AWF MADISON

INTERIM REPORT

FOR THE SIX MONTHS ENDED

30 SEPTEMBER 2016

“With a stable and talented senior management team in place, we are managing costs tightly and looking for volume increases.”

- Simon Bennett, CEO

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CEO'S REPORT - SIMON BENNETT

MARGINS LIFT - AND A SOLID ACQUISITION

We remain confident that we will deliver double-digit earnings growth for the full year.

We had a good start to our financial year, with double-digit rises in revenue and profit followed by the post balance-date announcement we have bought ICT recruitment specialist Absolute IT.

The Absolute acquisition represents a further lift in our market presence and capability. Absolute is well-respected in a market that is very important to New Zealand's public and private sectors, and is forecast to grow strongly.

It has experienced management and a team of highly-skilled consultants with excellent networks. In the year to March 2016, it had revenues approaching $65 million.

We believe Absolute will continue to expand and enhance our presence in white-collar recruitment. While it will continue to operate under its own brand and management, there are obvious synergies with our existing business.

Madison is already large, multi-faceted and multi-functional. As noted in the interim financial results announcement, in the six months to 30 September Madison contributed modest revenue growth.

Madison Chief Operating Officer Steve Jackson notes performance is arguably a sign of economic confidence. We continue to have good temp and contractor volumes, but are finding the landscape in permanent recruitment more competitive.

We are seeking growth in higher value permanent roles which is a significant opportunity, but it is taking longer to reap the rewards that we anticipate from this channel.

CONT. →

REVENUE

$119.3m

Up 13%, from $105.6m in the same period last year

NET PROFIT AFTER TAX

$3.9m

An increase of 15% on the same period last year

NET OPERATING CASH FLOW

$11.4m

Up from $6.5m last year

GROUP EARNINGS PER SHARE

12.1cps

Up from 10.5cps last year

DIVIDEND

8.0cps

Up from 7.2cps last year

TERM DEBT

$21.0m

Compared with $18.5m last year

Madison won the contract to recruit between 3,500 and 4,000 staff to assist Statistics New Zealand to undertake the 2018 Census. Winning this contract is a huge vote of confidence in your Group's capability and geographic reach.

Led in part by growth in Auckland, AWF had an excellent first half. AWF's Chief Operating Officer, Alex Park, reports strong volume growth among our large, key clients, as they recognise our demonstrable commitment and capability in today's Health and Safety environment. Our large clients are increasing their spend with us and this looks set to continue.

AWF completed its Operational Excellence Programme, and this has dovetailed into the rollout of a new CRM (Customer Relationship Management) system expected to go live at the end of November.

Our balance sheet is in good shape.

For the 31 March, 2016 balance date we reported trade and other receivables of $33.1 million. At 30 September, 2016 this figure was more than $5 million lower, at $27.8 million.

It's also worth remarking a strong lift in net operating cash flow for the most recent six months, to $11.4 million, compared with the first half of financial 2015, at $6.5 million. In the first half we saw a net increase in cash of $7.8 million, from $2.9 million a year ago.

In recent years we have commented frequently on the phenomenon of margin compression in our industry.

At this year's Annual Shareholder's Meeting in July, our Chairman, Ross Keenan, observed "the worm has turned," and when we announced our September first half results he noted signs of improved margins are evident and continuing. This reference was in relation to our AWF business and we expect it to continue.

Whilst the result is encouraging, we are ambitious and aspire to stronger growth.

Nonetheless, we are moving in the right direction. With a stable and talented senior management team in place we are managing costs tightly and looking for volume increases. These will be generated organically and with the addition of our recent acquisition which is effective from November 1.

We have started the second half of the year confident that we will deliver double-digit earnings growth for the full year to March 31, 2017.

FINANCIAL STATEMENTS

AWF Madison Group Limited

Condensed Statement of comprehensive income
for the six month period ended 30 September 2016 (unaudited)

	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Revenue	119,284	105,651
Investment revenue	7	38
Direct costs	(1,531)	(1,369)
Employee benefits expense	(104,933)	(92,335)
Depreciation and amortisation expense	(1,384)	(1,357)
Other operating expenses	(5,044)	(4,884)
Finance costs	(585)	(711)
Profit before tax	5,814	5,033
Income tax expense	(1,884)	(1,629)
Profit for the period	3,930	3,404
Total comprehensive income for the period, net of tax	**3,930**	**3,404**
Profit for the period income is attributable to equity holders of the Group	3,930	3,404
Total comprehensive income is attributable to equity holders of the Group	3,930	3,404
Earnings per share		
Total basic and diluted earnings per share (cents/share)	**12.1**	**10.5**

The accompanying notes form part of these financial statements.

AWF Madison Group Limited

Condensed statement of financial position
as at 30 September 2016 (unaudited)

	30/09/2016 (unaudited)	30/09/2015 (unaudited)	31/03/2016 (audited)
	$'000	$'000	$'000
Assets			
Non-current assets			
Property, plant and equipment	2,543	2,004	1,922
Goodwill	28,694	28,694	28,694
Other intangible assets	13,134	15,224	14,191
	44,371	45,922	44,807
Current assets			
Trade and other receivables	27,853	21,860	33,117
Cash and cash equivalents	6,967	6,068	-
	34,820	27,928	33,117
Total assets	**79,191**	**73,850**	**77,924**
Equity and liabilities			
Capital and reserves			
Share capital	27,624	27,946	27,946
Treasury account	(319)	(641)	(641)
Group share scheme reserve	451	240	370
Retained earnings	9,893	9,193	8,599
Total Equity	**37,649**	**36,738**	**36,274**
Non-current liabilities			
Deferred tax liabilities	166	449	191
Borrowings	21,000	18,456	18,500
	21,166	18,905	18,691
Current liabilities			
Trade and other payables	19,072	14,936	18,818
Bank Overdraft	-	-	870
Borrowings	-	2,500	2,500
Taxation payable	971	388	326
Provisions	333	383	445
	20,376	18,207	22,959
Total liabilities	**41,542**	**37,112**	**41,650**
Total equity and liabilities	**79,191**	**73,850**	**77,924**

The accompanying notes form part of these financial statements.

AWF Madison Group Limited

Condensed consolidated cash flow statement
for the six month period ended 30 September 2016 (unaudited)

	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Cash flows from operating activities		
Receipts from customers	124,776	111,633
Interest Received	7	38
Payments to suppliers and employees	(111,465)	(102,222)
Net cash generated from operations	13,318	9,449
Income taxes paid	(1,334)	(2,243)
Interest paid	(585)	(711)
Net cash from operating activities	11,399	6,495
Cash flows from investing activities		
Proceeds on disposal of property, plant and equipment	71	-
Payments for property, plant and equipment	(997)	(115)
Payments for intangible assets	-	-
Net cash used in investing activities	(926)	(115)
Cash flows from financing activities		
Dividends paid	(2,636)	(2,660)
Repayment of borrowings	-	(803)
Net cash from (used in) financing activities	(2,636)	(3,463)
Net increase in cash and cash equivalents	7,837	2,917
Cash and cash equivalents at the beginning of the period	(870)	3,151
Cash and cash equivalents at the end of the period		
Bank balances and cash	**6,967**	**6,068**

The accompanying notes form part of these financial statements.

AWF Madison Group Limited

Condensed statement of changes in equity
for the six month period ended 30 September 2016 (unaudited)

	Share capital	Retained earnings	Group share scheme reserve	Treasury account	Total
	$'000	$'000	$'000	$'000	$'000
2016					
Balance at 1 April 2015	27,946	8,449	177	(641)	35,931
Profit and total comprehensive income for the period		3,404			3,404
Payment of dividends		(2,660)			(2,660)
Recognition of share-based payments			63		63
Balance at 30 September 2015	27,946	9,193	240	(641)	36,738
2017					
Balance at 1 April 2016	27,946	8,599	370	(641)	36,274
Profit and total comprehensive income for the year		3,930			3,930
Payment of dividends		(2,636)			(2,636)
Recognition of share-based payments			81		81
Restricted shares redeemed	(322)			322	0
					0
Balance at 30 September 2016	27,624	9,893	451	(319)	37,649

The accompanying notes form part of these financial statements.

AWF Madison Group Limited

Condensed notes to the financial statements as at and for the six moths ended 30 September 2016 (unaudited)

NOTES TO THE FINANCIAL STATEMENTS

1. Restatement of comparative results

The revenue and employee benefits for the prior year comparatives have been restated to reflect a change in the way certain rebates are being shown in the current year. These rebates were previously shown in employee expense. There is no effect on the prior year profit figures. The prior year revenue has been reduced by $0.63m and the employee expense has been reduced by the same amount. These adjustments have been reflected on the condensed statement of comprehensive income and in note 2.

Statement of accounting policies

The accounting policies used in preparation of these half yearly financial statements are consistent with those used in the March 2016 annual report.

These financial statements comply with International Accounting Standard 34 and NZ IAS 34.

Adoption status of relevant new financial reporting standards and interpretations

Standards, interpretations and amendments to published standards that came into effect during the reporting period

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2016. Where applicable, comparative years have been restated in accordance with the standards, interpretations and amendments. We have adopted all mandatory standards which became effective during the year, none of which had a material impact on these statements.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for future accounting periods. The Group has yet to assess the full impact of these changes on the Group financial statements.

2. Segment information

2.1 Services from which reportable segments derive their revenues

The basis of segmentation is consistent with the annual report and the Group's reportable segments under NZ IFRS 8 are as follows:

- Temporary staffing to industry
- Temporary, contract and permanent staff services to commerce

2.2 Segment revenue and results

	Segment revenue		Segment profit	
	30/09/2016	30/09/2015	30/09/2016	30/09/2015
	$'000	$'000	$'000	$'000
Temporary staffing to industry	80,585	68,820	5,413	4,038
Temporary, contract and permanent staff services to commerce	38,699	36,831	2,980	3,375
Total revenue and profit	**119,284**	**105,651**	**8,393**	**7,414**
Other Income			7	229
Central administration costs and directors' fees			(1,235)	(968)
Amortisation of customer relationships			(767)	(931)
Finance costs			(585)	(711)
Profit before tax			5,814	5,033
Income tax expense			(1,884)	(1,629)
Total revenue and profit	**119,284**	**105,651**	**3,930**	**3,404**

Revenue reported above represents revenue generated from external customers. Inter-segment sales in the period were $365,652 (2015: $56,518).

Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue, amortisation of customer relationships, finance costs, and income tax expense. The 2015 segment profit allocation has been adjusted to better reflect the manner these businesses are measured for the purpose of resource allocation and assessment of segment performance by the Chief Executive Officer.

2.3 Segment assets

	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Temporary staffing to industry	30,584	29,301
Temporary, contract and permanent staff services to commerce	47,461	43,323
Total segment assets	78,045	72,624
Unallocated assets	1,146	1,226
Total assets	**79,191**	**73,850**

For the purposes of monitoring segment performance and allocating resources between segments, the Chief Executive Officer monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments other than cash and cash equivalents and tax assets of the parent. Goodwill has been allocated to reportable segments. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

2.4 Segment liabilities

	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Temporary staffing to industry	13,899	5,393
Temporary, contract and permanent staff services to commerce	7,776	8,025
Total segment liabilities	21,675	13,418
Unallocated	19,868	23,694
Total liabilities	**41,542**	**37,112**

For the purposes of monitoring segment performance and allocating resources between segments, the Chief Executive Officer monitors the liabilities attributable to each segment. All liabilities are allocated to reportable segments other than bank loans and tax liabilities.

2.5 Other segment information (unaudited)

	Depreciation and amortisation		Employee benefits		Additions to non-current assets	
	30/09/16	30/09/15	30/09/16	30/09/15	30/09/16	30/09/15
	$'000	$'000	$'000	$'000	$'000	$'000
Temporary staffing to industry	545	362	70,399	59,623	(177)	(249)
Temporary, contract and permanent staff services to commerce	72	64	33,964	32,135	507	(35)
Unallocated	767	931	571	577	(767)	(931)
Total	**1,384**	**1,357**	**104,933**	**92,335**	**(436)**	**(1,215)**

The 2015 depreciation and amortisation table and the 2015 additions to non-current assets table have been adjusted to better reflect the manner these businesses are measured for the purpose of resource allocation and assessment of segment performance by the Chief Executive Officer.

2.6 Geographical information

The Group operates in one geographical area, New Zealand (country of domicile). All revenues from external customers, and non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts are attributed to the Group's country of domicile.

2.7 Information about customers

The Group has no customers individually making up 10% of Group revenue and therefore does not have a reliance on its major customers (for the six months ended 30 September 2015, one customer represented 11.0% of Group revenue)

One large overdue debtor owes the group $1.3m due to significant growth in key infrastructure projects. The payment to the Group is dependent on variation payments to the debtor being approved and paid by head contractors in the projects. Due to the length of time this debt has been outstanding and the lack of certainty surrounding the variation invoices, the group has taken steps to ensure it receives the debt it is owed by appointing a liquidator. The Group has also provided $0.5m (31 March 2016: $0.3m) against this debt in case the variations are not all approved by the head contractors.

3. Supplementary information

Underlying earnings is a non-GAAP measure which adjusts for amortisation of identifiable intangible assets acquired through acquisition of subsidiaries, profit on disposal of subsidiaries and impairment of goodwill. In the opinion of the directors, underlying earnings more correctly reflects the operating performance of the Group. This treatment is consistent with the previous reporting period.

Underlying earnings	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Profit for the period	3,930	3,404
Add back Amortisation of Intangible assets	767	1,075
Tax effect on adjustments	(215)	(301)
Underlying earnings after tax	4,482	4,178
Total underlying earnings is attributable to:		
Equity holders of the parent	4,482	4,178
Earnings per share		
Total basic and diluted underlying earnings per share (cps)	13.8	12.9

4. Financial instruments

The carrying amounts of financial instruments at balance date approximate the fair value at that date.

5 Contingent Liabilities

There were no contingent liabilities as at 30 September 2016 or 30 September 2015.

6. Net cash flow from operating activities

	30/09/2016 (unaudited)	30/09/2015 (unaudited)
	$'000	$'000
Reported profit after tax	3,930	3,404
Non-cash items:		
Depreciation and amortisation	1,384	1,357
(Profit) or Loss on disposal of property, plant and equipment	(21)	-
Increase/(decrease) in bad debt provision	228	97
Movement in deferred tax	(25)	(86)
Fixed assets acquired at no cost		-
Equity-settled share based payments	81	63
Total non-cash items	1,647	1,431
Movements in working capital		
Decrease/(increase) in trade and other receivables	5,036	6,015
(Decrease)/increase in trade and other payables	254	(3,888)
(Decrease)/increase in provisions	(113)	74
Change in taxation payable	645	(541)
Total movements in working capital	5,822	1,660
Net cash from operating activities	11,399	6,495

7. Dividends paid

During the six months ended 30 September 2016, the group paid dividends of $2.636 million (six months ended 30 September 2015: $2.660 million).

8. Events subsequent to balance date

Business acquisition

The Group has entered into an agreement to purchase specialist ICT recruitment group Absolute IT with completion scheduled for November 1st 2016. The purchase comprises 100% of the shares of: Absolute IT Limited, Absolute IT (Auckland) Limited, Absolute IT (Waikato/BOP) Limited, Absolute Payroll (Auckland) Limited and Absolute Payroll (Wellington) Limited.

Absolute IT, founded in 2000, is a market leader in ICT recruitment with offices in Wellington, Auckland, Hamilton and Christchurch.

In the (March 31) 2016 financial year this business achieved (unaudited) revenue approaching $65 million. The acquisition expands AWF Madison's presence in the fast-growing ICT recruitment market, adding to its existing operations in both blue- and white-collar recruitment.

The purchase price of $15.3 million comprises:

- An initial cash payment of approximately $11.1 million, payable on 1 November, 2016; and
- An additional payment of up to $4.2 million, subject to Absolute IT's earnings achieving defined thresholds for the 52 weeks to 1 November, 2017

There will be an adjustment to the purchase price based on the aggregate net assets of the business at completion date. This will be paid or refunded 5 days after completion accounts are agreed.

The Sale and Purchase agreement is conditional upon AWF Madison satisfying itself that key clients will continue to support the business; key employees will continue to be involved; agreed assets and contracts have been transferred; and the lessors of various business premises have consented to the deemed assignment of those leases, arising as a result of the transaction.

The acquisition will be debt-funded by way of an extension of $12.5m to AWF Madison Group's existing term facility of $23.5m with ASB Bank.

As at the date of this report, all the conditions mentioned above have not yet been met and therefore AWF Madison Group has not completed the initial accounting for acquisition. Accordingly, AWF Madison Group is not in a position to disclose the following details required by NZ-IFRS 3 – Business Combinations at this time.

- An estimate of the range of outcomes regarding the contingent consideration attached to the acquisition;
- The fair value, gross contractual amounts and an estimate of uncollectable receivables acquired;
- Amounts recognised at acquisition date for major classes of assets acquired and liabilities assume;
- Details regarding consideration of contingent liabilities; and
- Details regarding goodwill.

Should all conditions subsequently be met, this information required will be disclosed in the next annual report.

Interim dividend

On 27 October 2016 the directors approved the payment of a fully imputed interim dividend of $2.635 million (8.0 cents per share) to be paid on 5 December 2016.

DIRECTORY

DIRECTORS

Ross Keenan (Chairman)
Eduard van Arkel (Independent Director)
Julia Hoare (Independent Director)
Simon Hull (Non-Executive Director)
Wynnis Armour (Non-Executive Director)
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