

# AWFGROUP

Allied Work Force Group Limited

**2010 Interim Report.**



## Director's Interim Report.

As we alluded to in the 2010 Annual Report, the strength seen in the first quarter of 2010 has continued throughout the first half of the new financial period. Following an all time revenue record for the Group in the March month, the culmination of a favourable long, late summer; real improvement in the strength of our brands; significant wins in national client accounts; and excellent commitment from our management, sales and operations staff has seen revenue exceed that of the same half last year by 28%, whilst EBITDA was up by 160% to \$2,722,000. The strong revenue growth in the first half was matched by continued strong cost management. In particular, our emphasis on a top class Health and Safety regime saw our ACC Rehabilitation costs reduce by 27% to levels last seen in 2007. Changes in our approach to transportation also produced good gains with our total vehicle and transport costs reducing by 23%. As a company, we witnessed the return to pre-recessionary growth levels by November 2009 and by the commencement of this new reporting year we were not surprised to see employers opting for temporary labour whilst awaiting certainty in their markets. This trend had not changed by the end of the first half. There is a growing trend of converting temporary staff to permanents, followed by a new force of temps but there are no significant signs of employers returning to the employment market on their own. As a result, we expect a continuation of the solid performance for the rest of this financial year. Debtor management across the group remains strong with write-off levels below last year. As a result of strong collections and good profitability the company's cash position at half year end is very strong with almost \$6m in the bank.

### Our Business by Region - Northern Region

Our three northern branches performed strongly, buoyed by increased activity in the timber industry as world prices improved. A number of substantial construction projects continued and the long summer saw road maintenance work continue well into the half.

### Auckland Region

Auckland has certainly rebounded strongly out of recession and our positioning in recent years into the Manufacturing, Food Processing and Logistics sectors has proved to be a very beneficial decision. Our core construction and civil business in this region is weak with few projects on the go, but fortunately we are far from dependant on one or two sectors and we have witnessed a strong resurgence in the region after a few slow years. This growth has been led by success in winning a number of significant national accounts which, whilst producing lower margins, provide more consistency across the seasons and greater growth opportunities.

### Central Region

This region, spanning Hamilton to Wellington, comprises 10 of our branches. The region continues to show excellent year on year growth derived from a wide spread of businesses. Whilst construction and civil work across the region remains important to all of the branches, the greater gains in the period have come from horticulture, seafood processing, packaged food processing and engineering.

### Quin Workforce

Quin, our Wellington Region leader in the construction related tradesperson sector, continues to operate well in an increasingly difficult sector in the City. A number of large projects continued throughout the half but with little sign of anything new on the horizon we are expecting tougher times in the second half. Early in the year we moved to position Quin to counter this cyclic downturn and we are witnessing strong growth in other sectors as a result.

### South Island

The recession hit the South Island late and certainly has not been quick to leave the region. Whilst the top of the south has been quite buoyant, the same could not be said for Christchurch, Dunedin or Southland. The construction sector has been supported primarily by Rugby World Cup or Government projects and very little private development work is on-going. We are witnessing a resurgence in the second half due to earthquake repair projects in Christchurch.

### Our Staff

The changing business environment over the past couple of years has meant a considerable amount of up skilling for our staff, enforcing a change from an operational to a more customer driven focus. Our drive to deliver the highest quality to our customers and to lead the industry by innovation and by raising expectations has placed many new demands. We are very proud of the performance of our people over the first half. Their hard work in 2009 is now showing good results and they remain committed to achieving greater success.

### Health, Safety and Training

Our Health and Safety achievements in the first half have been exceptional. Our Lost Time Injury and Light Duty rates are 50% down on 2009 and are at levels not seen since 2007. To achieve these results in a market of increased activity is excellent. As a member of the ACC Partnership Programme and a company which essentially self insures for its ACC risk, these achievements have a direct impact on improving our bottom line. The period has been very difficult in respect of training. Funding changes made by Government have stalled our Cadet Max courses and we are no longer taking young people through construction industry courses to Apprenticeships. However we have continued to develop our training regime and we have commenced Food Handling training courses in the period.

### Conclusion

The first half of the 2010 year has been a very satisfying one for the Group. We have seen the fruits of our work over the difficult last two years and we are confident of continuing a solid march forward. The second half has continued in the same light as the first and with the benefit of two strong acquisitions announced shortly after the end of the half we remain confident of a very good full year. We thank you again for your support.

### Dividend

The Board has pleasure in recognising the strong performance of the half and increasing the fully imputed dividend to 3.8cps payable on 19th November 2010 to shareholders on the register on 12th November 2010.



**Simon Hull**  
Managing Director



**Mike Huddleston**  
Chief Executive Officer



## Financial Statements.

Allied Work Force Group Limited

### Statement of Comprehensive Income.

for the six months ended 30 September 2010 (Unaudited)

	Six Months to 30/09/2010 \$'000	Six Months to 30/09/2009 \$'000
Revenue	40,710	31,872
Direct costs	(588)	(761)
Employee benefits expense	(34,692)	(27,205)
Depreciation expense	(166)	(218)
Other operating expenses	(2,708)	(2,859)
Finance costs	(21)	(7)
Profit before tax	2,535	822
Income tax expense	(793)	(249)
<b>Profit for the period</b>	<b>1,742</b>	<b>573</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the period net of tax</b>	<b>1,742</b>	<b>573</b>
Total comprehensive income is attributable to:		
Equity holders of the parent	1,742	573
	<b>1,742</b>	<b>573</b>
<b>Earnings per share</b>		
Total basic and diluted earnings per share	6.7	2.2

Allied Work Force Group Limited

### Statement of Financial Position.

at 30 September 2010 (Unaudited)

	30/09/2010 \$'000	30/09/2009 \$'000	31/03/2010 \$'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,336	1,393	1,282
Goodwill	8,767	8,767	8,767
Deferred tax assets	407	223	427
Deposit on business acquisition	250	-	-
	10,760	10,383	10,476
<b>Current assets</b>			
Trade and other receivables	8,689	6,901	11,219
Taxation prepaid	-	243	-
Cash and cash equivalents	5,736	4,931	4,055
	14,425	12,075	15,274
<b>Total assets</b>	<b>25,185</b>	<b>22,458</b>	<b>25,750</b>
<b>Equity and liabilities</b>			
<b>Capital and reserves</b>			
Share capital	14,545	14,545	14,545
Treasury stock	(101)	-	-
Retained earnings	4,609	3,006	4,043
<b>Total equity</b>	<b>19,053</b>	<b>17,551</b>	<b>18,588</b>
<b>Non-current liabilities</b>			
Obligations under finance leases	-	5	-
	-	5	-
<b>Current liabilities</b>			
Trade and other payables	5,672	4,814	6,452
Obligations under finance leases	7	24	16
Taxation payable	341	-	647
Provisions	112	64	47
	6,132	4,902	7,162
Total liabilities	6,132	4,907	7,162
<b>Total equity and liabilities</b>	<b>25,185</b>	<b>22,458</b>	<b>25,750</b>

Allied Work Force Group Limited

**Cash Flow Statement.**

for the six months ended 30 September 2010 (Unaudited)

	Six Months to 30/09/2010 \$'000	Six Months to 30/09/2009 \$'000
<b>Operating activities</b>		
Cash receipts from customers	43,222	34,287
Interest received	18	-
Cash paid to suppliers/employees	38,710	32,218
Cash generated from operations	4,530	2,069
Income taxes paid	1,079	770
Interest paid	21	7
<b>Net cash from operating activities</b>	<b>3,430</b>	<b>1,292</b>
<b>Investing activities</b>		
Proceeds on disposal of property, plant and equipment	40	32
Purchase of property, plant and equipment	(253)	(125)
Deposit on business acquisition	(250)	-
<b>Net cash used in investing activities</b>	<b>(463)</b>	<b>(93)</b>
<b>Financing activities</b>		
Dividends paid	(1,176)	(784)
Purchase of treasury stock	(101)	-
Repayment of obligations under finance leases	(9)	(16)
<b>Net cash used in financing activities</b>	<b>(1,286)</b>	<b>(800)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,681</b>	<b>399</b>
Cash and cash equivalents at the beginning of the period	4,055	4,532
<b>Cash and cash equivalents at the end of the period</b>		
Bank balances and cash	5,736	4,931

Allied Work Force Group Limited

**Statement of Changes in Equity.**

for the six months ended 30 September 2010 (Unaudited)

30/09/2010				
	Share capital \$'000	Retained earnings \$'000	Treasury stock \$'000	Total \$'000
Balance at beginning of period	14,545	4,043		18,588
Comprehensive income for period		1,742		1,742
Dividends paid		(1,176)		(1,176)
Purchase of treasury stock			(101)	(101)
<b>Balance at end of period</b>	<b>14,545</b>	<b>4,609</b>	<b>(101)</b>	<b>19,053</b>

30/09/2009				
	Share capital \$'000	Retained earnings \$'000	Treasury stock \$'000	Total \$'000
Balance at beginning of period	14,545	3,217		17,762
Comprehensive income for period		573		573
Dividends paid		(784)		(784)
<b>Balance at end of period</b>	<b>14,545</b>	<b>3,006</b>	<b>-</b>	<b>17,551</b>

Allied Work Force Group Limited

## Notes to the Financial Statements.

### 1. Statement of accounting policies

The accounting policies used in preparation of these half yearly financial statements are consistent with those used in the March 2010 annual report. These financial statements comply with International Accounting Standard 34.

### 2. Operating Segments

The Group operates branches in major towns and regions throughout New Zealand. Each branch is considered to be an operating segment and for which discrete financial information is available and whose operating results are regularly reviewed by the Group's chief operating decision maker. All branches derive their revenues from on-hire labour services. All operating segments have been aggregated into a single reportable segment on the basis that the nature of the services, the nature of the operating processes, the types of class of customer for the services, the methods used to provide their services and the nature of the regulatory environment are the same for all branches.

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. The Group has no debtors individually making up 10% of its revenue and therefore we don't have a large reliance on its major customers.

### 3. Contingent liabilities

There are no contingent liabilities at the balance date.

### 4. Reconciliation of surplus after taxation with cash flows from operating activities

	Six Months to 30/09/2010 \$'000	Six Months to 30/09/2009 \$'000
<b>Reported surplus after tax</b>	1,742	573
<b>Non cash items</b>		
Depreciation	166	218
(Profit)/loss on disposal of property, plant and equipment	(7)	17
Increase/(decrease) in provisions	65	(72)
Movement in deferred tax assets	20	159
	1,986	895
<b>Movements in working capital:</b>		
Decrease in trade and other receivables	2,530	2,415
Decrease in trade and other payables	(780)	(1,339)
Decrease in taxation payable	(306)	(679)
	1,444	397
<b>Net cash inflows from operating activities</b>	<b>3,430</b>	<b>1,292</b>

Allied Work Force Group Limited

## Notes to the Financial Statements continued.

### 5. Dividends paid

During the six months ended 30 September 2010, the group paid dividends of \$1.176 million (six months ended 30 September 2009: \$0.784 million).

### 6. Events subsequent to balance date

#### Acquisition AWF Mourant Limited

Effective 1 October 2010, Allied Work Force Limited (AWF), a wholly owned subsidiary of Allied Work Force Group Limited, acquired 75 per cent of the ordinary shares of AWF Mourant Limited (AWF Mourant). AWF Mourant is a company incorporated to acquire the labour hire business of Mourant Direct Limited.

AWF Mourant is a specialist provider of labour to the mining sector. The acquisition of AWF Mourant gives AWF an entry into the mining sector and gives the group a platform to grow its core business in the Hauraki/Coromandel region. The goodwill arising from the acquisition relates to expected synergies from the merger of operations and intangible assets that do not qualify for separate recognition. None of the recognised goodwill is expected to be deductible for income tax purposes.

Consideration	\$'000
Cash	250

The sale and purchase agreement requires AWF Mourant to pay the owners of Mourant Direct Limited an earn out consideration based on a multiple of EBITDA over the first twelve months of trading. The amount of the contingent consideration arrangement has not yet been determined.

The transaction with Mourant Direct Limited did not include the acquisition of any tangible assets and no liabilities were assumed by the new entity AWF Mourant. The amount of goodwill has not yet been determined and any intangible assets have not been valued. AWF has not yet determined whether there are any intangible assets.

There are no known contingent liabilities at the effective date.

Acquisition-related costs amounted to \$30,000.

As the effective date of acquisition is 1 October 2010, no revenue from AWF Mourant has been included in the statement of comprehensive income for the period ended 30 September 2010. Had AWF Mourant been consolidated from 1 April 2010, the consolidated statement of comprehensive income would have included revenue of \$797,000. It is not practical to disclose the profit that would have been included for the same period as the previous operators, Mourant Direct Limited do not account for the labour hire business separately.

Allied Work Force Group Limited

## Notes to the Financial Statements continued.

At the date of this report it is impractical to disclose the amount of the non-controlling interest in the acquiree to be recognised as the full purchase consideration and resulting goodwill are yet to be determined. The non-controlling interest recognised will be measured as the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

### Acquisition Panacea Healthcare Limited

Effective 4 October 2010, Allied Work Force Group Limited (AWF) acquired 100 per cent of the ordinary shares of Panacea Healthcare Limited (Panacea).

Panacea is a specialist healthcare provider and has provided Accident Compensation Commission (ACC) funded home support services and certified care for the disabled and nursing services in the Auckland and Central North Island areas during the past 30 years. The acquisition of Panacea gives AWF an entry into the healthcare sector which it considers a potential growth area and the goodwill that arises on acquisition is a consequence of this strategic decision. None of the recognized goodwill is expected to be deductible for income tax purposes.

Consideration	\$'000
Cash	4,500
Equity instruments (Ordinary shares of AWF)	200
Contingent consideration arrangement (maximum)	1,500
Maximum total consideration transferred	6,200

The number of equity instruments will be determined based on the average share price for the five days following settlement to a value of \$200,000.

The contingent consideration arrangement requires AWF to pay the former owners of Panacea an earn out consideration based on an EBIT multiple on trading results for the first twelve months post acquisition, up to a maximum of \$1.5 million (undiscounted). The amount of the contingent consideration arrangement has not yet been determined. The potential undiscounted amount of all future payments that AWF could be required to make under the arrangement is between \$0 and \$1.5 million.

The financial assets acquired include trade receivables, which are made up predominantly of amounts due from ACC and are all considered collectable. The exact values of receivables have not yet been determined.

Allied Work Force Group Limited

## Notes to the Financial Statements continued.

### Recognised amounts of identifiable assets acquired and liabilities assumed

As at the reporting date the fair value of identifiable assets acquired and the liabilities assumed and any goodwill or gain from a bargain purchase had not yet been determined. The agreement with the former owners of Panacea provides that at the effective date of take over, the net assets of the company are more than \$122,000.

There are no known contingent liabilities at the effective date.

Acquisition related costs are not expected to exceed \$300,000.

As the effective date of acquisition is 4 October 2010, no revenue from Panacea has been included in the statement of comprehensive income for the period ended 30 September 2010. At the date of this report it is impractical to disclose the amount of revenue and profit that would have been included in the statement of comprehensive income for the period to 30 September 2010 had Panacea been consolidated from 1 April 2010 as the settlement accounts are not yet complete.

### Interim Dividend

On 8 November 2010 the directors approved the payment of a fully imputed interim dividend of \$992,769 (3.8 cents per share) to be paid on 19 November 2010.

# AWFGROUP

## Directory

### Directors

R Keenan (Chairman)  
S Hull (Managing Director)  
M Huddleston  
T Van Arkel

### Registered Office

41 Station Road,  
Penrose, Auckland  
PO Box 12832,  
Penrose, Auckland 1642

### Bankers

National Bank, Auckland

### Share Registrars

Link Market Services Limited  
PO Box 384, Ashburton

### Auditors

Deloitte, Auckland

