Workforce Holdings Limited
(Incorporated in the Republic of South Africa)
(Registration number 2006/018145/06)
(JSE Share Code: WKF ISIN: ZAE000087847)
('Workforce' or 'the group')

Audited summarised consolidated results for the year ended 31 December 2015
and notice of annual general meeting

Highlights
- Revenue increased by 8.1% to R1.9 billion
- Basic earnings per share increased by 30% to 34.1 cents per share
- Profit for the year increased by 30% to R77 million
- During the year Workforce Holdings Limited acquired Prisma Training Solutions

Summarised consolidated statements of financial position as at 31 December 2015

	Notes	2015 R'000	2014 R'000
Assets			
Non-current assets		152 097	109 391
Property, plant and equipment	6	15 176	7 052
Goodwill		62 501	41 280
Intangible assets	7	32 911	23 694
Deferred tax assets		38 576	35 349
Other financial assets		2 933	2 016
Current assets		535 436	453 506
Trade and other receivables		517 788	440 039
Inventories		4 111	3 085
Taxation		447	38
Cash and cash equivalents	8	13 090	10 344
Total assets		687 533	562 897
Equity and liabilities			
Equity		354 247	272 313
Equity attributable to owners of the parent		354 275	272 684
Stated capital		241 867	236 867
Treasury shares		(9 488)	(7 616)
Reverse acquisition reserve		(125 499)	(125 499)
Available-for-sale reserve		686	(231)
Equity-settled employee benefits reserve		1 659	898
Retained earnings		245 050	168 265
Non-controlling interests		(28)	(371)
Non-current liabilities		34 791	14 233
Financial liabilities		24 076	8 822
Deferred tax liabilities		10 715	5 411
Current liabilities		298 495	276 351
Trade and other payables		88 480	84 117
Financial liabilities		209 989	192 210
Bank overdraft		26	24
Total equity and liabilities		687 533	562 897

Summarised consolidated statements of comprehensive income for the year ended 31 December 2015

	Notes	2015 R'000	2014 R'000
Revenue		1 949 771	1 801 895
Cost of sales		(1 494 934)	(1 403 346)
Gross profit		454 837	398 549
Other income		1 700	927
Operating costs		(349 951)	(319 708)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)		106 586	79 768
Depreciation and amortisation of non-financial assets		(12 910)	(10 501)
Operating profit		93 676	69 267
Finance income		297	148
Finance costs		(17 250)	(18 194)
Profit before taxation		76 723	51 221
Taxation credit		758	8 313
Profit for the year		77 481	59 534
Other comprehensive income for the year, net of tax:		917	185
Fair value gain on available-for-sale financial assets to be reclassified subsequently to profit or loss		917	185
Total comprehensive income for the year		78 398	59 719
Profit for the year attributable to:			
Owners of the parent		76 785	59 209
Non-controlling interests		696	325
		77 481	59 534
Total comprehensive income attributable to:			
Owners of the parent		77 702	59 394

Non-controlling interests		696	325
		78 398	59 719
Earnings per share (cents per share)			
Basic earnings per share	9	34.1	26.2
Diluted earnings per share	9	32.5	26.2

Summarised consolidated statements of changes in equity for the year ended 31 December 2015

	Attributable to owners of the parent		
	Stated capital R'000	Reverse acquisition reserve R'000	Treasury shares R'000
Balance at 1 January 2014	236 867	(125 499)	(7 616)
Payment of dividends	–	–	–
Recognition of share-based payments	–	–	–
Total comprehensive income for the year	–	–	–
Balance at 1 January 2015	236 867	(125 499)	(7 616)
Payment of dividends	–	–	–
Recognition of share-based payments	–	–	–
Buy-back of shares	–	–	(1 872)
Issue of ordinary shares arising on the acquisition of a business	5 000	–	–
Total comprehensive income for the year	–	–	–
Balance at 31 December 2015	241 867	(125 499)	(9 488)

	Attributable to owners of the parent		
	Available-for sale reserve R'000	Retained earnings R'000	Equity-settled employee benefits reserve R'000
Balance at 1 January 2014	(416)	109 056	355
Payment of dividends	–	–	–
Recognition of share-based payments	–	–	543
Total comprehensive income for the year	185	59 209	–
Balance at 1 January 2015	(231)	168 265	898
Payment of dividends	–	–	–
Recognition of share-based payments	–	–	761
Buy-back of shares	–	–	–
Issue of ordinary shares arising on the acquisition of a business	–	–	–
Total comprehensive income for the year	917	76 785	–
Balance at 31 December 2015	686	245 050	1 659

	Total R'000	Non-controlling interests R'000	Total equity R'000
Balance at 1 January 2014	212 747	(186)	212 561
Payment of dividends	–	(510)	(510)
Recognition of share-based payments	543	–	543
Total comprehensive income for the year	59 394	325	59 719
Balance at 1 January 2015	272 684	(371)	272 313
Payment of dividends	–	(353)	(353)
Recognition of share-based payments	761	–	761
Buy-back of shares	(1 872)	–	(1 872)
Issue of ordinary shares arising on the acquisition of a business	5 000	–	5 000
Total comprehensive income for the year	77 702	696	78 398
Balance at 31 December 2015	354 275	(28)	354 247

Summarised consolidated statements of cash flows for the year ended 31 December

	Notes	2015 R'000	2014 R'000
Cash generated from operations before net working capital changes		88 638	58 751
Cash generated from operations	10.1	104 899	77 750
Finance income		297	148
Finance costs		(17 250)	(18 194)
Taxation paid	10.2	692	(953)
Increase in net working capital	10.3	(66 067)	(38 621)
Cash flows from operating activities		22 571	20 130
Cash flows from investing activities		(26 098)	(10 432)
Property, plant and equipment acquired – maintaining operations	6	(6 929)	(2 802)
Proceeds on disposal of property, plant and equipment		1 562	586
Dividend income		1 700	–
Intangible assets acquired – maintaining operations	7	(7 791)	(7 166)

Net cash flow on acquisition of business combination		(14 640)	(1 050)
Cash flows from financing activities		6 271	(13 026)
Increase/(repayment) of borrowings		8 496	(12 516)
Payment for buy-back of shares		(1 872)	–
Dividends paid to shareholder in subsidiary		(353)	(510)
Net change in cash and cash equivalents		2 744	(3 328)
Cash and cash equivalents at the beginning of the year		10 320	13 648
Cash and cash equivalents at the end of the year	10.4	13 064	10 320

Financial statements
Notes to the summarised consolidated financial statements for the year ended 31 December 2015

1. Nature of operations and general information
Workforce Holdings Limited is a holding company. Its subsidiaries carry on the business of staff outsourcing, recruitment and specialist staffing, training and consulting, process outsourcing, employee health management and financial and lifestyle products.

2. Basis of preparation and significant accounting policies
This report is extracted from audited information, but is not itself audited. The board of directors of Workforce takes full responsibility for the preparation of this report and that the financial information has been correctly extracted from the underlying annual financial statements. The audited underlying group financial statements are available for inspection at the company's registered office. The summarised consolidated financial statements have been prepared in accordance with the JSE Limited's Listings Requirements for annual financial statements, International Accounting Standard (IAS) 34, Annual Financial Reporting and the South African Companies Act, No 71 of 2008, as well as the SAICA Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

The summarised annual financial statements for the 12 months ended 31 December 2015 were prepared under the supervision of W van Wyk, the Group Financial Director. The summarised consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards and have been applied consistently with the accounting policies applied in the Annual Financial Statements for the year ended 31 December 2014.

3. Audit Opinion
The consolidated results for the year ended 31 December 2015 have been audited by the Group's auditors, Horwath Leveton Boner, and their unqualified audit report is available for inspection at the registered office of the Group.

4. Posting of integrated annual report and notice of annual general meeting
The integrated annual report for the year ended 31 December 2015 will be despatched to shareholders on 31 March 2016.

Notice is hereby given that the annual general meeting of shareholders of Workforce will be held at 11:00 on Wednesday, 4 May 2016 at 11 Wellington Street, Parktown, Johannesburg, 2193 to transact the business stated in the notice of the annual general meeting, which is contained in the integrated annual report.

The board of directors of the Company determined that, in terms of section 62 (3)(a), as read with section 59 of the Companies Act, 2008 (Act 71 of 2008), as amended, the record date for the purposes of determining which shareholders of the Company are entitled to participate in and vote at the annual general meeting is Friday, 29 April 2016. Accordingly, the last day to trade in Workforce shares in order to be recorded in the Register to be entitled to vote at the general meeting will be Friday, 22 April 2016.

5. Events after reporting date
Effective 1 February 2016, the Quyn group of companies was acquired by Workforce Holdings for a consideration of R70 million (refer to note 14).

	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
6. Property, plant and equipment			
2015			
Motor vehicles	8 296	(4 903)	3 393
Computer equipment	20 259	(17 735)	2 524
Industrial equipment	4 674	(2 648)	2 026
Office equipment	12 322	(10 961)	1 361
Leasehold improvements	1 242	(1 059)	183
Training manuals	9 677	(6 688)	2 989
Land and buildings	2 700	–	2 700
	59 170	(43 994)	15 176

		Accumulated	Carrying

	Cost	depreciation	value
	R'000	R'000	R'000
2014			
Motor vehicles	6 944	(4 839)	2 105
Computer equipment	18 958	(17 093)	1 865
Industrial equipment	2 700	(2 237)	463
Office equipment	11 453	(10 190)	1 263
Leasehold improvements	1 187	(960)	227
Training manuals	6 605	(5 476)	1 129
Land and buildings	–	–	–
	47 847	(40 795)	7 052

The carrying value of property, plant and equipment can be reconciled as follows:

	Motor vehicles	Computer equipment	Industrial equipment	Office equipment
	R'000	R'000	R'000	R'000
Carrying value at 1 January 2014	2 387	1 800	234	1 797
Additions	714	1 283	372	189
Disposals	(1)	–	–	–
Depreciation	(995)	(1 218)	(143)	(723)
Carrying value at 31 December 2014	2 105	1 865	463	1 263
Additions	1 668	2 251	1 975	916
Disposals	(570)	(225)	–	(14)
Acquired through business combinations	1 212	35	–	33
Depreciation	(1 022)	(1 402)	(412)	(837)
Carrying value at 31 December 2015	3 393	2 524	2 026	1 361

	Leasehold improvements	Training manuals	Land and buildings	Total
	R'000	R'000	R'000	R'000
Carrying value at 1 January 2014	338	1 445	–	8 001
Additions	24	220	–	2 802
Disposals	–	–	–	(1)
Depreciation	(135)	(536)	–	(3 750)
Carrying value at 31 December 2014	227	1 129	–	7 052
Additions	78	41	–	6 929
Disposals	–	–	–	(809)
Acquired through business combinations	–	3 030	2 700	7 010
Depreciation	(122)	(1 211)	–	(5 006)
Carrying value at 31 December 2015	183	2 989	2 700	15 176

All depreciation charges are included in 'Depreciation and amortisation of non-financial assets' in the statement of comprehensive income. No property, plant and equipment have been impaired during the year (2014: Nil).

A 100% interest in Prisma Training Solutions was acquired on 1 October 2015 in order to increase the scope of the training segment in the mining sector. Property, plant and equipment to the value of R7 010 000 was acquired as part of the business combination.

The group has no further contractual commitments to acquire property, plant and equipment at reporting date.

	Cost	Accumulated amortisation	Carrying value
	R'000	R'000	R'000
7. Intangible assets			
2015			
Computer software	45 711	(29 156)	16 555
Brands	3 209	(1 409)	1 800
Client relationships	9 330	(252)	9 078
Work in progress	5 478	–	5 478
	63 728	(30 817)	32 911

	Cost	Accumulated amortisation	Carrying value
	R'000	R'000	R'000
2014			
Computer software	44 467	(26 170)	18 297
Brands	3 209	(339)	2 870
Client relationships	–	–	–

Work in progress	2 527	–	2 527
	50 203	(26 509)	23 694

The carrying amounts of intangible assets can be reconciled as follows:

	Computer software R'000	Brands R'000	Client relation-ships R'000
Carrying value at 1 January 2014	20 096	156	–
Additions	4 639	–	–
Acquired through business combinations	–	3 027	–
Amortisation	(6 438)	(313)	–
Carrying value at 31 December 2014	18 297	2 870	–
Additions	4 840	–	–
Acquired through business combinations	–	–	9 330
Amortisation	(6 582)	(1 070)	(252)
Carrying value at 31 December 2015	16 555	1 800	9 078

	Work in progress R'000	Total R'000
Carrying value at 1 January 2014	–	20 252
Additions	2 527	7 166
Acquired through business combinations	–	3 027
Amortisation	–	(6 751)
Carrying value at 31 December 2014	2 527	23 694
Additions	2 951	7 791
Acquired through business combinations	–	9 330
Amortisation	–	(7 904)
Carrying value at 31 December 2015	5 478	32 911

The above amortisation expense is included in 'Depreciation and amortisation of non-financial assets' in the statement of comprehensive income. No intangible assets have been impaired during the year (2014: Nil). Computer software is mostly internally generated.

A 100% interest in Prisma Training Solutions was acquired on 1 October 2015, in order to increase the scope of the training segment in the mining sector. Intangible assets to the value of R9 330 000 were acquired as part of the business combination.

The group has no further contractual commitments to acquire intangible assets at reporting date.

	2015 R'000	2014 R'000
8. Cash and cash equivalents		
Cash and cash equivalents include the following components:		
Cash at bank and in hand	12 142	9 964
Short-term deposits	948	380
	13 090	10 344

The carrying value of cash and cash equivalents is considered a reasonable approximation of fair value.

9. Earnings per share

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2015	2014
Profit attributable to equity shareholders of the parent company (R'000)	76 785	59 209
Weighted average number of ordinary shares in issue ('000)	225 328	225 630
Diluted weighted average number of shares in issue ('000)	236 619	225 630
Basic earnings per share (cents)	34.1	26.2
Diluted earnings per shares (cents)	32.5	26.2

Headline earnings per share

The earnings used in the calculation of headline earnings per share are as follows:

	2015	2014
Profit attributable to equity shareholders of the parent company (R'000)	76 785	59 209

Headline earnings adjustment (R'000)	(1 806)	(1 088)
Gain on disposal of property, plant and equipment	(809)	(584)
Dividend received	(1 700)	
Gain on bargain purchase	–	(927)
Tax effects of adjustments	703	423
Total headline earnings (R'000)	74 979	58 121
Weighted average number of shares in issue ('000)	225 328	225 630
Headline earnings per share (cents)	33.3	25.8
The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:		
Weighted average of number of shares used in the calculation of basic earnings per share ('000)	225 328	225 630
Shares deemed to be issued for no consideration in respect of:		
Employee options ('000)	11 291	–
Weighted average number of ordinary shares in the calculation of diluted earnings per share ('000)	236 619	225 630

10. Notes to the statement of cash flows

10.1 Cash generated from operations		
Profit before taxation	76 723	51 221
Interest income	(297)	(148)
Dividend income	(1 700)	–
Finance costs	17 250	18 194
Adjusted for non-cash items:		
Gain on disposal of property, plant and equipment	(809)	(584)
Depreciation and amortisation of non-financial assets	12 910	10 501
Equity-settled share-based payments	761	543
Gain on bargain purchase	–	(927)
Other	61	–
Increase in contingent consideration payment	–	(1 050)
	104 899	77 750
10.2 Taxation paid		
Charged to profit or loss	758	8 313
Adjusted for deferred tax	(520)	(9 261)
Movement in taxation balance	454	(5)
	692	(953)
10.3 Working capital changes		
Change in trade and other receivables	(69 404)	(22 005)
Change in inventories	(1 026)	(504)
Change in trade and other payables	4 363	(16 112)
	(66 067)	(38 621)
10.4 Cash and cash equivalents		
Bank and cash balances (note 8)	13 090	10 344
Bank overdraft (note 12)	(26)	(24)
	13 064	10 320

11. Segment reporting

The group's segmental analysis is based on the following five core business segments:

- Staffing and recruitment comprises staff outsourcing which provides human resources to clients on both a short and long-term basis; recruitment and specialist staffing which includes permanent and temporary placements; ad-response handling; executive search; call centre staffing; and importing and exporting of skills.
- Training and consulting is a registered training provider focused on delivering industry and job-specific skills assessments and training interventions to business and their employees across all industry sectors. Our training programmes are aligned with SAQA (South African Qualifications Authority) and accredited with SETA Quality Assurance departments.
- Financial and lifestyle products, which offers a range of lifestyle products and support services to employees.
- Employee health management, which offers a comprehensive range of occupational and primary health management services.
- Process outsourcing, which focuses on delivering productive and functional business process outsourcing solutions, including the statutory and legal elements associated therewith.

Segment information can be analysed as follows for the reporting periods under review:

	Staffing and recruitment R'000	Training and consulting R'000	Financial and lifestyle products R'000	Employee health management R'000
2015				

Segment revenues	1 665 232	48 210	69 710	36 591
Inter-segment revenue	3	5 969	9 414	-
Cost of sales	(1 314 678)	(23 606)	(21 855)	(14 915)
Inter-segment cost of sales	-	-	(6 778)	-
Operating costs	(213 790)	(26 693)	(37 093)	(18 894)
Other income	1 700	-	-	-
EBITDA	138 467	3 880	13 398	2 782
Depreciation and amortisation of non-financial assets	(2 799)	(741)	(2 622)	(671)
Segment operating profit	135 668	3 139	10 776	2 111
Capital expenditure	2 084	17 059	3 343	2 251
Segment total assets	311 680	76 034	166 435	3 208
Segment total liabilities	(18 873)	(62 162)	(174 910)	(2 776)
Net segment assets	292 807	13 872	(8 475)	432

	Process outsourcing R'000	Central cost R'000	Consoli-dation entries R'000	Total R'000
2015				
Segment revenues	130 028	-	-	1 949 771
Inter-segment revenue	-	-	(15 386)	-
Cost of sales	(119 880)	-	-	(1 494 934)
Inter-segment cost of sales	-	-	6 778	-
Operating costs	(7 306)	(54 783)	8 608	(349 951)
Other income	-	-	-	1 700
EBITDA	2 842	(54 783)	-	106 586
Depreciation and amortisation of non-financial assets	(93)	(5 984)	-	(12 910)
Segment operating profit	2 749	(60 767)	-	93 676
Capital expenditure	46	6 277	-	31 060
Segment total assets	17 152	113 024	-	68 753
Segment total liabilities	(16 692)	(57 873)	-	(33 328)
Net segment assets	460	55 151	-	354 247

	Staffing and recruitment R'000	Training and consulting R'000	Financial and lifestyle products R'000	Employee health manage-ment R'000
2014				
Segment revenues	1 570 885	32 893	59 835	26 096
Inter-segment revenue	338	6 512	-	830
Cost of sales	(1 247 702)	(17 826)	(16 711)	(10 412)
Operating costs	(196 113)	(19 382)	(33 578)	(13 972)
Other income	927	-	-	-
EBITDA	128 335	2 077	9 545	2 542
Depreciation and amortisation of non-financial assets	(2 210)	(827)	(2 975)	(325)
Segment operating profit	126 125	1 250	6 571	2 217
Capital expenditure	9 686	367	774	488
Segment total assets	255 465	8 721	145 595	7 411
Segment total liabilities	(35 409)	(14 666)	(149 723)	(6 685)
Net segment assets	220 056	(5 945)	(4 128)	726

	Process outsourcing R'000	Central cost R'000	Consoli-dation entries R'000	Total R'000
2014				
Segment revenues	112 186	-	-	1 801 895
Inter-segment revenue	-	-	(7 680)	-
Cost of sales	(109 029)	-	-	(1 401 680)
Operating costs	(5 842)	(58 501)	7 680	(319 708)
Other income	-	-	-	927
EBITDA	(2 685)	(58 501)	-	79 768
Depreciation and amortisation of non-financial assets	(96)	(4 068)	-	(10 501)
Segment operating profit	(2 781)	(62 569)	-	69 267
Capital expenditure	12	1 668	-	12 995
Segment total assets	18 536	127 169	-	562 897
Segment total liabilities	(18 895)	(65 205)	-	(290 583)
Net segment assets	(359)	61 964	-	272 314

12. Related party transactions

No transactions between the company and its subsidiaries have occurred.

12.1 Transactions with related parties

During the year the group entities entered into the following trading transactions with related parties that are not members of the group:

	2015 R'000	2014 R'000
Wellington Property Investments Proprietary Limited	9 458	5 283
Relationship: Director has significant influence		
Type of transaction: Operating lease rentals paid		
Vunani Capital Proprietary Limited	114	84
Relationship: Shareholder		
Type of transaction: Designated advisors' fees		
Hunts Attorneys	3 056	2 402
Relationship: Director with an interest in a legal practice – RS Katz		
Type of transaction: Disbursements for advocates' fees paid		
Guardrisk Insurance Company Limited		
Relationship: Insurance underwriter		
Type of transaction: Insurance paid	2 785	2 802
Force Holdings Proprietary Limited		
Relationship: Shareholder		
Type of transaction: Sale of trade and other receivables	13 610	–

12.2 Related party loans

	2015 R'000	2014 R'000
Amounts due from/(payable to) related parties are as follows:		
Force Holdings Proprietary Limited	(47)	(17 176)
Relationship: Shareholder		
Simgarvan Investments Proprietary Limited	(7 783)	(7 876)
Relationship: Company controlled by a director of the group		
Hunts Attorneys	162	162
Relationship: Director with an interest in a legal practice – RS Katz		

13. Business combinations

13.1 Business acquired

	Portion of business acquired %	Conside-ration transferred R'000
2015		
Prisma Training Solutions	100	48 447
Principle activity: Provide training to mining industries		
Date of acquisition: 1 October 2015		
		48 447

Prisma Training Solutions was purchased in order to increase the scope of the training segment in the mining sector.

13.2 Consideration transferred

	R'000
Cash	22 371
Equity instrument*	5 000
Contingent consideration arrangement	21 106
Total	48 477

* 3 731 343 shares were issued at a price of R1,34 per share, the fair value of the shares is based on the published price on the date of the transfer.

13.3 Contingent consideration

	R'000
First payment	2 628
Second payment	5 400
Third payment	5 800
Fourth payment	16 821
Total additional amount	30 650
Less: Interest raised on future payments	9 544
	21 106

Present value of capital cost

Under the contingent consideration arrangement, the group is required to pay an additional R2 628 356 in the event that Prisma's profit before tax (PBT) reaches R3 650 495 before 1 October 2016 and three additional payments of R5 400 000, R5 800 000 and R6 200 000 in the event that Prisma's PBT for the periods ending 30 September 2016, 30 September 2017 and 30 September 2018 amounts to R13 500 000 for each of those periods. Should aggregate PBT for the aforementioned three-year period exceed R40 500 000 and reach a maximum of R100 000 000, an additional amount of up to R17 635 000 may become payable. R21 105 702 represents the estimated fair value of this obligation at the acquisition date. The PBT for the past three years on average has been R7 698 487 and the directors do consider it probable that the additional payment will be required.

Acquisition related costs of R1 420 000 have been excluded from the consideration, and have been recognised as an expense in the profit and loss for the year under operating expenses.

		R'000
13.4	Assets acquired and liabilities recognised at the date of acquisition	
	Non-current assets	
	Property, plant and equipment	7 010
	Intangible assets	9 330
	Current assets	
	Trade and other receivables	8 345
	Loans receivable	4
	Cash and cash equivalents	7 731
	Current tax	861
	Current liabilities	
	Deferred tax liability	(3 460)
	Financial liability	(2 565)
	Total	27 256

The receivables acquired (principally trade receivables) in this transaction with a fair value of R8 344 532 is equivalent to the gross contractual amount. All contractual cash flows are expected to be collected.

		R'000
13.5	Net cash outflow on acquisition of subsidiaries	
	Consideration paid in cash	22 371
	Less: Cash and cash equivalent balances acquired	(7 731)
	Total	14 640
13.6	Goodwill arising on acquisition	
	Consideration transferred	48 477
	Less: Fair value of identifiable net assets	(27 256)
	Goodwill arising on acquisition	21 221

Goodwill arose in the acquisition of Prisma Training Solutions because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market share. These benefits are not recognised seperately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising in the above acquisition is expected to be deductible for tax purposes.

13.7 Impact of acquisitions on the results of the group

Included in the profit for the year is R808 641 attributable to the additional business generated by Prisma Training Solutions Proprietary Limited. Revenue for the year includes R6 952 098 in respect of Prisma Training Solutions Proprietary Limited.

Had these business combinations been affective at 1 January 2015, the revenue of the group from continuing operations would have been R33 412 823 and the profit for the year from continuing operations would have been R5 523 001. The directors consider these pro-forma numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for the comparison in future periods.

In determining the pro-forma revenue and profit of the group had Prisma Training Solutions Proprietary Limited been acquired at the beginning of the current year the directors have calculated the depreciation of the plant and equipment and intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

		Portion of business acquired %	Conside-ration transferred R'000
14.	Subsequent events		
14.1	Business acquired		
	2015		
	Quyn Group	100	75 000
	Principle activity: Provision of oustourced HR services including TES, HR outsourcing, payroll bureau services, HR and IR consulting and permanent placements		
	Date of acquisition: 1 February 2016		
			75 000

The Quyn Group was acquired to give Workforce an increased presence in the provision of outsourced technical skills. The entities comprising the Quyn Group are Quyn

International Outsourcing Proprietary Limited, Molapo Quyn Outsourcing Proprietary Limited, Sizuluntu Staffing Solution Proprietary Limited, Quyn Payroll Services Proprietary Limited and Quyn HR Consulting Proprietary Limited.

		R'000
14.2	Consideration transferred	
	Cash	30 000
	Contingent consideration arrangement	45 000
	Total	75 000
14.3	Contingent consideration	
	Second payment	6 250
	Third payment	6 250
	Fourth payment	6 250
	Fifth payment	18 750
	Sixth payment	7 500
	Total additional amount	45 000

Under the contingent consideration arrangement, the group is required to pay the balance of R45 million over a two-year period commencing from 1 February 2016. In terms of this arrangement, should the operating profit of the Quyn Group for the 12-month period ending 29 February 2016 be below R14,5 million, then the R75 million total purchase consideration owing will be reduced by R5 for every R1 that the Quyn Group's operating profit falls below R15 million, and accordingly the amounts due to discharge the R45 million outstanding balance will be reduced proportionately. The second, third, fourth, fifth and sixth payments fall due on 1 May 2016, 1 August 2016, 1 November 2016, 1 February 2017 and 1 February 2018 respectively.

The PBIT for the 11-month period ending 31 January 2016 was R13,6 million, and the directors do consider it probable that the additional payments will be required.

		R'000
14.4	Assets acquired and liabilities recognised at the date of acquisition	
	Non-current assets	
	Property, plant and equipment	1 427
	Deferred tax asset	996
	Intangible assets	6 180
	Current assets	
	Trade and other receivables	39 301
	Loans receivable	269
	Cash and cash equivalents	11 169
	Current tax	1 237
	Equity	
	Non-controlling interest	(580)
	Non-current liabilities	
	Finance lease obligations	(844)
14.5	Current liabilities	
	Trade and other payables	(15 644)
	Taxation payable	(51)
	Deferred tax liability	(1 730)
	Financial liability	(216)
	Total	41 514

The receivables acquired (principally trade receivables) in this transaction with a fair value of R39 301 000 is equivalent to the gross contractual amount. All contractual cash flows are expected to be collected.

		R'000
14.6	Net cash outflow on acquisition of subsidiaries	
	Consideration paid in cash	30 000
	Less: Cash and cash equivalent balances acquired	(11 169)
	Total	18 831
	Goodwill arising on acquisition	
	Consideration transferred	75 000
	Less: Fair value of identifiable net assets	41 514
	Goodwill arising on acquisition	33 486

Goodwill arose in the acquisition of Quyn Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market share. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising in the above acquisition is expected to be deductible for tax purposes.

Director's commentary

Overview

Our progress financially, operationally and structurally was more than satisfactory, and needs to be viewed in the context of the challenging environment in which we have operated.

On a macro level the economy continued to be under strain affected by both local and international issues, particularly in the latter part of the year. Locally, the economy endured a fall-off in production in most industries resulting in a reduced rate of employment in the commodity sectors, as well as in the wholesale, retail and production sectors, negatively impacting our business activities. Notwithstanding these adverse pressures, the group saw increased turnovers and activity in all of its operating divisions.

The implementation of the various labour law amendments brought about stability to the industry as both our clients and our own businesses became clear on the terms of the legislation, and we were then able to understand how our respective operations would function in the light of this.

We are pleased with the group's financial performance, particularly in the second half of the year, where we saw an increase of 12.4% of turnover compared to the last six months of 2014. This is primarily attributable to the following:

- Dissipating uncertainty in the market around new labour legislation;
- Strong performances in our white collar recruitment businesses; and
- Improved performance of our recruitment, financial, lifestyle and process outsourcing businesses.

We are confident that we will continue to perform strongly in the year ahead and we are well positioned to derive benefit from our diversified business portfolio.

Group structure

In alignment with our strategy to diversify the group's income, we restructured the organisation with particular emphasis on the structure of the underlying businesses. Each trading activity has been placed into an independent legal entity with its own management structure reporting into the holding company through the group chief executive officer. The essence of this change was to appoint managing directors for each business entity who in turn would have the requisite authority delegated to them to manage their own teams and conduct their businesses in the best manner that the executives saw fit to attain budgeted goals.

CEO position

During November 2015, Lawrence Diamond the former CEO of the group, resigned effective 31 December 2015, and Ronny Katz, the former executive chairman, was appointed acting chief executive officer. John Macey, the former lead independent director, was appointed as acting chairman and Kyansambo Vundla was appointed acting chairman of the audit and risk committee. We are well into the process of appointing a new chief executive officer. There were no other changes to the Board during the 2015 financial year.

Investor's policy

The group and its shareholders are aware of the relatively poor performance of the Group's share price on the JSE. We have analysed this and have established a strategy that will hopefully deal with a number of the grounds for poor performance. Included in these grounds are the past profit performance of the group, the threats to the group arising from its status of a labour broker, the liquidity of its shares and its status as a company listed on the JSE AltX. We are taking whatever reasonable management action that we can in order to overcome these inhibiting factors.

Financial results review

Turnover for the 2015 fiscal year reflects an increase of 8.1% to R1.95 billion (2014: R1.80 billion). Whilst the first six months of the year reflected an increase of only 3.8% compared to the same period in the previous year, the second six months reflected an increase of 12.4% comparatively.

Gross margins percentage improved to 23.3% (2014: 22.1%), primarily as a result of improved performances from the group's higher margin recruitment, financial, lifestyle and process outsourcing businesses, as is evident by the accompanied segmental analysis.

The employment tax incentive continues to make a contribution to the group's results.

Operating expenses increased by 9.5%, reflecting increased activity in the training and healthcare segments as well as the acquisition of Prisma Training Solutions as of 1 October 2015. As a result of a significant enterprise-wide cost reduction exercise, operating expenses increased by only 5% compared to the same period in the previous year, if the above mentioned growth related expenses are excluded. However, the full effect of the cost reduction exercise will only be visible in 2016.

The acquisition of Prisma Training Solutions had a marginal effect on results as the company's operating activities tend to slow down towards the end of the year.

EBITDA increased by 33.6% to R106.6 million (2014: R79.8 million). Earnings per share increased by 29.8% to 34.1 cents (2014: 26.2 cents).

Taxation

The group continued to benefit from the employment tax incentive programme as well as learnership allowances in terms of section 12H of the Income Tax Act, 1962

(Act 58 of 1962). This resulted in a net taxation credit of R758 000 (2014: R8,3 million). The reduction in the taxation credit is purely a function of increased profitability as taxable allowances remained on par with the previous year.

Cash flow

A surge in turnover during the last two months of the year, compared to the previous year, caused a substantial increase in trade receivables which negatively affected cash flows. The group's day's sales outstanding (DSO) deteriorated marginally to 45 days (2014: 42 days), which, considering the current challenging collection environment, is acceptable. Trade debtors older than 120 days demonstrates a well-managed book with 7.8% of trade debtors older than 120 days compared to 9.8% in 2014. Cash generated from operations before net working capital changes improved to R88.6 million (2014 : R58.7 million) and net cash flows from operating activities amounted to R23 million (2014: R20.1 million).

Acquisition funding

The Prisma acquisition was funded partially through existing funds, available working capital funding, and a small share issue. The majority of the acquisition payment is however deferred which will be funded by future cash flows generated by the acquired company. In this regard, the acquisition is de-risked as payments are only due as and when the acquired company reaches agreed profit targets.

Gearing

Net interest bearing debt-to-equity improved to 0.62 (2014: 0.7), despite the R21 million initial payment for the Prisma acquisition. This is well within management's target range of between 0.5 and 1.1. This ratio is however expected to increase during 2016 due to the funding of acquisitions. Finance service cost improved marginally to R17.2 million (2014: R18.1 million), with the interest cover ratio improving to a healthy 6.1 (2014: 4.4).

The current assets to liabilities ratio also improved to 1.8:1 (2014 :1.64:1).

Events after reporting date

Effective 1 February 2016, the Quyn group of companies was acquired by Workforce Holdings for a consideration of R70 million. We will be in a position to report on the net effects of this acquisition in the next financial year.

Prospects

We are encouraged by the manner in which each of our subsidiaries is advancing their business growth and profitability. We believe we will have an increased contribution from each of the diversifications as well as from the core business and the acquisitions we have made. However, we are realistic that this may be tempered by the clear reduction in economic activity in the country resulting from various factors both internal and external which would impact our core business.

We also have to bear in mind that the employment tax incentive that the group has benefitted from terminates at the end of 2016. However, this may be replaced by other incentives aimed at retaining and growing youth employment. We have tried to balance this potential risk with our increased activities, diversifications and acquisitions, and are confident that will be able to replace the revenue lost with income from the group's other activities.

As we currently stand, we anticipate the financial year 2016 to show growth consistent with the past year.

Appreciation

Quality of service is the cornerstone of our business and increasingly, the hallmark of the Workforce group. Delivering superior service, in turn, is only possible through the energy, commitment and loyalty of our staff at all levels. We thank every one of you for the sheer passion you bring to our group and your commitment to achieving our goals.

Our non-executive directors and professional advisors have provided important counsel to the group and their continuous support is valued and greatly appreciated.

For and on behalf of the board

J Macey
Interim Independent Chairman

R.S Katz
Interim Chief Executive Officer

W.P van Wyk
Group Financial Director

17 March 2016

Johannesburg

Designated Adviser

Merchantec Capital

Auditor
Horwath Leveton Boner

Transfer secretaries
Link Market Services South Africa Proprietary Limited

Directors
John Macey (Interim independent chairman)
Ronny Katz (Interim chief executive officer)
Willie van Wyk (Group Financial Director)
Mark Anderson (Non-executive director)
Lulu Letlape (Independent non-executive director)
Kyansambo Vundla (Independent non-executive director)

Company Secretary
Sirkien van Schalwyk

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