LINKING PEOPLE WITH
SERVICE EXCELLENCE

CSG

2019
UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS
for the period ended
30 September

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.

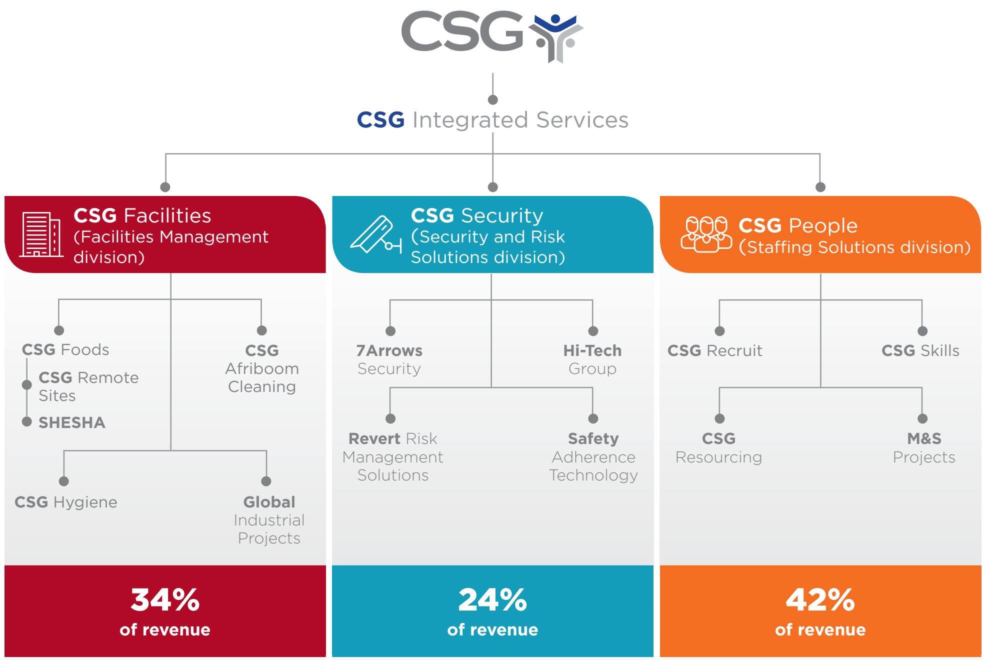
Vision

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 include 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 include 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 and risk solutions in Southern Africa remains unchanged. We have consolidated and increased our basket of service offerings to clients. Our strategy continues to focus on growing into service delivery that is more technology focused, and this has successfully resulted in CSG providing a full suite of integrated security services as part of our integrated facilities management solutions.

Our strategic partnership with our B-BBEE partners continues to add valuable access to expertise and experience, and ensures that our 28% black shareholding is maintained. The CSG Group is a proud level 2 B-BBEE contributor.

Financial performance

The CSG Group had a disappointing six months for the period ended 30 September 2019 across all three divisions. The unsatisfactory results were a combination of the current challenging business environment worsened by the level of underperformance of the security companies, 7 Arrows and Revert Risk Management, which incurred an operating loss of R46,37 million for the six months.

A new CEO with industry experience was appointed for the security division, effective 1 August 2019, and he, together with a senior team, is implementing an aggressive turnaround plan for the underperforming security companies.

The Group's revenue of R988 million decreased by 13%, generated an operating loss of R16,64 million and headline earnings loss of R27,42 million. Earnings per share and headline earnings per share declined by 158% and 157% respectively compared to the six months ended 30 September 2018. This decline was due to the weaker performance across all three divisions, however, the performance of the security division, and more specifically that of 7 Arrows and Revert Risk Management, was a significant contributor.

Cash generated by operations increased by 262% to R49,02 million for the six months ended 30 September 2019.

Divisional review

CSG Facilities (Facility Management division)

CSG Facilities division contributed R17,40 million operating profit, despite revenue decreasing by 19% to R332,55 million. The performance of this division declined as a result of pressure on margins and the loss or ending of significant contracts. The greenfield project, CSG Hygiene, is performing above expectations delivering only a minor negative impact on earnings. CSG Remote Sites incurred a loss for the six months due to the expiring of most of the projects it was involved in. It does, however, have a healthy sales pipeline. Global Industrial Projects' earnings declined by R6,5 million when compared to the previous year, due to the loss of a substantial mining contract that could not be retained as a result of the mining charter's emphasis on local procurement.

CSG Security (Security and Risk Solutions division)

CSG Security division's revenue of R241,64 million improved by 3% but the division incurred a significant operating loss. The decrease is as a result of various reasons. The integration and consolidation of the security acquisitions during 2018 took longer than anticipated. Pressure on consumer spending and the increase in fuel prices had a significant impact on this sector. An in-depth review of the operating performance of these businesses during the period revealed that the underperformance of 7 Arrows and Revert Risk Management was worse than anticipated, accordingly immediate action was taken to rationalise and consolidate these businesses, which included retrenchments across the board. The added retrenchment costs were accounted for during the period. Management is confident that the aggressive turnaround plan will deliver the necessary results. Retrenchment of employees was completed by end of October.

The centralised control room made an operational loss of approximately R2,7 million during the period, however has a promising pipeline, the benefit of which is expected to flow through in the 2020/2021 financial years.

The Hi-Tech Group's performance was slightly weaker compared to the six months ended 30 September 2018, while Safety Adherence Technology performed better.

CSG People (Staffing Solutions division)

CSG People division's revenue decreased by 15% to R413,62 million, contributing R16,65 million to the operating profit of the group. The performance of this division was substantially down from the previous period due to a large contract coming to an end, an increase in the provision for doubtful debts and a lower demand for temporary employees due to the current economic climate and smaller annual maintenance shut downs by major clients.

Outlook

Security remains a prevalent topic in all South African communities and there has been 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 near future. The centralised control room currently has a promising pipeline, the benefit of which is expected to flow through in the 2021 financial year.

CSG Foods is now implementing its centralised kitchen strategy and is looking to expand its client base through this. Afriboom, a leader in the hospitality cleaning sector, is successfully diversifying into the commercial and health markets. CSG Hygiene has been well received in the market, growing at an exceptional rate, and should be profitable by the end of the 2020 financial year. CSG Recruit (previously ConinghamLee) and CSG Skills were completely overhauled and are well positioned for steady growth.

We recently appointed a group business development executive to lead our aggressive organic growth strategy, ensuring that marketing and sales synergies between the various group companies are unlocked as well as offering clients a total integrated outsourced solution.

The CSG Group is steadily becoming a competitive facility management player in the South African market, offering its basket of facilities management services to more as well as larger clients. More opportunities are materialising where CSG can offer a one-stop service to its clients. A strong sales pipeline exists in most of the companies and is being consolidated at group level to emphasise the importance of internal support, experience and cross-selling opportunities.

The leadership team has now crafted a 2025 strategy, which is presently being implemented by the companies across the group. It is the vision and commitment of the CSG Exco to inspire and motivate the identified leaders of the group to achieve our targeted growth goals cohesively and dynamically.

The CSG Group is well positioned for growth as a result of its successful diversification strategy and through various growth initiatives being implemented as well as new greenfield projects which are underway.

Condensed consolidated statement of financial position

as at 30 September 2019

	Notes	Unaudited 30 September 2019 R'000	Unaudited 30 September 2018 R'000	Audited 31 March 2019 R'000
Assets				
Non-current assets		422 361	602 191	396 030
Property, plant and equipment	6	104 544	74 255	80 442
Intangible assets		18 473	124 560	18 957
Goodwill	7, 8	249 815	343 903	244 601
Trade and other receivables		1 233	–	3 007
Loans to associates		–	–	916
Deferred taxation		11 065	6 590	11 615
Loans receivable		37 231	52 883	36 492
Current assets		415 900	493 969	473 584
Inventories		10 887	10 145	11 921
Current income tax receivable		15 646	3 214	10 728
Current portion of loans receivable		17 435	9 622	26 830
Trade and other receivables		316 902	437 542	366 922
Bank and call deposits		55 030	33 446	57 183
Assets in disposal group classified as held for sale		–	–	310
Total assets		838 261	1 096 160	869 924

Condensed consolidated statement of financial position continued

as at 30 September 2019

	Notes	Unaudited 30 September 2019 R'000	Unaudited 30 September 2018 R'000	Audited 31 March 2019 R'000
Equity and liabilities				
Capital and reserves		437 744	671 086	466 655
Stated capital		318 883	312 872	318 883
Treasury shares	4.1	(1 235)	(824)	(1 216)
Vendor shares	4.2	–	6 011	–
Share-based payment reserve		–	–	–
Retained earnings		117 970	349 268	145 700
Foreign currency translation reserve		(9 918)	(11 416)	(9 726)
Non-controlling interest		12 044	15 176	13 014
Non-current liabilities		144 459	163 485	137 189
Interest-bearing liabilities	6	141 093	136 658	133 466
Deferred taxation		3 366	26 827	3 723
Current liabilities		256 057	261 589	266 080
Current portion of interest-bearing liabilities	6	35 178	32 980	34 744
Current portion of borrowings and loans from associates		24 820	16 287	26 668
Bank overdrafts and invoice discounting		30 342	31 104	39 910
Trade and other payables		163 315	174 045	161 589
Trade payables and accruals		163 315	168 760	161 128
Current portion of contingent consideration	3	–	5 285	461
Current income tax payable		2 402	7 174	3 169
Total equity and liabilities		838 261	1 096 160	869 924
Shares in issue ('000)		521 288	516 463	521 288
Net asset value per share (cents)		81,7	127,0	87,0
Net tangible asset value per share (cents)		31,0	39,0	37,2

Condensed consolidated statement of profit and loss and other comprehensive income

for the period ended 30 September 2019

	Unaudited Six months ended 30 September 2019 R'000	Unaudited Six months ended 30 September 2018 R'000	Audited Year ended 31 March 2019 R'000
Revenue	987 809	1 131 571	2 157 074
Cost of sales	(830 563)	(898 510)	(1 717 450)
Gross profit	157 246	233 061	439 624
Net operating expenses	(173 929)	(161 846)	(377 523)
Operating (loss)/profit	(16 683)	71 215	62 101
Profit on sale of property, plant and equipment	437	489	1 248
Impairment of non-financial assets	–	–	(200 179)
Share of (losses)/profits in associates	(1 078)	–	916
Contingent consideration relating to business combinations	–	(1 304)	(1 304)
Investment income	5 092	3 897	8 591
Finance cost	(11 812)	(10 182)	(22 372)
(Loss)/profit before taxation	(24 045)	64 116	(150 999)
Taxation	(2 977)	(14 419)	10 196
(Loss)/profit from continuing operations	(27 022)	49 697	(140 803)
Discontinued operations	–	–	(3 070)
(Loss)/profit for the year	(27 022)	49 697	(143 873)
Other comprehensive income	(193)	1 114	2 806
Total comprehensive (loss)/income	(27 215)	50 811	(141 068)
(Loss)/profit for the period attributable to:			
Owners of the parent	(27 730)	47 695	(147 990)
Non-controlling interest	708	2 002	4 117
	(27 022)	49 697	(143 873)

Condensed consolidated statement of profit and loss and other comprehensive income continued

for the period ended 30 September 2019

	Unaudited Six months ended 30 September 2019 R'000	Unaudited Six months ended 30 September 2018 R'000	Audited Year ended 31 March 2019 R'000
Total comprehensive (loss)/income attributable to:			
Owners of the parent	**(27 923)**	48 809	(145 185)
Non-controlling interest	**708**	2 002	4 117
	(27 215)	50 811	(141 068)
Weighted average shares in issue ('000)	**520 374**	515 085	517 297
Diluted weighted average shares in issue ('000)	**520 374**	515 085	517 297
Earnings per share			
Basic (loss)/earnings per share (cents)	**(5,33)**	9,26	(28,61)
Diluted (loss)/earnings per share (cents)	**(5,33)**	9,26	(28,61)
Dividend per share (cents)	**–**	–	–
Headline earnings reconciliation			
Attributable (loss)/earnings	**(27 730)**	47 694	(147 991)
Loss/(profit) on sale of property, plant and equipment (after taxation)	**315**	(352)	(898)
Impairment on goodwill	**–**	–	86 513
Impairment on property, plant and equipment and intangible assets (after taxation)	**–**	–	88 195
Headline earnings	**(27 416)**	47 343	25 818
Headline earnings per share			
Basic headline (loss)/earnings per share (cents)	**(5,27)**	9,19	4,99
Diluted headline(loss)/earnings per share (cents)	**(5,27)**	9,19	4,99

Condensed consolidated statement of cash flows

for the period ended 30 September 2019

	Notes	Unaudited Six months ended 30 September 2019 R'000	Unaudited Six months ended 30 September 2018 R'000	Audited Year ended 31 March 2019 R'000
Cash flow from operations		**40 383**	(3 006)	47 773
Cash generated by operations		**49 016**	13 509	78 420
Investment income		**1 745**	5 915	2 787
Finance cost		**(1 909)**	(10 182)	(3 754)
Taxation paid		**(8 470)**	(12 248)	(26 578)
Cash flow from discontinued operations		**–**	–	(3 102)
Cash flow from investing activities		**(5 920)**	(1 396)	(19 023)
Net investment in property, plant and equipment		**(10 382)**	(243)	(6 060)
Net investment in intangible assets		**–**	–	(284)
Businesses acquired	3, 7	**(8 461)**	(1 153)	(1 848)
Net movement in loans receivable and loans to associates		**12 923**	–	(10 831)
Cash flow from financing activities		**(27 048)**	(34 404)	(52 625)
Dividends paid		**(1 678)**	(28 294)	(32 560)
Net purchase of treasury shares	4.1	**(20)**	–	(392)
Issue of ordinary shares		**–**	1 102	1 102
Net movement in interest-bearing liabilities and borrowings		**(25 350)**	(7 212)	(20 775)
Increase in cash resources		**7 415**	(38 806)	(23 875)
Cash resources at the beginning of the period		**17 273**	41 148	41 148
Cash resources at the end of the period		**24 688**	2 342	17 273
Cash resources		**24 688**	2 342	17 273
Bank and call deposits		**55 030**	33 446	57 183
Bank overdraft and invoice discounting		**(30 342)**	(31 104)	(39 910)

Condensed consolidated statement of changes in equity

for the period ended 30 September 2019

	Notes	Total attributable to equity holders of the parent R'000	Non-controlling interest R'000	Total equity R'000
Equity as at 1 April 2018 (Audited)		625 665	15 792	641 457
Total comprehensive income for the period		48 809	2 002	50 811
Dividend paid		(25 758)	(2 537)	(28 294)
Sale of shares to non-controlling interest		81	(81)	–
Ordinary shares issued		1 102	–	1 102
Vendor shares to be issued	4.2	6 011	–	6 011
Equity as at 30 September 2018 (Unaudited)		655 910	15 176	671 086
Change in accounting policy		(7 894)	–	(7 894)
Total comprehensive (loss)/income for the period		(193 993)	2 115	(191 878)
Dividend paid		–	(4 266)	(4 266)
Reversal of vendor shares	4.2	(6 011)	–	(6 011)
Ordinary shares issued	4.2	6 011	–	6 011
Treasury shares purchased		(392)	–	(392)
Sale of shares to non-controlling interest		12	(12)	–
Equity as at 31 March 2019 (Audited)		453 642	13 013	466 655
Total comprehensive (loss)/income for the period		(27 923)	708	(27 215)
Dividend paid		–	(1 678)	(1 678)
Treasury shares purchased	4.1	(20)	–	(20)
Equity as at 30 September 2019 (Unaudited)		425 700	12 044	437 744

Segmental reporting

for the period ended 30 September 2019

	Unaudited Six months ended 30 September 2019 R'000	Unaudited Six months ended 30 September 2018 R'000	Audited Year ended 31 March 2019 R'000
Revenue			
CSG Facilities	332 548	411 134	773 389
CSG Security	241 639	233 981	457 548
CSG People	413 622	486 456	926 137
Total group	987 809	1 131 571	2 157 073
Operating (loss)/profit	(16 683)	71 216	62 101
CSG Facilities	17 339	39 572	58 135
CSG Security	(39 468)	15 747	(15 042)
CSG People	16 653	28 419	42 358
Head office	(11 267)	(12 522)	(23 350)
(Loss)/profit before taxation	(24 045)	64 116	(150 999)
CSG Facilities	17 617	39 419	57 638
CSG Security	(43 262)	14 323	(217 087)
CSG People	16 889	27 726	41 162
Head office	(15 289)	(17 352)	(32 712)

The group's revenues from external customers and its non-current assets (other than financial assets and deferred tax assets) are divided into the following geographical areas:

	30 September 2019		30 September 2018		31 March 2019	
	Revenue R'000	Non-current assets R'000	Revenue R'000	Non-current assets R'000	Revenue R'000	Non-current assets R'000
South Africa (domicile)	970 441	369 747	1 115 039	539 584	2 130 611	541 053
Mozambique	17 368	3 085	16 532	3 134	26 463	3 259
	987 809	372 832	1 131 571	542 718	2 157 074	544 312

Notes to the condensed consolidated financial results

for the period ended 30 September 2019

1. Nature of operations

CSG is a multi-support service group 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 staffing services, including recruitment and specialised staffing solutions to a range of clients.

2. Basis of preparation

The condensed consolidated interim results for the period ended 30 September 2019 have been presented in accordance with the requirements of International Financial Reporting Standards (IFRS), the information required by IAS 34 *Interim Financial Reporting,* the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the South African Companies Act, 71 of 2008, and the JSE Limited Listings Requirements.

These results have been prepared in accordance with the accounting policies of the company that are in terms of IFRS and that are consistent with the accounting policies of the previous annual financial statements except for the adoption of IFRS 16 *Leases*.

They have been prepared on the historic cost basis, except for the measurement of certain financial instruments at fair value or amortised cost. They are presented in South African rands.

The interim results have been prepared under the supervision of Mr WE Scott CA(SA), the group chief financial officer.

3. Contingent consideration

The outstanding contingent considerations relating to the Pinnacle Risk Solutions and SOS Protech Secure acquisitions were settled through cash payments of R143 874 and R316 710 respectively.

4. Stated capital

4.1 Treasury shares

Treasury shares relate to the purchase of shares by the CSG Share Incentive Trust (Trust) to fulfil its obligation in terms of share option schemes and its subsidiary, Hi-Tech Risk Solutions Proprietary Limited.

4.2 Vendor shares

Shares due to the previous owners of White River Hi-Tech Security Services Proprietary Limited (Hi-Tech White River) and Golden Dividend 402 Proprietary Limited (Industroserve), as part of the final purchase price, have been accounted for as vendor shares as at 30 September 2018. The shares were subsequently issued during November 2018.

5. Capital commitments and contingencies

The group had no significant outstanding capital commitments or contingencies as at 30 September 2019.

6. Change in accounting policy

The company has adopted IFRS 16 *Leases* in the current period.

IFRS 16 requires the recognition of a right-of-use asset and lease liability upon lease commencement where previously the group classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. This right-of-use asset is initially measured as the amount of the lease liability plus initial direct costs. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at a rate implicit in the lease. However, the group has elected not to recognise right of use assets and lease liabilities for some leases of low value assets or for short-term leases with a lease term of 12 months or less.

The above resulted in a right-of-use asset and corresponding liability to the value of R23,43 million recognised as at April 2019. The modified retrospective transition method has been applied but no adjustment to opening retained earnings was necessary as the cumulative effect of initially applying this calculation was not material.

7. Business combinations

7.1 Film and TV Chefs Proprietary Limited t/a Shesha Film and Event

On 29 March 2019, wholly-owned subsidiary, CSG Food Solutions Proprietary Limited (CSG Foods) signed an agreement with Film and TV Chefs Proprietary Limited (Shesha) in terms of which CSG Foods agreed to buy the business of Shesha for an amount of R8 million. Shesha is domiciled in South Africa and is a well-known catering company in the film and production industry. The company is included in the Facilities Management division.

The effective date was 1 April 2019.

Since the acquisition date, Shesha has contributed R7,01 million to group revenue and R1,82 million to group losses.

The company was acquired to expand the service offering currently provided by CSG Foods into the film and production industry. In addition, the acquisition will be used as a base to start a central kitchen with a fully-furnished kitchen facility in Cape Town as well as the use of mobile kitchens to travel across South Africa. There is no customer list as contracts are negotiated for each new event. The full purchase price therefore relates to synergies and has therefore been accounted for as goodwill.

Recognised amounts of identifiable net assets

As at 1 April 2019	R'000
Non-current assets	2 888
Property, plant and equipment	2 888
Current assets	1 182
Inventory	21
Trade and other receivables	1 161
Non-current assets	(798)
Interest-bearing liabilities	(798)
Current liabilities	(486)
Trade and other payables	(486)
Identifiable net assets	2 786
Goodwill on acquisition	5 214
Purchase consideration	8 000
Bank balance acquired	–

8. Goodwill

Due to the losses experienced in the security industry, an impairment test was performed on goodwill for the period ended 30 September 2019. Based on this test, management is of the opinion that no further impairment is necessary as at September 2019. This will, however, again be considered at year-end.

As mentioned in the financial performance section above, the impairment test took into account the turnaround plans in place in the security sector and was calculated using the most recent forecast for the companies included in this division.

The recoverable amount of each company was determined based on value-in-use calculations covering a detailed three-year forecast/and 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.

9. Events after the reporting period

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

10. Going concern

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

The interim financial results have not been reviewed or audited by the company's auditors, BDO South Africa Inc.

For and on behalf of the board

BT Ngcuka
Chairman

PJJ Dry
Chief executive officer

22 November 2019

Corporate information

Share code: CSG
ISIN: ZAE000184438

Registered office

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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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Announcement date

22 November 2019

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