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 2012

Previous Corresponding Period:

Year ended 30 June 2011

Results for announcement to the market

Revenue And Net Loss For The Year

Revenue and Net Loss				$000
Revenues from ordinary activities	up	6%	to	324,006
Profit before interest, taxation, depreciation, amortisation and impairment (EBITDA)	down	72%	to	8,239
Loss from ordinary activities after tax attributable to consolidated entity	down	179%	to	(8,467)
Net loss for the year attributable to owners of the parent	down	183%	to	(8,435)

Dividends

Dividends (distributions)	Amount per Security	Franked Amount per Security
Final dividend	Nil	n/a
Previous corresponding period	5.50c	5.50c
Record date for determining entitlements to the dividend	n/a	n/a

Commentary

The consolidated entity is reporting revenue of $324.0m, and EBITDA of $8.2m. Reported EBITDA includes acquisition and transaction costs in relation to the proposed privatisation of the consolidated entity of $1.1m. Revenue has increased by 6% and EBITDA, excluding the impact of acquisition and privatisation costs, has fallen by 69% when compared to the year ended 30 June 2011.

On 28 May 2012, the consolidated entity announced that it had entered into a Scheme Implementation Deed with Morgan & Banks Investments Pty Limited (MBI), Allegis Group, Inc. (Allegis) and Perbec Pty Limited (Perbec), under which it is proposed that Perbec will acquire all of the outstanding Talent2 shares not currently held by MBI or its associates, for a cash consideration of $0.78 per share (the Scheme).

Both the Managed Services and Recruitment Services Segments reported EBITDA results below the previous financial year as tough trading conditions experienced in the latter part of the first half continued into the second half.

Revenue from the Managed Services Segment increased 10% to $198.5m for the year as compared to the year ended 30 June 2011. The Segment generated EBITDA of $9.7m down 56% compared to the year ended 30 June 2011.

The Recruitment Managed Services business reported a revenue increase of 14% driven predominantly through increased pass through revenue. Gross profit fell by 19% as a number of major clients reduced hiring levels compared to the previous financial year.

The Payroll business reported a revenue increase of 7%. Excluding revenue generated by the implementation of a major payroll project (which due to its early stage in its project life, revenue equals costs with no profit reflected in the period) revenue fell 1%. Annuity revenue increased by 8% from the same period last year, transactional revenue fell 27%.

The Learning business reported a modest revenue increase of 2% from the prior year. Operational challenges within the vocational training business contributed to a significant underperformance compared to the previous financial year.

Revenue from the Recruitment Services Segment increased 1% to $125.3m for the year ended 30 June 2012, compared to the previous financial year. The Segment generated an EBITDA loss of $1.5m for the year ended 30 June 2012, compared to a profit of $6.0m in the previous financial year.

Revenue generated from contract placements grew 24% over the prior year, and revenue from permanent placements fell by 20%. The current level of global uncertainty continues to impact permanent recruitment, particularly in geographies where there is high dependency on financial services. The segment invested in new consultants in the first half of the year, and reduced consultant headcount levels in the second, to finish the year at the same level as at 30 June 2011.

Following a review of the carrying value of acquired intangible assets at reporting date, the consolidated entity has recorded an impairment charge of $2.3m for the year. The impairment charge 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 a loss before tax of $7.2m, compared to a profit before tax of $16.3m in the prior year. The current years' loss includes an impairment charge of $2.3m, and acquisition and privatisation costs of $1.1m, as discussed above.

The consolidated entity reported a net loss after income tax of $8.5m for the year to 30 June 2012, as compared to a net profit after income tax of $10.7m for the year to 30 June 2011.

Net debt at the reporting date was $25.2m comprising debt of $39.7m net of cash of $14.5m. During the period, the consolidated entity generated a negative cash flow from operations of $2.6m after the payment of tax of $7.7m and the progressive payment of $9.7m over the period to fund the implementation of a major payroll project. This project remains on track to go live in the third calendar quarter 2012. Unbilled receivables as at balance date in relation to the major payroll project total $14.4m and are shown as a $12.5m non-current and $1.9m current asset.

A majority of the consolidated entity's external debt was initially due for repayment in March 2013. As a result of the proposed privatisation Scheme, loan agreements were renegotiated, with the current facility now terminating on 31 October 2012. A standstill letter was received from the consolidated entity's financiers on 21 June 2012 indicating that a loan covenant holiday would be provided until the 31 October 2012 termination date. Debt increased over the period primarily due to payments made in relation to the Origin HR acquisition ($4.9m) and the purchase of the non-controlling interest in the consolidated entity's recruitment operations in Japan ($2.0m). The consolidated entity distributed $8.0m by way of dividend in the period. In addition to its loan facilities, the consolidated entity has entered into a new working capital facility of $17.5m through a combination of trade receivables financing and an overdraft facilities of which $12.5m was avaliable. At the reporting date $9.0m had been drawn under the trade finance facility, and is included in the $39.7m debt figure noted above.

Statement of Financial Position as at 30 June 2012

		Consolidated Entity	
	Notes	2012	2011
		$000	$000
Assets			
Current Assets			
Cash and cash equivalents		14,452	20,595
Trade and other receivables	5	55,181	56,968
Other current assets	6	5,697	6,163
Total Current Assets		**75,330**	**83,726**
Non-Current Assets			
Other receivables	7	12,513	4,781
Plant and equipment	8	7,108	6,891
Deferred tax assets	9	3,810	3,744
Intangible assets	10	94,345	101,611
Total Non-Current Assets		**117,776**	**117,027**
Total Assets		**193,106**	**200,753**
Liabilities			
Current Liabilities			
Trade and other payables	11	41,570	43,443
Unearned income	12	7,671	6,999
Interest-bearing borrowings	13	39,588	2,811
Current tax liabilities	14	1,200	6,164
Short-term provisions	15	7,358	6,561
Total Current Liabilities		**97,387**	**65,978**
Non-Current Liabilities			
Other payables	11	2,588	5,000
Interest-bearing borrowings	13	84	21,997
Long-term provisions	15	869	845
Total Non-Current Liabilities		**3,541**	**27,842**
Total Liabilities		**100,928**	**93,820**
Net Assets		**92,178**	**106,933**
Equity			
Equity Attributable to Equity Holders of the Parent			
Issued capital		111,486	106,040
Reserves		18,855	16,381
Accumulated losses		(38,125)	(16,170)
Parent Interests		**92,216**	**106,251**
Non-controlling interests		(38)	682
Total Equity		**92,178**	**106,933**

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

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Statement of Comprehensive Income for Financial Year ended 30 June 2012

		Consolidated Entity	
	Notes	2012	2011
		$000	$000
Revenue	2a	**324,006**	**306,138**
Cost of rendering of services: On hired labour and advertising costs		(69,062)	(54,823)
Outsourced services		(73,756)	(56,723)
Distributor commissions and licence fees		(608)	(640)
Gross Profit		**180,580**	**193,952**
Other income	2b	72	2,011
Employee benefits expense		(137,034)	(137,043)
Operating lease rental expense	2c	(16,635)	(15,314)
Advertising and marketing expense		(3,766)	(2,770)
Depreciation of plant and equipment	2c	(2,993)	(3,031)
Amortisation of acquired intangible assets	2c	(6,657)	(6,780)
Amortisation of software development	2c	(2,042)	(1,798)
Impairment of acquired assets	2c	(2,300)	(1,200)
Acquisition costs		(142)	(264)
Privatisation costs		(996)	-
Finance costs	2c	(1,665)	(1,088)
Other expenses		(13,649)	(10,340)
(Loss)/Profit Before Income Tax		**(7,227)**	**16,335**
Income tax expense		(1,240)	(5,620)
Net (loss)/ profit for the year		**(8,467)**	**10,715**
Other Comprehensive (Loss)/Income			
Foreign currency translation		865	(4,318)
Other comprehensive income/(loss) for the year, net of tax		865	(4,318)
Total Comprehensive (Loss)/Income for the year		**(7,602)**	**6,397**
(Loss)/profit for the year is attributable to:			
Non-controlling interest		(32)	558
Owners of the parent		(8,435)	10,157
		(8,467)	**10,715**
Total Comprehensive (Loss)/Income for the year is attributable to:			
Non-controlling interest		(32)	558
Owners of the parent		(7,570)	5,839
		(7,602)	**6,397**

Statement of Comprehensive Income for Financial Year ended 30 June 2012 (cont.)

		Consolidated Entity	
	Notes	2012	2011
		$000	$000
(Loss)/earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic EPS (cents per share)	4	(5.74c)	7.15c
Diluted EPS (cents per share)	4	(5.74c)	6.86c

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

Statement of Changes in Equity for Year ended 30 June 2012

					Reserves					
	Share Capital Ordinary	Accumul-ated Losses	Capital Profit Reserves	Equity Incentive Plans	Dividend Distribu-tion Reserve	Foreign Exchange Reserve	Acquisition Reserve	Owners of the Parent	Non-controll-ing Interest	Total
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2011	**106,040**	**(16,170)**	**105**	**12,804**	**7,953**	**(4,481)**	**-**	**106,251**	**682**	**106,933**
Loss for the year	-	(8,435)	-	-	-	-	-	**(8,435)**	(32)	**(8,467)**
Other comprehensive income	-	-	-	-	-	865	-	**865**	-	**865**
Total comprehensive income for the year	-	(8,435)	-	-	-	865	-	**(7,570)**	(32)	**(7,602)**
Transfer between reserves	-	(13,520)	-	-	13,520	-	-	**-**	-	**-**
Acquisition of non-controlling interest	-	-	-	-	-	-	(3,621)	**(3,621)**	(688)	**(4,309)**
Shares issued (net of transaction costs)	3,612	-	-	-	-	-	-	**3,612**	-	**3,612**
Purchase of treasury shares	(570)	-	-	-	-	-	-	**(570)**	-	**(570)**
Net issue of shares to employees	2,404	-	-	(2,404)	-	-	-	**-**	-	**-**
Share based payments	-	-	-	2,087	-	-	-	**2,087**	-	**2,087**
Dividends paid	-	-	-	-	(7,973)	-	-	**(7,973)**	-	**(7,973)**
Balance at 1 July 2012	**111,486**	**(38,125)**	**105**	**12,487**	**13,500**	**(3,616)**	**(3,621)**	**92,216**	**(38)**	**92,178**
Balance at 1 July 2010	**101,619**	**(18,368)**	**105**	**9,703**	**5,643**	**(163)**	**-**	**98,539**	**124**	**98,663**
Profit for the year	-	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**

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

Cash Flow Statement for Financial Year ended 30 June 2012

		Consolidated Entity	
	Notes	2012	2011
		$000	$000
Cash Flows From Operating Activities			
Receipts from customers (inclusive of GST)		352,022	318,041
Payments to suppliers and employees (inclusive of GST)		(346,838)	(298,377)
Interest received		191	274
Finance costs		(1,665)	(1,088)
Income tax paid		(7,695)	(6,931)
Income tax refund		1,395	164
Net cash flows (used in) / from Operating Activities	18a	**(2,590)**	**12,083**
Cash Flows from Investing Activities			
Purchases of plant and equipment		(3,368)	(3,096)
Purchases of intangible assets		(120)	(189)
Payment for business assets acquired, net of cash acquired	18b	(4,931)	(1,972)
Net cash flows used in Investing Activities		**(8,419)**	**(5,257)**
Cash Flows from Financing Activities			
Proceeds from issues of shares		510	1,543
Payment of transaction costs relating to share issues		(26)	(39)
Acquisition of non-controlling interest		(2,216)	-
Proceeds from borrowings		19,824	8
Repayment of borrowings		(5,539)	(4,552)
Dividends paid		(7,973)	(5,649)
Net cash flows from / (used in) Financing Activities		**4,580**	**(8,689)**
Net decrease in cash and cash equivalents		(6,429)	(1,863)
Net foreign exchange differences		286	(1,632)
Cash and cash equivalents at beginning of the financial year		20,595	24,090
Cash at and cash equivalents at end of the financial year		**14,452**	**20,595**

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 2012

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 2012 full financial report.

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

Going Concern

The Directors believe that the consolidated entity will be able to continue as a going concern and, as a consequence, the financial statements have been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business.

The Directors are aware however that as at 30 June 2012 the consolidated entity reported a loss before tax for the year of $7,227,000 and an excess of current liabilities over current assets of $22,057,000 (2011: excess of current assets over current liabilities of $17,748,000). The net current liability position arises mainly due the consolidated entity's external debt totalling $39,439,000 being classified as current.

The Directors are confident that the current privatisation Scheme will proceed as planned. If the transaction is approved by shareholders, the new owners (being MBI and Allegis) will be required to renegotiate the consolidated entity's debt facilities with its financiers. In the event that the Scheme does not become effective, the consolidated entity will be required to undertake an equity capital raising which the directors believe will satisfy any obligations to the consolidated entity's financiers. The Directors acknowledge that uncertainty exists over the ability to meet the consolidated entity's current debt obligations, given the success of any potential future capital raising transaction cannot yet be determined. However, they are confident that any capital raising transaction, if required, would be adequately supported by the existing shareholders. MBI has informed the consolidated entity that it would support any such capital raising and would consider a partial underwriting of the amount to be raised (if required). As a result, the financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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2. (Loss)/profits from ordinary activities

	Consolidated Entity	
	2012	2011
	$000	$000
The operating (loss)/profit before income tax includes the following items of revenue and expense:		
2a. Operating Revenue		
Managed Services	198,473	181,205
Recruitment Services	125,342	124,659
	323,815	**305,864**
Interest received	191	274
Total Revenue	**324,006**	**306,138**
2b. Other Income		
Amendment to fair value of acquisition contingent consideration	-	2,000
Net foreign exchange gain	72	11
Total other income	**72**	**2,011**
2c. Operating Expenses		
Finance costs:		
Interest	1,640	1,051
Finance lease finance charges	25	37
Total finance costs	**1,665**	**1,088**
Amortisation of acquired intangible assets:		
Acquired software intellectual property	4,515	4,719
Acquired candidate databases	698	301
Acquired customer contracts	154	282
Acquired customer relationships	1,167	1,199
Acquired brand name	123	279
Total amortisation of acquired intangible assets	**6,657**	**6,780**
Depreciation of plant and equipment:		
Plant and equipment	1,865	1,963
Leasehold Improvements	922	892
Leased assets	206	176
Total depreciation of plant and equipment	**2,993**	**3,031**
Amortisation of software development:		
Software development	2,042	1,798
Total amortisation of software development	**2,042**	**1,798**

2. (Loss)/profits from ordinary activities (cont.)

	Consolidated Entity	
	2012	2011
	$000	$000
Impairment of acquired assets:		
Impairment of goodwill	2,300	1,200
Total impairment of acquired assets	**2,300**	**1,200**
Bad and doubtful debts:		
Trade receivables	(288)	(60)
Net transfer to provisions:		
Employee entitlements	511	1,078
Operating lease rental expenses:		
Minimum lease payments	16,635	15,314

3. Comparison of half year (loss)/profits

	Consolidated Entity	
	2012	2011
	$000	$000
Consolidated (loss)/profit after tax attributable to owners of the parent reported for the first half year	(1,624)	3,437
Consolidated (loss)/profit after tax attributable to owners of the parent reported for the second half year	(6,811)	6,720

4. Ratios

	Consolidated Entity	
	2012	2011
NTA Backing		
Net tangible asset backing per ordinary security	(1.47c)	3.68c
Earnings per Share		
Basic EPS (cents per share)	(5.74c)	7.15c
Diluted EPS (cents per share)	(5.74c)	6.86c
Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	146,851,220	141,973,541
Weighted average number of dilutive options outstanding	12,001	3,750,779
Weighted average number of dilutive performance rights	4,377,232	2,375,586
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 2012)	146,851,220	148,099,906

5. Trade and other receivables

	Consolidated Entity	
	2012	2011
	$000	$000
Trade receivables	38,821	43,015
Provision for doubtful debts	(563)	(275)
	38,258	**42,740**
Unbilled receivables	16,356	13,934
Other receivables	567	294
	55,181	**56,968**

6. Other current assets

	Consolidated Entity	
	2012	2011
	$000	$000
Prepayments	3,220	2,376
Bank guarantees	180	1,914
Security deposits	2,069	1,654
Other	228	219
	5,697	**6,163**

7. Other receivables

	Consolidated Entity	
	2012	2011
	$000	$000
Unbilled receivables	12,513	4,781
	12,513	**4,781**

An amount of $4,781,000 unbilled receviables have been reclassified from current assets to non-current assets in the prior year balance sheet to ensure consistency with the current year disclosure.

8. Plant and equipment

	Consolidated Entity	
	2012	2011
	$000	$000
Leasehold Improvements		
At cost	8,549	7,363
Accumulated depreciation	(6,166)	(5,208)
	2,383	2,155
Plant and Equipment		
At cost	19,665	17,590
Accumulated depreciation	(15,086)	(13,206)
	4,579	4,384
Leased Plant and Equipment		
At cost	1,388	1,388
Accumulated depreciation	(1,242)	(1,036)
	146	352
Total Plant and Equipment	**7,108**	**6,891**

Movements in carrying amounts

	Leasehold Improvements	Plant and Equipment	Leased Plant and Equipment	Total
	$000	$000	$000	**$000**
Balance at 30 June 2011	2,155	4,384	352	**6,891**
Additions	1,137	2,231	-	**3,368**
Disposals	-	(228)	-	**(228)**
Reclassification of assets	18	(18)	-	**-**
Depreciation / amortisation charge for the year	(922)	(1,865)	(206)	**(2,993)**
Foreign exchange movement	(5)	75	-	**70**
Balance at 30 June 2012	**2,383**	**4,579**	**146**	**7,108**

9. Deferred tax assets

	Consolidated Entity	
	2012	2011
	$000	$000
Deferred tax assets are made up of the following estimated tax benefits:		
Tax losses	469	886
Temporary differences	3,341	2,858
	3,810	3,744

10. Intangible assets

	Consolidated Entity	
	2012	2011
	$000	$000
Goodwill	80,623	82,369
	80,623	**82,369**
Acquired software intellectual property	28,696	28,698
Accumulated amortisation	(23,053)	(18,562)
	5,643	**10,136**
Acquired candidate databases	6,584	5,579
Accumulated amortisation	(5,714)	(5,014)
	870	**565**
Acquired customer contracts	1,274	1,255
Accumulated amortisation	(687)	(527)
	587	**728**
Acquired customer relationships	9,201	9,086
Accumulated amortisation	(2,780)	(1,592)
	6,421	**7,494**
Acquired brand name	854	845
Accumulated amortisation	(653)	(526)
	201	**319**
	94,345	101,611

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 2011	**82,369**	**10,136**	**565**	**728**	**7,494**	**319**	**101,611**
Additions	-	-	1,000	-	-	-	**1,000**
Amortisation charged against operating profit	-	(4,515)	(698)	(154)	(1,167)	(123)	**(6,657)**
Impairment charged against operating profit	(2,300)	-	-	-	-	-	**(2,300)**
Foreign exchange movement	554	22	3	13	94	5	**691**
Balance at 30 June 2012	**80,623**	**5,643**	**870**	**587**	**6,421**	**201**	**94,345**
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 operating 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**

An impairment charge of $2,300,000 on goodwill was recognised for the continuing operations in the 2012 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.

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11. Trade and other payables

	Consolidated Entity	
	2012	2011
	$000	$000
Current		
Trade payables	4,921	3,348
Other payables	20,185	19,525
Employment liabilities	16,464	20,570
	41,570	**43,443**
Non-Current		
Other payables	2,588	5,000
	2,588	**5,000**

12. Unearned income

	2012	2011
	$000	$000
Unearned income	7,671	6,999

13. Interest-bearing borrowings

	Consolidated Entity	
	2012	2011
	$000	$000
Current		
Bank loans [1]	30,439	2,615
Trade finance facility [1]	9,000	-
Finance lease liabilities secured by the assets leased	149	196
	39,588	**2,811**
Non-Current		
Bank loans [1]	-	21,770
Finance lease liabilities secured by the assets leased	84	227
	84	**21,997**

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

14. Tax liabilities

	Consolidated Entity	
	2012	2011
	$000	$000
Current		
Income tax	1,200	6,164

15. Provisions

	Consolidated Entity	
	2012	2011
	$000	$000
Current		
Employee benefits	5,892	5,405
Operating lease provisions	1,466	1,156
	7,358	6,561
Non-Current		
Employee benefits	869	845
	869	845
a) Aggregate employee benefits liability	6,761	6,250
b) Number of employees at the end of the financial year	1,682	1,665

16. Issued capital

	Consolidated Entity	
	2012	2011
	Total Number	Total Number
Balance at the beginning of the Financial Year	144,605,121	140,567,607
Changes during the Year		
Options exercised	471,000	1,528,104
Issued on acquisition of controlled entities	2,327,580	2,509,410
Balance at the end of the Financial Year	**147,403,701**	**144,605,121**

17. Operating segment information

	Managed Services		Recruitment Services		Total of Segments		Unallocated Interest/Other Income *		Eliminations		Consolidated Entity	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	**$000**	**$000**
Sales revenue												
External sales	198,473	181,205	125,342	124,659	323,815	305,864	191	274	-	-	**324,006**	**306,138**
Inter-segment sales	374	426	2,608	1,201	2,982	1,627	-	-	(2,982)	(1,627)	-	-
Total revenue	**198,847**	**181,631**	**127,950**	**125,860**	**326,797**	**307,491**	**191**	**274**	**(2,982)**	**(1,627)**	**324,006**	**306,138**
Cost of rendering of services												
External sales	(79,873)	(61,808)	(63,553)	(50,378)	(143,426)	(112,186)	-	-	-	-	**(143,426)**	**(112,186)**
Inter-segment sales	(70)	(58)	(299)	(73)	(369)	(131)	-	-	369	131	-	-
Gross profit	**118,904**	**119,765**	**64,098**	**75,409**	**183,002**	**195,174**	**191**	**274**	**(2,613)**	**(1,496)**	**180,580**	**193,952**
EBITDA	**9,708**	**21,945**	**(1,469)**	**6,013**	**8,239**	**27,958**	**-**	**2,000**	**-**	**-**	**8,239**	**29,958**
Depreciation	(2,089)	(2,082)	(904)	(949)	(2,993)	(3,031)	-	-	-	-	**(2,993)**	**(3,031)**
Amortisation	(8,098)	(8,300)	(601)	(278)	(8,699)	(8,578)	-	-	-	-	**(8,699)**	**(8,578)**
Impairment of assets	-	-	(2,300)	(1,200)	(2,300)	(1,200)	-	-	-	-	**(2,300)**	**(1,200)**
EBIT/Segments results	**(479)**	**11,563**	**(5,274)**	**3,586**	**(5,753)**	**15,149**	**-**	**2,000**	**-**	**-**	**(5,753)**	**17,149**
Reconciliation of segment EBIT to (loss)/profit before income tax												
Interest income											**191**	**274**
Interest expense											**(1,665)**	**(1,088)**
(Loss)/profit before income tax per the statement of comprehensive income											**(7,227)**	**16,335**

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 in 2011 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 (loss)/profit after income tax

	Consolidated Entity	
	2012	2011
	$000	$000
(Loss)/profit for the year	(8,467)	10,715
Employee share option plans and performance rights expensed to equity	1,342	2,873
Depreciation of plant and equipment	2,993	3,031
Amortisation of acquired intangible assets	6,657	6,780
Impairment of acquired assets	2,300	1,200
Loss on disposal of non-current assets	228	193
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	(5,626)	(17,037)
Other current assets	722	(587)
Deferred tax assets	(41)	(2,771)
Increase/(decrease) in liabilities:		
Trade and other payables	1,097	6,679
Unearned income	672	285
Income taxes payable	(5,041)	1,606
Provisions	511	1,078
Other liabilities	63	38
Net cash from Operating Activities	**(2,590)**	**12,083**

18b. Business combination

Businesses acquired during the year

First Place International Pty Ltd Acquisition

On 1 July 2011 the consolidated entity acquired the business assets of First Place International Pty Ltd, a Brisbane based executive search company 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 and this is recorded as a non-current liability under other payables.

The consolidated entity has recognised the fair value of the identifiable assets and liabilities of the acquired business assets based upon the information available as of the reporting date. The full purchase price of $1,000,000 was allocated to candidate database, intangible assets. Acquisition costs directly relating to the acquisition amounted to $62,000.

18. Cash flow information (cont.)

18b. Business combination (cont.)

Origin HR Group Acquisition

The consolidated entity made a total earnout payment of $7,144,000 to Origin Human Resources Pty Ltd and Origin HR Holdings Pty Ltd ("Origin HR Group") during the current financial year in respect to a prior year acquisition. The payment was satisfied by two cash payments made on 11 July 2011 ($1,051,000) and 31 August 2011 ($3,880,000), respectively and the issue of 1,581,044 ordinary shares at a fair value of A$1.40 each on 31 August 2011. An amount of $5,000,000 in relation of the Origin HR Group acquisition remains outstanding at 30 June 2012.

T2 Tokyo KK Acquisition

On 11 October 2011 the consolidated entity acquired the remaining 49% of the voting shares of T2 Tokyo KK, a company that provides executive search recruitment and recruitment managed services in Tokyo Japan. The purchase was satisfied through a cash payment of $1,985,000 and the issue of 679,242 ordinary shares at a fair value of A$1.20 each. Under the terms of the Share Purchase Agreement a total cash deferred consideration amount of $1,162,000 will be payable over the period to 12 October 2013. The outstanding consideration liability of $1,162,000 is recorded as a current liability under trade and other payables ($581,000) and as a non-current liability under other payables ($581,000).

The difference between the carrying value of the non-controlling interest as at the acquisition date of $530,000 and the purchase consideration is recognised directly in equity attributable to the parent. Accordingly, a debit of $3,432,000 to the Acquisition Reserve is reflected in the statement of changes in equity.

TOG Group Acquisition

On 27 January 2012 the consolidated entity acquired the remaining 20% interest in the TOG Group, a payroll managed services provider in Tokyo. The purchase was satisfied through a cash payment of $232,000. Under the terms of the Notice of Sale a total cash deferred consideration amount of $116,000 will be payable in the next financial period and it is recorded as a current liability under trade and other payables.

The difference between the carrying value of the non-controlling interest as at the acquisition date of $159,000 and the purchase consideration is recognised directly in equity attributable to the parent. Accordingly, a debit of $189,000 to the Acquisition Reserve is reflected in the statement of changes in equity.

18. Cash flow information (cont.)

18b. Business combination (cont.)

Businesses acquired during the prior year

Origin HR Group Acquisition

On 23 July 2010 the consolidated entity acquired 100% of 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.

Origin HR Group Acquisition

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 2011 financial year and booked as other income in the consolidated statement of comprehensive income. The remaining fixed consideration liability was 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) as at 30 June 2011.

19. Contingent Liability

In a previous year, the Australian Tax Office (ATO) conducted a Comprehensive Review of the consolidated entity'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 is on going and 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 consolidated entity 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 28 May 2012, the consolidated entity announced that it had entered into a Scheme Implementation Deed with Morgan & Banks Investments Pty Limited (MBI), Allegis Group, Inc. (Allegis) and Perbec Pty Limited (Perbec), under which it is proposed that Perbec will acquire all of the outstanding Talent2 shares not currently held by MBI or its associates, for a cash consideration of $0.78 per share (the Scheme). Further to this announcement, on 17 July 2012 the Federal Court of Australia ordered that a meeting of Talent2 Shareholders and Optionholders be convened to consider and, if thought fit, agree to the Scheme. These meetings will be held on 20 August 2012.

In July 2012 the consolidated entity completed the implementation of its trade finance facility increasing the approved facility available from $10,000,000 to $15,000,000. As at the end of July 2012 a total amount of $11,200,000 had been drawn down on the facility. Additionally, the consolidated entity made principal repayments during July 2012 of $2,578,000 reducing bank loans to $27,861,000 as at the end of July 2012.

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