

Talent2 International Limited

ACN 000 737 744



Preliminary Final Report

for the Financial Year ended June 2007

talent²

Results for Announcement to the Market

Revenue and Net Profit				
Revenues from ordinary activities	up	54.1%	to	\$153,425,000
Profit before interest, taxation, depreciation and amortisation (EBITDA)	up	56.0%	to	\$15,665,000
Profit from ordinary activities before tax attributable to members	up	90.6%	to	\$9,831,000
Profit from ordinary activities after tax attributable to members	up	81.9%	to	\$6,764,000
Net profit for the period attributable to members	up	81.9%	to	\$6,764,000

Dividends (distributions)	Amount per Security	Franked Amount per Security
Final dividend	3.5c	nil
Previous corresponding period	3.0c	46%
Record date for determining entitlements to the dividend, (in the case of a trust, distribution)	28 August 2007	n/a

Commentary

The board of Talent2 International Limited is pleased to announce an exceptionally strong annual result evidenced by all key financial measures delivering strong year on year growth. The results reflect the business' ability to continue to grow rapidly whilst generating strong cash flows, and maintaining healthy profit margins.

Revenues for the 2007 year increased by 54% to \$153.4m, up from \$99.6m in the previous year. Margins were maintained at just over 10%, delivering an EBITDA profit of \$15.7m, up 56% year on year. Strong cash generation continued to underpin the company's growth with operating cash flow up 52% year on year to \$13.3m.

Growth is being led by the Managed Services business, which is the business' annuity income stream.

- > The **Managed Services** business grew by 78% on the previous year to \$43.2m. This was underwritten by significant new business from major national and international companies both in the domestic and Asian markets.
- > **Talent2 People** the core executive recruitment and search business, continued to deliver strong growth with revenue up 55% to \$94.0m, reflecting steady growth and good contributions from new offices in Shanghai, Malaysia and London.
- > **Talent2 Works** the company's technology arm, contributed revenue of \$17.4m up 13% year on year, and continued to make an excellent contribution to the Managed Services business.
- > **Talent2 elearning and HR Consulting** continues to acquire significant new customer wins, and is establishing itself as a preferred partner to companies wishing to optimise their productivity and development.

Reflecting its confidence in the future of the company, and its current strong cash resources, Talent2 will commence paying regular dividends. The company's dividend policy will be to distribute between 50% and 70% of its after tax profits. In line with this policy the company has declared a final unfranked 3.5 cents per share dividend payable on 10 September 2007. This follows a return of capital of 3 cents per share on 15 November 2006 and a special partially franked dividend of 3 cents per share on 1 August 2006.

The new dividend distribution policy will be accompanied by continued growth. Talent2 expects to grow strongly over the next three years and this will be achieved together with positive cash flow generation. Growth over the previous year was driven principally by organic growth.

Talent2 also made a number of strategic acquisitions including BizEd, a recognised leader in outsourced learning services, and Australasian Talent Company, a staffing solutions company based in the United Kingdom. These acquisitions contributed 5.5% of the group's revenue in the year to 30 June 2007.

Other financial highlights during the 2007 year include:

- > Earnings per share of 5.7c compared to 3.3c in 2006.
- > EBIT of \$9.6m compared to \$4.8m in 2006. EBIT was \$5.8m in the second half of 2007, up from \$3.8m in the first half.
- > Net assets rose from \$62.1m to \$66.4m and net tangible assets declined from \$20.2m to \$13.0m.

Income Statement for the Financial Year ended 30 June 2007

		Consolidated Entity	
	Note	2007	2006
		\$000	\$000
Sales Revenue	2a	153,425	99,557
Cost of sales			
On hired labour and advertising costs		(35,525)	(18,237)
Outsourced Services		(17,546)	(7,620)
Distributor commissions and licence fees		(2,404)	(1,897)
Gross Profit		97,950	71,803
Employee benefits expense		(67,523)	(49,368)
Operating lease rental expense	2b	(6,743)	(5,716)
Advertising and marketing expense		(1,985)	(1,474)
Amortisation of acquired intangible assets	2b	(3,106)	(2,862)
Amortisation of software development	2b	(790)	(863)
Depreciation of plant and equipment	2b	(2,184)	(1,533)
Borrowing costs expense	2b	(180)	(65)
Other expenses from ordinary activities		(5,608)	(4,765)
Profit From Ordinary Activities Before Income Tax		9,831	5,157
Income tax expense relating to ordinary activities		(3,067)	(1,439)
Profit From Ordinary Activities After Related Income Tax		6,764	3,718
Earnings per share			
Basic (cents per share)	4	5.71c	3.29c
Diluted (cents per share)	4	5.56c	3.24c

Balance Sheet

As at 30 June 2007

		Consolidated Entity	
	Note	2007	2006
		\$000	\$000
Current Assets			
Cash and cash equivalents		12,917	14,565
Trade and other receivables	5	28,260	17,446
Other current assets	6	3,311	2,128
Total Current Assets		44,488	34,139
Non-Current Assets			
Plant and equipment	7	5,790	5,000
Deferred tax assets	8	3,858	5,569
Investment accounted for using the equity method	9	328	-
Intangible assets	10	53,433	41,879
Total Non-Current Assets		63,409	52,448
Total Assets		107,897	86,587
Current Liabilities			
Trade and other payables	11	31,413	19,920
Short term borrowings	12	283	293
Current tax liabilities	13	1,702	367
Short term provisions	14	4,140	2,240
Total Current Liabilities		37,538	22,820
Non-Current Liabilities			
Long term borrowings	12	3,320	525
Long term provisions	14	599	1,132
Total Non-Current Liabilities		3,919	1,657
Total Liabilities		41,457	24,477
Net Assets		66,440	62,110
Equity			
Issued capital		77,069	75,434
Reserves		3,995	3,844
Accumulated losses		(14,624)	(17,168)
Total Equity		66,440	62,110

Statement of Changes in Equity

for the Financial Year ended 30 June 2007

			Reserves				
	Share Capital Ordinary	Accumulated Losses	Capital Profits Reserves	Equity Incentive Plans	Dividend Distribution Reserve	Foreign Exchange Movement	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Balance at 1 July 2005	57,514	(17,357)	105	335	-	10	40,607
Foreign Exchange movement	-	-	-	-	-	(176)	(176)
Net income recognised directly in equity	-	-	-	-	-	(176)	(176)
Net Profit	-	189	-	-	3,529	-	3,718
Total recognised income and expense	-	189	-	-	3,529	(176)	3,542
Shares and Options issued	17,920	-	-	601	-	-	18,521
Elimination of treasury shares	-	-	-	(560)	-	-	(560)
Balance at 30 June 2006	75,434	(17,168)	105	376	3,529	(166)	62,110
Balance at 1 July 2006	75,434	(17,168)	105	376	3,529	(166)	62,110
Foreign Exchange movement	-	-	-	-	-	(350)	(350)
Net income recognised directly in equity	-	-	-	-	-	(350)	(350)
Net Profit	-	2,544	-	-	4,220	-	6,764
Total recognised income and expense	-	2,544	-	-	4,220	(350)	6,414
Shares and Options issued	5,176	-	-	673	-	-	5,849
Capital Repayment	(3,541)	-	-	-	-	-	(3,541)
Elimination of treasury shares	-	-	-	(863)	-	-	(863)
Dividends paid	-	-	-	-	(3,529)	-	(3,529)
Balance at 30 June 2007	77,069	(14,624)	105	186	4,220	(516)	66,440

The financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the Financial Year ended 30 June 2007

		Consolidated Entity	
	Note	2007	2006
		\$000	\$000
Cash Flows From Operating Activities			
Receipts from customers		158,248	103,594
Payments to suppliers and employees		(145,253)	(95,174)
Interest received		426	437
Interest and other costs of finance paid		(180)	(65)
Income tax refund (paid)		72	(39)
Net cash provided by operating activities	17a	13,313	8,753
Cash Flows From Investing Activities			
Proceeds from sale of plant and equipment		115	-
Purchase of plant and equipment		(3,064)	(2,750)
Payment for net business assets acquired	17b	(8,265)	(635)
Purchase of investments	9b	(328)	-
Purchase of other non-current assets		(1)	-
Net cash used in investing activities		(11,543)	(3,385)
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		594	181
Payment of transaction costs relating to share issues		(17)	(79)
Proceeds from borrowings		3,075	-
Capital repayment to shareholders		(3,541)	-
Dividends paid		(3,529)	-
Net cash (used in)/provided by financing activities		(3,418)	102
Net (Decrease)/Increase In Cash Held		(1,648)	5,470
Cash At The Beginning Of The Financial Year		14,565	9,095
Cash At The End Of The Financial Year		12,917	14,565

Notes to the Preliminary Final Report for the Financial Year ended 30 June 2007

1. 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.

The accounting policies applied are consistent with those applied in the 2006 annual report. There have been no changes in these accounting policies.

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

2. Profits from Ordinary Activities

	Consolidated Entity	
	2007	2006
The operating profit before income tax includes the following items of revenue and expense:	\$000	\$000
2a. Operating Revenue		
Managed services	42,758	24,225
Recruitment services	93,113	60,082
Technology services	17,128	14,813
	152,999	99,120
Interest Revenue:		
Other entities	426	437
Total Revenue	153,425	99,557
2b. Operating Expenses		
Borrowing costs:		
Interest	110	15
Finance lease finance charges	70	50
	180	65
Net provision for doubtful debts in respect of amounts receivable from:		
Other entities	74	158
Net transfer to provisions:		
Employee entitlements	1,119	699
Depreciation of non-current assets:		
Plant and equipment	1,869	1,319
Leased assets	315	214
	2,184	1,533
Amortisation of non-current assets:		
Software Development	790	863
Acquired software intellectual property	2,295	2,060
Acquired candidate databases	811	802
	3,896	3,725
Operating lease rental expenses:		
Minimum lease payments	6,743	5,716

3. Comparison of Half Year Profits

	Consolidated Entity	
	2007	2006
	\$000	\$000
Consolidated profit from ordinary activities after tax attributable to members reported for the first half year	2,612	1,496
Consolidated profit from ordinary activities after tax attributable to members reported for the second half year	4,152	2,222

4. Ratios

	Consolidated Entity	
	2007	2006
Profit before tax / revenue		
Consolidated profit from ordinary activities before tax as a percentage of revenue	6.4%	5.2%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	10.2%	6.0%
NTA Backing		
Net tangible asset backing per ordinary security	10.82c	17.23c
Earnings per Share		
(a) Basic EPS	5.71c	3.29c
(b) Diluted EPS	5.56c	3.24c
(c) Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	118,359,592	112,935,139
(d) Weighted average number of options outstanding	3,193,249	1,927,115
(e) Weighted average number of ordinary shares outstanding during the year used in the calculations of dilutive earnings per share	121,552,841	114,862,254

5. Trade and Other Receivables

	Consolidated Entity	
	2007	2006
	\$000	\$000
Trade receivables	28,404	17,520
Provision for doubtful debts	(144)	(74)
	28,260	17,446

6. Other Current Assets

	Consolidated Entity	
	2007	2006
	\$000	\$000
Prepayments	1,417	796
Other	1,894	1,332
	3,311	2,128

7. Plant and Equipment

	Consolidated Entity	
	2007	2006
	\$000	\$000
Leasehold Improvements		
At cost	4,150	2,337
Accumulated depreciation	(1,711)	(733)
	2,439	1,604
Plant and Equipment		
At cost	8,848	7,423
Accumulated depreciation	(6,102)	(4,947)
	2,746	2,476
Leased Plant and Equipment		
At cost	1,412	1,412
Accumulated depreciation	(807)	(492)
	605	920
Total Plant and Equipment	5,790	5,000

Movements in Carrying Amounts

	Leasehold Improvements	Plant and Equipment	Leased Plant and Equipment	Total
Balance at 1 July 2006	1,604	2,476	920	5,000
Additions	1,660	1,404	-	3,064
Disposals	(34)	(77)	-	(111)
Additions through acquisition of entity	-	33	-	33
Asset reclassification	37	(37)	-	-
Depreciation / amortisation charged against operating profit	(817)	(1,052)	(315)	(2,184)
Foreign exchange movement	(11)	(1)	-	(12)
Balance at 30 June 2007	2,439	2,746	605	5,790

8. Deferred Tax Assets

	Consolidated Entity	
	2007	2006
	\$000	\$000
Deferred Tax Assets are made up of the following estimated tax benefits:		
Tax losses	2,681	2,392
Temporary Differences	1,177	3,177
	3,858	5,569

9. Investments using the Equity Method

9a. Associated Companies

Interest is held in the following unlisted associated company.

Name	Principal activities	Country of Incorporation	Shares	Ownership Interest		Carry amount of Investment	
				2007	2006	2007	2006
				%	%	\$000	\$000
TalentPro Global Limited ¹	Holding Company	British Virgin Islands	Ord.	32	-	328	-
						328	-

1. TalentPro Global Limited holds a 75% interest in HR One Management Consultants Limited, a recruitment company operating in India. A deferred payment of approximately A\$365,000 is payable to the vendors of HR One Management Consultants Limited in the event of certain performance criteria being met.

9b. Movement during the year in the Associated Company

	Consolidated Entity	
	2007	2006
	\$000	\$000
Balance at the beginning of the financial year	-	-
New investments during the year	328	-
Share of associated company's profit after tax ²	-	-
	328	-

2. During the 3 months ended June 2007, being the relevant period since the Consolidated Entity's initial investment in the associated company, this associated company produced a small after tax profit.

10. Intangible Assets

	Consolidated Entity	
	2007	2006
	\$000	\$000
Goodwill	34,369	23,767
Acquired software intellectual property	21,304	17,304
Accumulated amortisation	(4,400)	(2,105)
	16,904	15,199
Acquired candidate databases	4,084	4,027
Accumulated amortisation	(1,942)	(1,131)
	2,142	2,896
Other	18	17
	53,433	41,879

11. Trade and Other Payables

	Consolidated Entity	
	2007	2006
	\$000	\$000
Trade payables	13,523	7,570
Employment liabilities	13,372	8,107
Unearned income	4,518	4,243
	31,413	19,920

12. Borrowings

	Consolidated Entity	
	2007	2006
	\$000	\$000
Current		
Finance lease liabilities secured by the assets leased	283	293
Non Current		
Bank loan secured by a charge over assets of a UK based subsidiary entity guaranteed by the parent entity	3,072	-
Finance lease liabilities secured by the assets leased	248	525
	3,320	525

13. Tax Liabilities

	Consolidated Entity	
	2007	2006
	\$000	\$000
Non Current		
Income Tax	1,702	367

14. Provisions

	Consolidated Entity	
	2007	2006
	\$000	\$000
Current		
Employee benefits	3,493	2,014
Operating lease costs	323	182
Other	324	44
	4,140	2,240
Non Current		
Employee benefits	512	1,094
Other	87	38
	599	1,132
a) Aggregate employee benefits liability	4,005	3,108
b) Number of employees at the end of the financial year	695	495

15. Issued Capital

15a. Ordinary Securities

	Consolidated Entity	
	2007	2006
	Total Number	Total Number
Balance at the beginning of the Financial Year	117,442,466	103,806,741
Changes During the Year		
Options exercised	955,914	510,870
Issued on acquisition of controlled entities	1,864,311	13,124,855
Balance at the end of the Financial Year	120,262,691	117,442,466

15. Issued Capital (cont)

15b. Non Quoted Options

	Balance 01/07/06	Issued	Exercised	Expiry/ Cancellations	Balance 30/06/07	Vested	Non Vested	Exercise Price	Expiry
Parcel J (Director Conditional Option Plan)	440,000 440,000	- -	220,000 -	220,000 -	440,000	- -	440,000	19.5c 19.5c	30/06/07 30/06/08
Parcel K (Director Conditional Option Plan)	80,000 80,000	- -	40,000 -	40,000 -	80,000	- -	80,000	34.5c 34.5c	30/06/07 30/06/08
Parcel L (Director Conditional Option Plan)	75,000 75,000	- -	37,500 -	37,500 -	75,000	- -	75,000	32.0c 32.0c	30/06/07 30/06/08
Parcel M (Employee Share Option Plan)	710,000	-	292,000	1,500	416,500	416,500	-	42.0c	12/06/08
Parcel N (Employee Share Option Plan)	150,000	-	15,000	-	135,000	97,500	37,500	102.0c	06/05/09
Parcel O (Employee Share Option Plan)	1,235,000	-	214,250	75,250	945,500	393,000	552,500	97.0c	01/07/09
Parcel Q (Employee Share Option Plan)	24,000	-	-	-	24,000	12,000	12,000	132.0c	05/08/09
Parcel R (Employee Share Option Plan)	130,000	-	25,000	-	105,000	40,000	65,000	137.0c	16/02/10
Parcel S (Employee Share Option Plan)	1,595,850	-	112,164	63,330	1,420,356	663,925	756,431	119.0c	24/06/10
Parcel T (Employee Share Option Plan)	71,000	-	-	20,000	51,000	12,750	38,250	105.0c	31/01/11
Parcel U (Employee Share Option Plan)	-	55,000	-	13,000	42,000	10,500	31,500	115.0c	15/06/11
Parcel V (Employee Share Option Plan)	-	1,324,000	-	47,000	1,277,000	-	1,277,000	134.0c	17/07/11
Parcel W (Employee Share Option Plan)	-	70,000	-	-	70,000	-	70,000	157.0c	25/10/11
Parcel X (Director Conditional Option Plan)	-	2,480,000	-	-	2,480,000	-	2,480,000	157.0c	30/06/12
Parcel Y (Employee Share Option Plan)	-	63,000	-	-	63,000	-	63,000	188.0c	07/02/12
Parcel Z (Employee Share Option Plan)	-	37,000	-	-	37,000	-	37,000	264.0c	16/05/12
Total	5,105,850	4,029,000	955,914	517,580	7,661,356	1,646,175	6,015,181		
Percentage of ordinary shares at the end of the Financial Year									

16. Business Segment Information

Primary Reporting	Managed Services		Recruitment Services		Technology Services		Unallocated		Eliminations		Economic Entity	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Revenue												
External Sales	42,758	24,225	93,113	60,082	17,128	14,813	426	437	-	-	153,425	99,557
Other Segments	454	74	854	398	245	539	-	-	(1,553)	(1,011)	-	-
Total Revenue	43,212	24,299	93,967	60,480	17,373	15,352	426	437	(1,553)	(1,011)	153,425	99,557
Less Cost of Sales												
External Sales	(18,928)	(8,282)	(34,723)	(18,086)	(1,824)	(1,386)	-	-	-	-	(55,475)	(27,754)
Other Segments	(540)	(15)	(155)	(163)	(130)	(497)	-	-	825	675	-	-
Gross Profit	23,744	16,002	59,089	42,231	15,419	13,469	426	437	(728)	(336)	97,950	71,803
EBITDA	3,029	115	9,849	7,673	2,787	2,254	-	-	-	-	15,665	10,042
Depreciation & Amortisation	(3,443)	(2,627)	(1,815)	(1,524)	(822)	(1,107)	-	-	-	-	(6,080)	(5,258)
EBIT	(414)	(2,512)	8,034	6,149	1,965	1,147	-	-	-	-	9,585	4,784
Net Interest											246	373
Profit from ordinary activities before tax											9,831	5,157
Income tax											(3,067)	(1,439)
Net Profit after tax											6,764	3,718
Segment Assets and Liabilities:												
Assets	42,074	24,937	52,733	46,130	13,090	15,520	-	-	-	-	107,897	86,587
Liabilities	12,124	4,002	22,035	12,148	7,298	8,327	-	-	-	-	41,457	24,477
Other Segment Information:												
Acquisition of non-current segment assets	1,119	1,141	1,584	1,500	361	970	-	-	-	-	3,064	3,611

Secondary reporting – Geographic segments

	Segment Revenue		Carrying Amount of Segment Assets	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
Geographical Location:				
Australia and New Zealand	130,447	91,789	88,100	82,553
Asia	18,016	7,768	14,671	4,034
UK	4,929	-	4,668	-
Other locations	33	-	458	-
	153,425	99,557	107,897	86,587

17. Cash Flow Information

17a. Reconciliation of Cash Flow from Operations with Profit from Ordinary Activities after Income Tax

	Consolidated Entity	
	2007	2006
	\$000	\$000
Profit from ordinary activities after Income Tax	6,764	3,718
Employee share option plans expensed to equity	673	601
Depreciation of plant and equipment	2,184	1,533
(Profit) / Loss on Disposal of non-current assets and trademarks	-	48
Amortisation of acquired software intellectual property and candidate databases	3,106	2,862
Deferred tax asset utilised	1,802	1,431
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase) / Decrease in assets:		
Current receivables	(9,019)	(5,733)
Prepayments and deferred expenses	(1,177)	(363)
Increase / (Decrease) in liabilities:		
Current trade payables	8,233	4,390
Unearned income	(349)	172
Income taxes payable	1,335	(47)
Other liabilities	(239)	141
Net cash from operating activities	13,313	8,753

17b. Acquisition of Entities

During the year 100% of the controlled entity BizEd Services Pty Ltd (BizEd) and its subsidiaries were acquired and 100% of the controlled entity Australasian Talent Company Limited (ATC) was acquired.

Other investments include Hills Payroll a former distributor of group subsidiary National Payroll Systems Pty Ltd and acquired on 1 February 2007.

The BizEd purchase was satisfied by a cash payment of \$4,629,000 plus the issue of 1,864,311 ordinary shares at an effective price of \$2.4674 each, being the 20 day weighted average share price of the security on the effective date of the acquisition (1 May 2007). The purchase consideration of BizEd includes \$129,000 of transaction costs.

The ATC purchase was satisfied by a cash payment of \$3,491,000 which includes \$416,000 in transaction costs. The effective date of the acquisition was 15 January 2007. All other purchases were satisfied by cash payments.

17. Cash Flow Information (cont)

	BizEd	ATC	Other	Total
	2007	2007	2007	2007
	\$000	\$000	\$000	\$000
The purchase price was allocated as follows:				
Purchase Consideration	9,229	3,491	495	13,215
Cash consideration	4,629	3,491	495	8,615
Cash acquired at acquisition date	(350)	-	-	(350)
Cash outflow	4,279	3,491	495	8,265
Assets and liabilities acquired at acquisition date:				
Cash	350	-	-	350
Receivables	1,795	-	-	1,795
Other current assets	4	-	-	4
Plant & equipment	33	-	-	33
Deferred tax assets	92	-	-	92
Payables	(3,590)	-	-	(3,590)
Unearned income	(128)	-	-	(128)
	(1,444)	-	-	(1,444)
Value attributable to identifiable intangible assets	4,000	57	-	4,057
Goodwill on consolidation	6,673	3,434	495	10,602
Total Purchase consideration	9,229	3,491	495	13,215
Profit after taxation (excluding amortisation of acquired intangible assets) included in consolidated profit of the group since the acquisition date.	41	(148)	-	(107)

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value at acquisition date.

Had the results of these acquisitions been consolidated from 1 July 2006, total consolidated revenue would have been \$169,942,000 and total consolidated profit after taxation \$6,845,000 for the year ended 30 June 2007.

18. Subsequent Events

Subsequent to the year end, the parent entity declared a dividend out of current year profits to shareholders registered on 28 August 2007. The dividend estimate amount of \$4,220,000 is unfranked. This dividend has not been accrued in these 30 June 2007 financial statements.