

Interim Report

for the six months ended
30 September 2019





We are optimistic
about our prospects
over the next six
months to March 2020.

Simon Bennett, CEO

Contents

CEO'S REPORT – SIMON BENNETT	4
FINANCIAL STATEMENTS	9
NOTES TO THE FINANCIAL STATEMENTS	14
DIRECTORY	30

On track for a strong Year End.

Simon Bennett, CEO



We finish the Half Year with a stronger platform to build on and, despite some economic headwinds, we have greater confidence in our ability to deliver a stronger result in the second half of the year.

We expect to deliver FY20 profit well above what we achieved in FY19. Our revenue for HY20 against prior year (HY19) was slightly down at \$139 million vs \$141.5 million.

We have grown the breadth of our service offering with the successful acquisition and integration of JacksonStone & Partners. The transaction was completed in early June and has performed well, as expected. Dave Hollander, JacksonStone's CEO, spoke at the AGM of the ease of integration and the leverage for JacksonStone, AWF, Madison and Absolute IT; and this sentiment continues. With a large portion of the JacksonStone business focussed on the public sector, we have not seen any softening in the market at all. A number of high-profile CEO roles have been recruited in this half of the year and further roles have already been confirmed for the second half. JacksonStone has made a contribution for a portion of the Half Year, notwithstanding the acquisition and integration costs.

Our other white collar businesses found trading a little tougher than in the corresponding six months. Madison, and Absolute IT to a lesser degree, were slightly softer, but for different reasons.

In Absolute IT a good level of hiring activity saw us recruiting at similar levels, but the still-short labour market, combined with slower client decision-making, slowed the process and some candidates were lost

to other opportunities in the meantime. Interestingly, we are seeing quite a different market in Auckland and Wellington. Auckland is stronger in permanent recruitment; with Wellington stronger in contract placements. Although this has always been a trend, with the public sector having a preference for contract resource, this has been accentuated.

Madison has seen a decline in temp placement numbers this year. There is slightly less demand for short term reception assignments, with many organisations just making do with their existing resources. Means of automation, such as electronic sign-in, and receptionists not always being replaced in times of sickness or holidays, are contributing to this.

Of more concern is the industrial relations activity we are seeing, with aggressive action by a number of Unions. We currently have a case before the Employment Relations Authority, taken by a Union, challenging the status of a number of our workers. We believe this case has no merit and, in fact, they are seeking an outcome that would have applied if the Employment Relations (Triangular Employment) Amendment Bill had not been amended prior to it becoming legislation. This action has resulted in a shift away from contingent workers in a large client of ours who is seeking to take a more conservative balance of permanent and contingent workers.

I believe the Union is effectively bullying a number of clients in this way. It is unfortunate for our workers as now a number have been left without work opportunities as a result. We are confident this will be resolved and may, in fact, result in stronger case law for legitimate providers of temporary employees. A balance of permanent and contingent workers optimises a workforce and provides good opportunities for workers, and we are confident common sense will prevail. The result has seen our white collar segment contribute \$3.80 million at HY20 against HY19 of \$3.85 million – a small drop of 1%.

AWF has stabilised earnings and we have reduced our operating costs as we reported. However, we have not seen the lift we expected in the first half of the year. Notwithstanding, we are beginning to see this lift in the first month of H2 and we expect it to deliver earnings (EBITDA) in the range we were seeking when we commenced the year, although a number of matters were slower to resolve than we had anticipated.

We had expected to resolve issues with the Labour Inspectorate relating to an investigation which commenced in May of 2018, following an exaggerated and sensationalised report by the media on 9 May 2018. This investigation stalled our renewal process for Accredited Employer status with Immigration New Zealand and resulted in us having little flexibility to redeploy

Our desire to earn our social license led us to form The Work Collective. We are very excited by the unique offering this will create and the opportunities that exist for us to have significant social impact.

many workers based in Christchurch, who were surplus to requirements, with large construction projects drawing to a close. We expect to announce a long overdue pathway forward in the coming weeks.

On lower turnover we have seen our gross margin increase slightly and our permanent offering is beginning to contribute to our earnings. We have continued to be risk-averse to the construction sector and as a result have not been exposed to any significant bad debts during the Half Year, despite the sector remaining challenging.

Our desire to earn our social license led us to form The Work Collective. The initiative is moving into pilot stage and we have a number of large companies eager to move forward with us. We are very excited by the unique offering this will create and the opportunities that exist for us to have significant social impact. The Work Collective will also address skills shortages for our businesses, our clients and this country. There appears to be a growing momentum in the area of 'social enterprise' and many clients seek verification of our social impact initiatives as part of their procurement processes.

At the end of HY20 our net debt stands at \$28.4 million versus \$26.6 million at Year End 2019. The increase of less than \$2.0 million is satisfactory given the payment of \$6.7 million towards the acquisition of JacksonStone & Partners.

The outlook for the remaining six months is positive, albeit we will not achieve the annualised earnings we were seeking in AWF. Though our business is seasonal we are pleased with the significant lift in earnings against the prior six months. We expect to achieve NPBT (Net Profit Before Tax) for the full year of above \$4.2 million – nearly 50% higher than prior year. An upper range is not provided due to some uncertainty in the level of improvement within AWF and the speed at which we can ramp up temp numbers within Madison. The economic backdrop is softer, but a weakening economy sees demand rise for contingent workers. A number of large clients have 'hiring freezes', which we expect to continue, strengthening demand for contingent workers. We are optimistic about our prospects over the next six months to March 2020.

Key Financials

Revenue

Up 10% from \$126.2m for the immediately preceding six month period due in part to the acquisition of JacksonStone & Partners

Down 1.7% from \$141.6m last year

Revenue

Up 10% from \$126.2m for the immediately preceding six month period due in part to the acquisition of JacksonStone & Partners

Down 1.7% from \$141.6m last year

\$139.2
Million

Net Profit After Tax

Up \$1.32m on the immediately preceding six month period due in part to the acquisition of JacksonStone & Partners

Down 36% from \$2.1m last year

\$1.3
Million

Net Operating Cash Flow

Up from \$3.3m for the immediately preceding six months

Up from \$6.1m last year

\$6.9
Million

Dividend

Interim Dividend last year 8.0cps

Final Dividend last year 8.2cps

8.0
CPS

Net Bank Debt

Up slightly from \$27.3m last year

Up from \$26.6m as at 31st March 2019

\$28.4
Million

Financial Statements.

AWF Madison Group Limited**Condensed consolidated statement of comprehensive income
For the six month period 30 September 2019 (unaudited)**

	GROUP	
	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000
Revenue	139,226	141,577
Investment revenue	-	-
Direct costs	(1,038)	(1,752)
Employee benefits expense	(127,273)	(128,735)
Depreciation and amortisation expense	(3,285)	(1,642)
Other operating expenses	(4,583)	(5,938)
Finance costs	(1,013)	(637)
Acquisition related cost expense	(101)	-
Profit before tax	1,933	2,873
Income tax expense	(612)	(821)
Profit for the period	1,321	2,052
Other comprehensive income for the period	-	-
Total comprehensive income for the period	1,321	2,052
Profit for the period income is attributable to equity holders of the Group	1,321	2,052
Total comprehensive income is attributable to equity holders of the Group	1,321	2,052
Earnings per share		
Total basic earnings per share (cents/share)	4.0	6.3
Total diluted earnings per share (cents/share)	4.0	6.3

The notes to the interim condensed consolidated financial statements form an integral part of these financial statements

AWF Madison Group Limited**Condensed statement of financial position
As at 30 September 2019 (unaudited)**

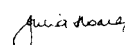
	GROUP		
	30 September 2019 (unaudited) \$'000	30 September 2018 (unaudited) (restated) \$'000	31 March 2019 (audited) \$'000
Assets			
Non-current assets			
Property, plant and equipment	3,152	3,279	3,038
Right of use assets	14,642	-	-
Intangible assets – goodwill	45,475	39,411	39,271
Intangible assets – other	16,886	14,845	13,929
Total non-current assets	80,155	57,535	56,238
Current assets			
Cash and cash equivalents	7,623	5,669	6,357
Trade and other receivables	30,377	34,769	32,629
Contract assets	381	289	295
Taxation receivable	-	145	-
Total current assets	38,381	40,872	39,281
Total assets	118,536	98,407	95,519
Equity and liabilities			
Non-current liabilities			
Deferred tax liabilities	3,190	2,535	2,462
Borrowings	36,000	33,000	33,000
Lease liabilities	12,342	-	-
Contingent consideration	3,458	-	-
Total non-current liabilities	54,990	35,535	35,462
Current liabilities			
Trade and other payables	25,321	25,668	24,186
Contract liabilities	242	315	530
Taxation payable	488	-	280
Provisions	156	200	241
Lease liabilities	2,475	-	-
Deferred consideration	616	-	-
Total current liabilities	29,298	26,183	25,237
Total liabilities	84,288	61,718	60,699
Net assets	34,248	36,689	34,820
Capital and reserves			
Share capital	30,012	28,371	29,165
Group share scheme reserve	281	466	544
Retained earnings	3,955	7,852	5,111
Total equity	34,248	36,689	34,820

For and on behalf of the Board who authorise the issue of the financial statements on 24 October 2019:

ROSS KEENAN, Chair



JULIA HOARE, Chair, Audit and Risk Committee



The notes to the interim condensed consolidated financial statements form an integral part of these financial statements

AWF Madison Group Limited**Condensed consolidated statement of changes in equity
For the six month period 30 September 2019 (unaudited)**

	GROUP				
	Share capital \$'000	Treasury shares \$'000	Group share scheme reserve \$'000	Retained earnings \$'000	Total equity \$'000
Period ended 30 September 2018					
Balance at 1 April 2018	27,598	-	383	8,878	36,859
Effect of changes in accounting policies resulting from the adoption of NZ IFRS 9 & 15	-	-	-	(374)	(374)
Balance at 1 April 2018 (restated)	27,598	-	383	8,504	36,485
Comprehensive income					
Profit for the period	-	-	-	2,052	2,052
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	2,052	2,052
Transactions with shareholders					
Issue of share capital	773	-	-	-	773
Dividends paid	-	-	-	(2,704)	(2,704)
Share based payments	-	-	83	-	83
Total transactions with shareholders	773	-	83	(2,704)	(1,848)
Balance at 30 September 2018 (restated)	28,371	-	466	7,852	36,689
Period ended 30 September 2019					
Balance at 1 April 2019	29,165	-	544	5,111	34,820
Comprehensive income					
Profit for the period	-	-	-	1,321	1,321
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	1,321	1,321
Transactions with shareholders					
Issue of share capital	847	-	-	-	847
Dividends paid	-	-	-	(2,806)	(2,806)
Stock appreciation rights cancelled	-	-	(329)	329	-
Share based payments	-	-	66	-	66
Total transactions with shareholders	847	-	(263)	(2,477)	(1,893)
Balance at 30 September 2019	30,012	-	281	3,955	34,248

The notes to the interim condensed consolidated financial statements form an integral part of these financial statements

AWF Madison Group Limited**Condensed consolidated statement of cashflows
For the six month period ended 30 September 2019 (unaudited)**

	GROUP	
	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000
Cashflows from operating activities		
Receipts from customers	144,449	146,810
Payments to suppliers and employees	(135,464)	(138,373)
Net cash generated from operations	8,985	8,437
Interest paid	(1,013)	(638)
Income taxes paid	(1,097)	(1,656)
Net cash from operating activities	6,875	6,143
Cashflows from investing activities		
Proceeds from disposal of property, plant and equipment	41	36
Purchase of property, plant and equipment	(330)	(1,122)
Purchase of intangible assets	(14)	(60)
Net cash paid on acquisition of JacksonStone & Partners	(6,700)	-
Net cash paid on acquisition of Select Dunedin	-	(666)
Net cash (used in)/from investing activities	(7,003)	(1,812)
Cashflows from financing activities		
Proceeds from the issue of share capital	847	773
Dividends paid to share holders of the parent	(2,806)	(2,704)
Proceeds from borrowings	3,000	-
Repayment of borrowings	-	(3,000)
Payment of lease liabilities	(1,194)	-
Net cash from/(used in) financing activities	(153)	(4,931)
Net increase/(decrease) in cash held	(281)	(600)
Cash and cash equivalents at start of the period	6,357	6,269
Cash acquired through business combinations	1,547	-
Net cash and cash equivalents at end of the period	7,623	5,669

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

REPORTING ENTITY

AWF Madison Group Limited is a listed company incorporated and domiciled in New Zealand.

The address of its registered office and principal place of business is disclosed in the directory to the interim report.

The interim condensed consolidated financial statements of AWF Madison Group Limited ('the Company') and its subsidiaries (collectively referred to as 'the Group') have been prepared:

- in accordance with IAS 34 Interim Financial Reporting and NZ IAS 34 Interim Financial Reporting;
- in accordance with the requirements of the Financial Market Conduct Act 2013, the Companies Act 1993, and the NZX listing rules;
- on the basis of historical cost, modified by revaluation of certain assets and liabilities; and
- in New Zealand dollars, with values rounded to thousands (\$000) unless otherwise stated.

The principal services of the Group are the supply of temporary staff and recruitment of permanent staff.

The interim condensed financial statements were authorised for issue by the directors on 24 October 2019.

BASIS OF PREPARATION

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2019.

The accounting policies used in preparation of these interim condensed consolidated financial statements are consistent with those used in the Group's annual financial statements for the year ended 31 March 2019, except for the adoption of any new standards effective as of 1 April 2019, and the early adoption of any other standard, interpretation or amendment that has been issued but is not yet effective.

Adoption of new and revised Standards and Interpretations

New standards and amendments and interpretations to existing standards that came into effect during the current accounting period beginning on 1 April 2019

The Group has adopted the NZ IFRS 16 Leases which became effective for the year beginning 1 April 2019.

Disclosures relating to the impact of the adoption of NZ IFRS 16 on the Group's financial statements are outlined under 'changes in accounting policies'.

PRIOR PERIOD RESTATEMENTS

The Group adopted NZ IFRS 9 Financial Instruments and NZ IFRS 15 Revenue from Contracts with Customers respectively, from 1 April 2018. Note G2 of the Group's annual financial statements for the year ended 31 March 2019, explains the impact of the adoption of NZ IFRS 9 and NZ IFRS 15 on the Group's financial statements.

As at 30 September 2018, the Group's assessment of the impact of the adoption of NZ IFRS 9 and NZ IFRS 15 as at 1 April 2018 had concluded there was no material impact to the Group's financial statements. Accordingly, no transitional adjustments were made to the Group's opening Statement of Financial Position as at 1 April 2018 as permitted by the transitional provisions outlined in NZ IFRS 9 and NZ IFRS 15 (i.e. the cumulative effect method).

However, as at 31 March 2019, the Group's assessment of the impact of the adoption of NZ IFRS 9 and NZ IFRS 15 as at 1 April 2018 was further refined and transitional adjustments were made to the Group's opening Statement of Financial Position as at 1 April 2018.

As a consequence of this refinement, prior period restatements have been made to the Group's Statement of Financial Position as at 1 April 2018 resulting in the following impact to the Group's retained earnings presented in the Statement of Changes in Equity as at 1 April 2018 in these interim condensed consolidated financial statements.

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

The total impact on the Group's retained earnings as at 1 April 2018 is as follows:

	\$'000
Opening retained earnings as at 31 March 2018	8,878
Impact of adopting NZ IFRS 9 as at 1 April 2018	
Increase in the impairment provision for trade receivables	(371)
Increase in the impairment provision for other receivables	-
Increase in the impairment provision for contract assets	-
Increase in deferred tax assets relating to increase in the impairment provisions above	104
Total impact of adopting NZ IFRS 9 as at 1 April 2018	(267)
Impact of adopting NZ IFRS 15 as at 1 April 2018	
Increase in guarantee refund liabilities	(74)
Increase in rebates liabilities	(74)
Increase in deferred tax assets relating to increase in contract liabilities above	41
Total impact of adopting NZ IFRS 15 as at 1 April 2018	(107)
Total impact of adopting NZ IFRS 9 and 15 as at 1 April 2018	(374)
Adjusted opening retained earnings as at 1 April 2018	8,504

Restatements of comparative financial information presented in these interim condensed consolidated financial statements

The following prior period restatements have also been made to the comparative financial information presented in these interim condensed consolidated financial statements:

Statement of Comprehensive Income for the period ended 30 September 2018

- No restatements were required.

Statement of Financial Position as at 30 September 2018

- A restatement of 'impairment provision for trade receivables' to increase by \$371,000.
- A restatement of 'guarantee refund liabilities' to increase by \$74,000;
- A restatement of 'rebate liabilities' to increase by \$74,000; and
- A reclassification of 'services rendered not yet invoiced' of \$289,000 from 'Trade and other receivables' to 'Contract assets'; and
- A reclassification of 'rebate liabilities' of \$167,000 from 'Trade and other payables' to 'Contract liabilities'.

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Directors, who are the chief operating decision maker.

The Group's reportable segments under NZ IFRS 8 Operating Segments have been identified as follows:

- AWF
- Madison, Absolute IT and JacksonStone & Partners

These segments have been determined on the basis of the trading brands that operate under each; that discrete financial information is available for these segments; and that the operating results are regularly reviewed by the Group's chief operating decision maker.

AWF

The 'AWF' segment operates branches under the brand names AWF (throughout New Zealand) and Select (Dunedin). These brands primarily derive their revenues from temporary staffing services to industry.

Madison, Absolute I.T. and JacksonStone & Partners

The 'Madison, Absolute I.T. and JacksonStone & Partners' segment operates branches under the brand names Madison Recruitment, Madison Force, Absolute I.T. and JacksonStone & Partners (from 1 June 2019) throughout New Zealand. These brands derive their revenues from temporary, contract and permanent staff services to commerce.

	Segment revenue		Segment profit	
	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000
SEGMENT REVENUE AND RESULTS				
Continuing operations				
AWF	50,516	60,985	556	1,006
Madison, Absolute I.T. and JacksonStone & Partners	88,710	80,592	3,805	3,854
Total for continuing operations	139,226	141,577	4,361	4,860
Other income			-	-
Central administration costs and directors fees			(1,415)	(1,350)
Finance costs			(1,013)	(637)
Profit/(loss) before tax			1,933	2,873
Income tax expense			(612)	(821)
Profit for the year			1,321	2,052

Revenue reported above represents revenue generated from external customers. Inter-segment sales in the year were \$43,000 (2018: \$188,000) and have been eliminated from the above table.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in this report. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue, finance costs, and income tax expense. This is the same measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

	30 September 2019 (unaudited) \$'000	30 September 2018 (unaudited) (restated) \$'000
SEGMENT ASSETS		
AWF	33,044	34,303
Madison, Absolute I.T. and JacksonStone & Partners	83,452	62,892
Total segment assets	116,496	97,195
Unallocated assets	2,040	1,212
Total assets	118,536	98,407

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments other than cash, cash equivalents and tax assets of the parent.

	30 September 2019 (unaudited) \$'000	30 September 2018 (unaudited) (restated) \$'000
SEGMENT LIABILITIES		
AWF	13,567	13,638
Madison, Absolute I.T. and JacksonStone & Partners	26,332	16,641
Total segment liabilities	39,899	30,279
Unallocated liabilities	44,389	31,439
Total liabilities	84,288	61,718

For the purposes of monitoring segment performance and allocating resources between segments, the chief operating decision maker monitors the liabilities attributable to each segment. All liabilities are allocated to reportable segments other than bank loans and tax liabilities of the parent.

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)

OTHER SEGMENT INFORMATION

	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000	6 months to 30 September 2019 (unaudited) \$'000	6 months to 30 September 2018 (unaudited) \$'000
	Depreciation and amortisation		Employee benefits		Net additions to non-current assets	
AWF	1,014	341	46,507	55,472	4,264	983
Madison, Absolute I.T. and JacksonStone & Partners	2,271	1,301	79,742	72,560	19,653	(646)
Unallocated	-	-	1,024	703	-	-
Total	3,285	1,642	127,273	128,735	23,917	337

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

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 and post-employment benefit assets attributable to the Group's country of domicile.

INFORMATION ABOUT CUSTOMERS

The Group has one customer that individually accounted for 11.6% of Group revenue and therefore does not have a reliance on its major customers (for the six month period ended 30 September 2018, the Group had no customers individually making up 10% of Group revenue).

FINANCIAL INSTRUMENTS

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

CONTINGENT LIABILITIES

The Bank has issued five guarantees on behalf of the Group totalling \$534,000 in support of property leases (4) and a surety bond to the NZX.

There were no other contingent liabilities as at 30 September 2019 or 30 September 2018.

	GROUP	
	6 months to 30 September 2019 (unaudited)	6 months to 30 September 2018 (unaudited)
	\$'000	\$'000
RECONCILIATION OF NET PROFIT AFTER TAX TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit after income tax	1,321	2,052
Adjustments for operating activities non-cash items:		
Depreciation and amortisation	3,285	1,642
Loss on disposal of property, plant and equipment	60	(10)
Movement in doubtful debts provision plus bad debt write off in current year	99	827
Movement in deferred tax	(506)	(68)
Equity-settled share-based payments	66	83
Total non-cash items	3,004	2,474
Movements in working capital excluding movements relating to purchase of subsidiaries:		
(Increase)/ decrease in trade and other receivables, and contract assets	5,185	5,524
Increase/(decrease) in trade and other payables, and contract liabilities	(2,657)	(3,140)
Increase/(decrease) in taxation payable	22	(767)
Total movement in working capital	2,550	1,617
Cash flow from operating activities	6,875	6,143

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

DIVIDENDS PAID

During the six months ended 30 September 2019, the group paid dividends of \$2.806 million (six months ended 30 September 2018: \$2.704 million).

Dividend Reinvestment Plan (DRP)

In conjunction with the final dividend declared for the financial year ended 31 March 2019 the DRP was offered which enabled shareholders to reinvest up to 50% of their dividend in newly issued ordinary shares in AWF Madison Group Limited at \$1.82 per share with the balance paid out in cash on 9 July 2019. A total of 465,365 ordinary shares for a total of \$847,000 were issued.

PURCHASE OF JACKSONSTONE & PARTNERS

Effective 1 June 2019, AWF Madison Group Limited acquired the shares of JacksonStone & Partners Limited ('JacksonStone & Partners'). JacksonStone & Partners is a specialist executive search and recruitment consultancy covering all disciplines up to Chief Executive and Board appointments. The acquisition of JacksonStone & Partners will also assist the Group to access C suite clients and provide leverage for other Group opportunities. The goodwill and identifiable intangible assets are not deductible for income tax purposes.

Name	Principal activity	Date of acquisition	Proportion acquired %	Cost of acquisition \$'000
JacksonStone & Partners	Specialist executive search and recruitment consultancy	1/6/2019	100%	10,774

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

	Fair value on acquisition \$'000
Analysis of assets and liabilities acquired	
Non-current assets	
Plant and equipment	334
Intangible assets	
• Absolute IT brand name	1,029
• Customer relationships	1,974
• Restraint of Trade	1,406
Right of use assets	1,992
Current assets	
Trade receivables	3,061
Other receivables	57
Cash and cash equivalents	1,547
Non-current liabilities	
Deferred tax	(1,234)
Lease liabilities	(1,992)
Current liabilities	
Trade and other payables	(3,418)
Taxation payable	(186)
Net identifiable assets and liabilities	4,570
Intangible asset arising on acquisition that has been provisionally allocated to goodwill while the initial acquisition accounting is being completed	6,204
Cost of acquisition	10,774

The Group used an external valuation specialist to assist in determining a market value for the identifiable intangible assets.

The intangible assets acquired comprise assets that have both finite and indefinite life spans. The JacksonStone & Partners brand is considered to have an indefinite life span and the customer relationships and restraints of trade have a finite life span. Intangible assets with a finite life span are amortised over the estimated useful lives.

The receivables acquired (which principally comprise trade receivables) in this transaction had gross contractual amounts of \$3.061m. It is estimated that these amounts also represent the fair value of receivables. At acquisition date, it is estimated that all amounts are collectable.

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)****Cost of acquisition**

The cost of acquisition of JacksonStone & Partners was made up as follows:	\$'000
Paid in cash on completion date (7 June 2019)	6,700
Deferred consideration (October 2019)	616
Earn out tranche 1 (September 2020)	1,500
Earn out tranche 2 (September 2021)	1,958
	10,774

Under the contingent consideration arrangement, the Group is required to pay an initial capped earn out (Earn-out tranche 1) of \$1.5m subject to achievement of a specified value of Net Disposable Revenue.

The Group is required to pay a second uncapped earn out (Earn-out tranche 2) which is also subject to achievement of a specified value of Net Disposable Revenue.

The directors estimate the amounts payable under this arrangement will be \$1.5m and \$1.958m respectively, based on forecast Net Disposable Revenue and represents the estimated fair value of this obligation at the acquisition date.

Acquisition related costs amounting to \$249,000 have been excluded from the consideration transferred and will be recognised as an expense in the Statement of Comprehensive Income in the year ended 31 March 2020.

Net cash outflow on acquisition	\$'000
Total purchase consideration	10,774
Less non-cash considerations	
Deferred consideration	616
Contingent consideration	3,458
Consideration paid in cash	6,700
Less: cash and bank balances acquired	1,547
Net cash paid	5,153

Initial accounting incomplete

Given the acquisition took place within three months prior to reporting date, the Group is still in the process of completing its initial acquisition accounting. The contingent consideration has been provisionally determined while the acquisition accounting is being completed. Accordingly, the residual intangible asset arising on acquisition has been provisionally allocated to goodwill while the acquisition accounting is being completed.

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

CHANGES IN ACCOUNTING POLICIES

Impact of the adoption of NZ IFRS 16 Leases

This note explains the impact of the adoption of NZ IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from the date of initial application (1 April 2019).

NZ IFRS 16 replaces NZ IAS 17 Leases. NZ IFRS 16 eliminates the distinction between operating and finance leases for lessees and will result in lessees bringing most leases onto their Statements of Financial Position.

The main changes affect lessee accounting only – lessor accounting is mostly unchanged from NZ IAS 17.

NZ IFRS 16 introduced the following:

- Use of a control model for the identification of leases:

This model distinguishes between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.

- Distinction between operating and finance leases is removed:

Assets (a right-of-use ('ROU') asset) and liabilities (a lease liability reflecting future lease payments) will now be recognised in respect of all leases, with the exception of certain short-term leases and leases of low value assets.

- ROU assets: The ROU assets will be depreciated in accordance with NZ IAS 16 Property, Plant and Equipment.
- Lease liabilities: The lease liabilities will be accredited based on the effective interest method, using a discount rate determined at lease commencement (as long as a lease reassessment or modification and a change in the discount rate have not occurred) and reduced by lease payments made.
- Cashflows: Payments to suppliers no longer includes operating lease payments, unless payments are for short-term and low value leases. Operating lease payments are now split between their principal and interest elements and presented as 'principal amounts of lease payments' under cash flows from financing activities and 'interest paid' under cash flows from operating activities.

The Group has adopted and applied NZ IFRS 16 from 1 April 2019 in accordance with the transitional provisions outlined in NZ IFRS 16. The Group has used the modified retrospective approach outlined in NZ IFRS 16 C5(b) and C8 (b) (ii), whereby the ROU asset recognised is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the Statement of Financial Position immediately before the date of initial application.

Accordingly, comparative financial information presented in these financial statements have not been restated and continues to be reported under NZ IAS 17 and reclassifications and the adjustments arising from the adoption of NZ IFRS 16 have been recognised in the opening Statement of Financial Position on 1 April 2019.

The adoption of NZ IFRS 16 had a material impact on the Group's financial statements.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement is or contains a lease under NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

Under NZ IFRS 16, the Group assesses whether an arrangement is or contains a lease based on the following definition of a lease:

- A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- To determine whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:
 - the contract involves the use of an identified asset this may be explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
 - the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and

AWF Madison Group Limited

Notes to the interim condensed consolidated financial statements For the six month period ended 30 September 2019 (unaudited)

- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset it either:

- » the Group has the right to operate the asset; or
- » the Group designed the asset in a way that predetermines how and for what purpose it will be used.

On transition to NZ IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied NZ IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under NZ IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under NZ IFRS 16 was only applied to contracts entered into or changed on or after 1 April 2019.

As a lessee

The Group leases property, motor vehicles and equipment. As a lessee, the Group previously classified these leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group.

Under NZ IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on-balance sheet.

The Group decided to apply recognition exemptions to short-term leases of motor vehicles and computer equipment. For leases of other assets, which were classified as operating under NZ IAS 17, the Group recognised right-of-use assets and lease liabilities.

Significant accounting policies

From 1 April 2019, the Group recognises a right-of-use asset and a lease liability at the lease commencement date of any new lease.

The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. Depreciation is charged so as to write off the cost

of assets, over the lease term using the straight-line method.

The lease liability is initially measured at the present value of the future lease payments over the lease term that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised, or any lease modification that are not accounted for as a separate lease.

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Leases previously classified as operating leases under NZ IAS 17

On adoption as at 1 April 2019, for leases previously classified as operating leases under NZ IAS 17, ROU assets and lease liabilities were recognised.

- Recognition of ROU assets:

Initial measurement of the ROU assets were at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to those leases recognised in the statement of financial position immediately before the date of initial application.

The ROU assets recognised were \$12.36m.

- Recognition of lease liabilities:

Initial measurement of the lease liabilities reflects the present value of lease payments, including reasonably certain renewals, discounted at the Group's incremental borrowing rate as at 1 April 2019.

The lease liabilities recognised were \$12.36m.

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

- Recognition of deferred tax:

A net deferred tax balance of \$Nil was recognised, comprised as:

- deferred tax assets of \$3.46m attributed to the overall lease liabilities balance; and
- deferred tax liabilities of \$3.46m attributed to the overall ROU assets balance.

There was no impact on the Group's retained earnings as at 1 April 2019.

The Group used the following practical expedients when applying NZ IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

Incremental borrowing rate

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied was 4.2%.

Reconciliation of operating lease commitments disclosed as at 31 March 2019 to total lease liabilities recognised on adoption 1 April 2019

	\$'000
Operating lease commitments as disclosed in the Group's consolidated financial statements at 31 March 2019	11,893
• Leases not yet commenced	(1,468)
• Recognition exemption for:	
– short-term leases	(116)
– leases of low-value assets	–
• Extension and termination options reasonably certain to be exercised	2,662
• Effect of discounting using the incremental borrowing rate	(611)
Lease liabilities recognised at 1 April 2019	12,360

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)****Impact of the adoption of NZ IFRS 16 on the Statement of Financial Position as at 1 April 2019**

	GROUP			
	31 March 2019 As originally presented \$'000	1 April 2019 IFRS 16 adjustments \$'000	1 April 2019 IFRS 16 reclassifications \$'000	1 April 2019 Restated \$'000
Assets				
Non-current assets				
Property, plant and equipment	3,038	-	-	3,038
Right of use assets	-	12,360	-	12,360
Intangible assets goodwill	39,271	-	-	39,271
Intangible assets other	13,929	-	-	13,929
Total non-current assets	56,238	12,360	-	68,598
Current assets				
Cash and cash equivalents	6,357	-	-	6,357
Trade and other receivables	32,629	-	-	32,629
Contract assets	295	-	-	295
Total current assets	39,281	-	-	39,281
Total assets	95,519	12,360	-	107,879
Equity and liabilities				
Non-current liabilities				
Deferred tax liabilities	2,462	-	-	2,462
Borrowings	33,000	-	-	33,000
Lease liabilities	-	9,991	-	9,991
Total non-current liabilities	35,462	9,991	-	45,453
Current liabilities				
Trade and other payables	24,186	-	-	24,186
Contract liabilities	530	-	-	530
Taxation payable	280	-	-	280
Provisions	241	-	-	241
Lease liabilities	-	2,369	-	2,369
Total current liabilities	25,237	2,369	-	27,606
Total liabilities	60,699	12,360	-	73,059
Net assets	34,820	-	-	34,820
Capital and reserves				
Share capital	29,165	-	-	29,165
Group share scheme reserve	544	-	-	544
Retained earnings	5,111	-	-	5,111
Total equity	34,820	-	-	34,820

AWF Madison Group Limited

**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

**Presentation of the Statement of Comprehensive Income for the period ended 30 September 2019
as if NZ IFRS 16 had not been adopted**

	GROUP			
	30 September 2019 As reported with adopting NZ IFRS 16 \$'000	Period ended 30 September 2019 NZ IFRS 16 adjustments \$'000	Period ended 30 September 2019 NZ IFRS 16 reclassifications \$'000	30 September 2019 Amounts without adopting NZ IFRS 16 \$'000
Revenue from contracts with customers	139,226	-	-	139,226
Investment revenue	-	-	-	-
Direct costs	(1,038)	-	-	(1,038)
Employee benefits expense	(127,273)	-	-	(127,273)
Depreciation and amortisation expense	(3,285)	1,371	-	(1,914)
Other operating expenses	(4,583)	(1,472)	-	(6,055)
Finance costs	(1,013)	276	-	(737)
Acquisition related costs expense	(101)	-	-	(101)
Profit before tax	1,933	175	-	2,108
Income tax expense	(612)	-	-	(612)
Profit for the year	1,321	175	-	1,496
Other comprehensive income for the year	-	-	-	-
Total comprehensive income for the year	1,321	175	-	1,496

AWF Madison Group Limited**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)****Presentation of the Statement of Financial Position as at 30 September 2019
as if NZ IFRS 16 had not been adopted**

	GROUP			
	30 September 2019 As reported with adopting NZ IFRS 16 \$'000	30 September 2019 NZ IFRS 16 adjustments \$'000	30 September 2019 NZ IFRS 16 reclassifications \$'000	30 September 2019 Amounts without adopting NZ IFRS 16 \$'000
Assets				
Non-current assets				
Property, plant and equipment	3,152	-	-	3,152
Right of use assets	14,642	(14,642)	-	-
Intangible assets goodwill	45,475	-	-	45,475
Intangible assets other	16,886	-	-	16,886
Total non-current assets	80,155	(14,642)	-	65,513
Current assets				
Cash and cash equivalents	7,623	-	-	7,623
Trade and other receivables	30,377	-	-	30,377
Contract assets	381	-	-	381
Total current assets	38,381	-	-	38,381
Total assets	118,536	(14,642)	-	103,894
Equity and liabilities				
Non-current liabilities				
Deferred tax liabilities	3,190	-	-	3,190
Borrowings	36,000	-	-	36,000
Lease liabilities	12,342	(12,342)	-	-
Contingent consideration	3,458	-	-	3,458
Total non-current liabilities	54,990	(12,342)	-	42,648
Current liabilities				
Trade and other payables	25,321	-	-	25,321
Contract liabilities	242	-	-	242
Taxation payable	488	-	-	488
Provisions	156	-	-	156
Lease liabilities	2,475	(2,475)	-	-
Contingent consideration	616	-	-	616
Total current liabilities	29,298	(2,475)	-	26,823
Total liabilities	84,288	(14,817)	-	69,471
Net assets	34,248	175	-	34,423
Capital and reserves				
Share capital	30,012	-	-	30,012
Group share scheme reserve	281	-	-	281
Retained earnings	3,955	175	-	4,130
Total equity	34,248	175	-	34,423

AWF Madison Group Limited

**Notes to the interim condensed consolidated financial statements
For the six month period ended 30 September 2019 (unaudited)**

EVENTS SUBSEQUENT TO REPORTING DATE**Interim dividend**

On 24 October 2019 the directors approved the payment of a fully imputed interim dividend of \$2.775 million (8.0 cents per share) to be paid on 5 December 2019.

Other

There were no other material events subsequent to reporting date.

Directory

Directors

Ross Keenan (Chairman)
Julia Hoare (Independent Director)
Simon Hull (Non-Independent Director)
Wynnis Armour (Non-Independent Director)
Nicholas Simcock (Independent Director)

Auditor

Deloitte Limited
Deloitte Centre
80 Queen Street
PO Box 33
Auckland
Phone: +64 9 309 4944
Fax: +64 9 309 4947

Solicitors

Russell McVeagh
Vero Centre
48 Shortland Street
PO Box 8, Auckland 1140
New Zealand
DX CX10085
Phone: +64 9 367 8000
Fax: +64 9 367 8163

Share Registry

Link Market Services
L11, Deloitte Centre
80 Queen St
Auckland
New Zealand
PO Box 91976
Phone: +64 9 375 5998
or: 0800 377 388

Registered Office

Level 6, 51 Shortland Street
PO Box 105675
Auckland City
Phone: +64 9 526 8770





**Registered Office of
AWF Madison Group Limited**

Level 6, 51 Shortland St
PO Box 105675

Auckland City
Ph: 09 526 8770

awfmadison.co.nz



AWF MADISON