Rubicor Group Limited and Controlled Entities

Preliminary Financial Statements

Consolidated Statement of Comprehensive Income

For the financial year ended 30 June 2011

	Note	2011 $000	2010 $000
Revenue	2	291,722	280,613
On hired labour costs		(227,123)	(217,965)
Employee benefits expense		(36,049)	(35,071)
Rental expense on operating leases		(4,393)	(4,690)
Other expenses	3	(12,906)	(13,879)
Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA)		11,251	9,008
Depreciation of property, plant and equipment	3	(826)	(1,044)
Amortisation of intangible assets		(3,217)	(5,629)
Finance costs	3	(12,083)	(11,201)
Impairment losses relating to non-current assets	3	(1,300)	(200)
Loss before income tax expense		(6,175)	(9,066)
Income tax benefit	4	729	867
Loss for the year		(5,446)	(8,199)
Other comprehensive (loss)/ income			
Exchange differences arising on translation of foreign operations		(825)	169
Other comprehensive (loss)/ income for the year, net of tax		(825)	169
Total comprehensive loss for the year		(6,271)	(8,030)
Loss for the year attributable to:			
Owners of the parent		(5,808)	(8,350)
Non-controlling interests		362	151
		(5,446)	(8,199)
Total comprehensive loss for the year attributable to:			
Owners of the parent		(6,633)	(8,181)
Non-controlling interests		362	151
		(6,271)	(8,030)
Basic loss per share (cents)		(5.3)	(7.6)
Diluted loss per share (cents)		(5.3)	(7.6)

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 2011

	Note	2011 $000	2010 $000
ASSETS			
Current assets			
Cash and cash equivalents	5	2,017	3,554
Trade and other receivables		37,210	38,004
Other assets		1,487	1,611
Total current assets		40,714	43,169
Non-current assets			
Trade and other receivables		92	137
Property, plant and equipment		2,588	3,088
Deferred tax assets		6,742	5,717
Intangible assets	6	73,703	78,571
Other assets		177	219
Total non-current assets		83,302	87,732
TOTAL ASSETS		124,016	130,901
LIABILITIES			
Current liabilities			
Trade and other payables		23,113	25,622
Borrowings	7	89,874	85,282
Current tax payable		76	332
Provisions		1,841	1,910
Total current liabilities		114,904	113,146
Non-current liabilities			
Borrowings	7	4,580	9,288
Other Liabilities	8	2,423	-
Provisions		994	969
Total non-current liabilities		7,997	10,257
TOTAL LIABILITIES		122,901	123,403
NET ASSETS		1,115	7,498

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 2011

	Note	2011 $000	2010 $000
EQUITY			
Share capital		64,605	64,605
Reserves		(297)	500
Accumulated losses		(63,629)	(57,821)
		679	7,284
Equity attributable to owners of the parent		679	7,284
Non-controlling interests		436	214
TOTAL EQUITY		1,115	7,498

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 2011

2011

	Equity-settled employee benefit reserve $000	Foreign currency translation reserve $000	Share capital $000	Accumulated losses $000	Attributable to owners of the parent $000	Non-controlling interests $000	Total $000
Balance at 1 July 2010	526	(26)	64,605	(57,821)	7,284	214	7,498
(Loss)/profit for the year	-	-	-	(5,808)	(5,808)	362	(5,446)
Other comprehensive loss for the year	-	(825)	-	-	(825)	-	(825)
Total comprehensive (loss)/profit for the year	-	(825)	-	(5,808)	(6,633)	362	(6,271)
Dividends Paid	-	-	-	-	-	(140)	(140)
Share-based payments	28	-	-	-	28	-	28
Balance at 30 June 2011	554	(851)	64,605	(63,629)	679	436	1,115

2010

	Equity-settled employee benefit reserve $000	Foreign currency translation reserve $000	Share capital $000	Accumulated losses $000	Attributable to owners of the parent $000	Non-controlling interests $000	Total $000
Balance at 1 July 2009	447	(195)	64,605	(49,408)	15,449	-	15,449
(Loss)/profit for the year	-	-	-	(8,350)	(8,350)	151	(8,199)
Other comprehensive income for the year	-	169	-	-	169	-	169
Total comprehensive (loss)/profit for the year	-	169	-	(8,350)	(8,181)	151	(8,030)
Minority interest transfer of controlled entities	-	-	-	(63)	(63)	63	-
Share-based payments	79	-	-	-	79	-	79
Balance at 30 June 2010	526	(26)	64,605	(57,821)	7,284	214	7,498

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 2011

	Note	2011 $000	2010 $000
Cash from operating activities			
Receipts from customers (inclusive of GST)		320,888	306,058
Payments to suppliers and employees (inclusive of GST)		(311,171)	(295,246)
		9,717	10,812
Finance costs paid		(8,473)	(7,858)
Interest received		53	73
Income taxes (paid)/refunded		(535)	930
Total cash inflow from operating activities		762	3,957
Cash flows from investing activities			
Payment for property, plant and equipment		(365)	(431)
Payment for intangible assets		(337)	(10)
Payment for controlled entities acquired (net of cash acquired):			
- relating to prior years		(6,994)	(6,962)
Dividends paid to vendors – redeemable preference shares		(223)	(333)
Net cash outflow from investing activities		(7,919)	(7,736)
Cash flows from financing activities			
Repayment of third party borrowings		(2,600)	(1,038)
Proceeds from third party borrowings		6,013	10,665
Dividends paid to minority shareholders		(140)	-
Net cash inflow from financing activities		3,273	9,627
Net cash (decrease)/ increase in cash and cash equivalents		(3,884)	5,848
Cash and cash equivalents at beginning of year		3,506	(2,342)
Cash and cash equivalents at end of year	5	(378)	3,506

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 2010 annual financial statements.

2 Revenue and other income

	2011 $000	2010 $000
Revenue from:		
Recruitment services	**287,771**	277,476
Interest	**53**	73
Recharge income	**83**	131
Organisational development fees	**3,184**	2,342
Other	**631**	591
Total revenue	**291,722**	280,613

3 Expenses

(a) Other expenses

	2011 $000	2010 $000
Advertising and marketing	**1,616**	1,528
Administration	**9,672**	10,876
Payroll tax costs	**1,618**	1,475
Total	**12,906**	13,879

3. Expenses (continued)

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

	2011 $000	2010 $000
Finance costs:		
Interest expense on Vendor earn-out liability	**1,430**	1,872
Amortisation of borrowing costs	**2,578**	1,470
Interest and finance charges on other borrowings	**8,075**	7,859
	12,083	11,201
Depreciation:		
Property, plant and equipment	**453**	635
Leasehold improvements	**373**	409
	826	1,044
Rental expense on operating leases	**4,392**	4,690
Defined contribution superannuation expense	**14,745**	14,171
Share-based payment expense/(benefit)	**31**	92
Allowance for impairment of trade receivables	**216**	736
Other significant expenses		
Impairment of non-current assets:		
Office equipment	**-**	155
Computer software	**-**	34
Goodwill	**1,300**	-
Leasehold improvements	**-**	11
	1,300	200
Restructuring costs (staff redundancy, premises relocation and refinancing advisory costs)	**-**	199
Loss on disposal of property, plant and equipment	**7**	3
Foreign exchange gains/(losses)	**15**	(83)

4. Income tax benefit

(a) Components of tax benefit

	2011 $000	2010 $000
Current tax expense	**(311)**	(266)
Deferred tax – origination and reversal of temporary differences	**1,025**	1,333
Over/(under) provision of tax in prior year	**15**	(200)
Income tax benefit	**729**	867

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

	2011 $000	2010 $000
Loss before tax	**6,175**	9,066
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2010: 30%)	**1,852**	2,720
Add:		
Tax effect of:		
- impairment loss on non-current assets that are not deductible	**(418)**	-
- non-deductible interest	**(372)**	(494)
- share option expense	**(9)**	(28)
- other non-allowable items	**(247)**	(125)
- under/(over) provision of tax in prior year	**15**	(200)
- difference in overseas tax rates	**7**	14
- effect on deferred tax balances due to change in income tax rate of New Zealand component from 30% to 28%	**(7)**	-
- effect of tax losses not brought to account	**(92)**	(1,020)
Income tax benefit	**729**	867

The corporate tax rate in New Zealand was changed from 30% to 28% with effect from 1 July 2011. This revised rate has not impacted the current tax liability for the current year but will do so in future periods. However, the impact of the change in tax rate has been taken into account in the measurement of deferred taxes at the end of the reporting period. The effect of this change in tax rate on deferred taxes has been disclosed in the reconciliation of deferred taxes above.

5. Cash and cash equivalents

	2011 $000	2010 $000
Cash on hand	**9**	10
Cash at bank	**2,008**	3,544
Total cash and cash equivalents	**2,017**	3,554

	2011 $000	2010 $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	**2,017**	3,554
Bank overdraft	**(2,395)**	(48)
	(378)	3,506

6. Intangible assets

	2011 $000	2010 $000
Preferred supplier agreements	**99**	323
Course material content	**235**	289
Candidate databases	**2,032**	4,574
Computer software	**503**	403
Brands	**547**	547
Goodwill	**70,287**	72,435
Total intangible assets	**73,703**	78,571

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 7.9% 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% (2010: 3.0%) into perpetuity. A pre-tax discount rate of 17.1% (2010: 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 2011, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's CGUs was impaired by $1.3 million. (2010: Nil)

7. Borrowings

	Note	2011 $000	2010 $000
CURRENT			
Unsecured liabilities			
Vendor earn-out liability	(a)	6,330	7,474
Other		238	-
		6,568	7,474
Secured liabilities			
Bank overdraft	(b)	2,395	48
Finance lease obligation	(f)	4	10
Cash advance facility (net of borrowing costs)	(c)	23,907	26,750
Cash advance acquisition facility	(d)	27,000	27,000
Working capital facility	(e)	30,000	24,000
		83,306	77,808
		89,874	85,282
NON-CURRENT			
Unsecured liabilities			
Vendor earn-out liability	(a)	4,561	9,287
		4,561	9,287
Secured liabilities			
Finance lease obligation	(f)	19	1
		4,580	9,288

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) Bank overdraft facility

$7.0 million (2010: $7.0 million) cash overdraft facility to assist with ongoing working capital requirements. This facility is subject to annual review and at 30 June 2011 attracted interest at the bank reference rate. Interest is calculated daily and is payable monthly in arrears.

(c) Cash advance facility

$24.1 million (2010: $26.75 million) cash advance facility solely to fund earn-out obligations for all acquired entities with the exceptions of Steelweld and Gemteq. As at 30 June 2011, the facility expiry date was 31 July 2011, however subsequent to year end this facility has been extended to 30 September 2011. This facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2011, the effective rate would be 8.24%. Quarterly amortisation payments of $0.65 million apply.

(d) Cash advance acquisition facility

$27.0 million (2010: $27.0 million) cash advance acquisition facility solely to fund earn-out obligations for the acquisition of Steelweld and Gemteq. As at 30 June 2011, the facility expiry date was 31 July 2011, however subsequent to year end this facility has been extended to 30 September 2011. The facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2011, the effective interest rate would be 8.24%.

(e) Working capital facility

$30.0 million (2010: $24.0 million) working capital facility. As at 30 June 2011, the facility expiry date was 31 July 2011, however subsequent to year end this facility has been extended to 30 September 2011. The facility attracts interest at a margin over BBSY. Based on the BBSY at 30 June 2010, the effective interest rate would be 10.24%. The drawdown of this facility will be based on available debtor balances.

7. Borrowings (continued)

(f) 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 $0.015 million (2010: nil).

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.

8. Other Liabilities

This represents extension fees incurred in respect of extending the debt facilities in August 2010. The extension is subject to a fee of 3% of the facilities amounting to $2.4 million, the payment of which is calculated with reference to a sliding scale determined by the amount by which the actual EBITDA performance exceeds the covenanted EBITDA performance for each half-year period, but only if the excess performance in any given period is at least 5%. The fee is payable on the first date that the fee is able to be paid, provided that in the reasonable opinion of the Board of Directors, the payment of the fee will not likely cause the Company to be unable to comply with the terms of the facility documents and there is sufficient excess in the working capital facilities.

Conversely, in the event that any of the following conditions occur, the fee is payable on the earlier of:

(a) any date on which any of the facilities is repaid using proceeds advanced or provided by an external party; or

(b) any date on which any member of the Group disposes of assets or a business with an aggregate value equal to or greater than $2.5 million; or

(c) the date payment is requested while a default subsists; or

(d) the date on which all the facilities are repaid in full,

subject to the same provisos as noted above.

9. Events after the reporting period

Subsequent to year end, the Bank has extended all the Company's debt facilities to 30 September 2011, and has also supplied the Company with a credit approved term sheet outlining terms for restructuring these debt facilities, subject to negotiation and execution of legal documentation by all parties. The key terms are as follows:

(a) Non-interest bearing Subordinated debt facility of $ 33.0 million expiring on 31 March 2014.

(b) Senior term debt facility of $ 56.05 million, with quarterly amortisation of $650k, expiring on 31 March 2014.

(c) Working capital facility (bank overdraft) of $ 10.0 million subject to annual review.

(d) The vendor payments of $6.3 million payable in November 2011 will be funded from the Senior term debt facility.