to gain access to its customer list.

The purchase consideration was payable based on the financial performance of CSG Skills Institute for the 12-month period immediately following the effective date of the acquisition. Based on the projected profits for the performance guarantee period, an accrual was raised in the prior year.

In 2019, the final purchase consideration for CSG Skills Institute was calculated as R4,4 million. Of this, R3 million was settled in cash in the prior year. An additional cash payment of R1,4 million was made in the current financial year. The difference between the accrual previously raised and the final purchase price was accounted for as a remeasurement in the consolidated statements of profit and loss and other comprehensive income (refer to note 3).

6.4 Acquisition of Intercity Alarms and Security Systems Proprietary Limited (trading as Incity) in 2018

On 27 September 2017, CSG signed an agreement with Intercity Alarms and Security Systems Proprietary Limited, trading as Incity, in terms of which it purchased the monitoring, armed response and guarding business of Incity for a maximum amount of R11,08 million. An initial amount of R6 million was paid in cash in 2018 with the balance to be paid in tranches throughout the earn-out period. The effective date was 1 January 2018. The company is included within CSG Security.

The acquisition of Incity on 1 January 2018 qualified as a business combination under IFRS 3 *Business Combinations*. Comparative figures as at 31 March 2018 were determined based on all information available at the acquisition date (provisional accounting). This provisional accounting was adjusted for new information obtained within the timeframe of 12 months after the acquisition date. These adjustments to the fair values determined in the provisional purchase price allocation are not treated as movements in the current financial year, but as an adjustment to the comparative figures as at 31 March 2018. The effect relates only to a reclassification between assets and liabilities and does not affect the statement of profit and loss and other comprehensive income.

6. Business combinations continued

6.4 Acquisition of Intercity Alarms and Security Systems Proprietary Limited (trading as Incity) in 2018 continued

Details of the business combination are as follows:

	As at 1 January 2018 Restated R'000	As at 1 January 2018 Provisional R'000
Fair value of consideration transferred		
Amount settled in cash	6 000	6 000
Fair value of contingent consideration	–	5 080
	6 000	11 080
Recognised amounts of identifiable net assets		
Non-current assets	225	225
Deferred tax assets	225	225
Current liabilities	(803)	(803)
Trade and other payables	(803)	(803)
Identifiable net assets	(578)	(578)
– Goodwill	–	11 658
– Intangible assets identified	9 136	–
– Deferred tax liability on the above intangible assets	(2 558)	–
Purchase consideration	6 000	11 080

Consideration transferred

The full purchase consideration was paid in cash. The final payment will not be made due to non-compliance to the contract guarantees.

Intangible assets

The contracts were acquired to expand the current geographical footprint of CSG Security by gaining access to the customer lists. The customer list was recognised as an intangible asset.

6.5 Acquisition of Pinnacle Risk Management Proprietary Limited in 2019

On 22 February 2018, Revert Risk Management Solutions Proprietary Limited (Revert), a wholly-owned subsidiary of CSG, acquired 100% of the issued shares in Pinnacle Risk Management CC (Pinnacle), with effect from 1 April 2018 for a maximum amount of R1,47 million. An initial amount of R1,32 million was paid in cash.

The effective date was 1 April 2018.

The purchase consideration is payable based on the financial performance of Pinnacle for the 12-month period immediately following the effective date.

6. Business combinations continued

6.5 Acquisition of Pinnacle Risk Management Proprietary Limited in 2019 continued

	As at 1 April 2018 R'000
Fair value of consideration transferred	
Amount settled in cash	1 321
Fair value of contingent consideration	144
	1 465
Recognised amounts of identifiable net assets	
Non-current assets	55
Property, plant and equipment	55
Current assets	279
Trade and other receivables	172
Cash and cash equivalents	107
Current liabilities	(334)
Trade and other payables	(271)
Current tax liability	(68)
Identifiable net assets	–
– Intangible assets identified	2 035
– Deferred tax liability on the above intangible asset	(570)
Purchase consideration*	1 465
Cash flow information	
Bank accounts acquired	107

** Based on the projected profits for the performance guarantee period, an accrual for the contingent consideration has been taken into account in calculating goodwill on the date of acquisition. This is based on Level 3 in the fair value hierarchy.*

Consideration transferred

An initial amount of R1,32 million was paid in cash, while the balance will be settled after the 12-month earn-out period. Based on the projected profits for the performance guarantee period, an accrual was raised for the full amount.

Since the acquisition date, Pinnacle has contributed R5,8 million to group revenue and a loss of R259 164 to group loss. The loss is due to the inclusion of certain Revert contracts during the year that operate in the same segment as Pinnacle.

6. Business combinations continued

6.5 Acquisition of Pinnacle Risk Management Proprietary Limited in 2019 continued

Identifiable net assets

The fair value of the trade and other receivables acquired as part of the business combination is deemed to approximate the carrying amount.

Intangible assets

The company was acquired to gain access to its customer lists particularly in the freight protection industry.

6.6 Acquisition of SOS Protec Secure CC in 2019

On 22 May 2018, CSG signed an agreement with SOS Protec Secure CC, in terms of which it agreed with 7Arrows Security Proprietary Limited to sell to each other a portion of their respective businesses at a price of earnings multiple of 18 times the revenue attributable to the contracts.

The effective date was 1 June 2018.

The purchase consideration is payable based on the financial performance of the acquired contracts for the 12-month period immediately following the effective date.

	As at 1 June 2018 R'000
Fair value of consideration transferred	
Amount settled in cash	633
Contingent consideration	317
	950
Identifiable net assets	
Intangible assets identified	1 319
Deferred tax liability on the above intangible asset	(369)
Purchase consideration*	950
Cash flow information	
Bank accounts acquired	–

Consideration transferred

An initial amount of R633 420 was paid in cash, while the balance will be settled after the 12-month earn out period. Based on the projected profits for the performance guarantee period, an accrual was raised for the full amount.

Intangible assets

The company was acquired to gain access to its customer list.

6. Business combinations continued

6.7 Cash flow information – Acquisition of businesses

	2019 R'000	2018 R'000
Acquisitions paid for in cash	1 955	24 665
Pinnacle Risk Solutions Proprietary Limited	1 321	–
SOS Protec Secure CC	634	–
Hi-Tech Nelspruit Proprietary Limited	–	161
White River Hi-Tech Security Services Proprietary Limited	–	4 089
Golden Dividend 402 Proprietary Limited (Industroserve)	–	7 500
CSG Skills Institute Proprietary Limited	–	3 000
Cortac Proprietary Limited	–	3 415
Intercity Alarms and Security Systems Proprietary Limited	–	6 000
7Arrows Security Proprietary Limited	–	500
Acquisition settled with Nedbank funding facility	–	100 000
Revert Risk Management Solutions Proprietary Limited	–	100 000
Cash acquired in business combination	(107)	(4 181)
Pinnacle Risk Solutions Proprietary Limited	(107)	–
Revert Risk Management Solutions Proprietary Limited	–	(3 239)
Golden Dividend 402 Proprietary Limited (Industroserve)	–	(761)
CSG Skills Institute Proprietary Limited	–	(181)
	1 848	120 484

7. Intangible assets

	2019			2018 restated*		
	Cost R'000	Accumulated amortisation and impairment R'000	Carrying amount R'000	Cost R'000	Accumulated amortisation R'000	Carrying amount R'000
GROUP						
Franchise rights	552	–	552	552	–	552
Brand names	108 565	(93 185)	15 380	108 565	–	108 565
Customer lists	35 023	(31 998)	3 025	31 383	(5 130)	26 253
	144 140	(125 183)	18 957	140 501	(5 130)	135 371

** Figures have been restated as allowed by IFRS 3* Business Combinations *(refer to note 6).*

7. Intangible assets continued

Reconciliation of intangible assets – Group

	Opening balance R'000	Additions R'000	Additions through business combinations (refer to note 6) R'000	Disposals R'000	Impairment R'000	Amortisation R'000	Total R'000
2019							
Franchise rights	**552**	**–**	**–**	**–**	**–**	**–**	**552**
Brand names	**108 565**	**–**	**–**	**–**	**(93 185)**	**–**	**15 380**
Customer lists	**26 253**	**284**	**3 354**	**–**	**(20 304)**	**(6 563)**	**3 025**
	135 371	**284**	**3 354**	**–**	**(113 489)**	**(6 563)**	**18 957**
2018 restated							
Catering/franchise rights	765	–	–	(189)	–	(24)	552
Brand names	72 722	–	36 243	(400)	–	–	108 565
Customer lists	10 415	350	19 716	–	–	(4 228)	26 253
	83 902	350	55 959	(589)	–	(4 252)	135 371

The catering rights relate to catering and events at Kenilworth race course for a period of three years starting January 2015 and the annual catering rights at both Emirates Airline Park (Ellis Park Stadium) and Wanderers Stadium starting February 2015 and November 2015 respectively. These were held by CSG Food Solutions Proprietary Limited (previously Ukweza Holdings Proprietary Limited) and were sold during the 2018 financial year.

The franchise rights relate to the Maid Right franchise held by Afriboom Botswana Proprietary Limited.

All amortisation charges are included within depreciation and amortisation of non-financial assets (disclosed within operating expenses).

The remaining useful life of the customer lists is between three and four years. The franchise rights and brand names have an indefinite useful life. This is due to the fact that these are well known brand names that have been operating for a number of years and will continue into the foreseeable future.

There were no material contractual commitments to acquire intangible assets as at 31 March 2019 (2018: Rnil)

7. Intangible assets continued

Impairment testing

For the purpose of annual impairment testing, brand names and franchise rights are allocated as follows:

	2019 R'000	2018 R'000
CSG Security Supplies and Services Proprietary Limited	**–**	50 328
Afriboom Proprietary Limited	**15 380**	15 380
7Arrows Security Proprietary Limited	**–**	7 014
Afriboom Botswana Proprietary Limited	**552**	552
Revert Risk Management Solutions Proprietary Limited	**–**	35 843
	15 932	109 117

The recoverable amount of each company was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful life using a growth rate determined by management.

The present value of the expected cash flows of each segment is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the segment.

	Growth rates		Discount rates*	
	2019 %	2018 %	2019 %	2018 %
CSG Security Supplies and Services Proprietary Limited	**4,5**	3,1	**23,78**	20,53
Afriboom Proprietary Limited	**4,5**	3,1	**23,34**	24,97
7Arrows Security Proprietary Limited (previously: Security Operations Group Proprietary Limited)	**4,5**	3,1	**23,78**	20,53
Afriboom Botswana Proprietary Limited	**4,5**	3,1	**23,34**	24,97
Revert Risk Management Solutions Proprietary Limited	**4,5**	3,1	**23,78**	20,53

** Prior year updated to disclose pre-tax discount rates. Previously post-tax rates were disclosed.*

7. Intangible assets continued

Growth rates

The growth rates reflect the long-term average growth rates for South Africa (publicly available).

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each segment.

Cash flow assumptions

Management calculated future profits based on historical achievement and the approved budgets for the 2020/2021 period. Costs have been calculated to grow in line with expansion and expected inflation. Cash flows have been extended into perpetuity at the growth rates noted above as management have no reason to believe the group will not continue past the budget period. Apart from the considerations in determining the value-in-use of the segments as described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

The security companies have experienced cash flow difficulties due to weak operational performance. This has also been reflected in the budgets used to calculate the recoverable amount. As a result of the above the full brand name and customer list relating to this was impaired.

The impairment is included as a separate line item on the statement of profit and loss and other comprehensive income together with impairments on other non-financial assets.

Management applied a sensitivity analysis on both discount rates and growth rates for the remaining assets and no additional impairments would have been recognised had these increased or decreased by 5%.

8. Goodwill

	2019			2018 restated*		
	Cost R'000	Accumulated impairment R'000	Carrying amount R'000	Cost R'000	Accumulated impairment R'000	Carrying amount R'000
GROUP						
Goodwill	331 554	(86 953)	244 601	331 554	(440)	331 114
	331 554	(86 953)	244 601	331 554	(440)	331 114

** Figures have been restated as allowed by IFRS 3 Business Combinations (refer note 6).*

8. Goodwill continued

Reconciliation of goodwill – Group

	Opening balance R'000	Additions R'000	Additions through business combin-ations (refer to note 6) R'000	Impairment R'000	Total R'000
Goodwill – 2019	331 114	–	–	(86 513)	244 601
Goodwill – 2018	260 799	650	69 665	–	331 114

Impairment testing

For the purpose of annual impairment testing, goodwill is allocated to the operating segments expected to benefit from the synergies of the business combinations in which the goodwill arises as follows:

	2019 R'000	2018 R'000
CSG Facilities	50 656	50 656
CSG Security	79 993	166 506
CSG People	113 952	113 952
	244 601	331 114

The recoverable amount of each segment was determined based on value-in-use calculations, covering a detailed three-year forecast, followed by an extrapolation of expected cash flows for the remaining useful life using a growth rate determined by management.

The present value of the expected cash flows of each segment is determined by applying a suitable discount rate reflecting current market assessments of the time value of money and risks specific to the segment.

	Growth rates		Discount rates*	
	2019 %	2018 %	2019 %	2018 %
CSG Facilities	4,5	3,1	23,34	24,97
CSG Security	4,5	3,1	23,78	20,53
CSG People	4,5	3,1	29,28	23,37

** Prior year updated to disclose pre-tax discount rates. Previously post-tax rates were disclosed.*

8. Goodwill continued

Growth rates

The growth rates reflect the long-term average growth rates for South Africa (publicly available).

Discount rates

The discount rates reflect appropriate adjustments relating to market risk and specific risk factors of each segment.

Cash flow assumptions

Management calculated future profits based on historical achievement and the approved budgets for the 2020/2021 period. Costs have been calculated to grow in line with expansion and expected inflation. Cash flows have been extended into perpetuity at the growth rates noted above as management have no reason to believe the group will not continue past the budget period.

Apart from the considerations in determining the value-in-use of the segments as described above, management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

The security companies have experienced cash flow difficulties due to the weak operational performance. This has also been reflected in the budgets used to calculate the recoverable amount.

The impairment test resulted in a partial goodwill impairment for the security division.

The impairment is included as separate line item on the statement of profit and loss and other comprehensive income together with impairments on other non-financial assets.

Management applied a sensitivity analysis on both discount rates and growth rates of the Facilities and People divisions and no additional impairments would have been recognised had these increased or decreased by 3%.

The security division remains sensitive to changes, in both discount and growth rates.

9. Earnings and dividends per share

9.1 Earnings per share

Both the earnings and diluted earnings per share have been calculated using the profit attributable to shareholders of the parent company as the numerator i.e. no adjustments to profit were necessary in 2019 or 2018.

The reconciliation of the weighted average number of shares for the purposes of diluted earnings per share to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2019 R'000	2018 R'000
Amounts in thousand shares:		
Weighted average number of shares used for basic earnings per share	517 297	510 858
Adjustment for:		
Share options	–	656
Diluted weighted average shares in issue	517 297	511 514

9. Earnings and dividends per share continued

9.1 Earnings per share continued

	2019 R'000	2018 R'000
Headline earnings per share		
Attributable (loss)/earnings	(147 991)	111 545
Adjustments for:		
Loss/(profit) on sale of property, plant and equipment (after taxation)	(898)	61
Impairment on goodwill	86 513	–
Impairment on property, plant and equipment and intangible assets (after taxation)	88 195	–
Headline earnings	25 818	111 606
Basic headline earnings per share (cents)	4,99	21,85
Diluted headline earnings per share (cents)	4,99	21,82
Headline earnings per share from continuing operations		
Attributable (loss)/earnings	(144 921)	111 123
Adjustments for:		
Loss/(profit) on sale of property, plant and equipment (after taxation)	(898)	(26)
Impairment on goodwill	86 513	–
Impairment on property, plant and equipment and intangible assets (after taxation)	88 195	–
Headline earnings	28 889	111 097
Basic headline earnings per share (cents)	5,58	21,75
Diluted headline earnings per share (cents)	5,58	21,72
Headline earnings per share from discontinued operations		
Attributable (loss)/earnings	(3 070)	422
Adjustments for:		
Loss/(profit) on sale of property, plant and equipment (after taxation)	–	87
Impairment on non-financial assets	–	–
Headline earnings	(3 070)	509
Basic headline earnings per share (cents)	(0,59)	0,10
Diluted headline earnings per share (cents)	(0,59)	0,10

Notes to the abridged consolidated financial results continued

for the year ended 31 March 2019

9. Earnings and dividends per share continued

9.2 Dividends

During 2019, the company paid dividends of R25,8 million (2018: R25,7 million) to its equity shareholders. This represents a payment of 5 cents per share (2018: 5 cents per share).

The dividend was subject to dividend withholding tax of 20% for all shareholders who are not exempt from or who do not qualify for a reduced rate of withholding tax.

The board decided to retain cash and reduce debt and therefore no dividend will be paid for the year.

10. Events after the reporting period

The directors are not aware of any material events, other than events noted below, which occurred after the reporting date and up to the date of this report.

A decision was taken to sell the armed response and monitoring business of Hi-Tech White River (Hi-Tech Risk Solutions Proprietary Limited). On 18 April 2019 Hi-Tech Nelspruit Proprietary Limited, together with the franchisor, CSG Security Supplies and Services Proprietary Limited, entered into a sale of business agreement with International Sales and Services Proprietary Limited to sell the business of the company for an amount of R358 000. The effective date for this transaction is 1 May 2019. The decision was made by the directors to discontinue these operations due the lack of return on investment however the company will remain on as a franchisee in the Hi-Tech group and continued royalties will be received on this.

On 29 March 2019, CSG Food Solutions signed an agreement with Film and TV Chefs Proprietary Limited t/a Shesha Film and Event, in terms of which CSG Foods agrees to buy the business of Shesha for an amount of R8 million. The effective date is 1 April 2019.

Due to the fact that the release of the year-end results is so close to the effective date, it is not possible to make the required IFRS 3 disclosures as initial accounting is still incomplete.

11. Changes in directors

Mr N Ramages was appointed as non-executive director with effect from 4 July 2018 after Mr AF Volkwyn stepped down as non-executive director on the same date.

12. Going concern

The financial information has been prepared on a going concern basis.

13. Audit opinion

BDO South Africa Inc, the group's independent auditor, has audited the consolidated annual financial statements of the group from which the abridged consolidated results contained in this report have been derived, and has expressed an unmodified audit opinion on the consolidated annual financial statements. The abridged consolidated financial results comprise the statements of financial position at 31 March 2019 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and selected explanatory notes. A copy of the auditor's report is available for inspection at CSG's registered office.

The auditor's report does not necessarily report on all of the information contained in the abridged consolidated annual results. Shareholders are therefore advised to obtain a copy of the auditor's report together with the accompanying financial information from CSG's registered office.

For and on behalf of the Board

BT Ngcuka — *Chairman*

PJJ Dry — *Chief Executive*

28 June 2019

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ISIN: ZAE000184438

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(Postal address as above)

Registration number

2006/011359/06

Date and place of incorporation

12 April 2006
Johannesburg, South Africa

Directors

BT Ngcuka* (Chairman); PJJ Dry (CEO); JG Nieuwoudt (COO); WE Scott (CFO); NN Sonjani*#; R Kisten *#; N Ramages*; M Mokoka*#

(* non-executive) (# independent)

Company secretary

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BDO South Africa Inc

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Announcement date

1 July 2019

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