Rubicor Group Limited and Controlled Entities

Preliminary Financial Statements

Consolidated Statement of Comprehensive Income

For the financial year ended 30 June 2010

	Notes	2010 $000	2009 $000
Revenue	2	**280,613**	316,757
On hired labour costs		**(217,965)**	(238,238)
Employee benefits expense		**(35,071)**	(47,224)
Rental expense on operating leases		**(4,690)**	(6,145)
Other expenses	3	**(13,879)**	(19,466)
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)		**9,008**	5,684
Depreciation of property, plant and equipment	3	**(1,044)**	(1,093)
Amortisation of intangible assets		**(5,629)**	(6,368)
Finance costs	3	**(11,201)**	(11,972)
Impairment losses relating to non-current assets	3	**(200)**	(32,375)
Loss before income tax expense		**(9,066)**	(46,124)
Income tax benefit	4	**867**	2,187
Loss for the year		**(8,199)**	(43,937)
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**169**	117
Gain on cash flow hedges taken to equity		**-**	85
Total comprehensive loss for the year		**(8,030)**	(43,735)
Loss for the year attributable to:			
Owners of the parent		**(8,350)**	(43,937)
Non-controlling interests		**151**	-
		(8,199)	(43,937)
Total comprehensive loss for the year attributable to:			
Owners of the parent		**(8,181)**	(43,735)
Non-controlling interests		**151**	-
		(8,030)	(43,735)
Basic loss per share (cents)		**(7.6)**	(40.7)
Diluted loss per share (cents)		**(7.6)**	(40.7)

The accompanying notes form part of these financial statements.

Rubicor Group Limited and Controlled Entities
Preliminary Financial Statements
Consolidated Statement of Financial Position
As at 30 June 2010

	Note	2010 $000	2009 $000
ASSETS			
Current assets			
Cash and cash equivalents	5	**3,554**	2,951
Trade and other receivables		**38,004**	36,274
Current tax receivable		**-**	1,058
Other assets		**1,611**	1,068
Total current assets		**43,169**	41,351
Non-current assets			
Trade and other receivables		**137**	137
Property, plant and equipment		**3,088**	3,871
Deferred tax assets		**5,717**	4,384
Intangible assets	6	**78,571**	80,987
Other assets		**219**	127
Total non-current assets		**87,732**	89,506
TOTAL ASSETS		**130,901**	130,857
LIABILITIES			
Current liabilities			
Trade and other payables		**25,622**	20,963
Borrowings	7	**85,282**	59,498
Current tax payable		**332**	-
Provisions		**1,910**	1,560
Total current liabilities		**113,146**	82,021
Non-current liabilities			
Borrowings	7	**9,288**	31,674
Provisions		**969**	1,713
Total non-current liabilities		**10,257**	33,387
TOTAL LIABILITIES		**123,403**	115,408
NET ASSETS		**7,498**	15,449

The accompanying notes form part of these financial statements.

Rubicor Group Limited and Controlled Entities
Preliminary Financial Statements
Consolidated Statement of Financial Position
As at 30 June 2010

	Note	2010 $000	2009 $000
EQUITY			
Share capital		**64,605**	64,605
Reserves		**500**	252
Accumulated losses		**(57,821)**	(49,408)
		7,284	15,449
Equity attributable to owners of the parent		**7,284**	15,449
Non-controlling interests		**214**	-
TOTAL EQUITY		**7,498**	15,449

The accompanying notes form part of these financial statements

Rubicor Group Limited and Controlled Entities

Preliminary Financial Statements

Consolidated Statement of Changes in Equity

For the financial year ended 30 June 2010

2010

	Equity-settled employee benefit reserve $000	Foreign currency translation reserve $000	Hedging reserve $000	Share capital $000	Accumulated losses $000	Attributable to owners of the parent $000	Non-controlling interests $000	Total $000
Equity as at 1 July 2009	**447**	**(195)**	**-**	**64,605**	**(49,408)**	**15,449**	**-**	**15,449**
Translation difference relating to foreign entities	**-**	**169**	**-**	**-**	**-**	**169**	**-**	**169**
Net income recognised directly in equity	**-**	**169**	**-**	**-**	**-**	**169**	**-**	**169**
(Loss)/profit for the period	**-**	**-**	**-**	**-**	**(8,350)**	**(8,350)**	**151**	**(8,199)**
Total recognised income and expense	**-**	**169**	**-**	**-**	**(8,350)**	**(8,181)**	**151**	**(8,030)**
Minority interest transfer of controlled entities	**-**	**-**	**-**	**-**	**(63)**	**(63)**	**63**	**-**
Share-based payments	**79**	**-**	**-**	**-**	**-**	**79**	**-**	**79**
Equity as at 30 June 2010	**526**	**(26)**	**-**	**64,605**	**(57,821)**	**7,284**	**214**	**7,498**

2009

	Equity-settled employee benefit reserve $000	Foreign currency translation reserve $000	Hedging reserve $000	Share capital $000	Accumulated losses $000	Attributable to owners of the parent $000	Non-controlling interests $000	Total $000
Equity as at 1 July 2008	485	(312)	(85)	64,605	(5,394)	59,299	(77)	59,222
Translation difference relating to foreign entities	-	117	-	-	-	117	-	117
Transfer to carrying amount of non-financial hedged item on cash flow hedge	-	-	85	-	-	85	-	85
Net income recognised directly in equity	-	117	85	-	-	202	-	202
(Loss) for the period	-	-	-	-	(43,937)	(43,937)	-	(43,937)
Total recognised income and expense	-	117	85	-	(43,937)	(43,735)	-	(43,735)
Minority interest transfer on acquisition of controlled entities	-	-	-	-	(77)	(77)	77	-
Share-based payments	(38)	-	-	-	-	(38)	-	(38)
Equity as at 30 June 2009	447	(195)	-	64,605	(49,408)	15,449	-	15,449

The accompanying notes form part of these financial statements.

Rubicor Group Limited and Controlled Entities

Preliminary Financial Statements

Consolidated Statement of Cash Flows

For the financial year ended 30 June 2010

	Note	2010 $000	2009 $000
Cash from operating activities			
Receipts from customers (inclusive of GST)		**306,058**	361,998
Payments to suppliers and employees (inclusive of GST)		**(295,246)**	(345,318)
		10,812	16,680
Finance costs paid		**(7,858)**	(6,877)
Interest received		**73**	127
Income taxes refunded		**930**	1,628
Total cash inflow from operating activities		**3,957**	11,558
Cash flows from investing activities			
Payment for property, plant and equipment		**(431)**	(715)
Proceeds from sale of property, plant and equipment		**-**	6
Payment for intangible assets		**(10)**	(424)
Payment for controlled entities acquired (net of cash acquired):			
- relating to prior years		**(6,962)**	(16,786)
Dividends paid to vendors – Redeemable preference shares		**(333)**	(2,791)
Net cash outflow from investing activities		**(7,736)**	(20,710)
Cash flows from financing activities			
Repayment of third party borrowings		**(1,038)**	(12)
Proceeds from third party borrowings		**10,665**	7,578
Net cash inflow from financing activities		**9,627**	7,566
Net cash increase/(decrease) in cash and cash equivalents		**5,848**	(1,586)
Cash and cash equivalents at beginning of year		**(2,342)**	(756)
Cash and cash equivalents at end of year	5	**3,506**	(2,342)

The accompanying notes form part of these financial statements.

1 Accounting policies

(a) Basis of preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report is based on accounts that are in the process of being audited.

The accounting policies applied are consistent with those applied in the 2009 annual financial statements.

2. Revenue and other income

	2010 $000	2009 $000
Revenue from:		
Recruitment services	**277,476**	311,990
Interest	**73**	127
Recharge income	**131**	158
Organisational development fees	**2,342**	3,562
Other	**591**	920
Total revenue	**280,613**	316,757

3. Expenses

(a) Other expenses

	2010 $000	2009 $000
Advertising and marketing	**1,528**	2,515
Administration	**10,876**	14,681
Payroll tax costs	**1,475**	2,270
Total	**13,879**	19,466

3. Expenses (continued)

(b) Loss before income tax includes the following specific expenses:

	2010 $000	2009 $000
Finance Costs:		
Interest expense on Vendor earn-out liability (refer to Note 7)	**1,872**	3,008
Amortisation of borrowing costs	**1,470**	2,087
Interest and finance charges on other borrowings	**7,859**	6,877
	11,201	11,972
Depreciation:		
Property, plant and equipment	**635**	806
Leasehold improvements	**409**	287
	1,044	1,093
Rental expense on operating leases (2009:net of $0.22 million included in restructuring costs)	**4,690**	6,145
Defined contribution superannuation expense	**14,171**	16,383
Share-based payment expense/(benefit)	**92**	(29)
Allowance for impairment of trade receivables	**736**	799
Other significant expenses		
Impairment of non-current assets:		
Office equipment	**155**	-
Computer software	**34**	-
Goodwill	**-**	32,058
Leasehold improvements	**11**	317
	200	32,375
Restructuring costs (staff redundancy, premises relocation and refinancing advisory costs)	**199**	1,794
Loss on disposal of property, plant and equipment	**3**	8
Foreign exchange losses	**83**	141
Loss on onerous contract	**-**	216

4. Income tax benefit

(a) Components of tax benefit

	2010 $000	2009 $000
Current tax expense	**(266)**	(131)
Deferred tax – origination and reversal of temporary differences	**1,333**	2,051
(Under)/over provision of tax in prior year	**(200)**	267
Income tax benefit	**867**	2,187

(b) Reconciliation of prima facie tax on loss from ordinary activities to income tax expense

	2010 $000	2009 $000
Loss before tax	**9,066**	46,124
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2009: 30%)	**2,720**	13,837
Add:		
Tax effect of:		
- impairment loss on non-current assets that are not deductible	**-**	(9,713)
- non-deductible interest	**(494)**	(610)
- share option expense	**(28)**	9
- other non-allowable items	**(125)**	106
- (over)/under provision of tax in prior year	**(200)**	267
- difference in overseas tax rates	**14**	47
- effect of tax losses not brought to account	**(1,020)**	(1,756)
Income tax benefit	**867**	2,187

5. Cash and cash equivalents

	2010 $000	2009 $000
Cash on hand	**10**	13
Cash at bank	**3,544**	2,938
Total cash and cash equivalents	**3,554**	2,951

	2010 $000	2009 $000
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash and cash equivalents	**3,554**	2,951
Bank overdraft	**(48)**	(5,293)
	3,506	(2,342)

6. Intangible assets

	2010 $000	2009 $000
Preferred supplier agreements	**323**	704
Course material content	**289**	343
Candidate databases	**4,574**	8,373
Computer software	**403**	1,821
Brands	**547**	547
Goodwill	**72,435**	69,199
Total Intangible assets	**78,571**	80,987

6. Intangible assets (continued)

(a) Impairment tests for goodwill

Goodwill is allocated to recruitment cash-generating units (CGUs), being the autonomously operated businesses acquired by the Group. The recoverable amount of the CGUs is determined based on value-in-use calculations.

The following key assumptions were used in the value-in-use calculations:

– Management has based the value-in-use calculations on the most recently completed management approved forecast performance for the forthcoming one-year period. Future cash flows between years two and five are projected using forecast average revenue growth rates declining from 8.3% to 3.0% and costs are calculated taking into account expected gross and operating margins. Thereafter cash flows are projected at a constant growth rate of 3.0% (2009: 3.0%) into perpetuity. An average pre-tax discount rate of 17.1% (2009: 17.1%), reflecting the assessed risks associated with the CGU segments, has been applied to determine the present value of the future cash flow projections.

– During the year ended 30 June 2010, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's CGUs was not impaired. In the prior year, goodwill associated with the Group's CGUs was impaired by $32.06 million.

7. Borrowings

	Note	2010 $000	2009 $000
CURRENT			
Unsecured liabilities			
Vendor earn-out liability	(a)	7,474	7,554
		7,474	7,554
Secured liabilities			
Invoice finance debt	(b)	-	19,157
Bank overdraft	(c)	48	5,293
Finance lease obligation	(g)	10	44
Cash advance facility (net of borrowing costs)	(d)	26,750	4,500
Cash advance acquisition facility	(e)	27,000	22,950
Working capital facility	(f)	24,000	-
		77,808	51,944
		85,282	59,498
NON-CURRENT			
Unsecured liabilities			
Vendor earn-out liability	(a)	9,287	11,661
		9,287	11,661
Secured liabilities			
Finance lease obligation	(g)	1	5
Cash advance facility (net of borrowing costs)	(d)	-	20,008
		1	20,013
		9,288	31,674

7. Borrowings (continued)

(a) Vendor earn-out liability

The Vendor earn-out liability comprises the fair value of estimated initial consideration payments which are payable to vendors over a period of one to three years post-acquisition, and estimated exit consideration payments which are payable to vendors over a three year period after provision of exit notice by the vendors.

For Australian business acquisitions, the Vendor earn-out liability has been structured through the issue to vendors of Series B Redeemable Preference Shares which are progressively redeemed at each earn-out payment date. All redemption payments made are contingent on the profit performance of the acquired business over the payment period. Each holder of Series B Redeemable Preference Shares is entitled to receive franked dividends for each year based on the Net Profit Before Tax of the vendor business acquired. The dividends are payable by the Company in priority to any other dividends in respect of any other shares. If these dividends are not paid then they will accumulate. The holders do not have rights to any other dividends or any entitlement to receive notice of, attend or vote at any general meeting of the Company.

For New Zealand business acquisitions, earn-out payments have not been structured through preference shares; however, additional share consideration payments equivalent in structure to the preference dividends referred to above have been incorporated as part of the share purchase consideration.

The Vendor earn-out liability has been determined by calculating the present value of the estimated future cash flows associated with the earn-out payments, including the associated preference dividend and additional share consideration payments. The cash flows have been discounted at rates between 11.4% and 12.5% representing the assessed risk-adjusted rate of return for the acquired businesses at their acquisition dates.

(b) Invoice finance debt

The invoice finance facility was replaced with the working capital facility on 15 February 2010 (refer (f) below). Prior to the replacement, the facility had a $22 million limit and was to expire on 31 July 2010.

(c) Bank overdraft facility

$7 million (2009: $7 million) cash overdraft facility to assist with ongoing working capital requirements. This facility is subject to annual review and at 30 June 2010 attracted interest at a margin over the bank reference rate. Interest is calculated daily and is payable monthly in arrears. Subsequent to year end and in line with the increased amortisation, the effective interest rate on the facility has been reduced by 5%.

(d) Cash advance facility

$26.75 million (2009: $28.9 million) cash advance facility solely to fund earn-out obligations for all acquired entities with exception of Steelweld and Gemteq. As at 30 June 2010, the facility expiry date was 31 July 2010; however, subsequent to year end this facility has been extended to 31 July 2011. This facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2010, the effective rate would be 10.39%. Quarterly amortisation payments of $0.25 million applied from 30 September 2009. Subsequent to year end the quarterly amortisation payments have been increased to $0.65 million, commencing from 30 September 2010. However, the increase in amortisation payments is offset by a reduction in interest on the facilities and is therefore cashflow neutral. As a result, subsequent to year end, the effective interest rate on the facility has been reduced by 2.25%.

7. Borrowings (continued)

(e) Cash advance acquisition facility

$27 million (2009: $29 million) cash advance acquisition facility solely to fund earn-out obligations for the acquisition of Steelweld and Gemteq. As at 30 June 2010, the facility expiry date was 31 July 2010; however, subsequent to year end this facility has been extended to 31 July 2011. The facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2010, the effective interest rate would be 10.39%. Subsequent to year end and in line with the increased amortisation, the effective interest rate on the facility has been reduced by 2.25%.

(f) Working capital facility

$24 million (2009: nil) working capital facility which replaced the invoice finance debt on 15 February 2010. As at 30 June 2010, the facility expiry date was 31 July 2010; however, subsequent to year end this facility has been extended to 31 July 2011. The facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2010, the effective interest rate would be 10.39%. Subsequent to year end the facility limit has been increased to $27 million. The limit will be further extended to $30 million on 7 November 2010. The drawdown of this facility will be based on available debtor balances.

(g) Assets pledged as security in respect of secured liabilities

Existing facilities

The finance lease obligation is secured against the underlying finance lease assets with net book value of nil (2009: $0.20 million).

The cash advance facility, cash advance acquisition facility, working capital facility and the bank overdraft facility are secured by a fixed and floating charge over the assets of the parent and subsidiaries together with a mortgage over all shares held by the parent entity in the consolidated entities. (Refer to the statement of financial position for value of security).

8. Events after the balance sheet date

Subsequent to year end all the debt facilities have been extended to 31 July 2011. This extension is subject to an extension fee which is payable on the earlier of any date the facilities are refinanced by an external party, an event of default and 31 July 2011 or such later date as agreed by the bank. The debt facilities have been amended as follows:

- the working capital facility limit has increased from $24 million to $27 million. The limit will be further extended to $30 million on 7 November 2010. The drawdown of this facility will be based on available debtor balances; and
- quarterly amortisation payments have been increased from $0.25 million to $0.65 million, commencing from 30 September 2010. However, the increase in amortisation payments is offset by a reduction in interest on the facilities and is cashflow neutral.