Talent2 International Limited

ACN 000 737 744

Preliminary Final Report

HR ADVISORY | PAYROLL | RECRUITMENT | LEARNING

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period:

Year ended 30 June 2011

Previous Corresponding Period:

Year ended 30 June 2010

Results for announcement to the market

Revenue And Net Profit For The Year

Revenue and Net Profit				$000
Revenues from ordinary activities	up	26%	to	$306,138
Profit before interest, taxation, depreciation, amortisation and impairment (EBITDA)	up	52%	to	$29,958
Profit from ordinary activities after tax attributable to consolidated entity	up	85%	to	$10,715
Net profit for the year attributable to owners of the parent	up	77%	to	$10,157

Dividends

Dividends (distributions)	Amount per Security	Franked Amount per Security
Final dividend	5.50c	5.50c
Previous corresponding period	4.00c	4.00c
Record date for determining entitlements to the dividend	29 August 2011	n/a
Payable date for dividend	30 September 2011	n/a

talent2

Commentary

The consolidated entity is reporting revenue of $306.1m, and EBITDA of $30.0m. Reported EBITDA includes an adjustment of $2m as a consequence of an acquisition purchase price adjustment as detailed below. Revenue has increased by 26% and EBITDA (including the adjustment) by 52% when compared to the year ended 30 June 2010. This is a reflection of a strong performance across the Managed Services division when compared to the prior year, with growth coming from both the consolidated entity's new and existing client base. This performance includes the full twelve month contribution of the Zapper (January 2010) and Sugar Group (February 2010) acquisitions made in the year ended 30 June 2010, and the Origin HR acquisition made in July 2010.

The consolidated entity acquired the Origin HR Group in July 2010. Origin HR provides vocational training to its client base and support to the vocational course offerings available through the Sugar Group.

The Managed Services division is reporting revenue of $181.2m, up 34% from the prior year, and an EBITDA profit of $22.0m, up on the prior year's result of $12.6m. The Recruitment Managed Services business performed strongly, as clients sought cost effective solutions to meet their recruitment needs. The consolidated entity continued to perform strongly in the provision of payroll outsourcing solutions to the SME market and the prior year acquisition of Zapper allowed the offering to expand further into Asia during the year. The Learning business result was strengthened by Sugar and Origin HR which were acquired in the prior year and at the start of the current year respectively. Organically, revenue grew 25% and EBITDA 64%.

The Recruitment division is reporting revenue of $124.7m, up 16% on the prior year, and EBITDA of $6.0m, slightly down compared to $7.1m in the prior year. The EBITDA result reflects the impact of the continued investment being made in increasing the Asian footprint. Revenue derived from operations in Asia has more than doubled over the year, now representing almost 20% of our total revenue.

Following a review of the carrying value of acquired intangible assets at reporting date, the consolidated entity has recorded an impairment charge of $1.2m for the year. The impairment relates to the consolidated entity's investment in the Middle East and arises due to the shortfall in discounted cash flows generated by the underlying business when compared to the carrying value of the acquired intangible assets. The consolidated entity remains committed to the Middle East, and is confident that the region will recover, however recovery has been slower than previously forecast and the consolidated entity considered it appropriate to take the accounting charge at this time.

The consolidated entity is reporting profit before tax of $16.3m, compared to a profit before tax of $10.6m in the prior year. The current years' profit includes a one off impairment charge of $1.2m, as discussed above, and an adjustment of $2m as a consequence of agreeing the outstanding purchase price payment for Origin HR at $15.2m as compared to the liability of $17.2m shown in the interim report at 31 December 2010. Accounting standards in force from 1 July 2010 require that the $2m is shown as other income in the statement of comprehensive income.

The reported result after tax is a profit of $10.7m compared to a profit of $5.8m in the prior year. Earnings per share increased to 7.15c from 4.36c in the prior year, with the adjusted earnings per share increasing to 10.08c from 7.35c in the prior year.

Operating cash remains solid with operating cash flows of $12.1m recorded in the current year compared to $10.0m in the prior year. The consolidated entity maintains a strong statement of financial position with cash at $20.6m at 30 June 2011 and debt at $24.8m.

The Board has declared a fully franked dividend of 5.5 cents in respect of the 2011 financial year

talent2

Statement of Financial Position as at 30 June 2011

		Consolidated Entity	
	Note	2011	2010
		$000	$000
Assets			
Current Assets			
Cash and cash equivalents		20,595	24,090
Trade and other receivables	6	61,749	44,487
Other current assets	7	6,163	6,428
Total Current Assets		**88,507**	**75,005**
Non-Current Assets			
Plant and equipment	8	6,891	7,330
Deferred tax assets	9	3,744	1,744
Intangible assets	10	101,611	93,714
Total Non-Current Assets		**112,246**	**102,788**
Total Assets		**200,753**	**177,793**
Liabilities			
Current Liabilities			
Trade and other payables	11	43,443	29,977
Unearned income	12	6,999	6,713
Interest-bearing borrowings	13	2,811	1,908
Current tax liabilities	14	6,164	4,580
Short-term provisions	15	6,561	4,737
Total Current Liabilities		**65,978**	**47,915**
Non-Current Liabilities			
Other payables	11	5,000	-
Interest-bearing borrowings	13	21,997	30,457
Long-term provisions	15	845	758
Total Non-Current Liabilities		**27,842**	**31,215**
Total Liabilities		**93,820**	**79,130**
Net Assets		**106,933**	**98,663**
Equity			
Equity Attributable to Equity Holders of the Parent			
Issued capital		106,040	101,619
Reserves		16,381	15,288
Accumulated losses		(16,170)	(18,368)
Parent Interests		**106,251**	**98,539**
Non-controlling interests		682	124
Total Equity		**106,933**	**98,663**

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

talent2

Statement of Comprehensive Income for Financial Year ended 30 June 2011

		Consolidated Entity	
	Note	2011	2010
		$000	$000
Revenue	2a	**306,138**	**242,591**
Cost of rendering of services: On hired labour and advertising costs		(54,823)	(46,786)
Outsourced services		(56,723)	(37,591)
Distributor commissions and licence fees		(640)	(1,710)
Gross Profit		**193,952**	**156,504**
Other income	2b	2,011	9
Employee benefits expense		(137,043)	(111,182)
Operating lease rental expense	2c	(15,314)	(13,878)
Advertising and marketing expense		(2,770)	(1,830)
Depreciation of plant and equipment	2c	(3,031)	(3,206)
Amortisation of acquired intangible assets	2c	(6,780)	(5,061)
Amortisation of software development	2c	(1,798)	(492)
Impairment of acquired assets	2c	(1,200)	-
Acquisition costs		(264)	(359)
Finance costs	2c	(1,088)	(739)
Other expenses		(10,340)	(9,214)
Profit Before Income Tax		**16,335**	**10,552**
Income tax expense		(5,620)	(4,763)
Net Profit for the year		**10,715**	**5,789**
Other Comprehensive Income			
Foreign currency translation		(4,318)	1,384
Other comprehensive (loss)/income for the year, net of tax		(4,318)	1,384
Total Comprehensive Income for the year		**6,397**	**7,173**
Profit for the year is attributable to:			
Non-controlling interest		558	38
Owners of the parent		10,157	5,751
		10,715	**5,789**
Total Comprehensive Income for the year is attributable to:			
Non-controlling interest		558	38
Owners of the parent		5,839	7,135
		6,397	**7,173**

talent2

Statement of Comprehensive Income for Financial Year ended 30 June 2011 (cont.)

		Consolidated Entity	
	Note	2011	2010
		$000	$000
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic EPS (cents per share)	4	7.15c	4.36c
Diluted EPS (cents per share)	4	6.86c	4.16c

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

Statement of Changes in Equity for Year ended 30 June 2011

			Reserves						
	Share Capital Ordinary	Accumulated Losses	Capital Profit Reserves	Equity Incentive Plans	Dividend Distribution Reserve	Foreign Exchange Reserve	**Owners of the Parent**	Non-controlling Interest	**Total**
	$000	$000	$000	$000	$000	$000	**$000**	$000	**$000**
Balance at 1 July 2010	**101,619**	**(18,368)**	**105**	**9,703**	**5,643**	**(163)**	**98,539**	**124**	**98,663**
Profit for the period	-	10,157	-	-	-	-	**10,157**	558	**10,715**
Other comprehensive income	-	-	-	-	-	(4,318)	**(4,318)**	-	**(4,318)**
Total comprehensive income for the year	-	10,157	-	-	-	(4,318)	**5,839**	558	**6,397**
Transfer between reserves	-	(7,959)	-	-	7,959	-	**-**	-	**-**
Acquisition of non-controlling interest	-	-	-	-	-	-	**-**	-	**-**
Shares issued (net of transaction costs)	5,405	-	-	-	-	-	**5,405**	-	**5,405**
Purchase of treasury shares	(1,607)	-	-	-	-	-	**(1,607)**	-	**(1,607)**
Net issue of shares to employees	623	-	-	(623)	-	-	**-**	-	**-**
Share based payments	-	-	-	3,724	-	-	**3,724**	-	**3,724**
Dividends paid	-	-	-	-	(5,649)		**(5,649)**	-	**(5,649)**
Balance at 30 June 2011	**106,040**	**(16,170)**	**105**	**12,804**	**7,953**	**(4,481)**	**106,251**	**682**	**106,933**
Balance at 1 July 2009	**83,287**	**(18,476)**	**105**	**6,861**	**-**	**(1,547)**	**70,230**	**204**	**70,434**
Profit for the period	-	5,751	-	-	-	-	**5,751**	38	**5,789**
Other comprehensive income	-	-	-	-	-	1,384	**1,384**	-	**1,384**
Total comprehensive income for the year	-	5,751	-	-	-	1,384	**7,135**	38	**7,173**
Transfer between reserves	-	(5,643)	-	-	5,643	-	**-**	-	**-**
Acquisition of non-controlling interest	-	-	-	-	-	-	**-**	(118)	**(118)**
Shares issued (net of transaction costs)	18,732	-	-	-	-	-	**18,732**	-	**18,732**
Purchase of treasury shares	(1,450)	-	-	-	-	-	**(1,450)**	-	**(1,450)**
Net issue of shares to employees	1,050	-	-	(1,050)	-	-	**-**	-	**-**
Share based payments	-	-	-	3,892	-	-	**3,892**	-	**3,892**
Balance at 30 June 2010	**101,619**	**(18,368)**	**105**	**9,703**	**5,643**	**(163)**	**98,539**	**124**	**98,663**

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

talent2

Cash Flow Statement for Financial Year ended 30 June 2011

	Note	Consolidated Entity 2011	2010
		$000	$000
Cash Flows From Operating Activities			
Receipts from customers (inclusive of GST)		318,041	255,226
Payments to suppliers and employees (inclusive of GST)		(298,377)	(241,239)
Interest received		274	287
Finance costs		(1,088)	(739)
Income tax paid		(6,931)	(3,791)
Income tax refund		164	229
Net cash flows from Operating Activities	18a	**12,083**	**9,973**
Cash Flows from Investing Activities			
Proceeds from sale of plant and equipment		-	39
Purchases of plant and equipment		(3,096)	(2,169)
Purchases of intangible assets		(189)	-
Payment for business assets acquired, net of cash acquired	18b	(1,972)	(19,216)
Net cash flows used in Investing Activities		**(5,257)**	**(21,346)**
Cash Flows From Financing Activities			
Proceeds from issues of shares		1,543	1,428
Payment of transaction costs relating to share issues		(39)	(60)
Proceeds from borrowings		8	23,122
Repayment of borrowings		(4,552)	(10,394)
Dividends paid		(5,649)	-
Net cash flows (used in)/from Financing Activities		**(8,689)**	**14,096**
Net (decrease)/increase in cash and cash equivalents		(1,863)	2,723
Net foreign exchange differences		(1,632)	390
Cash and cash equivalents at beginning of the financial year		24,090	20,977
Cash at and cash equivalents at end of the financial year		**20,595**	**24,090**

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

Notes to the Preliminary Final Report for the Financial Year ended 30 June 2011

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 that will be applied in the 2011 full financial report.

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

2. Profits from ordinary activities

	Consolidated Entity	
	2011	2010
	$000	$000
The operating profit before income tax includes the following items of revenue and expense:		
2a. Operating Revenue		
Managed Services	181,205	134,824
Recruitment Services	124,659	107,480
	305,864	**242,304**
Interest received	274	287
Total Revenue	**306,138**	**242,591**
2b. Other Income		
Amendment to fair value of acquisition contingent consideration	2,000	-
Net foreign exchange gain	11	9
Total other income	**2,011**	**9**
2c. Operating Expenses		
Finance costs:		
Interest	1,051	691
Finance lease finance charges	37	48
Total finance costs	**1,088**	**739**
Amortisation of acquired intangible assets:		
Acquired software intellectual property	4,719	3,594
Acquired candidate databases	301	750
Acquired customer contracts	282	204
Acquired customer relationships	1,199	446
Acquired brand name	279	67
Total amortisation of acquired intangible assets	**6,780**	**5,061**
Depreciation of plant and equipment:		
Plant and equipment	1,963	1,795
Leasehold Improvements	892	1,133
Leased assets	176	278
Total depreciation of plant and equipment	**3,031**	**3,206**
Amortisation of software development:		
Software development	1,798	492
Total amortisation of software development	**1,798**	**492**

2. Profits from ordinary activities (cont.)

	Consolidated Entity	
	2011	2010
	$000	$000
Impairment of acquired assets:		
Impairment of goodwill	1,200	-
Total impairment of acquired assets	**1,200**	**-**
Bad and doubtful debts:		
Trade receivables	(60)	(171)
Net transfer to provisions:		
Employee entitlements	1,078	505
Operating lease rental expenses:		
Minimum lease payments	15,314	13,878

3. Comparison of half year profits

	Consolidated Entity	
	2011	2010
	$000	$000
Consolidated profit after tax attributable to owners of the parent reported for the first half year	3,437	1,856
Consolidated profit after tax attributable to owners of the parent reported for the second half year	6,720	3,895

4. Ratios

	Consolidated Entity	
	2011	2010
NTA Backing		
Net tangible asset backing per ordinary security	3.68c	3.52c
Earnings per Share		
Basic EPS (cents per share)	7.15c	4.36c
Diluted EPS (cents per share)	6.86c	4.16c
Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	141,973,541	132,738,078
Weighted average number of dilutive options outstanding	3,750,779	3,760,138
Weighted average number of dilutive performance rights	2,375,586	2,725,276
Weighted average number of ordinary shares outstanding during the year used in the calculations of dilutive earnings per share (as inclusion of options and performance rights would be anti-dilutive in 2010)	148,099,906	139,223,492

5. Revision of provisional acquisition accounting

The consolidated entity acquired 100% of Zapper Services Pte Ltd ("Zapper Group") on 6 January 2010 and 100% of Sugar International Ltd ("Sugar Group") on 27 January 2010. In the statement of financial position as at 30 June 2010, the consolidated entity provisionally recognised the fair values of the identifiable assets and liabilities of these acquired businesses. The fair values of the businesses were subsequently determined in the current financial year and as a result, the goodwill balance and the assets and liabilities below have been adjusted in the comparative period as follows:

	Consolidated Entity		
	2010	Amendments on fair value	2010 Restated
	$000	$000	**$000**
Non-Current Assets			
Intangibles assets	93,038	676	**93,714**
Deferred tax assets	1,321	423	**1,744**
	94,359	1,099	95,458
Current Liabilities			
Trade and other payables	30,024	(47)	**29,977**
Current tax liabilities	3,434	1,146	**4,580**
	33,458	1,099	34,557

Zapper Group Acquisition

The consolidated entity provisionally calculated the fair value of deferred tax liabilities, current tax liabilities and trade and other payables as $1,183,000, $364,000 and $1,711,000 respectively. However their fair values as at the acquisition date were subsequently determined to be $1,199,000, $354,000 and $1,695,000 respectively. As a result, the goodwill balance in the comparative period has been adjusted and reduced by $10,000 to $16,202,000 at 30 June 2010.

Sugar Group Acquisition

The consolidated entity provisionally calculated the fair value of deferred tax liabilities, current tax liabilities/(receivables) and trade and other payables as $1,106,000, ($308,000) and $1,482,000 respectively. However their fair values as at the acquisition date were subsequently determined to be $667,000, $848,000 and $1,451,000 respectively. As a result, the goodwill balance in the comparative period has been adjusted and increased by $686,000 to $12,405,000 at 30 June 2010.

6. Trade and other receivables

	Consolidated Entity	
	2011	2010
	$000	$000
Trade receivables	43,015	37,745
Provision for doubtful debts	(275)	(215)
	42,740	37,530
Unbilled receivables	18,715	6,465
Other receivables	294	492
	61,749	44,487

7. Other current assets

	Consolidated Entity	
	2011	2010
	$000	$000
Prepayments	2,376	2,402
Bank guarantees	1,914	1,619
Security deposits	1,654	2,100
Other	219	307
	6,163	6,428

8. Plant and equipment

	Consolidated Entity	
	2011	2010
	$000	$000
Leasehold Improvements		
At cost	7,363	7,268
Accumulated depreciation	(5,208)	(5,154)
	2,155	2,114
Plant and Equipment		
At cost	17,590	16,944
Accumulated depreciation	(13,206)	(12,286)
	4,384	4,658
Leased Plant and Equipment		
At cost	1,388	1,388
Accumulated depreciation	(1,036)	(830)
	352	558
Total Plant and Equipment	**6,891**	**7,330**

Movements in carrying amounts

	Leasehold Improvements	Plant and Equipment	Leased Plant and Equipment	Total
	$000	$000	$000	**$000**
Balance at 30 June 2010	2,114	4,658	558	**7,330**
Additions	1,116	1,980	-	**3,096**
Disposals	(86)	(107)	-	**(193)**
Additions through acquisition of entities	-	12	-	**12**
Reclassification of assets	(4)	4	-	**-**
Depreciation / amortisation charge for the year	(892)	(1,963)	(176)	**(3,031)**
Foreign exchange movement	(93)	(200)	(30)	**(323)**
Balance at 30 June 2011	**2,155**	**4,384**	**352**	**6,891**

talent2

9. Deferred tax assets

	Consolidated Entity	
	2011	2010
	$000	$000
Deferred tax assets are made up of the following estimated tax benefits:		
Tax losses	886	897
Temporary differences	2,858	847
	3,744	**1,744**

10. Intangible assets

	Consolidated Entity	
	2011	2010
	$000	$000
Goodwill	82,369	72,510
	82,369	**72,510**
Acquired software intellectual property	28,698	25,482
Accumulated amortisation	(18,562)	(13,892)
	10,136	**11,590**
Acquired candidate databases	5,579	5,397
Accumulated amortisation	(5,014)	(4,718)
	565	**679**
Acquired customer contracts	1,255	1,373
Accumulated amortisation	(527)	(262)
	728	**1,111**
Acquired customer relationships	9,086	7,783
Accumulated amortisation	(1,592)	(452)
	7,494	**7,331**
Acquired brand name	845	752
Accumulated amortisation	(526)	(259)
	319	**493**
	101,611	**93,714**

10. Intangible assets (cont.)

Movements in carrying amounts

	Goodwill	Acquired Software Intellectual Property	Acquired Candidate Databases	Acquired Customer Contracts	Acquired Customer Relation-ships	Acquired Brand Name	Total
	$000	$000	$000	$000	$000	$000	**$000**
Balance at 1 July 2010	**72,510**	**11,590**	**679**	**1,111**	**7,331**	**493**	**93,714**
Additions	-	-	189	-	-	-	**189**
Additions through acquisition of entity	14,244	3,455	-	-	2,029	154	**19,882**
Amortisation charged against operating profit	-	(4,719)	(301)	(282)	(1,199)	(279)	**(6,780)**
Impairment charged against operation profit	(1,200)	-	-	-	-	-	**(1,200)**
Foreign Exchange Movement	(3,185)	(190)	(2)	(101)	(667)	(49)	**(4,194)**
Balance at 30 June 2011	**82,369**	**10,136**	**565**	**728**	**7,494**	**319**	**101,611**
Balance at 1 July 2009	41,362	12,417	1,433	169	-	16	**55,397**
Additions through acquisition of entity	29,191	2,575	-	1,065	7,292	502	**40,625**
Amortisation charged against operating profit	-	(3,594)	(750)	(204)	(446)	(67)	**(5,061)**
Foreign Exchange Movement	1,957	192	(4)	81	485	42	**2,753**
Balance at 30 June 2010	**72,510**	**11,590**	**679**	**1,111**	**7,331**	**493**	**93,714**

An impairment charge of $1,200,000 on goodwill was recognised for the continuing operations in the 2011 financial year. The impaired goodwill related to the purchase of the Intersearch business in the Middle East in 2007. The cash generating unit consists of the Middle East based executive recruitment business included in the reportable recruitment segment. The recoverable amount was based on a value-in-use calculation.

11. Trade and other payables

	Consolidated Entity	
	2011	2010
	$000	$000
Current		
Trade payables	3,348	1,667
Other payables	19,525	10,178
Employment liabilities	20,570	18,132
	43,443	**29,977**
Non-Current		
Other payables	5,000	-
	5,000	**-**

12. Unearned income

	Consolidated Entity	
	2011	2010
	$000	$000
Unearned income	6,999	6,713

13. Interest-bearing borrowings

	Consolidated Entity	
	2011	2010
	$000	$000
Current		
Bank loans [1]	2,615	1,731
Finance lease liabilities secured by the assets leased	196	177
	2,811	**1,908**
Non-Current		
Bank loans [1]	21,770	30,039
Finance lease liabilities secured by the assets leased	227	418
	21,997	**30,457**

1. Secured by a charge over assets of subsidiary entities guaranteed by the parent entity.

14. Tax liabilities

	Consolidated Entity	
	2011	2010
	$000	$000
Current		
Income tax	6,164	4,580

talent2

15. Provisions

	Consolidated Entity	
	2011	2010
	$000	$000
Current		
Employee benefits	5,405	4,414
Operating lease provisions	1,156	323
	6,561	**4,737**
Non-Current		
Employee benefits	845	758
	845	**758**
a) Aggregate employee benefits liability	6,250	5,172
b) Number of employees at the end of the financial year	1,665	1,392

16. Issued capital

	Consolidated Entity	
	2011	2010
	Total Number	Total Number
Balance at the beginning of the Financial Year	140,567,607	126,789,602
Changes during the Year		
Options exercised	1,528,104	1,252,004
Issued on acquisition of controlled entities	2,509,410	12,526,001
Balance at the end of the Financial Year	**144,605,121**	**140,567,607**

17. Operating segment information

	Managed Services		Recruitment Services		Total of Segments		Unallocated Interest/Other Income *		Eliminations		Consolidated Entity	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	**$000**	**$000**
Sales revenue												
External sales	181,205	134,824	124,659	107,480	305,864	242,304	274	287	-	-	**306,138**	**242,591**
Inter-segment sales	426	288	1,201	757	1,627	1,045	-	-	(1,627)	(1,045)	-	-
Total revenue	**181,631**	**135,112**	**125,860**	**108,237**	**307,491**	**243,349**	**274**	**287**	**(1,627)**	**(1,045)**	**306,138**	**242,591**
Cost of rendering of services												
External sales	(61,808)	(42,342)	(50,378)	(43,745)	(112,186)	(86,087)	-	-	-	-	**(112,186)**	**(86,087)**
Inter-segment sales	(58)	(44)	(73)	(89)	(131)	(133)	-	-	131	133	-	-
Gross profit	**119,765**	**92,726**	**75,409**	**64,403**	**195,174**	**157,129**	**274**	**287**	**(1,496)**	**(912)**	**193,952**	**156,504**
EBITDA	**21,945**	**12,620**	**6,013**	**7,143**	**27,958**	**19,763**	**2,000**	**-**	**-**	**-**	**29,958**	**19,763**
Depreciation	(2,082)	(1,963)	(949)	(1,243)	(3,031)	(3,206)	-	-	-	-	**(3,031)**	**(3,206)**
Amortisation	(8,300)	(4,803)	(278)	(750)	(8,578)	(5,553)	-	-	-	-	**(8,578)**	**(5,553)**
Impairment of assets	-	-	(1,200)	-	(1,200)	-	-	-	-	-	**(1,200)**	**-**
EBIT/Segments results	**11,563**	**5,854**	**3,586**	**5,150**	**15,149**	**11,004**	**2,000**				**17,149**	**11,004**
Reconciliation of segment EBIT to profit before income tax												
Interest income											**274**	**287**
Interest expense											**(1,088)**	**(739)**
Profit before income tax per the statement of comprehensive income											**16,335**	**10,552**

Segment assets and liabilities are not reported as these numbers are not specifically reported to the Board being the chief operating decision makers.

EBITDA = Earnings before interest, taxes, depreciation, amortisation and impairment which represents the segment results.

* Other income of $2,000,000 represents the amendment to fair value of acquisition contingent consideration, refer to note 18b.

18. Cash flow information

18a. Reconciliation of cash flow from operations with profit after income tax

	Consolidated Entity	
	2011	2010
	$000	$000
Profit for the year	10,715	5,789
Employee share option plans and performance rights expensed to equity	2,873	3,233
Depreciation of plant and equipment	3,031	3,206
Amortisation of acquired intangible assets	6,780	5,061
Impairment of acquired assets	1,200	-
Loss on disposal of non-current assets	193	203
Amendment to fair value of acquisition contingent consideration	(2,000)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
(Increase)/decrease in assets:		
Trade and other receivables	(17,037)	(10,731)
Other current assets	(587)	(1,330)
Deferred tax assets	(2,771)	(1,508)
Increase/(decrease) in liabilities:		
Trade and other payables	6,679	4,329
Unearned income	285	(1,126)
Income taxes payable	1,606	2,913
Provisions	1,078	327
Other liabilities	38	(393)
Net cash from Operating Activities	**12,083**	**9,973**

18b. Business combination

Businesses acquired during the year

Origin HR Group Acquisition

On 23 July 2010 the consolidated entity acquired 100% of Origin Human Resources Pty Ltd and Origin HR Holdings Pty Ltd ("Origin HR Group"). The Origin HR Group is a leading provider of online vocational education and training to the financial services, banking, legal and accounting sectors. The purchase was satisfied by an initial cash payment of $1,910,000 and the issue of 521,139 ordinary shares at a fair value of A$1.38 each. Under the terms of the original Share Purchase Agreement an earnout was payable, calculated as a multiple of four times the 2011 (87.5%) and 2012 (12.5%) EBIT achieved. A liability of $17,200,000 was recognised as at 31 December 2010.

18. Cash flow information (cont.)

18b. Business combination (cont.)

On 11 May 2011, the acquisition was finalised and the outstanding purchase price payment was fixed and reduced to $15,200,000. The fixed payment is to be settled by a combination of cash and shares over the period to 31 August 2013. 1,987,671 ordinary shares were issued at a fair value of A$1.60 each in May 2011 as part of the earnout payment. Payments after 1 July 2011 are to be settled 65% in cash and 35% through the issue of shares. The $2,000,000 reduction to the earnout contingent liability was reversed in the current financial year and booked as other income in the consolidated statement of comprehensive income. The remaining fixed consideration liability is recorded as a current liability under trade and other payables ($7,020,000) and as a non-current liability under other payables ($5,000,000).

Businesses acquired during the prior year

TOG Group Acquisition

On 30 September 2009 the consolidated entity acquired a further 10% interest in the TOG Group in accordance with the terms of the original share purchase agreement covering the acquisition of the TOG Group. The purchase was satisfied through a cash payment of $186,000. Total goodwill impact in the current year amounted to $107,000.

Zapper Group Acquisition

On 6 January 2010 the consolidated entity acquired 100% of Zapper Services Pte Ltd (“Zapper Group”). The Zapper Group provides outsourced payroll and HR administration services to 14 countries, including China, Hong Kong, Japan, Malaysia, Philippines, Singapore, Thailand and Vietnam. The purchase was satisfied by a cash payment A$14,122,000 and the issue of 6,798,849 ordinary shares at a fair value of A$1.40 each.

Sugar Group Acquisition

On 27 January 2010 the consolidated entity acquired 100% of Sugar International Ltd (“Sugar Group”). The Sugar Group is a leading provider of education and training services to organisations across Australia and New Zealand. Sugar Group offers a comprehensive range of workplace training courses to a variety of industries through a number of Registered Training Organisations. The purchase was satisfied by a cash payment A$7,625,000 and the issue of 5,727,152 ordinary shares at a fair value of A$1.37 each.

Goodwill has arisen on the acquisition of businesses due to the expectation of deriving future growth in earnings and taking advantage of business synergies, which cannot be recognised separately as identifiable intangible assets at the date of acquisition.

18. Cash flow information (cont.)

18b. Business combination (cont.)

The consolidated entity has provisionally recognised the fair values of the identifiable assets and liabilities of the acquired businesses based upon the best information available as of the reporting date. Business combination accounting is as follows:

	Consolidated Entity 30 June		
	Origin HR Group 2011	Others 2011	Total 2011
	$000	$000	$000
The purchase price was allocated as follows:			
Shares issued, at fair value	3,900	-	3,900
Cash consideration	1,863	129	1,992
Contingent consideration liability	14,020	-	14,020
Purchase consideration at acquisition date	**19,783**	**129**	**19,912**
Assets and liabilities acquired at acquisition date:			
Cash	20	-	20
Trade and other receivables	1,252	-	1,252
Plant & equipment	12	-	12
Deferred tax liabilities	(939)	-	(939)
Tax liabilities	(99)	-	(99)
Trade and other payables	(216)	-	(216)
	30	**-**	**30**
Value attributable to identifiable intangible assets	5,638	-	5,638
Goodwill on consolidation	14,115	129	14,244
Total purchase consideration	**19,783**	**129**	**19,912**
The cash outflow on acquisition is as follows:			
Net cash acquired	20	-	20
Cash consideration	(1,863)	(129)	(1,992)
Net cash outflow	**(1,843)**	**(129)**	**(1,972)**

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

The consolidated statement of comprehensive income includes revenue and EBITDA for the period ended 30 June 2011 of $8,012,000 and $4,573,000 respectively, as a result of the acquisition of the Origin HR Group. As the acquisition occurred at the beginning of the reporting period, the consolidated statement of comprehensive income included revenue and EBITDA of $8,012,000 and $4,573,000 respectively. Acquisition costs directly relating to the acquisition amount to $172,000.

19. Contingent Liability

During the previous year, the Australian Tax Office (ATO) conducted a Comprehensive Review of the Group's income tax affairs. As a consequence of the review, the ATO identified certain risks that it felt needed to be examined through an audit process. The audit process has commenced and is progressing. The ultimate outcome of the audit cannot be determined with an acceptable degree of reliability at this time. At this time it has been estimated that the potential liability associated with the risks identified could be in the range of zero to an amount less than four million dollars excluding penalties and interest. The Group has been advised that it is possible, but not probable, that a liability will eventuate, and accordingly no provision for any liability has been recognised in these financial statements.

20. Subsequent Events

On 1 July 2011 the consolidated entity acquired the business assets of First Place International Pty Limited, a Brisbane based executive search business focusing on the government sector. The purchase was satisfied by a cash payment of $120,000 and the issue of 67,294 ordinary shares at a fair value of A$1.48 each. There is further contingent consideration of up to $780,000 payable over the next three years.

talent2

Level 4, 77 Pacific Highway, North Sydney NSW 2060
t +61 2 9087 6333 | **f** +61 2 9087 6300 | talent2.com