# Rubicor Group Limited and Controlled Entities

ABN 74 110 913 365

General Purpose Financial Statements

For the Half-Year Ended 31 December 2010

**Rubicor Group Limited and Controlled Entities**

**ABN 74 110 913 365**
**Contents**
**For the half-year ended 31 December 2010**

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Your directors present their report on the Company and its controlled entities for the half-year ended 31 December 2010.

## 1. General information

### (a) Directors

The names of the directors in office at any time during, or since the end of, the half-year are:

**Names**

Robert Aitken

Jane Beaumont

Wayman Chapman

John Pettigrew

Russel Pillemer

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## 2. Business Review

### (a) Review of operations

The Directors report that total revenue for the six months to 31 December 2010 was $145.9 million (2009: $136.5 million). The Group loss after tax for the period was $1.9 million (2009: $5.0 million). These results have been reviewed by our auditors.

### (b) Dividends

No interim dividend has been paid in the current half-year period (2009: nil).

Dividends were paid on redeemable preference shares totalling $0.22 million (2009: $0.33 million), included with finance costs.

## 3. Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 4.

## 4. Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001:

On behalf of the Directors

| Director | Director |
|---|---|
| Jane Beaumont | John Pettigrew |

Dated this 28th day of February 2011.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

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28 February 2011

Dear Board Members

**Rubicor Group Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Rubicor Group Limited.

As lead audit partner for the review of the financial statements of Rubicor Group Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

**Alfred Nehama**
Partner
Chartered Accountant
28 February 2011

Deloitte Touche Tohmatsu
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## Independent Auditor's Review Report to the Members of Rubicor Group Limited

We have reviewed the accompanying half-year financial statements of Rubicor Group Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, and the condensed consolidated statement of comprehensive income, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 20.

*Directors' Responsibility for the Half-Year Financial Statements*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial statements based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial statements are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Rubicor Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Rubicor Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Rubicor Group Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our conclusion, we draw attention to Note 1(d) "Going Concern" in the financial report which indicates that the consolidated entity incurred a net loss of $1,885,000 during the half-year ended 31 December 2010 and, as of that date, the consolidated entity's current liabilities exceeded its current assets by $72,976,000. These conditions, along with other matters as set forth in Note 1(d), "Going Concern", indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

**Alfred Nehama**
Partner
Chartered Accountant
28 February 2011

## Directors' Declaration

The Directors declare that:

(a) in the Directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the Directors

Jane Beaumont

Director

John Pettigrew

Director

Sydney

Dated the 28th day of February 2011

# Rubicor Group Limited and Controlled Entities

## ABN 74 110 913 365

## Condensed Consolidated Statement of Comprehensive Income

## for the half-year ended 31 December 2010

| | Notes | Half-year ended 31 Dec 10 $000 | Half-year ended 31 Dec 09 $000 |
|---|---|---|---|
| Revenue | | **145,602** | 136,238 |
| Other income | | **346** | 302 |
| On hired labour costs | | **(113,216)** | (106,839) |
| Employee benefits expense | | **(18,271)** | (16,596) |
| Rental expense on operating leases | | **(2,184)** | (2,535) |
| Other expenses | 2 | **(6,382)** | (7,207) |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | | **5,895** | 3,363 |
| Depreciation of property, plant and equipment | 2 | **(501)** | (549) |
| Amortisation of intangible assets | | **(1,566)** | (3,034) |
| Finance costs | 2 | **(5,851)** | (4,775) |
| **Loss before income tax benefit** | | **(2,023)** | (4,995) |
| Income tax benefit | 3 | **138** | 4 |
| **Loss for the period** | | **(1,885)** | (4,991) |
| | | | |
| **Other comprehensive loss** | | | |
| Exchange differences arising on translation of foreign operations | | **(1,157)** | (3) |
| Other comprehensive loss for the period, net of tax | | **(1,157)** | (3) |
| **Total comprehensive loss for the period** | | **(3,042)** | (4,994) |
| | | | |
| Loss for the period attributable to: | | | |
| Owners of the parent | | **(2,055)** | (5,075) |
| Non-controlling interests | | **170** | 84 |
| | | **(1,885)** | (4,991) |
| | | | |
| Total comprehensive loss for the period attributable to: | | | |
| Owners of the parent | | **(3,212)** | (5,078) |
| Non-controlling interests | | **170** | 84 |
| | | **(3,042)** | (4,994) |
| | | | |
| **Basic loss per share (cents)** | | **(1.9)** | (4.6) |
| **Diluted loss per share (cents)** | | **(1.9)** | (4.6) |

Notes to the condensed consolidated financial statements are set out on pages 12-20.

## Rubicor Group Limited and Controlled Entities

**ABN 74 110 913 365**

**Condensed Consolidated Statement of Financial Position**

**as at 31 December 2010**

| | Notes | 31 Dec 10 $000 | 30 Jun 10 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **1,676** | 3,554 |
| Trade and other receivables | | **36,088** | 38,004 |
| Other assets | | **720** | 1,611 |
| **Total current assets** | | **38,484** | 43,169 |
| **Non-current assets** | | | |
| Trade and other receivables | | **96** | 137 |
| Property, plant and equipment | | **2,915** | 3,088 |
| Deferred tax assets | | **6,010** | 5,717 |
| Intangible assets | 6 | **75,729** | 78,571 |
| Other assets | | **175** | 219 |
| **Total non-current assets** | | **84,925** | 87,732 |
| **TOTAL ASSETS** | | **123,409** | 130,901 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **19,540** | 25,622 |
| Borrowings | 7 | **89,945** | 85,282 |
| Current tax payable | | **246** | 332 |
| Provisions | | **1,729** | 1,910 |
| **Total current liabilities** | | **111,460** | 113,146 |
| **Non-current liabilities** | | | |
| Borrowings | 7 | **4,159** | 9,288 |
| Provisions | | **1,054** | 969 |
| Other liabilities | 8 | **2,422** | - |
| **Total non-current liabilities** | | **7,635** | 10,257 |
| **TOTAL LIABILITIES** | | **119,095** | 123,403 |
| **NET ASSETS** | | **4,314** | 7,498 |
| **EQUITY** | | | |
| Share capital | | **64,605** | 64,605 |
| Reserves | | **(660)** | 500 |
| Accumulated losses | | **(59,876)** | (57,821) |
| | | **4,069** | 7,284 |
| Equity attributable to owners of the parent | | **4,069** | 7,284 |
| Non-controlling interests | | **245** | 214 |
| **TOTAL EQUITY** | | **4,314** | 7,498 |

Notes to the condensed consolidated financial statements are set out on pages 12-20.

## Rubicor Group Limited and Controlled Entities

## ABN 74 110 913 365

## Condensed Consolidated Statement of Changes in Equity

## for the half-year ended 31 December 2010

### 2010

| | Equity-settled employee benefit reserve $000 | Foreign currency translation reserve $000 | Share capital $000 | Accumulated losses $000 | Attributable to owners of the parent $000 | Non-controlling interests $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 Jul 2010** | 526 | (26) | 64,605 | (57,821) | 7,284 | 214 | 7,498 |
| (Loss)/profit for the period | - | - | - | (2,055) | (2,055) | 170 | (1,885) |
| Other comprehensive income for the period | - | (1,157) | - | - | (1,157) | - | (1,157) |
| **Total comprehensive loss for the period** | - | (1,157) | - | (2,055) | (3,212) | 170 | (3,042) |
| Dividend paid to non-controlling interests | - | - | - | - | - | (139) | (139) |
| Share-based payments | (3) | | - | - | (3) | - | (3) |
| **Balance at 31 Dec 2010** | 523 | (1,183) | 64,605 | (59,876) | 4,069 | 245 | 4,314 |

### 2009

| | Equity-settled employee benefit reserve $000 | Foreign currency translation reserve $000 | Share capital $000 | Accumulated losses $000 | Attributable to owners of the parent $000 | Non-controlling interests $000 | Total $000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 Jul 2009** | 447 | (195) | 64,605 | (49,408) | 15,449 | - | 15,449 |
| (Loss)/profit for the period | - | - | - | (5,075) | (5,075) | 84 | (4,991) |
| Other comprehensive income for the period | - | (3) | - | - | (3) | - | (3) |
| **Total comprehensive loss for the period** | - | (3) | - | (5,075) | (5,078) | 84 | (4,994) |
| Minority interest transfer of controlled entities | - | - | - | (38) | (38) | 38 | - |
| Share-based payments | 33 | - | - | - | 33 | - | 33 |
| **Balance at 31 Dec 2009** | 480 | (198) | 64,605 | (54,521) | 10,366 | 122 | 10,488 |

Notes to the condensed consolidated financial statements are set out on pages 12-20.

**Rubicor Group Limited and Controlled Entities**

**ABN 74 110 913 365**

**Condensed Consolidated Statement of Cash Flows**

**for the half-year ended 31 December 2010**

| | Notes | Half-year ended 31 Dec 2010 $000 Inflows/(Outflows) | Half-year ended 31 Dec 2009 $000 Inflows/(Outflows) |
|---|---|---|---|
| **Cash from operating activities:** | | | |
| Receipts from customers (inclusive of GST) | | **162,054** | 151,090 |
| Payments to suppliers and employees (inclusive of GST) | | **(159,539)** | (150,614) |
| | | **2,515** | 476 |
| Finance costs paid | | **(4,331)** | (3,333) |
| Interest received | | **19** | 52 |
| Income taxes (paid)/refunded | | **(240)** | 790 |
| **Net cash outflow from operating activities** | | **(2,037)** | (2,015) |
| **Cash flows from investing activities:** | | | |
| Payment for property, plant and equipment | | **(325)** | (66) |
| Payment for intangibles | | **(148)** | (39) |
| Payment for controlled entities acquired (net of cash acquired) - relating to prior years | | **(6,994)** | (6,848) |
| Dividends paid to vendors - redeemable preference shares | | **(224)** | (333) |
| **Net cash outflow from investing activities** | | **(7,691)** | (7,286) |
| **Cash flows from financing activities:** | | | |
| Proceeds from third party borrowings | | **6,015** | 6,929 |
| Repayment of third party borrowings | | **(1,300)** | (500) |
| Dividend paid to non-controlling interests | | **(139)** | - |
| **Net cash inflow from financing activities** | | **4,576** | 6,429 |
| **Net cash decrease in cash and cash equivalents** | | **(5,152)** | (2,872) |
| Cash and cash equivalents at beginning of period | | **3,506** | (2,342) |
| **Cash and cash equivalents at end of period** | | **(1,646)** | (5,214) |

Notes to the condensed consolidated financial statements are set out on pages 12-20.

## 1. Accounting policies

### (a) General information

The half-year financial statements cover the Group (consolidated entity) of Rubicor Group Limited and its controlled entities (‘consolidated financial statements’). Rubicor Group Limited is a listed public company, incorporated and domiciled in Australia.

### (b) Statement of compliance

The half-year financial statements are general purpose financial statements prepared in accordance with the Corporations Act 2001 and AASB 134 ‘Interim Financial Reporting’. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half-year financial statements do not include notes of the type normally included in annual financial statements and shall be read in conjunction with the most recent annual financial statements.

### (c) Basis of preparation

The condensed consolidated financial statements have been prepared on an accruals basis and are based on historical costs. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors’ report and the half-year financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies and methods of computation adopted in preparing the financial statements for the half-year ended 31 December 2010 are consistent with those adopted and disclosed in the Group’s annual financial statements for the financial year ended 30 June 2010.

### (d) Going concern

The Directors have prepared the financial statements on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The statement of comprehensive income for the half-year ended 31 December 2010 reflects a consolidated Group net loss of $1.9 million and the statement of financial position reflects an excess of current liabilities over current assets in respect of the Group of $73.0 million.

## 1. Accounting policies (continued)

### (d) Going concern (continued)

During the period, the Group operated within its banking covenants.

To continue as a going concern, the Group requires:

- the continued support of its bankers with regards to renegotiation or rollover of facilities expiring in July 2011 (refer note 7), and/or successful refinancing of some or all of its facilities with alternative financiers; and
- the provision of additional funding to meet the Group's obligations in relation to certain acquisition related vendor payments due in November 2011. Whilst the forecasts indicate that the group will generate net cash inflows from operating activities during the period, these net cash inflows are unlikely to be sufficient to cover all of the acquisition-related vendor payments.

Based on discussions to date with the Group's bankers, their prior support as well as the outlook for the business, the labour market and prospects generally, management is confident that they will achieve successful outcomes in regards to the matters outlined above, and therefore that the Group will continue as a going concern, However, if the Group is unable to obtain the continued support of its bankers with regard to the renegotiation or rollover of existing facilities or successfully refinance some or all of its existing facilities with alternative financiers, including the provision of additional funding to cover the acquisition-related vendor payments due in November 2011, and generate the expected level of operating cash inflows, significant uncertainty would exist as to whether the Group will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

## 2. Expenses

### (a) Other expenses

| | Consolidated Half-year ended 31 Dec 10 $000 | Consolidated Half-year ended 31 Dec 09 $000 |
|---|---|---|
| Advertising and marketing | **806** | 811 |
| Administration | **4,695** | 5,652 |
| Payroll tax costs | **881** | 744 |
| **Total** | **6,382** | 7,207 |

### (b) Loss before income tax includes the following specific expenses:

| | Consolidated Half-year ended 31 Dec 10 $000 | Consolidated Half-year ended 31 Dec 09 $000 |
|---|---|---|
| **Finance Costs:** | | |
| Interest expense on Vendor earn-out liability (refer Note 7) | **756** | 872 |
| Amortisation of borrowing costs | **1,012** | 570 |
| Interest and finance charges on third party borrowings | **4,083** | 3,333 |
| **Total finance costs** | **5,851** | 4,775 |
| Depreciation of property, plant and equipment | **501** | 549 |
| Defined contribution superannuation expense | **7,290** | 7,004 |
| Share based payment expense | **-** | 46 |
| **Other material expenses** | | |
| Termination payments | **-** | 114 |

## 3. Income tax benefit

### (a) Components of tax benefit

| | Consolidated Half-year ended 31 Dec 10 $000 | Consolidated Half-year ended 31 Dec 09 $000 |
|---|---|---|
| Current tax (expense)/benefit | **(169)** | 401 |
| Deferred tax income relating to the origination and reversal of temporary differences | **293** | (188) |
| Over/(under) provision of tax in prior year | **14** | (209) |
| **Income tax benefit** | **138** | 4 |

### (b)

| | Consolidated Half-year ended 31 Dec 10 $000 | Consolidated Half-year ended 31 Dec 09 $000 |
|---|---|---|
| **Loss before tax** | **2,023** | 4,995 |
| **Prima facie tax on loss from ordinary activities before income tax at 30% (2009: 30%)** | **607** | 1,499 |
| **Add:** | | |
| **Tax effect of:** | | |
| - non-deductible interest | **(194)** | (262) |
| - share option expense | **-** | (14) |
| - other non-allowable (deductible) items | **(97)** | 106 |
| - over/(under) provision of tax in prior year | **14** | (209) |
| - difference in overseas tax rates | **19** | (2) |
| - effect of tax losses not brought to account | **(211)** | (1,114) |
| **Income tax benefit** | **138** | 4 |

## 4. Segment information

### Business segments

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Our internal reporting system produces reports in which business activities are presented in a variety of ways. Based on these reports, the Executive Board, which is responsible for assessing the performance of various company components and making resource allocation decisions as our Chief Operating Decision Maker (CODM), evaluates business activities in a number of different ways. The Group's reportable segments under AASB 8 are as follows:

- Australia;
- New Zealand
- Other

The Australian and New Zealand reportable segments supply recruitment services to the Australian and New Zealand geographical regions respectively.

'Other' is the aggregation of the Group's other operating segments that are not separately reportable. Included in 'Other' are operating segments for the Group's activities in supplying recruitment services in Singapore.

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reporting operating segment for the half-year periods under review:

| | Australia | | New Zealand | | Other | | Unallocated | | Economic entity | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 $000 | 2009 $000 | 2010 $000 | 2009 $000 | 2010 $000 | 2009 $000 | 2010 $000 | 2009 $000 | 2010 $000 | 2009 $000 |
| **(a) Revenue** | **133,695** | 127,741 | **11,724** | 8,163 | **529** | 636 | **-** | - | **145,948** | 136,540 |
| **Total segment revenue:** | **133,695** | 127,741 | **11,724** | 8,163 | **529** | 636 | **-** | - | **145,948** | 136,540 |
| **(b) Result** | | | | | | | | | | |
| Segment result before depreciation and amortisation | **8,693** | 5,765 | **958** | 890 | **4** | 9 | **-** | - | **9,655** | 6,664 |
| Depreciation | **(453)** | (477) | **(42)** | (63) | **(6)** | (9) | **-** | - | **(501)** | (549) |
| Segment result after depreciation and before amortisation | **8,240** | 5,288 | **916** | 827 | **(2)** | - | **-** | - | **9,154** | 6,115 |
| Amortisation | | | | | | | | | **(1,566)** | (3,034) |
| Central administration costs and directors' salaries | | | | | | | | | **(3,779)** | (3,353) |
| Interest revenue | | | | | | | | | **19** | 52 |
| Finance costs | | | | | | | | | **(5,095)** | (3,903) |
| Interest on vendor earn out liabilities | | | | | | | | | **(756)** | (872) |
| **Loss before tax** | | | | | | | | | **(2,023)** | (4,995) |
| Income tax benefit | | | | | | | | | **138** | 4 |
| **Loss after tax** | | | | | | | | | **(1,885)** | (4,991) |

## 4. Segment information (continued)

### (c) Segment assets and liabilities

Segment assets and liabilities have not been disclosed on the basis that this information is not reported to the chief operating decision maker.

## 5. Events after the balance date

There are no subsequent events after balance date that require adjustments to, or disclosure in, these financial statements.

## 6. Intangible assets

| | Consolidated | |
|---|---|---|
| | 31 Dec 10 $000 | 30 Jun 10 $000 |
| **Preferred Supplier Agreements** | | |
| Cost | **2,014** | 2,014 |
| Accumulated amortisation and impairment | **(1,802)** | (1,691) |
| **Net carrying value** | **212** | 323 |
| **Course Material Content** | | |
| Cost | **542** | 542 |
| Accumulated amortisation and impairment | **(280)** | (253) |
| **Net carrying value** | **262** | 289 |
| **Candidate Databases** | | |
| Cost | **22,757** | 22,757 |
| Accumulated amortisation and impairment | **(19,329)** | (18,183) |
| **Net carrying value** | **3,428** | 4,574 |
| **Computer Software** | | |
| Cost | **6,227** | 6,078 |
| Accumulated amortisation and impairment | **(5,957)** | (5,675) |
| **Net carrying value** | **270** | 403 |
| **Brands** | | |
| Cost | **591** | 591 |
| Accumulated amortisation and impairment | **(44)** | (44) |
| **Net carrying value** | **547** | 547 |
| **Goodwill** | | |
| Arising on consolidation at cost | **101,951** | 103,376 |
| Accumulated impairment | **(30,941)** | (30,941) |
| **Net carrying value** | **71,010** | 72,435 |
| **Total Intangible assets** | **75,729** | 78,571 |

## 6. Intangible assets (continued)

### (i) Impairment tests for goodwill

Goodwill is allocated to recruitment cash-generating units (CGUs), being the autonomously operated businesses acquired by the Group. The recoverable amount of the CGUs is determined based on value-in-use calculations.

The following key assumptions were used in the value-in-use calculations:

– Management has based the value-in-use calculations on the most recently completed management approved forecast performance for the forthcoming one-year period. Future cash-flows between years two to five are projected using forecast average revenue growth rates declining from 8.3% to 3.0% and costs are calculated taking into account expected gross and operating margins. Thereafter cash flows are projected at a constant growth rate of 3.0% (30 June 2010: 3.0%) into perpetuity. A pre-tax discount rate of 17.1% (30 June 2010: 17.1%), reflecting the assessed risks associated with the CGU segments, has been applied to determine the present value of the future cash flow projections.

– During the half-year ended 31 December 2010, the Group assessed the recoverable amount of goodwill, and determined that goodwill associated with the Group's CGUs was not impaired (2009: nil).

## 7. Borrowings

| | Consolidated | |
|---|---|---|
| | 31 Dec 10 | 30 Jun 10 |
| | $000 | $000 |
| **CURRENT** | | |
| **Unsecured liabilities** | | |
| Vendor earn-out liability (a) | **5,807** | 7,474 |
| **Secured liabilities** | | |
| Bank overdraft (b) | **3,322** | 48 |
| Cash advance facility (net of borrowing costs) (c) | **23,791** | 26,750 |
| Cash advance acquisition facility (d) | **27,000** | 27,000 |
| Working capital facility (e) | **30,000** | 24,000 |
| Finance lease obligation (f) | **25** | 10 |
| | **84,138** | 77,808 |
| | **89,945** | 85,282 |

| | Consolidated | |
|---|---|---|
| | 31 Dec 10 | 30 Jun 10 |
| | $000 | $000 |
| **NON-CURRENT** | | |
| **Unsecured liabilities** | | |
| Vendor earn-out liability (a) | **4,158** | 9,287 |
| **Secured liabilities** | | |
| Finance lease obligation (f) | **1** | 1 |
| | **4,159** | 9,288 |

## 7. Borrowings (continued)

**(a) Vendor earn-out liability**

The Vendor earn-out liability comprises the fair value of estimated initial consideration payments which are payable to vendors over a period of one to three years post-acquisition, and estimated exit consideration payments which are payable to vendors over a three year period after provision of exit notice by the vendors.

For Australian business acquisitions, the Vendor earn-out liability has been structured through the issue to vendors of Series B Redeemable Preference Shares which are progressively redeemed at each earn-out payment date. All redemption payments made are contingent on the profit performance of the acquired business over the payment period. Each holder of Series B Redeemable Preference Shares is entitled to receive franked dividends for each year based on the Net Profit Before Tax of the vendor business acquired. The dividends are payable by the Company in priority to any other dividends in respect of any other shares. If these dividends are not paid then they will accumulate. The holders do not have rights to any other dividends or any entitlement to receive notice of, attend or vote at any general meeting of the Company.

For New Zealand business acquisitions, earn-out payments have not been structured through preference shares; however, additional share consideration payments equivalent in structure to the preference dividends referred to above have been incorporated as part of the share purchase consideration.

The Vendor earn-out liability has been determined by calculating the present value of the estimated future cash flows associated with the earn-out payments, including the associated preference dividend and additional share consideration payments. The cash flows have been discounted at rates between 11.4% and 12.5% representing the assessed risk-adjusted rate of return for the acquired businesses at their acquisition dates.

**(b) Bank overdraft facility**

$7.0 million (30 June 2010: $7.0 million) cash overdraft facility to assist with ongoing working capital requirements. This facility is subject to annual review and at 31 December 2010 attracted interest at a margin over the bank reference rate. Interest is calculated daily and is payable monthly in arrears.

**(c) Cash advance facility (net of borrowing costs)**

$25.4 million (30 June 2010: $26.7 million) cash advance facility solely to fund earn-out obligations for all acquired entities with exception of Steelweld and Gemteq. This facility expires on 31 July 2011. This facility attracts interest at a margin over BBSY. Based on the BBSY at 31 December 2010, the effective rate would be 8.15%. Quarterly amortisation payments of $0.65 million have applied from 30 September 2010.

**(d) Cash advance acquisition facility**

$27.0 million (30 June 2010: $27.0 million) cash advance acquisition facility solely to fund earn-out obligations for the acquisition of Steelweld and Gemteq. This facility expires on 31 July 2011. This facility attracts interest at a margin over BBSY. Based on the BBSY at 31 December 2010, the effective rate would be 8.15%.

**(e) Working capital facility**

$30.0 million (30 June 2010: $24.0 million) working capital facility which replaced the invoice finance debt in February 2010. The drawdown of this facility is based on available debtor balances. This facility expires on 31 July 2011. This facility attracts interest at a margin over BBSY. Based on the BBSY at 31 December 2010, the effective rate would be 10.40%.

## 7. Borrowings (continued)

### (f) Assets pledged as security in respect of secured liabilities

**Existing facilities**

The finance lease obligation is secured against the underlying finance lease assets with net book value of $0.02 million (30 June 2010: nil).

The cash advance facility, cash advance acquisition facility, working capital facility and the bank overdraft facility are secured by a fixed and floating charge over the assets of the parent and subsidiaries together with a mortgage over all shares held by the parent entity in the consolidated entities.

## 8. Other liabilities

The bank facilities were extended to 31 July 2011 during the period. The extension is subject to a fee of 3% of the facilities amounting to $2.4 million, the payment of which is calculated with reference to a sliding scale determined by the amount by which the actual EBITDA performance exceeds the covenanted EBITDA performance for each half year period, but only if the excess performance in any given period is at least 5%. The fee is payable on the first date that the fee is able to be paid provided in the reasonable opinion of the Board of Directors, the payment of the fee will not likely cause the Company to be unable to comply with the terms of the facility documents and there is sufficient excess in the working capital facilities.

Conversely, in the event that any of the following conditions occur, the fee is payable on the earlier of:

(a) any date on which any of the facilities is repaid using proceeds advanced or provided by an external party; or

(b) any date on which any member of the Group disposes of assets or a business with an aggregate value equal to or greater than $2.5 million; or

(c) the date payment is requested whilst a default subsists; or

(d) the date on which all the facilities are repaid in full, subject to the same provisos as noted above.

## 9. Contingent liabilities

The Group has provided bank guarantees amounting to $1.6 million (30 June 2010: $1.9 million) in respect of leasehold agreements. The guarantees are secured against any claims, proceedings, losses or liabilities which may arise from these instruments.

## 10. Company details

The registered office and principal place of business of the Company is:

Rubicor Group Limited
Level 16, 1 York Street
Sydney NSW 2000