

Annual Report 2020



“It strikes me that our relevance is more important now than ever. Our labour market is being challenged like never before, and already the Government is hinting at “active labour market policies”. We are well-positioned to help.”

Simon Bennett, CEO

Contents

CHAIRMAN’S REPORT	2
CEO’S REPORT	4
GROUP MANIFESTO	6
OUR BUSINESSES	8
OUR EVOLVING LANDSCAPE	10
FINANCIAL COMMENTARY	12
OUR LOCATIONS	13
BOARD OF DIRECTORS	15
CORPORATE GOVERNANCE STATEMENT	16
INDEPENDENT AUDITOR’S REPORT	20
FINANCIAL STATEMENTS	22
NOTES TO THE FINANCIAL STATEMENTS	26
SHAREHOLDERS’ STATUTORY INFORMATION	75
DIRECTORY	80



Key Financials

Net Profit After Tax

FY2019, \$2.0 million

\$2.7 Million

Shareholders’ Funds

FY2019, \$34.8 million

\$33.7 Million

Operating Cash Flow

FY2019, \$9.5 million

\$9.9 Million

Net Bank Debt 31.03.20

FY2019, \$26.6 million

\$29.8 Million

Revenue

FY2019, \$267.8 million

\$263.5 Million

Total Assets

FY2019, \$95.5 million

\$135.3 Million

Chairman's Report.

Dear Shareholder,

We are certainly living in a time of economic and social upheaval where there is little experience we can look to for guidance – a time indeed, when fortune will favour those businesses that are quick to adapt to changed circumstances, who are flexible and innovative in their approach to looking at – and for – opportunities from a different perspective.



Over the past financial year, AWF Madison Group has worked hard towards building a more diversified and innovative business and this has certainly helped in being able to deliver a strong year end result, despite the challenges of the last few months.

The commercial challenges the Group faced during the financial year were, to a large extent, a continuation of the trends seen previously.

The significant efforts made by AWF towards revenue replacement were exacerbated by some of our larger clients whose businesses were negatively impacted by a less than robust national economy. Accordingly, we saw significant demand fluctuation and consequent inefficient use of skilled labour.

In Madison and Absolute IT, in addition to the increase in boutique agencies, the growing trend, by clients, to establish in-house recruitment teams contributed substantially to the businesses' reduced performance.

The acquisition of JacksonStone & Partners, providing access into sectors where the Group has not previously been well-represented, has been very positive.

During the financial year, the Group has followed a strategy of bringing its constituent businesses closer together by applying an integrated business strategy and has invested in platform changes to facilitate and enhance operational efficiencies. This has positioned the businesses to leverage off one another's experience and expertise (with an added advantage of remote capability); and also providing additional value to those of our clients to whom we provide Managed Services.

The advent of COVID-19 in Quarter 4, and the ensuing lockdown, clearly had an impact on the Group's efforts to see the financial year end on a positive note. Despite the challenge, the Group's competent management, acting firmly and quickly, enabled the business to remain operational, both internally and through its contingent workforce, thereby meeting the needs of a number of customers in essential services.

The Board's decision to not pay a final dividend this year was considered prudent during the continuing uncertainty, and in an environment where senior management and Directors accepted reduced remuneration through the critical period.

It has certainly been a challenging year for our team, and we acknowledge their focus on delivering high standards with particular ongoing attention to the maintenance of strong Health & Safety performance.

As a Board, we wish to acknowledge the wonderful commitment from our management team led by Simon Bennett, Chief Executive. They have all risen to the occasion at a time of unbelievable stress to the business mission. We have started the new financial year with a strong and diversified business grouping, very committed to delivering growth.

Finally, due to the impact of COVID-19, the Board has agreed to shift the date of our Annual Shareholders' Meeting from the end of July to Wednesday 30 September, with the intention of being able to fully update Shareholders as to the trading performance of the Group for the six months to 30 September 2020.

For the Board,

Ross B Keenan
Chairman

Our business and our resilience.

Simon Bennett, CEO

Our business has, and continues to have, people at its core.

The extraordinary change in the world over the past few months, as the pandemic has spread across the globe, has challenged the population like many of us have never experienced. Paradoxically, at a time of unparalleled access to information and globalised channels of communication, countries have shut down borders and there is a drive for independence and nationalism.

At the forefront of our strategy is the vision for AWF Madison:

“To grow our impact as New Zealand’s leading recruitment and resourcing company.”

“We strive to make a big impact on the growth and success of New Zealand. Structural challenges in the labour market require proactive solutions, and we are uniquely positioned to provide them. We believe it’s possible to deliver strong returns for our shareholders in a way that also provides better outcomes for our clients, people and New Zealand.”

It strikes me that our relevance is more important now than ever. Our labour market is being challenged like never before, and already the Government is hinting at “active labour market policies”. We are well-positioned to help.

As governments worldwide tackle the containment of COVID-19, business, and indeed society, faces unprecedented volatility. Clients are operating in an increasingly VUCA (volatile, uncertain, complex, ambiguous) landscape; necessitating evolution in the world of work, and along with it, the approach to human resource. There are implications for how businesses lead, plan succession, identify skills, define roles, manage performance, leverage technology, scale and flex. Agility is demanded, and now forced, by the pandemic.

The contingent workforce is becoming more prominent as a strategic solution. Hiring managers need recruiters who can see the bigger picture and work with them to gain clarity.

In our sectors, the talent shortage will largely remain. The cost of hiring remains a challenge – there have been consecutive minimum wage rises and the increased movement in the market creates pressure on salaries. The migrant channel for areas of shortage, including IT and Construction, has closed and when the door opens it will be a smaller opening than before. These sectors will be where initial growth and emphasis will come from, with a shared focus from the public and private sectors. Success lies in our ability to identify transferable skills in candidates, train them for redeployment; and convince our clients of their resilience and ability to learn.

When we developed our social enterprise, The Work Collective, we could not have imagined the numbers of people who would become displaced from employment in such a short space of time. This model for utilising

our scale and our skills will become indispensable as our country seeks to become fully productive once more.

Over the past 12 months we have purposefully brought our businesses closer together through operational strategy and platform changes. This is not only to drive efficiencies but also to leverage the breadth of skills and knowledge across the Group.

Pre COVID-19, we saw opportunities across the private sector, with a strong public sector base. For the year ahead, we will solidify this public sector base, where we are a key player; benefiting from our sector diversification and the inclusion of Absolute IT and JacksonStone & Partners in recent years.

With JacksonStone as part of the Group since 1 June 2019, it is clear that the business complements the others well. Being well-regarded by their clients, particularly in the public sector, JacksonStone’s relationships at the executive level are helping to pave client pathways to Madison, AWF and Absolute IT. This leverage between the businesses has proven invaluable for the Group’s cohesion and ability to cater to client needs across levels and departments.

To mitigate the impact of revenue loss due to COVID-19, my executive team, along with many others in the business, took a salary sacrifice to ensure we did not have to reduce staff numbers significantly. More than 90% of our internal workforce has been retained; balancing a leaner workforce with continued capability. We were grateful to take up the Government Wage Subsidy, which enabled us to support many of our temporary workforce who were unable to work through the Alert Level 4 lockdown. This has kept our contingent workforce intact and able to be deployed through Alert Levels 3 and 2. Even in the height of Level 4 lockdown, we had up to 1,000 people

out working in essential services. Together with clients, we worked hard to keep them safe and well throughout this difficult time.

The majority of our internal workforce and white-collar contractors were able to work seamlessly through the lockdown, from home. Our foresight to invest in infrastructure has positioned us well for remote capability, and like many we will use this opportunity to reassess the need for all staff to return to offices as before.

It is now becoming more widely accepted that flexibility of workforce will lead to productivity gains, and this is echoed in the NZ Productivity Commission’s March 2020 Report regarding the future of work. This flexibility will be crucial as we as a country restructure this workforce to get it back towards full employment. Labour force flexibility maximises both economic potential and opportunities for workers.

The COVID-19 pandemic is only the latest of a number of economic shocks in recent years (the Christchurch earthquakes and the GFC also underscored the need for both employers’ and workers’ agility and adaptability). Our flexible workforce model and managed service approach are gaining significant traction, and we expect this to grow in the year ahead. A flexible labour market, coupled with re-training and upskilling, can contribute to our company and our nation’s recovery.

We remain cautiously optimistic. Cautious, because the full economic impact of the pandemic is yet to be seen; and optimistic, because we know how relevant and well-positioned we are. So, while we have prepared the business for a downturn, our investment into our operational platform and continued collaboration across the Group will be valued by clients both now and in the long term.

Over the past 12 months we have purposefully brought our businesses closer together through operational strategy and platform changes.





What Drives Us.

Whether it is through building one new relationship or tackling the challenges within New Zealand's labour market, our businesses aspire to influence the growth and success of our country. We believe it is possible to deliver strong returns for our shareholders in a way that also provides better outcomes for our people, our customers and our country.

We have a clear proposition in our four businesses providing distinct advantages in the channels in which we operate, to our clients and candidates. At the same time, we are building strong capability in our shared service functions, in sourcing, recruitment marketing and digital design to further enhance and leverage our business capabilities. The business goals remain aligned to the same Group aspiration and the following four strategic imperatives:

1

Our People.

We will be driven forward by resilient and capable people who are engaged with our purpose and strategic direction, and who have the flexibility and determination to do better in the fast-changing environment. We will be additive to the lives of our workforce and present them with opportunity.

2

Our Customers.

We will choose and partner with our clients wisely. We will add value through our reputation for quality, efficiency, relationships and customised solutions.

3

Our Finances.

We will drive strong cashflow for dividend growth. We seek NPBT growth through continued execution and improvement initiatives impacting cost and revenue, to create sustainable value for our shareholders.

4

Our Country.

We are uniquely positioned and have a responsibility to provide proactive solutions to address structural challenges in the employment market. We will make an impact in growing and shaping our workforce for the current and future needs of the country.

OUR BUSINESSES



AWF has a 32-year history of supplying entry level, semi-skilled and skilled workers to the infrastructure, construction, transport and logistics, manufacturing and primary sectors. Every day, AWF's employees are deployed to client sites. Through its network of 22 branches spanning from Kaitaia to Invercargill, AWF provides hundreds of enterprises throughout New Zealand with the human capital necessary to complete major projects, meet increased demand in goods and services, and fill the skills gap in permanent workforces.



Madison was established in 1998, and over the years has become the recruitment partner to a wide variety of organisations within the private and public sectors. Madison's service spans entry level and support roles to professional and managerial positions. Each year, hundreds of permanent positions are filled by candidates who have been sourced and matched to specific business requirements and organisational culture fit. Every day, employees work on temporary assignments across New Zealand's major cities.



Founded in 2000, Absolute IT caters to the specific recruitment needs of the technology and digital sectors. Absolute IT's specialist recruiters provide permanent and contractor staffing services New Zealand-wide from their offices in Wellington, Auckland, Hamilton and Christchurch. From resourcing large transformation programmes in the public sector, to sourcing the right fit for large corporates and attracting world class talent for New Zealand start-ups, Absolute IT is relied upon for its expertise and extensive network.



JacksonStone & Partners is one of the most experienced executive search and recruitment consultancies in New Zealand. Established in 2011, JacksonStone works across all disciplines up to Chief Executive level and including board appointments, for organisations in the public, private and not-for-profit sectors. JacksonStone offers global search reach through their membership of the CFR Global Executive Search alliance. Their experienced consultants have the capability to identify and place talent both nationally and internationally.



The Work Collective is an employment initiative that delivers social impact by connecting Employers, Employment Support organisations and AWF Madison, New Zealand's largest recruitment and resourcing Group. The purpose of The Work Collective is to provide meaningful work opportunities for those who face barriers to employment. Launched in mid-2019, The Work Collective offers organisations a way to deliver social impact through their staffing supply chain. Having completed an initial pilot programme, the initiative is working towards gaining full certification as a Social Enterprise.



Our Evolving Landscape.

In the week before New Zealand moved into lockdown, the Group's Senior Leadership Team was finalising business plans for the coming financial year.



Our stable of well-regarded brands and deepened verticals presents a compelling Group proposition.

While the market is vastly changed on the other side of lockdown, what remains unchanged is our operational strength, our enduring brands and collective experience navigating economic turbulence.

Diversification of Business and Service Offering

With the addition of JacksonStone & Partners, our stable of well-regarded brands and deepened verticals presents a compelling Group proposition. Clients value the breadth of our networks, our whole-of-market view, the range of services and the opportunities for greater partnership and volume-leveraged pricing.

In addition to traditional recruitment services, our size and infrastructure growth has enabled us to deliver large projects and managed services where the staffing solution is designed to deliver



specific outcomes such as training, onboarding, performance management, technology integration and employer branding. We have been delighted to be able to offer these customised solutions to more of our long-standing clients.

Aligning with the Local Market

Dedicated to the New Zealand market, our local presence and focused energy means we can more quickly deliver added value to strategic client relationships. As New Zealand forges its way post COVID-19, clients will look to innovative suppliers who can add value. It is paramount for our people to build upon client relationships in these times of uncertainty, and this will be championed by our senior sales team. We will also stay close to candidates to ensure access to the right skillsets when clients can forge ahead with their programmes of work.

Leveraging the Contingent Workforce

Whilst many employers, and especially SME businesses, will freeze or restrict permanent recruitment, likely for months to come, some will turn their strategies towards contingent workers. Our businesses are well-positioned with strong temporary and contractor books and in this regard, clients will have greater confidence in recruiters with good cashflow and governance.

There had been increased competition from local and global players using price

Dedicated to the New Zealand market, our local presence and focused energy means we can more quickly deliver added value to strategic client relationships.

strategies, however in the post COVID-19 context we expect clients to take a more balanced view, with a critical need for the productivity gains that come with a higher quality of candidate networks and service.

Local Industrial Capability

Whilst we have seen some vertical construction projects being pushed out, we are well-aligned to support the scaling up of shovel-ready projects with our operations across metropolitan and regional New Zealand. With the construction sector having been reliant on migrant workers, there will be skill gaps that will result in demand for our semi-skilled and skilled field workers. There will be interest in our capabilities to impart skills and safety training.

Our manufacturing and logistics recruiters will be cognisant of the great consideration going into the supply chain and the desire to reduce overseas reliance. There is also a drive to market not only New Zealand food and fibre, but also the high value exports underpinned by kiwi engineering and design innovation.

Home-grown Focus

The global pandemic is likely to encourage the onshoring of contact centres. In the finance and insurance sector, our clients have needed to boost local contact centre numbers due to the unavailability of offshore partners. Our track record with government contact centres was beneficial as government agencies ramped up their temporary workforce in the COVID-19 direct response.

We expect to provide further support as Government rolls out programmes for the COVID-19 recovery. Opportunities will come through our strong relationships in the government and health sectors and the need will be across several talent pools.

Sourcing Specialist Skillsets

For executive, technology and other specialist roles, clients will continue to find hiring the right people a challenge, even though the employment market appears to have an oversupply of candidates. The people with these particular skillsets are unlikely to be active job hunters, which is where our expertise in building networks, sourcing talent and promoting job opportunities is critical. In the central and local government arena most of these roles are time-limited, with legislated recruitment processes required for an appointment.

Technology cuts across several sectors that are key to New Zealand's social and economic recovery. The opportunity to make gains and promote innovation to put us back onto the growth trajectory is exciting. Our database and exceptional contractor book of technology talent will be critical.



Driving Innovative Approaches

When employers are ready to take on headcount again, we expect some will undertake the recruitment themselves, especially in skillsets where there is an abundance of candidates. It will be weighing up cost against time as many employers will also have reduced their internal recruitment teams. Our relevance will likely shift to two ends of the spectrum. At the one end, it will be our capability to robustly handle high-volume recruitment and tasks (such as unbundled recruitment services), and at the other end, it will be our expertise in sourcing and shoulder tapping in-demand talent, our ability to design solutions, to consult and to bring clarity.

What this means for our businesses is that at one end there is the need for efficiency, and at the other there is the need for insightful consulting. We have therefore made the strategic decision to push ahead with building data-driven tools and consolidating our operational platform across our white collar businesses. The implementation of a best in class CRM and back office integrations is being led by a strong project team ensuring that our staff and customers get the maximum benefit of a highly customised implementation. We are already reaping the benefits of efficiency and effectiveness in improved speed to market.

We count it a privilege to be part of New Zealand's employment infrastructure. Together, we have the determination and agility to be a valued supplier as our country recovers and rebuilds.



Revenue

Group Revenue of \$264m was at a similar level to prior year Revenue of \$268m. Revenue sourced from provision of services to Industry (AWF) was down on the prior year, due to a strategy of minimising financial exposure to certain industry segments (e.g. Auckland commercial construction), a deliberate strategy of pricing contract renewals at minimum desired returns, and reduced client trading. There was also a push to deliver more permanent recruitment solutions at higher margin, which was achieved.

Revenue sourced from provision of services to Commerce (Madison Recruitment, Absolute IT & JacksonStone & Partners) of \$166m was up on prior year Revenue of \$152m, with JacksonStone & Partners providing \$27m. The mix of permanent and contingent was a factor in this reduction of the existing businesses, with a stronger economic period earlier in the year leading to weaker temporary revenue in favour of permanent hiring in lower level roles.

Net Profit After Tax

After-tax profit of \$2.7m was up on the prior year result of \$2.0m. The current year result included the after-tax cost of capitalising leases of \$0.26m (in accordance with IFRS16 – Leases). On a like-for-like basis, the result this year is \$2.9m versus the prior year's \$2.0m.

Dividend

An interim dividend of 8.0 cents per share was paid on 29 November 2019. The Directors have resolved not to declare a final dividend due to the economic uncertainty caused by COVID-19. The prior year Dividend stream was 16.2 cents per share (interim 8.0 cps and final 8.2 cps). This ensures we can reduce debt and be in a stronger position to assess the business, as we see what type of recovery the economy takes. Directors and management all took pay reductions. Headcount was trimmed in a similar vein, and a pause in the dividend was the appropriate course of action.

Finance Costs

Finance costs for the year at \$2.08m included Interest on capitalised Lease Liabilities of \$0.58m, and Interest on contingent consideration of \$0.1m. The direct comparison was \$1.40m for the current year and \$1.38m for the prior year.

Cash Flow

The year saw continuing strong Cash Flow from operating activities of \$9.9m, up \$0.4m on the prior year.

Borrowings

The \$36.0m million term debt facility with the ASB Bank Limited has been retained and extended out to October 2021. At 31 March 2020 the facility is drawn to \$36.0m following a \$3.0m drawdown to assist funding of the JacksonStone & Partners acquisition.

Net Current Assets (excluding cash)

Reduced by \$5.6m during the financial year, from \$7.7m as at 31 March 2019 to \$2.1m as at 31 March 2020, with capitalised lease liabilities accounting for \$2.5m of the reduction and contingent consideration on the JacksonStone acquisition of \$1.5m. A reduction in lower margin contingent work ensured that the business could operate with lower levels of working capital, as was part of our strategy.

Acquisition

In June 2019 JacksonStone & Partners Ltd was acquired for \$10.52m, with contingent consideration of \$3.2m. The \$7.3m paid to date was funded by a combination of bank facility drawdown of \$3.0m, capital sourced via the DRP of \$1.7m, and the balance from available cash. The acquisition has been earnings accretive from day one, and has offered the group operating leverage and further diversification.

TŌ TĀTOU WHENUA
OUR COUNTRY





Board of Directors



Ross Keenan

Ross joined the Board in 2004 in the build-up to AWF’s listing and is the group’s Chairman and an independent Director. He brings to the Board a wealth of corporate experience gained as Managing Director of Ansett New Zealand and later Newmans Group. Ross held executive management positions with Air New Zealand, Air Pacific and Qantas from 1968 to 2000 in Fiji, Australia, Los Angeles and London. He is also a Director of Touchdown Ltd.



Simon Hull

Simon founded the Allied Work Force business in 1988. He was AWF Managing Director for 27 years and is its largest shareholder. He has been instrumental in growing what is now the AWF Madison business from a single office in Penrose to its current market leading position. Before founding Allied Work Force, Simon was involved in farming, horticulture and small business management. He continues to be involved in marine-focussed businesses as well as pursuing his onshore and offshore yacht racing passion. Simon is a non-executive (“non-independent”) Director.



Wynniss Armour

Wynniss joined the Board in January 2015 as a non-executive (“non-independent”) Director. After holding senior management positions in both the public and private sectors, (including Adecco – one of the largest global recruitment firms) Wynniss co-founded the Madison Group which was sold to AWF in 2013. She contributes a wealth of business experience and commercial acumen and a particular understanding of the Group’s businesses. Wynniss is a member of Global Women and the Institute of Directors and is a Director of angel investor ArcAngels and of Armour Consulting.



Julia Hoare

Julia joined the Board as an independent Director in 2013 after 20 years as a partner with PwC. Julia is Deputy Chairperson of the a2 Milk Company Ltd and of Watercare Services Ltd, and is an independent Director of Auckland International Airport Ltd, Port of Tauranga Ltd and Meridian Energy Ltd. She is Vice President of the Institute of Directors and is on the Advisory Panel for the External Reporting Board.



Nick Simcock

Nick joined the Board as an independent Director in January 2018 after 15 years in Managing Director roles in New Zealand, Australia, and Asia/Pacific with Korn Ferry/Futurestep. Nick brings deep industry expertise in recruiting, outsourcing, and talent management. Nick was the CEO and Director of a start-up SaaS payments business Wrap It Up, which was sold in 2017. He is a Trustee on the Wellington Creative Capital Arts Trust, and was formerly on the Otago University Business School Board of Advisors. Nick is a Chartered Member of the Institute of Directors.

The Board of Directors of AWF Madison Group Limited (NZX:AWF) is responsible for the corporate governance of the Company. The Board has established a culture that ensures commitment to and compliance with good corporate governance principles, and ethical conduct is at the heart of the Company’s business practices. The Company will continue to monitor developments in corporate governance practices and update its policies to ensure AWF Madison maintains appropriate standards of governance.

This statement sets out the corporate governance policies, practices and processes followed by the Board throughout the year. AWF Madison complies with the NZX Listing Rules, which came into effect on 1 January 2019, and the corporate governance principles set out in the NZX Code of Corporate Governance. The Company also complies with the principles in the Financial Markets Authority’s Corporate Governance Principles and Guidelines.

The Board

The Board is responsible for the affairs and activities of the Company. It establishes the Group’s objectives, strategies for achieving these objectives, the overall policy framework within which the business of the Group is conducted, and monitors Management’s performance with respect to these matters. The Board has delegated the day-to-day management of the Group to the Chief Executive Officer. Other delegations are covered in a Delegations Policy. The Company’s Constitution and the Board Charter set out the policies and guidelines for the operation of the Board.

Board Composition and Operations

As at 31 March 2020, the Board comprised five Directors. Ross Keenan (Chairman), Julia Hoare and Nick Simcock have been determined as independent Directors as defined by the NZX Listing Rules. Simon Hull, and Wynniss Armour are non-independent Directors.

The Board is elected by the shareholders of the Company. In accordance with the Company’s constitution and the NZX Listing Rules, a director must not hold office (without re-election) past the third annual meeting following the director’s appointment or three years, whichever is longer.

The Board holds regularly scheduled meetings and other meetings on an as required basis. Board papers are circulated ahead of each meeting. The Board has access to senior executives and external advisers to provide further information.



Board Remuneration

Directors’ fees for the year ended 31 March 2020 totalled \$355,000. A fee of \$115,000 per annum is paid to the Chairman, \$60,000 per annum to Julia Hoare, Nick Simcock, Simon Hull and Wynniss Armour. Further information is provided in the Statutory Information section of the annual report.

The terms of any Directors’ retirement payments are as prescribed in the Constitution and require prior approval of shareholders in general meeting. No retirement payments have been made to any Director.

Board Committees

The Board has five formally constituted committees of Directors. Each Committee has a Charter or terms of reference that establishes its purpose, structure and responsibilities. The Committees make recommendations to the Board and may only make decisions on matters for which they have been given specific authority.

1. Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee provides independent assurance and assistance to the Board and Chief Executive on the Company’s risk, control and compliance framework, and its external financial reporting and accountability responsibilities.

The Committee is comprised of a majority of independent Directors. The members of the Committee are Julia Hoare (Chairperson), Ross Keenan, Wynniss Armour, Simon Hull and Nick Simcock.

The Committee meets at least twice per year, with the external auditors of the Company and the AWF Madison executives responsible for internal audit management from within the Company in attendance. The Committee also meets with the external auditors with AWF Madison executives absent.



2. Remuneration Committee

The Remuneration Committee’s purpose is to establish sound remuneration policies and practices that attract and retain high performing Directors and senior executives. The Committee ensures that executives and Directors are rewarded having regard to the Company’s long-term performance. The policies adopted are intended to align shareholder interests and employee interests by demonstrating a clear relationship between shareholder value and executive performance.

The members of the Committee are Wynniss Armour (Chairperson), Simon Hull, Julia Hoare, Ross Keenan and Nick Simcock. The Committee meets at least annually to review senior executive remuneration and incentives.

3. Nominations Committee

The Nominations Committee assists the Chairman with an annual evaluation of the Board and Director performance; to determine Director Independence and to identify and recommend to the Board individuals for nomination as members of the Board and its Committees.

All of the Board are members of this Committee.

The Committee meets at least annually.

4. Health & Safety Committee

The role of this Committee is to assist the Board to fulfil its responsibilities and to ensure compliance with all legislative and regulatory requirements in relation to the health and safety practices of the Company as those activities affect employees and contractors. It ensures that the Board members themselves are aware of their own responsibilities and duties under legislation, and are fully informed on all Health and Safety issues and targets.

The members of this Committee are Simon Hull (Chairman), Wynniss Armour, Julia Hoare, Ross Keenan and Nick Simcock.

The Committee members participate in monthly meetings, and participate in and review reports presented by the Group Operations Health and Safety Committee.

5. Organisation Committee

The Organisation Committee acts as a reference point for the Chief Executive in matters around organisational change as required from time to time. The Committee is also responsible for assisting the Board in the application of remuneration policies and best practice for the Board, Chief Executive and Senior Management.

The members of the Committee are Wynniss Armour (Chairperson), Ross Keenan, Simon Hull, Julia Hoare and Nick Simcock.

Remuneration of Auditors

Details of remuneration paid to Auditors are set out in A4 of the Financial Statements.

Non-Audit Services

The External Financial Auditors Independence Policy sets out the Company’s position in regard to non-audit services.

Deloitte Limited are the auditors of AWF Madison Group Limited and whilst its main role is to provide audit services to the Company, the Company does employ their specialist advice where appropriate. In each instance, the Board has considered the nature of the advice sought in context of the audit relationship. In accordance with the advice received from the Audit, Finance and Risk Committee, the Board does not consider these services have compromised the auditor independence for the following reasons:

All non-audit services have been reviewed by the Audit, Finance and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor;

None of the services undermined the general principles relating to auditor independence, including not reviewing or auditing the auditor’s own work, not acting in a management or decision-making capacity for the Company, not acting as advocate for the Company or not jointly sharing economic risk or rewards.

Share Trading

The Company has adopted a Share Trading policy that sets out the formal procedures Directors and employees are required to follow to ensure compliance with the Financial Markets Conduct Act 2013 (refer to the website).



Diversity

The Company has a diversity policy in place (refer to the website), consistent with the Directors’ belief that a diverse workforce contributes to improved business performance, enables innovation and enhances the Company’s relationship with its customers.

In accordance with NZX’s Listing Rule requirements, the gender breakdown of AWF Madison Group Limited’s Board of Directors and Officers as at 31 March 2020 is:

	2020			2019		
	MALE	FEMALE	GENDER DIVERSE	MALE	FEMALE	GENDER DIVERSE
NUMBER OF DIRECTORS	3	2	-	3	2	-
PERCENTAGE OF DIRECTORS	60%	40%	-	60%	40%	-
NUMBER OF OFFICERS	5	4	-	4	4	-
PERCENTAGE OF OFFICERS	56%	44%	-	50%	50%	-

Directors’ and Officers’ Indemnity and Insurance

The Company has insured all its Directors and Officers and the Directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their position as Directors. The insurance does not cover liabilities arising from criminal actions.

The Company and Officers have executed Deeds of Indemnity with Directors, indemnifying them to the extent permitted by section 162 of the Companies Act 1993.

Risk Management

The Board is responsible for ensuring that key business and financial risks are identified and appropriate controls and procedures are in place to effectively manage those risks. In managing the Company’s business risks, the Board approves and monitors policy and process in such areas as internal audit, treasury management, financial performance and capital expenditure. The Board also monitors expenditure against approved projects and approves the capital plan. A Risk Framework is in place (refer to the website).

Principles:

- creates and protects value;
- is an integral part of all AWF Madison’s processes;
- is part of the decision-making process;
- explicitly addresses uncertainty;
- is systematic, structured and timely;
- is based on the best available information; and encourages open communication;
- is tailored to AWF Madison;
- takes human, cultural factors and diversity into account;
- is transparent and inclusive;
- is dynamic, iterative and responsive to change; and
- facilitates continual improvement.

The Company has insurance policies in place covering most areas of risk to its assets and business. Policies are reviewed and renewed annually with reputable insurers.

Directors may seek their own independent professional advice to assist with their responsibilities. During the 2020 financial year no Director sought their own independent professional advice.

Interests Register

The Board maintains an Interests Register. In considering matters affecting the Company, Directors are required to disclose any actual or potential conflicts. Where a conflict or potential conflict has been disclosed, the Director takes no further part in receipt of information or participation in discussions on that matter.

Disclosure/Shareholder Relations

The Company has a Continuous Disclosure Policy and procedures in place to ensure key financial and material information is communicated to the market in a clear and timely manner.

Consistent with best practice and a policy of continuous disclosure, external communications that may contain market sensitive data are released through NZX in the first instance. Further communication is encouraged with press releases through mainstream media.

The Company’s website is actively used as a portal for shareholder reports, news releases and other communications released to shareholders and media.

The Board formally reviews its proceedings at the conclusion of each meeting to determine whether there may be a requirement for a disclosure announcement.

Independent Auditor’s Report
To the Shareholders of AWF Madison Group Limited

Opinion

We have audited the consolidated financial statements of AWF Madison Group Limited and its subsidiaries (the ‘Group’), which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of other accounting policies.

In our opinion, the accompanying consolidated financial statements, on pages 22 to 74, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2020, and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (‘NZ IFRS’) and International Financial Reporting Standards (‘IFRS’).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (‘ISAs’) and International Standards on Auditing (New Zealand) (‘ISAs (NZ)’). Our responsibilities under those standards are further described in the *Auditor’s*

Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants’ *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor, we have no relationship with or interests in the Company or any of its subsidiaries.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

How our audit addressed the key audit matter

We have audited the Group’s value in use calculations for each cash-generating unit (CGU). Our procedures included, amongst others:

- Testing the value in use calculations for arithmetic accuracy;
- Comparing the forecast performance with the approved 2021 financial year budget;
- Assessing the historical accuracy of the Group’s previous forecasts by comparing prior period budgets to actual performance;
- Challenging Management’s assumptions used in the forecasted financial performance, including adjustments due to the impact of COVID-19, by utilising our knowledge of the Group, the past performance of the CGUs, and their customers;
- Performing a sensitivity analysis on the forecasted financial performance, growth rates and discount rates and growth rates to determine the extent to which any changes in these inputs would result in impairment to the CGUs;
- Involving our internal specialists in assessing the discount rates for reasonableness in comparison to market data; and
- Evaluating the sufficiency of related disclosures with regards to the requirements of NZ IAS 36 Impairment of Assets.

Key audit matter

Acquisition accounting for business combination

The Group acquired the JacksonStone & Partners Limited (‘JacksonStone’) business on 1 June 2019 as disclosed in note G1. The acquisition of the JacksonStone business was significant to our audit due to the size of the acquisition, and the subjectivity and complexity inherent in this business acquisition and the requirements of NZ IFRS 3 Business Combinations.

The process involved complex and subjective estimation and judgement by Management on the following:

- The accounting treatment of the acquisition;
- The valuation of the consideration transferred including contingent consideration;
- Identification and valuation of the assets acquired; and the liabilities assumed as at acquisition date; and
- Assessment of the useful lives of the acquired finite life intangible assets which is a key input in determining the fair values.

Management engaged an external expert to assist them in the identification of acquired assets and the determination of their fair values at acquisition date.

Other information

The directors are responsible on behalf of the Group for the other information. The other information comprises the information in the Annual Report that accompanies the consolidated financial statements and the audit report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and consider whether it is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If so, we are required to report that fact. We have nothing to report in this regard.

Directors’ responsibilities for the consolidated financial statements

The directors are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible on behalf of the Group for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole

How our audit addressed the key audit matter

Our procedures, amongst others included:

- Reading the sale and purchase agreement relating to the acquisition to understand key terms and conditions and confirming our understanding of the transaction with Management;
- Assessing Management’s evaluation of terms and conditions within the sale and purchase agreement to determine the associated accounting treatment by comparing those terms and conditions against the requirements of NZ IFRS 3 Business Combinations and other relevant guidance;
- Evaluating the measurement of the consideration transferred including contingent consideration by testing the mathematical accuracy of the underlying calculation, agreeing the financial projection prepared to the specific financial period specified in the agreement and analysing the key assumptions adopted by Management;
- Considering the completeness of the identified assets and liabilities by evaluating the terms of the sale and purchase agreement;
- Recomputing the resulting goodwill to be recognised on acquisition;
- For the measurement of the identified assets and liabilities, evaluating:
 - The valuation methodologies in determining the fair values of the identified assets and liabilities at acquisition date;
 - The cash flow forecasts used in the measurement of the identifiable intangible assets, which included assessing the appropriateness of the future cash flow forecasts and discount rates applied;
 - Management’s assessment of the attributed useful life of the identified finite life asset when recalculating fair value; and
 - The competence, capabilities, objectivity and expertise of Management’s external valuation expert and the appropriateness of their work as audit evidence for the relevant assertions.
- Engaging our own internal valuation expert to assist in understanding and evaluating the work and findings of Management’s expert; and
- Evaluating the related disclosures about the acquisition of the JacksonStone business included in note G1 in the consolidated financial statements.

are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located on the External Reporting Board’s website at: <https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1>

This description forms part of our auditor’s report.

Restriction on use

This report is made solely to the Company’s shareholders, as a body. Our audit has been undertaken so that we might state to the Company’s shareholders those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company’s shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Deloitte Limited

Bryce Henderson, Partner
For Deloitte Limited
Auckland, New Zealand
8 June 2020

AWF Madison Group Limited
Statement of comprehensive income
For the year ended 31 March 2020

		GROUP	
		2020	2019
	Note	\$'000	\$'000
Revenue from contracts with customers	A2	263,527	267,805
Investment revenue	A3	9	26
Direct costs		(2,462)	(2,687)
Employee benefits expense	F1	(239,208)	(245,683)
Depreciation and amortisation expense	A4, B1, B2, B3	(6,194)	(3,445)
Other operating expenses		(9,691)	(11,782)
Finance costs	A4	(2,084)	(1,380)
Profit before tax		3,897	2,854
Income tax expense	A5	(1,220)	(841)
Profit for the year		2,677	2,013
Other comprehensive income for the year		–	–
Total comprehensive income for the year		2,677	2,013
Earnings per share			
Total basic earnings per share (cents/share)	C3	7.9	6.1
Total diluted earnings per share (cents/share)	C3	7.9	6.1

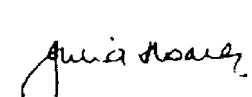
The notes to the Group financial statements form an integral part of these financial statements

AWF Madison Group Limited
Statement of financial position
As at 31 March 2020

		GROUP	
		2020	2019
	Note	\$'000	\$'000
Assets			
Non-current assets			
Property, plant and equipment	B1	3,193	3,038
Right of use assets	B2	11,107	–
Intangible assets – goodwill	B4	45,068	39,271
Intangible assets – other	B3	16,194	13,929
Total non-current assets		75,562	56,238
Current assets			
Cash and cash equivalents	C5	6,178	6,357
Trade and other receivables	C6	53,071	32,629
Contract assets	A2	458	295
Total current assets		59,707	39,281
Total assets		135,269	95,519
Equity and liabilities			
Non-current liabilities			
Deferred tax liabilities	A5	3,122	2,462
Borrowings	C7	36,000	33,000
Lease liabilities	B2	9,098	–
Contingent consideration	G1	1,841	–
Total non-current liabilities		50,061	35,462
Current liabilities			
Trade and other payables	C8	46,169	24,186
Contract liabilities	A2	202	530
Taxation payable	A5	950	280
Provisions	F2	189	241
Lease liabilities	B2	2,501	–
Contingent consideration	G1	1,463	–
Total current liabilities		51,474	25,237
Total liabilities		101,535	60,699
Net assets		33,734	34,820
Capital and reserves			
Share capital	C2	30,868	29,165
Group share scheme reserve		330	544
Retained earnings	C1	2,536	5,111
Total equity		33,734	34,820

For and on behalf of the Board who authorise the issue of the financial statements on 8 June 2020:


ROSS KEENAN, Chair


JULIA HOARE, Chair, Audit and Risk Committee

The notes to the Group financial statements form an integral part of these financial statements

AWF Madison Group Limited
Statement of changes in equity
For the year ended 31 March 2020

	Note	GROUP			
		Share capital	Group share scheme reserve	Retained earnings	Total equity
		\$'000	\$'000	\$'000	\$'000
2019					
Balance at 31 March 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
<i>Comprehensive income</i>					
Profit for the year		–	–	2,013	2,013
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	2,013	2,013
<i>Transactions with shareholders</i>					
Issue of share capital	C2, C4	1,569	–	–	1,569
Share issue costs	C2	(2)	–	–	(2)
Dividends paid	C1, C4	–	–	(5,406)	(5,406)
Share based payments	F1	–	161	–	161
Total transactions with shareholders		1,567	161	(5,406)	(3,678)
Balance at 31 March 2019		29,165	544	5,111	34,820
2020					
Balance at 31 March 2019		29,165	544	5,111	34,820
<i>Comprehensive income</i>					
Profit for the year		–	–	2,677	2,677
Other comprehensive income		–	–	–	–
Total comprehensive income		–	–	2,677	2,677
<i>Transactions with shareholders</i>					
Issue of share capital	C2, C4	1,703	–	–	1,703
Dividends paid	C1, C4	–	–	(5,581)	(5,581)
Stock appreciation rights modified	F1	–	(329)	329	–
Share based payments	F1	–	115	–	115
Total transactions with shareholders		1,703	(214)	(5,252)	(3,763)
Balance at 31 March 2020		30,868	330	2,536	33,734

The notes to the Group financial statements form an integral part of these financial statements

AWF Madison Group Limited
Statement of cashflows
For the year ended 31 March 2020

	Note	GROUP	
		2020	2019
		\$'000	\$'000
Cashflows from operating activities			
Receipts from customers		267,767	275,022
Payments to suppliers and employees		(255,072)	(262,813)
Net cash generated from operations		12,695	12,209
Interest received		9	26
Other receipts		538	–
Interest paid on bank overdrafts and loans		(1,401)	(1,380)
Interest paid on lease liabilities		(582)	–
Income taxes paid		(1,370)	(1,378)
Net cash from operating activities	C5	9,889	9,477
Cashflows from investing activities			
Proceeds from disposal of property, plant and equipment		60	81
Purchase of property, plant and equipment	B1	(899)	(1,606)
Purchase of intangible assets	B3	(143)	(1,025)
Net cash paid on acquisition of JacksonStone & Partners	G1	(5,153)	–
Repayment of deferred consideration to the vendor of JacksonStone & Partners	G1	(616)	–
Net cash (used in)/from investing activities		(6,751)	(2,550)
Cashflows from financing activities			
Proceeds from the issue of share capital	C2, C4	1,703	1,569
Share issue costs		–	(2)
Dividends paid to share holders of the parent	C4	(5,581)	(5,406)
Proceeds from borrowings	C7	3,000	–
Repayment of borrowings	C7	–	(3,000)
Payment of principal on lease liabilities	B2	(2,439)	–
Net cash from/(used in) financing activities		(3,317)	(6,839)
Net increase/(decrease) in cash held		(179)	88
Cash and cash equivalents at start of the year		6,357	6,269
Net cash and cash equivalents at end of the year	C5	6,178	6,357

The notes to the Group financial statements form an integral part of these financial statements

Notes to the Financial Statements

IN THIS SECTION

The notes to the financial statements include information that is considered relevant and material to assist the reader in understanding changes in AWF Madison Group Limited and its controlled entities ("the Group") financial position or performance.

Information is considered relevant and material if:

- the amount is significant because of its size and nature;
- it is important for understanding the results of the Group;
- it helps explain changes in the Group's business; or
- it relates to an aspect of the Group's operations that is important to future performance.

AWF Madison Group Limited is a Company limited by shares, incorporated and domiciled in New Zealand and registered under the Companies Act 1993 and listed on the NZX. The address of its registered office and principal place of business is disclosed in the directory to the annual report. The principal services of the Group are the supply of temporary staff, contractor resource and recruitment of permanent staff.

BASIS OF PREPARATION

These financial statements have been prepared:

- in accordance with New Zealand Generally Accepted Accounting Practices in New Zealand ('GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), International Financial Reporting Standards ('IFRS') and other applicable Financial Reporting Standards as appropriate for profit-orientated entities;
- 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, as modified by revaluations to fair value for certain classes of assets and liabilities as described in the accounting policies;
- on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business; and
- in New Zealand dollars (which is the Group's functional and presentation currency), with values rounded to thousands (\$000) unless otherwise stated.

The financial statements were authorised for issue by the directors on 8 June 2020.

Significant event prior to reporting date Global pandemic of coronavirus disease 2019

A significant event arose in March 2020, prior to reporting date, that has had and continues to have an impact on the Group's earnings, cash flows and financial position. Refer to section on 'Global pandemic of coronavirus disease 2019' further below and Note F6 for further information.

The Directors have determined that the Group's application of the going concern basis of accounting remains appropriate in light of this event.

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

NZ IFRS 16 Leases

The Group has adopted 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 in note G2.

NZ IFRIC 23 Uncertainty over Income Tax Treatments

This Interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments.

The Interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group (depending on which approach gives a better prediction of the resolution of the uncertainty), and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings.

If it is probable a tax authority will accept the treatment, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.

Otherwise, the entity should reflect the effect of uncertainty in determining its accounting tax position by estimating the tax payable (or receivable), using either the most likely amount or the expected value method.

The adoption of this standard had no material impact on the Group as it has not taken any uncertain tax positions.

Amendments to NZ IFRS 9 Prepayment Features with Negative Compensation

The Group has adopted the amendments to NZ IFRS 9 for the first time in the current year. The amendments to NZ IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

The adoption of this standard amendment had no material impact on the Group.

Annual Improvements to NZ IFRS Standards 2015–2017 Cycle

The Group adopted the amendments included in the Annual Improvements to NZ IFRS Standards 2015–2017 Cycle which became effective for the year beginning 1 April 2019.

The Annual Improvements include amendments to four Standards:

NZ IAS 12 Income Taxes

The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

The adoption of this standard amendment had no material impact on the Group.

NZ IAS 23 Borrowing Costs, NZ IFRS 3 Business Combinations, and NZ IFRS 11 Joint Arrangements

The amendments relating to NZ IAS 23 Borrowing Costs, NZ IFRS 3 Business Combinations, and NZ IFRS 11 Joint Arrangements, while adopted by the Group, do not currently apply to the Group and therefore the adoption of these standard amendments had no material impact on the Group.

New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period beginning on 1 April 2019

The Group has not early adopted any new standards, amendments and interpretations that have been issued but are not yet effective.

There are a number of new standards and amendments to standards and interpretations that are not yet effective for the year ended 31 March 2020.

None of these new and amendments to standards and interpretations have been early adopted by the Group in preparing these financial statements or been identified as having a material effect on the Group's financial statements in future.

OTHER ACCOUNTING POLICIES

Accounting policies that are relevant to an understanding of the financial statements (other than those provided throughout the notes to the financial statements) are set out below:

Fair value measurement

For financial reporting purposes, 'fair value' is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants (under current market conditions) at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

When estimating the fair value of an asset or liability, the entity uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Inputs to valuation techniques used to measure fair value are categorised into three levels according to the extent to which the inputs are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Goods and services tax (GST)

All revenue and expense transactions and cashflows are recorded exclusive of GST and other value added taxes. Assets and liabilities are similarly stated exclusive of GST, with the exception of receivables and payables, which are stated with GST included.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets (note B1) and intangible assets (notes B2 and B3) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists (and at least annually for indefinite life intangible assets) the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

All of the financial assets of the Group, which include trade and other receivables (note C6), are classified as financial assets at amortised cost.

The Group's trade and other payables (note C8) and deferred consideration (note G1) arising from business combinations are classified as financial liabilities at amortised cost.

The Group's contingent consideration amounts arising from business combinations (note G1) are classified as a financial liability at fair value through profit or loss. Contingent consideration is categorised within Level 3 of the fair value hierarchy.

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments

Ordinary share capital (note C2) is classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Costs which are not directly attributable to the issue of new shares are shown as an expense and included in other operating expenses expenses in the Statement of Comprehensive Income.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

For the year ended and as at 31 March 2020 the Group recorded the following:

Amounts recognised in Statement of Comprehensive Income:

- Deferred Grant Income release of \$1.046m recognised against Employee Benefits Expense

Amounts recorded in Statement of Position:

- Grant Income Receivable of \$22.286m (refer note C6)
- Deferred Grant Income of \$21.778m (refer note C8)

Cash outflows recognised in the Statement of Cashflows:

- Grant Income receipts of \$0.538m under the heading of Other Receipts.

KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies and the application of accounting standards, Management are required to make a number of judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. These estimates and associated assumptions are based on historical experience and various other matters that are considered to be appropriate under the circumstances. Actual results may differ from these estimates.

Judgements and sources of estimation uncertainty that are considered material to understand the performance of the Group are found in the following notes:

Note – B3

Estimating the remaining useful lives of identifiable customer relationships and restraint of trade assets and testing the carrying value of brand assets.

Note – B4

Impairment testing of the carrying value of goodwill.

Note – A2 & C6

Expected credit losses from trade and other receivables and contract assets.

Note – A2

Expectation of refund liabilities and rebates to customers.

Note – B2

Determination of the expected lease term and the incremental borrowing rate applicable to a lease.

Note – F2

Rehabilitation under the ACC Partnership programme.

Note – G1

Identification and valuation of intangible assets arising in a business combination and the estimation of the earn-out contingent consideration in a business combination.

GLOBAL PANDEMIC OF CORONAVIRUS DISEASE 2019

On 11 March 2020, the World Health Organization declared an ongoing global outbreak of a novel coronavirus, known as 'coronavirus disease 2019' ('COVID-19'), as a pandemic.

In response, the New Zealand Government has and continues to implement a range of:

- public health and social measures to prevent and contain the transmission of COVID-19; and
- economic responses to provide financial stimulus and welfare support to mitigate the economic impacts of the COVID-19 pandemic.

The public health and social measures implemented include restrictions on some non-essential movement/travel, closure of some non-essential businesses and schools. To achieve this, the New Zealand Government has implemented a four-level COVID-19 alert system which specifies public health and social measures to be taken in response to COVID-19. These public health and social measures have lowered overall economic activity and confidence. The economic responses implemented have mitigated some of the economic impacts.

The Group's earnings, cash flow and financial position have been impacted since the outbreak began and up to the date of the signing of these financial statements (8 June 2020).

The Group is in the business of the supply of temporary staff, contractor resource and recruitment of permanent staff. Under the public health and social measures, the Group was not classified as a provider of essential services, and whilst some of the Group's employees were able to work remotely from their homes, the Group was unable to fully operate from 27 March 2020 and up to the date of the signing of these financial statements (8 June 2020).

The Group's revenue is derived from customers who are both providers of essential and non-essential services and the Group has already seen a significant impact on its business to date.

The Group's two operating segments, 'AWF' and 'Madison, Absolute IT and JacksonStone & Partners' primarily earn revenue from their customers from the temporary and permanent placement of staff and the provision of payroll or employee related services (refer to A2 for further information on the Group's revenue streams).

The COVID-19 pandemic and responses described above, continue to inhibit general activity and confidence levels within the community, the economy and the operations of the Group's business. While the scale and duration of these developments remain uncertain as at the date of signing these financial statements, the Group continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

In response to the COVID-19 pandemic, management has:

- Implemented appropriate health and safety responses to ensure the continuity of its business operations under each of the Alert Levels, whilst complying with the applicable public health and social measures for that level.
- Implemented measures to reduce operating costs and capital expenditures (where applicable deferring non-essential capital projects).

- Applied for the COVID-19 'Wage Subsidy Scheme' developed by the New Zealand Government, which is available to certain New Zealand businesses that are adversely affected by the COVID-19 pandemic (refer to note F6 for more detail).

- Assessed the impact of reduced economic activity and lower revenues due to the COVID-19 pandemic on the valuation of the Group's financial and non-financial assets (i.e. impairment assessment of cash generating units).

As a result of the ongoing COVID-19 pandemic, the Group's impairment assessments as at reporting date, of the specific assets noted, took into account:

- the temporary cessation of operations;
- the actual experience;
- expected decline in demand;
- pricing;
- profitability; and
- other specific considerations noted below.

Management has considered the financial impact on the following items:

- Non-financial asset impairment/changes in assumptions for impairment testing;
- Increases in expected credit losses for financial asset and contract assets;
- Increased costs and/or reduced demand requiring provisions for onerous contracts to be recognised; and
- Changes in the assumptions for the fair value of contingent consideration.

Non financial asset impairment/changes in assumptions for impairment testing

- **Indefinite life intangible assets – goodwill (note B4) and brand (note B3)**

Forecast cashflows over a projection period of five years factor into the impairment assessment for goodwill and indefinite life intangible assets, such as brand. However due to present economic circumstances with respect to COVID-19 as described above, there remains an inherent uncertainty with respect to the impact on forecast cashflows and in turn the carrying value of goodwill and brands. The Group has prepared revised cash flow forecasts for the purposes of the Group's annual impairment testing of goodwill and brand.

This assessment has confirmed the carrying value of goodwill and brand assets as at 31 March 2020.

- **Finite life intangible assets – customer relationships and restraint of trade (note B3)**

This assessment has confirmed the carrying value of customer relationships and restraint of trade assets as at 31 March 2020.

- **Right of use assets (note B2)**

This assessment has confirmed the carrying value of right of use assets as at 31 March 2020.

- **Property, plant and equipment (note B1)**

This assessment has confirmed the carrying value of property, plant and equipment as at 31 March 2020.

Increases in expected credit losses for financial asset and contract asset

- Trade and other receivables (note C6) and contract assets (note A2)
- Expected credit losses are based on historical credit loss experience adjusted to reflect current conditions and estimates of future economic conditions. In making this assessment, Management takes into account information about current and prospective macroeconomic factors affecting the ability of the debtors (associated to the contracts) to repay the receivables or from which to recover contract assets.

This assessment has decreased the carrying value of trade and other receivables and contract assets as at 31 March 2020.

Increased costs and/or reduced demand requiring provisions for onerous contracts

The Group considered and determined that there weren't any increased costs and/or reductions in demand requiring any provisions for onerous contracts.

Changes in the assumptions for the fair value of contingent consideration

The fair value of contingent consideration is estimated by applying a discount factor to the potential undiscounted amount of all future payments that the Group could be required to make under contingent consideration arrangement.

The COVID-19 pandemic is not expected to materially adversely impact the forecast financial performance of the JacksonStone & Partners cash generating unit (note B3), to which the Group's contingent consideration financial liability (note G1) is related as at 31 March 2020.

- Management has considered and reaffirmed the the Group's application of the going concern basis of accounting remains appropriate as at date of the signing of these financial statements (8 June 2020).
- The key factors in Management's considerations include:
- The Group's cash and cash equivalents position.
 - The Group's existing borrowings and undrawn loan and overdraft facilities.
 - The current Alert Level under the COVID-19 alert system (Level 2) and the impact the restrictions under this level have on the Group's ability to operate.
 - Undertaken an analysis of the Group forecast cashflows for 12 months.

This analysis includes the consideration of reasonably possible changes in key forecast assumptions.

Forecast sensitivities indicate that the Group has the ability to continue to operate and trade through the anticipated challenges arising from the COVID-19 pandemic, acknowledging the impact the COVID-19 pandemic has already had on short-term trading.

Management has determined the Group has sufficient available cash and cash equivalents and borrowing facilities to maintain the application of the going concern basis of accounting for the 12 months from the date of signing these financial statements (8 June 2020).

The Company has cash and cash equivalents, together with a \$12.0m undrawn bank overdraft which provides sufficient operating cashflows for the Company's immediate requirements.

The Directors and Management have determined that the Group's application of the going concern basis of accounting remains appropriate.

These financial statements have been prepared based upon conditions existing at the end of the reporting period, 31 March 2020, and considering those events occurring subsequent to that date, up to the date of the signing of these financial statements (8 June 2020), that provide evidence of conditions that existed at the end of the reporting period.

As the outbreak of COVID-19 pandemic occurred before 31 March 2020, its impacts are considered an event that is indicative of conditions that arose prior to reporting period. Accordingly, as at the date of the signing of these financial statements, all reasonably known and available information with respect to the COVID-19 pandemic, has been taken into consideration and all reasonably determinable adjustments have been made in preparing these financial statements.

A. Financial Performance

IN THIS SECTION

This section explains the financial performance of the Group, providing additional information about individual items in the Statement of Comprehensive Income, including:

- (a) accounting policies, judgements and estimates that are relevant for understanding items recognised in revenue.
- (b) analysis of the Group's performance for the year by reference to key areas including: performance by segment, revenue, expenses and taxation.

A1 SEGMENT PERFORMANCE

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

The Group's reportable 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 their operating results are regularly reviewed by the Group's chief operating decision maker.

	Segment revenue		Segment profit	
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
SEGMENT REVENUE AND RESULTS				
Continuing operations				
AWF	97,448	115,859	1,692	1,260
Madison, Absolute IT and JacksonStone & Partners	166,079	151,946	7,156	5,597
Total for continuing operations	263,527	267,805	8,848	6,857
Other income			9	26
Central administration costs and directors fees			(2,876)	(2,649)
Finance costs			(2,084)	(1,380)
Profit/(loss) before tax			3,897	2,854
Income tax expense			(1,220)	(841)
Profit for the year			2,677	2,013

Revenue reported above represents revenue generated from external customers. Inter-segment sales in the year were \$82,372 (2019: \$360,642) and have been eliminated from the above table. Inter-segment sales were eliminated from the originating segment. No one customer accounts for more than 10% of the Group's revenue (2019: One customer accounted for 11.0% of the Group's revenue, relating to the Madison and Absolute IT segment, no other customers individually accounted for more than 10% of the Group's revenue).

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' fees, 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.

	2020	2019
SEGMENT ASSETS	\$'000	\$'000
AWF	47,924	30,856
Madison, Absolute IT and JacksonStone & Partners	84,702	61,652
Total segment assets	132,626	92,508
Unallocated assets	2,643	3,011
Total assets	135,269	95,519

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.

	2020	2019
SEGMENT LIABILITIES	\$'000	\$'000
AWF	26,544	10,295
Madison, Absolute IT and JacksonStone & Partners	29,108	13,329
Total segment liabilities	55,652	23,624
Unallocated liabilities	45,883	37,075
Total liabilities	101,535	60,699

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.

	Depreciation and amortisation		Employee benefits		Non-current assets		Net additions to non-current assets	
OTHER SEGMENT INFORMATION	2020	2019	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
AWF	2,041	720	88,497	105,828	17,210	13,909	3,302	835
Madison, Absolute IT and JacksonStone & Partners	4,153	2,725	149,146	138,160	58,224	42,329	15,894	(1,794)
Unallocated	–	–	1,565	1,695	128	–	128	–
Total	6,194	3,445	239,208	245,683	75,562	56,238	19,324	(959)

A2 REVENUE FROM CONTRACTS WITH CUSTOMERS

Accounting Policy

Revenue recognition from contracts with customers

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised once value has been received by the customer, when the performance obligations have been satisfied and control has transferred. This is typically on successful placement of a candidate. The transaction price is allocated to performance obligations based on their relative standalone selling prices.

Revenue earned on temporary placement – over time

Revenue from temporary placements, represents amounts billed from the supply of semi-skilled and skilled temporary staff, including the wage cost of these staff is recognised when the service has been provided. Revenue is recognised over time as services are provided. Performance completed to date is based on the number of hours worked.

The factors considered by Management on a contract by contract basis when concluding the Group is acting as principal rather than agent are as follows:

- Whether the customer has a direct relationship with the Group;
- Whether the Group has the primary responsibility for providing the services to the client, and engages and contracts directly with the temporary worker or other recruitment companies; and
- Whether the Group has latitude in establishing the rates directly or indirectly with all parties.

Revenue earned on permanent placement – point in time

Revenue from permanent placements, represents amounts billed from the placement of permanent candidates. Revenue is typically based on a percentage of the candidate's remuneration package, this income being recognised at the date an offer is accepted by a candidate and where a start date has been determined.

In general, where a candidate fails to remain in the position for greater than twelve weeks a guarantee is provided to replace the candidate.

Revenue earned on a retained basis – point in time

Where the Group is engaged on a retainer basis, revenue recognised is typically based on a percentage of candidate's remuneration package, this income being recognised on the completion of defined stages of work. The defined stages are: on confirmation of vacancy and after job briefing; on presentation of shortlist; and candidate placement.

Revenue is recognised when the underlying performance obligation is satisfied – the successful placement of the candidate.

Revenue earned as other services are provided – point in time

Where the Group is engaged to provide payroll related services to manage the administration of contractors sourced by its customers directly, revenue is recognised when the underlying performance obligation is satisfied – upon the provision of services, charged at hourly or daily rates.

Where the Group is engaged to provide contractors, they are covered by the Group's indemnity insurance cover. A fee for this indemnity insurance cover is recognised when the underlying performance obligation is satisfied – upon the provision of cover, charged at hourly rates.

Where the Group is engaged to provide other employee related services, such as psychometric assessments, advertising and candidate background checks, revenue is recognised when the underlying performance obligation is satisfied – upon the provision of services, charge at agreed rates.

Variable consideration

The Group pays customer rebates (for revenue from temporary and permanent placement), provides credit notes and warranties over the contract period for certain recruitment services (for revenue on a retained basis). Revenue is constrained to the extent that recognition would result in a significant reversal of revenue. When the uncertainty is resolved, the consideration is recognised.

Significant financing component

Payment is typically due within 30–60 days from the invoicing of a contract. There is no significant financing component in any of the Group's contracts with customers.

	GROUP	
	2020	2019
	\$'000	\$'000
REVENUE FROM CONTRACTS WITH CUSTOMERS		
Revenue earned on temporary placements		
– AWF	95,723	114,684
– Madison, Absolute IT and JacksonStone & Partners	125,907	113,122
Total revenue earned on temporary placements	221,630	227,806
Revenue earned on permanent placements		
– AWF	1,642	963
– Madison, Absolute IT and JacksonStone & Partners	9,906	10,979
Total revenue earned on permanent placements	11,548	11,942
Revenue earned on a retained basis		
– Madison, Absolute IT and JacksonStone & Partners	4,132	80
Total revenue earned on a retained basis	4,132	80
Other service revenue		
– AWF	83	212
– Madison, Absolute IT and JacksonStone & Partners	26,134	27,765
Total other service revenue	26,217	27,977
Total revenue	263,527	267,805

KEY JUDGEMENTS AND ESTIMATES – DETERMINING THE TRANSACTION PRICE FOR REVENUE FROM CONTRACTS WITH CUSTOMERS

Refund guarantees

For revenue on a retained basis, Management estimates the expected refund guarantees to customers based on historical experience of candidates leaving within the guarantee period. The estimate is updated for key reporting periods. Refund guarantees relate to the placement of individual candidates.

Rebates

Management estimates the expected rebates to customers on inception of the contract based on past precedent and future expected sales. The estimate is updated for key reporting periods. Rebates relate to the placement of a portfolio of candidates and the discount is applied to all qualifying placements.

CONTRACT ASSETS

Services rendered, invoice yet to send

Payment for services rendered (*i.e. revenue earned on temporary placement – over time*) are not due from the customer until the Group has invoiced the customer. Contract assets are balances due to be recovered from customers for work performed, that have yet to be invoiced. When the customer is invoiced, any amounts previously recognised as a contract asset are reclassified to trade receivables. Contract assets amounts are invoiced within 30 days, with payment typically due within 30 to 37 days from the invoice being

issued. There is no significant financing component in any of the Group's contracts with customers.

Appropriate allowances for expected irrecoverable amounts are recognised in profit and loss which are measured using the simplified approach permitted by NZ IFRS 9 Financial Instruments, which requires lifetime expected losses for contract assets to be recognised from initial recognition of the assets. The Group determines the expected credit losses from contact assets in a manner consistent with the approach described for trade and other receivables in note C6.

	GROUP	
	2020	2019
	\$'000	\$'000
CONTRACT ASSETS		
Customers yet to be invoiced for services rendered	458	295
Less provision for impairment	–	–
Total contract assets	458	295
Classified as:		
Current	458	295
Non-current	–	–
Total contract assets	458	295

EXPECTED LOSS RATES FOR CONTRACT ASSETS	GROUP					
	Current	1 – 30 days	30 – 60 days	60 – 90 days	90+ days	Total
31 March 2020						
Expected loss rate (%)	-%	-%	-%	-%	-%	-%
Gross contract assets (\$'000)	458	–	–	–	–	458
Provision for impairment of contract assets (\$'000)	–	–	–	–	–	–
Net contract assets	458	–	–	–	–	458
31 March 2019						
Expected loss rate (%)	-%	-%	-%	-%	-%	-%
Gross contract assets (\$'000)	295	–	–	–	–	295
Provision for impairment of contract assets (\$'000)	–	–	–	–	–	–
Net contract assets	295	–	–	–	–	295

KEY JUDGEMENTS AND ESTIMATES – EXPECTED CREDIT LOSSES FROM CONTRACT ASSETS

Management has reviewed and assessed contracts and the provision for impairment represents the best estimate of the expected credit losses based on historical credit loss experience adjusted to reflect current conditions and estimates of future economic conditions.

In making this assessment, Management takes into account qualitative and quantitative information about current and prospective macroeconomic factors affecting the ability

of the debtors (associated to the contracts) to repay the receivables.

The impairment provision is based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these estimates and developing inputs to the calculation. The inputs are based on the Group's past history, external market conditions as well as prospective information.

CONTRACT LIABILITIES

Contract guarantees

For revenue on a retained basis, the Group's standard contract terms for under permanent placement revenue contracts, includes a guarantee that the candidate placed will remain in the role for more than 12 weeks. If the candidate does not remain in the role for more than 12 weeks, the Group will endeavour to replace the candidate with another individual at no further cost to the customer. If the Group is unable to replace the candidate then the customer is entitled to a credit against the customer's account.

Upon placement, a refund liability is recognised with a corresponding adjustment to revenue. This refund liability is measured using a rate derived utilising the Group's historical experience of candidates who have left before 12 weeks. This historical experience rate is measured using the portfolio approach permitted by NZ IFRS 15 Revenue from Contract with Customers. This estimate is updated regularly at each reporting period.

Contract rebates

For revenue from temporary and permanent placements, under the Group's contract terms with certain customers, a rebate is payable/applied to customers based on agreed percentages of amounts billed over a specified period. These agreed percentages can either be a single fixed rate or incremental based on thresholds.

At the beginning of the specified period, a rebate liability is recognised with a corresponding adjustment to revenue. This rebate liability is measured using a rate derived utilising the Group's expectation of the amounts to be billed to the customer over the specified period. This expectation is based on historical experience with the customer adjusted to reflect forecast estimates of the placements required by the customer over the specified period.

This estimate is updated regularly at each reporting period.

CONTRACT LIABILITIES	GROUP	
	2020 \$'000	2019 \$'000
Guarantee refund liabilities	62	355
Rebate liabilities	140	175
Total contract liabilities	202	530
Classified as:		
Current	202	530
Non-current	–	–
Total contract liabilities	202	530

KEY JUDGEMENTS AND ESTIMATES – GUARANTEE AND REBATE LIABILITIES

Guarantee refund liabilities

Management has reviewed and assessed the historical experience rate and the contract liabilities for refund guarantees represents on a portfolio basis, the best estimate of expected candidates leaving within the guarantee period.

Rebate liabilities

Management has reviewed and assessed the past precedent and future expected sales for individual customers and the contract liabilities for rebates that represent the best estimate of expected rebates to customers. The estimate is updated for key reporting periods.

REVENUE RECOGNISED THAT WAS INCLUDED IN THE CONTRACT LIABILITY BALANCE AT THE BEGINNING OF THE PERIOD	GROUP	
	2020 \$'000	2019 \$'000
Guarantee refund liabilities	175	116
Rebate liabilities	355	224
Revenue recognised that was included in the contract liability balance at the beginning of the period	530	340

A3 INVESTMENT REVENUE

Accounting Policy

Dividend and interest revenue is presented as investment revenue in the statement of comprehensive income.

Dividend revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue

Interest revenue is accrued on a time basis using the effective interest method.

INVESTMENT REVENUE	GROUP	
	2020 \$'000	2019 \$'000
Investment revenue	9	26
Other revenue	–	–
Total investment revenue	9	26

A4 EXPENSES

	GROUP	
	2020	2019
	\$'000	\$'000
BAD AND DOUBTFUL DEBTS EXPENSE		
Impairment losses recognised	123	1,109
Changes in provision for impairment losses	132	(445)
Total bad and doubtful debts expense	255	664

		GROUP	
		2020	2019
		\$'000	\$'000
DEPRECIATION AND AMORTISATION EXPENSE	<i>Note</i>		
Depreciation of property, plant and equipment	B1	898	921
Depreciation of right of use assets	B2	2,798	–
Amortisation of intangible assets	B3	2,498	2,524
Total depreciation and amortisation expense		6,194	3,445

	GROUP	
	2020	2019
	\$'000	\$'000
FINANCE COSTS		
Financial liabilities measured at amortised cost		
Interest on bank overdrafts and loans	1,401	1,380
	1,401	1,380
Financial liabilities measured at fair value through profit or loss		
Interest on contingent consideration	101	–
	101	–
Lease liabilities		
Interest on lease liabilities	582	–
	582	–
Total finance costs	2,084	1,380

	GROUP	
	2020	2019
	\$'000	\$'000
AUDITOR'S REMUNERATION TO DELOITTE FOR:		
Audit of the financial statements		
Audit of the financial statements	224	162
Total auditor's remuneration to Deloitte	224	162

A5 TAXATION

Accounting Policy – current tax

- Income tax expense represents the sum of the tax currently payable and deferred tax.
- Taxable profit differs from profit before tax reported in the income statement as it excludes items of income and expense that are taxable or deductible in other years and also excludes items that will never be taxable or deductible.
- Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.
- Income tax expense is the income assessed on taxable profit for the year.
- AWF Madison Group Limited's liability for current tax is calculated using tax rates that have been enacted at balance date, being 28% (2019: 28%) for New Zealand.

	GROUP	
	2020	2019
	\$'000	\$'000
INCOME TAX EXPENSE		
Current tax		
In respect of current year	1,747	1,235
In respect of prior year	107	(199)
	1,854	1,036
Deferred tax		
In respect of current year	(498)	(351)
In respect of prior year	(136)	156
	(634)	(195)
Total tax expense	1,220	841
Reconciliation to profit before tax		
Profit before income tax	3,897	2,854
Income tax at 28%	1,091	799
Tax effect of expenses that are not deductible in determining taxable profit	129	42
Income tax expense	1,220	841
Effective tax rate for the year	31.3%	29.5%

	GROUP	
	2020	2019
	\$'000	\$'000
CURRENT TAX ASSETS AND LIABILITIES		
Current tax liabilities		
Income tax payable	950	280
Total current tax liabilities	950	280

B. Assets used to generate income

IN THIS SECTION

This section shows the assets the Group uses to generate operating income. In this section of the notes there is information about:

- (a) property, plant and equipment
- (b) intangible assets
- (c) goodwill

B1 PROPERTY, PLANT AND EQUIPMENT

Accounting policy

- Fixtures and equipment, motor vehicles and leasehold improvements are stated at cost less accumulated depreciation and any accumulated impairment losses.
- Depreciation is charged so as to write off the cost of assets, over their estimated useful lives using the diminishing value method.
- The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Comprehensive Income.

The following diminishing value rates are used for the depreciation of property, plant and equipment

- Motor vehicles 25 to 36%
- Fixtures and equipment 10 to 60%
- Leasehold improvements 4 to 14%

Accounting Policy – deferred tax

- Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
- Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.
- The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.
- Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amounts of its assets and liabilities.
- Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

DEFERRED TAX BALANCES

The following are the major deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current reporting period:

	GROUP				
	Right of use assets & Lease liabilities	Employee benefits	Other provisions	Identifiable intangible assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2018	–	1,405	323	(4,331)	(2,603)
Prior period adjustment	–	(157)	–	1	(156)
Business combination	–	–	–	(54)	(54)
Charge (credit to profit or loss for the year)	–	(132)	(149)	632	351
As at 31 March 2019	–	1,116	174	(3,752)	(2,462)
Prior period adjustment	–	165	(33)	4	136
Business combination	–	–	–	(1,294)	(1,294)
Charge (credit to profit or loss for the year)	101	(304)	(79)	780	498
As at 31 March 2020	101	977	62	(4,262)	(3,122)

	GROUP	
	2020	2019
	\$'000	\$'000
IMPUTATION BALANCES		
Imputation credits available for subsequent reporting periods at 28%	10,108	9,539

The above amounts represent the balance of the imputation account as at the end of the reporting period at 28%, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax; and
- Imputation debits that have arisen from the payment of dividends recognised as a liability at the reporting date.

The consolidated amounts include imputation credits that would be available to the parent entity if subsidiaries paid dividends.

The imputed portions of the final dividends recommended after reporting date will be imputed out of existing imputation credits or out of imputation credits arising from the payment of income tax in the next reporting period.

	GROUP			
	Motor Vehicles	Fixtures and equipment	Leasehold Improvements	Total
	\$'000	\$'000	\$'000	\$'000
Note				
Cost	1,002	4,437	1,393	6,832
Less accumulated depreciation	(743)	(2,925)	(666)	(4,334)
Net book value at 1 April 2018	259	1,512	727	2,498
Additions	36	939	632	1,607
Disposals – cost	(251)	(1,202)	(49)	(1,502)
Depreciation expense	(78)	(721)	(122)	(921)
Eliminations on disposal – depreciation	185	1,148	23	1,356
Net book value at 31 March 2019	151	1,676	1,211	3,038
Additions	100	592	207	899
Business combinations	–	151	183	334
Disposals – cost	(121)	(420)	(183)	(724)
Depreciation expense	(63)	(702)	(133)	(898)
Eliminations on disposal – depreciation	99	347	98	544
Net book value at 31 March 2020	166	1,644	1,383	3,193
Cost	506	5,564	2,104	8,174
Less accumulated depreciation	(340)	(3,920)	(721)	(4,981)
Net book value at 31 March 2020	166	1,644	1,383	3,193

B2 LEASES

RIGHT OF USE ASSETS AND LEASES LIABILITIES

Accounting policy

- 1

The Group leases various properties (including offices), motor vehicles and computer equipment. Property lease contracts are typically made for fixed periods of 3 to 9 years but may have extension options as described below. Motor vehicle and computer equipment leases are typically made for fixed periods of 1 to 5 years without extension options.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.
- 2

Until 31 March 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use ('ROU') asset and a lease liability at the lease commencement date.
- 3

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 re-measurements of the lease liability.

Costs included in the measurement of the right-of-use asset comprise the following:

 - the amount of the initial measurement of lease liability;
 - any lease payments made at or before the commencement date; less any lease incentives received; and
 - any initial direct costs incurred by the lessee.

Depreciation is charged so as to write off the cost of assets, over the lease term using the straight-line method where shorter than the useful life of the right of use asset.

- 4

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 lessee's incremental borrowing rate, being the rate that the lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment with similar terms and conditions.

Generally, the Group uses the lessee's incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

 - the exercise price under a purchase option that the Group is reasonably certain to exercise that option; and
 - lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option.

There are no leases with variable lease payments which depend on an index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

None of the Group's leases include variable lease payments that depend on an index or a rate.

KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Extension and termination options

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Incremental borrowing rates

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Critical judgements in determining the lease term

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing (currently, the Group's sole term facility provider, ASB Bank Limited) received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a buildup approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Group subsidiaries, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term, location, and security.

		GROUP			
		Property	Motor vehicles	Computer Equipment	Total
RIGHT OF USE ASSETS	Note	\$'000	\$'000	\$'000	\$'000
Cost	G2	10,248	810	–	11,058
Additions		1,919	–	23	1,942
Business combinations	G1	905	–	–	905
Depreciation expense	A4	(2,324)	(468)	(6)	(2,798)
Net book value at 31 March 2020		10,748	342	17	11,107
Cost		13,072	810	23	13,905
Less accumulated depreciation		(2,324)	(468)	(6)	(2,798)
Net book value at 31 March 2020		10,748	342	17	11,107

	GROUP	
	2020	2019
	\$'000	\$'000
LEASE LIABILITIES		
Property	11,241	–
Motor vehicle	342	–
Computer equipment	16	–
Total lease liabilities	11,599	–
Classified as:		
Current	2,501	–
Non–current	9,098	–
Total lease liabilities	11,599	–
Maturity analysis contractual undiscounted cashflows:		
Less than 1 year	2,818	–
Later than 1 year and not later than 5 years inclusive	8,818	–
More than 5 years	1,377	–
Total undiscounted lease liabilities 31 March	13,013	–
Amounts recognised in Statement of Comprehensive Income:		
Interest on lease liabilities	[582]	–
Expenses relating to short term leases	[122]	–
Total amounts recognised in Statement of Comprehensive Income	[704]	–
Cash outflows recognised in the Statement of Cashflows:		
Recognised within cash flows from operating activities		
Interest elements of lease payments	[582]	–
Total recognised within cash flows from operating activities	[582]	–
Recognised within cash flows from financing activities		
Principal elements of lease payments	[2,439]	–
Total recognised within cash flows from financing activities	[2,439]	–
Total cash outflows recognised in the Statement of Cashflows	[3,021]	–

B3 INTANGIBLE ASSETS

Accounting policy

- Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.
- Intangible assets acquired separately with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives (72 months). The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.
- Intangible assets acquired separately with indefinite useful lives are not amortised and are reviewed for impairment on an annual basis and whenever there is an indication that the asset may be impaired as per NZ IAS 36 Impairment of Assets (refer also B4).

Other intangible assets (excluding goodwill) represent the value of client relationships, brand names and restraints of trade acquired through business combinations (where the economic value can reliably be assessed) and computer software.

	GROUP				
	Computer Software	Customer Relationships	Brand Name	Restraint of Trade	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost	2,396	13,372	9,446	1,304	26,518
Less accumulated amortisation	(1,040)	[8,871]	–	[528]	[10,439]
Net book value at 1 April 2018	1,356	4,501	9,446	776	16,079
Additions	180	194	–	–	374
Amortisation expense	(350)	(1,956)	–	[218]	[2,524]
Net book value at 31 March 2019	1,186	2,739	9,446	558	13,929
Additions	143	–	–	–	143
Business combinations	–	2,185	1,029	1,406	4,620
Disposals – cost	(41)	–	–	–	[41]
Amortisation expense	(356)	(1,665)	–	[477]	[2,498]
Eliminations on disposal – amortisation	41	–	–	–	41
Net book value at 31 March 2020	973	3,259	10,475	1,487	16,194
Cost	2,678	15,751	10,475	2,710	31,614
Less accumulated amortisation	(1,705)	[12,492]	–	[1,223]	[15,420]
Net book value at 31 March 2020	973	3,259	10,475	1,487	16,194

The amortisation expense has been included in the line item “depreciation and amortisation expense” in the Statement of Comprehensive Income.

Brand names of:

- \$7.465 million identified and recognised from the Madison acquisition are allocated to the Madison Group cash generating unit; and
- \$1.980 million identified and recognised from the Absolute IT acquisition are allocated to the Absolute IT cash generating unit.
- \$1.029 million identified and recognised from the JacksonStone & Partners acquisition are allocated to the JacksonStone & Partners cash generating unit.

KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Brand assets are indefinite life non-financial assets. Determining whether brand assets are impaired requires an estimation of the value in use of the cash generating unit to which brand relates to. The impairment testing of brand is undertaken in conjunction with the impairment testing of goodwill related to the cash generating unit (refer to note B4 for further information).

The impairment assessment of customer relationships and restraint of trade assets requires a judgement and estimation of the expected remaining useful life of these assets.

B4 GOODWILL

Accounting policy

Goodwill arising on the acquisition of a subsidiary is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer’s previously held equity interest (if any) in the acquiree over the fair value of the identified net assets recognised.

Goodwill is not amortised, but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash generating units (‘CGUs’) expected to benefit from the synergies of the combination.

Cash generating units to which goodwill and indefinite life intangible assets have been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. The recoverable amount is the higher of fair value less cost to sell and the value in use. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. Any impairment loss on goodwill is recognised immediately in profit or loss and is not subsequently reversed.

	Note	GROUP	
		2020	2019
		\$'000	\$'000
Balance at 1 April		39,271	38,620
Business combinations – Select (allocated to the AWF CGU)		–	651
Business combinations – JacksonStone & Partners	G1	5,797	–
Balance as at 31 March		45,068	39,271
Allocation to cash generating units			
• AWF		11,212	11,212
• Madison Recruitment		20,223	20,223
• Absolute IT		7,836	7,836
• JacksonStone & Partners		5,797	–
Total goodwill		45,068	39,271

Annual test for impairment

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of each cash-generating unit is determined from value-in-use calculations which use a discounted cash flow analysis. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and forecast financial performance and cashflows. Management estimates discount rates using rates that reflect current market assumptions of the time value of money and risk specific to the cash generating units. The growth rates are based on management’s best estimate. Forecast revenues, direct and indirect costs, are based on historical experience/past practices and expectations of future changes in the markets the Group operates and services.

COVID-19 has had an impact on the operations of the Group. Management has used its judgement to determine a point within the range of models that reflects its best estimate of the future which takes into account financial performance achieved in previous years. Cash flows are sensitive to the economic environment and the ability of the cash generating units to return to pre-COVID-19 financial performance by the end of FY2021.

In particular AWF Limited and Madison Recruitment Limited are sensitive to changes in financial performance assumptions. In respect of AWF Limited, the forecast assumes that operating performance will normalise by the end of FY2021. The Board considers AWF is well positioned to offer temporary personnel for businesses wishing to secure blue collar labour on a variable basis, in a COVID environment. Madison Recruitment is similarly positioned to offer temporary white collar personnel together with a range of unique customer tailored solutions. Forecast modelling for Madison Recruitment shows that a 1% increase in the discount rate would result in the estimated recoverable amount to be equal to the carrying amount of this cash generating unit.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board for forecast years 1 to 2 and estimates of future cash flows based on an estimated terminal growth rate of 1.5% (2019: 1.5%) for years 3 to 5 and into perpetuity. This rate does not exceed the average long-term growth rate for the relevant markets.

The discount rate used to discount the forecast cash flows is 9.14% (2019: 9.14%). The discount and growth rates have been consistently applied to all cash generating units.

In assessing the goodwill for impairment, a sensitivity analysis for reasonably possible changes in key assumptions was performed.

This included:

- a range of reasonably possible forecast cashflows;
- reducing the estimated growth rate by 0.5%;
- reducing the terminal growth rate by 1%;
- increasing the discount rate by 1%.

These reasonably possible changes in rates did not result in any impairment of goodwill.

KEY JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Determining whether goodwill is impaired requires an estimation of the value-in-use of the group of cash-generating units to which goodwill has been allocated. The value-in-use calculation requires Management to estimate the future cash flows expected to arise from those cash-generating units and a suitable discount rate in order to calculate present value.

The discount rate applied to future cashflows has been obtained through an independent assessment of Group’s weighted average cost of capital which takes in to consideration a risk-free rate based on New Zealand Government Bonds, a market risk premium and an equity beta based a selection of comparable recruitment companies.

C. Managing funding

IN THIS SECTION

This section explains the Group’s reserves and working capital. In this section there is information about:

- (a) equity and dividends
- (b) net debt; and
- (c) receivables and payables

C1 RETAINED EARNINGS

		GROUP	
		2020	2019
RETAINED EARNINGS AND DIVIDENDS	Note	\$'000	\$'000
Opening balance at 1 April		5,111	8,878
Effect of changes in accounting policies resulting from the adoption of NZ IFRS 9 & 15		–	(374)
Opening balance at 1 April (Restated)		5,111	8,504
Total comprehensive income for the year		2,677	2,013
Dividends paid	C4	(5,581)	(5,406)
Stock appreciation rights modified	F1	329	–
Closing balance at 31 March		2,536	5,111

C2 SHARE CAPITAL

		GROUP			
		2020	2019	2020	2019
ORDINARY SHARE CAPITAL	Note	No of Shares	No of Shares	\$'000	\$'000
Issued and fully paid:					
Balance at 1 April		33,423,399	32,555,193	29,165	27,598
Issue of shares	C4	902,143	868,206	1,703	1,569
Conversion and cancellation costs		–	–	–	(2)
Total		34,325,542	33,423,399	30,868	29,165

The share capital reflected in the following note represents the ordinary share capital of AWF Madison Group Limited.
All ordinary shares carry rights to dividends and distribution on wind-up.

C3 EARNINGS PER SHARE

		GROUP	
		2020	2019
EARNINGS PER SHARE	Note	\$'000	\$'000
Comprehensive income for the year net of tax		2,677	2,013
Number of ordinary shares:			
As at 31 March	C2	34,325,542	33,423,399
Weighted average number of shares for basic earnings per share		33,910,542	32,993,554
Total basic earnings per share (cents per share)		7.9	6.1
Weighted average number of shares for diluted earnings per share		33,910,542	32,993,554
Total diluted earnings per share (cents per share)		7.9	6.1

On 9 May 2019, the Group announced the lapse of all SAR’s and therefore as at 31 March 2020, there are no outstanding SARs.
On 9 May 2019, the Group announced the establishment of a new short term incentive plan for the CEO (‘STI Plan’). The STI Plan, detailed in Note F1, could potentially dilute earnings per share in the future, but currently are anti-dilutive.
The restricted shares detailed in Note F1 could also potentially dilute earnings per share in the future, but currently are anti-dilutive (2019 were anti-dilutive).

C4 DIVIDENDS

Accounting policy

Dividend distributions to the Group’s shareholders are recognised as a liability in the Group’s financial statements in the period in which the dividends are approved.

		GROUP			
		2020	2019	2020	2019
		Cents per share	Total \$'000	Cents per share	Total \$'000
Recognised amounts:					
Prior year final dividend		8.20	2,806	8.20	2,704
Interim dividend		8.00	2,775	8.00	2,702
			5,581		5,406
Final dividend declared		–	–	8.20	2,806

Dividend Reinvestment Plan (DRP)

During the financial year, the Board continued with the DRP which enables shareholders to reinvest up to 50% of their dividend in newly issued ordinary shares in AWF Madison Group Limited.
In conjunction with the final dividend declared for the financial year ended 31 March 2019 a total of 465,365 ordinary shares at \$1.82 per share for a total of \$847,000 were issued (2019: a total of 402,415 ordinary shares at \$1.92 per share for a total of \$773,000 were issued).
In conjunction with the interim dividend declared for the financial year ended 31 March 2020 a total of 436,778 ordinary shares at \$1.96 per share for a total of \$856,000 were issued (2019: a total of 465,791 ordinary shares at \$1.71 per share for a total of \$796,000 were issued).

Subsequent event

On 8 June 2020 the directors resolved not to declare a final dividend due to the economic uncertainty caused by the COVID-19 pandemic (as described under ‘Global pandemic of coronavirus disease 2019’ in the notes to these financial statements).

C5 CASH AND CASH EQUIVALENTS

Accounting policy

Cash and cash equivalents

Cash and cash equivalents comprise of cash held by the Group and short-term bank deposits with an original maturity of less than three months. The carrying amount of these assets approximates their fair value.

For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

Statement of cash flows

The following terms are used in the Group’s statement of cash flows:

- Operating activities are the principal revenue producing activities of the Group and other activities that are not investing or financing activities;

- Investing activities are the acquisition and disposal of long term assets and other investments not included in cash equivalents; and
- Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Interest paid and interest received may be classified as operating cash flows because they enter into the determination of profit or loss.

Cash payments for the interest portion of a financial liability or lease liability, have been classified as part of operating activities and cash payments for the principal portion for financial liability or lease liability, have been classified as part of financing activities.

Interest received on cash at bank have been classified as part of operating activities.

	GROUP	
	2020	2019
CASH AND CASH EQUIVALENTS	\$'000	\$'000
Cash at bank	6,178	6,357
Total cash and cash equivalents	6,178	6,357

Cash at bank and bank overdraft are financial instruments that are subject to offset. The Group has a legally enforceable right to offset and an intention to settle on a net basis. Cash at bank and bank overdraft have not been offset in the presentation of the Group’s statement of financial position, however have been offset in the presentation of total cash and cash equivalents in the Group’s statement of cash flows and above.

	GROUP	
	2020	2019
RECONCILIATION OF NET PROFIT AFTER TAX TO CASH FLOWS FROM OPERATING ACTIVITIES	\$'000	\$'000
Net profit after income tax	2,677	2,013
Adjustments for operating activities non-cash items:		
Depreciation and amortisation	6,194	3,445
(Gain)/Loss on disposal of property, plant and equipment and intangible assets	120	64
Movement in doubtful debts provision plus bad debt write off in current year	255	664
Movement in deferred tax	(633)	(195)
Equity-settled share-based payments	114	161
Interest on contingent consideration to the vendor of JacksonStone & Partners	101	–
Total non-cash items	6,151	4,139
Movements in working capital excluding movements relating to purchase of subsidiaries:		
(Increase)/ decrease in trade and other receivables, and contract assets	(17,997)	7,871
Increase/(decrease) in trade and other payables, and contract liabilities	18,626	(4,299)
Increase/(decrease) in provisions	(52)	41
Increase/(decrease) in taxation payable	484	(288)
Total movement in working capital	1,061	3,325
Cash flow from operating activities	9,889	9,477

C6 TRADE AND OTHER RECEIVABLES

Accounting policy

Trade and other receivables are measured on initial recognition at fair value and subsequently at amortised cost using the effective interest method.

Appropriate allowances for expected irrecoverable amounts are recognised in profit and loss which are measured using the simplified approach permitted by NZ IFRS 9 Financial Instruments, which requires lifetime expected losses for trade and other receivables to be recognised from initial recognition of the receivable.

There are no trade and other receivables with a significant financing component.

The Group determines the expected credit losses by calculating:

- a probability weighted amount that is determined by evaluating a range of possible outcomes;
- time value of money;
- reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

When reassessing expected credit losses the Group also considers any change in the credit risk and quality of the receivable from the date credit was initially granted up to the end of the reporting period, referring to past default experience of the counterparty and an analysis of the counterparty’s current financial position.

The Group determines the expected credit losses for all trade receivables and other receivables (including those that are past due and neither past due) by using a provision matrix, estimated based on historical credit loss experience based on shared credit risk characteristics and the days past due status of the debtors. The expected loss rates are based on the payment profiles of sales over a period of 60 months. The historical loss rates are adjusted to reflect current conditions and estimates of future economic conditions affecting the ability of the debtors to repay the receivables.

An allowance of \$361,000 (2019: \$229,000) has been made for expected credit losses arising from trade and other receivables.

Before accepting a new customer, the Group conducts reference checks using external sources. Customer checks and approval of credit limits are performed independently of the sales function, and are reviewed on an ongoing basis.

The credit period on sale of services is between 7 and 30 days, unless otherwise agreed. No interest is charged on trade receivables for the first 30 days from the date of invoice. Thereafter, interest can be charged at 1.5 per cent per month on the outstanding balance.

Included in trade receivables are debtors with a carrying value of \$5.6 million (2019: \$4.95 million) which are overdue at the reporting date. Included in other receivables are debtors with a carrying value of \$Nil (2019: \$Nil) which are overdue at the reporting date.

The Group does not hold any collateral over these balances.

The Group writes off a receivable when there is information indicating that the debt is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtors has been placed under receivership or liquidation, or has entered into bankruptcy proceedings. NZ IFRS 9 includes a rebuttal presumption that a loss event has occurred if debtors are aged greater than 90 days. Impairment losses on trade and other receivables are presented as ‘direct expenses’ in the Statement of Comprehensive Income. Any revisions to this amount are credited to the same line item.

	GROUP	
	2020	2019
TRADE AND OTHER RECEIVABLES	\$'000	\$'000
Trade receivables	29,984	32,164
Provision for impairment of trade receivables	(361)	(229)
Total trade receivables	29,623	31,935
Other receivables	1,162	694
Grant income receivable	22,286	–
Total other receivables	23,448	694
Total trade and other receivables	53,071	32,629

		GROUP	
		2020	2019
PROVISION FOR IMPAIRMENT	Note	\$'000	\$'000
PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES			
Balance at 1 April		229	143
Effect of changes in accounting policies resulting from the adoption of NZ IFRS 9		–	371
Balance at 1 April (Restated)		229	514
Impairment losses recognised	A4	301	1,109
Write-offs to bad debts during the year	A4	(123)	(1,034)
Impairment losses reversed	A4	(46)	(360)
Balance at 31 March		361	229
PROVISION FOR IMPAIRMENT OF OTHER RECEIVABLES			
Balance at 1 April		–	160
Effect of changes in accounting policies resulting from the adoption of NZ IFRS 9		–	–
Balance at 1 April (Restated)		–	160
Impairment losses recognised		–	–
Write-offs to bad debts during the year	A4	–	(75)
Impairment losses reversed	A4	–	(85)
Balance at 31 March		–	–
Total provision for impairment of trade and other receivables at 31 March		361	229

EXPECTED LOSS RATES FOR TRADE RECEIVABLES	GROUP					
	Current	1 – 30 days	30 – 60 days	60 – 90 days	90+ days	Total
31 March 2020						
Expected loss rate (%)	–%	–%	6.4%	15.4%	64.9%	1.2%
Gross trade receivables (\$'000)	24,359	4,296	592	318	419	29,984
Provision for impairment of trade receivables (\$'000)	–	(2)	(38)	(49)	(272)	(361)
Net trade receivables	24,359	4,294	554	269	147	29,623
31 March 2019						
Expected loss rate (%)	–%	1.4%	2.2%	3.9%	42.7%	0.7%
Gross trade receivables (\$'000)	27,210	3,334	889	387	344	32,164
Provision for impairment of trade receivables (\$'000)	–	(47)	(20)	(15)	(147)	(229)
Net trade receivables	27,210	3,287	869	372	197	31,935

EXPECTED LOSS RATES FOR OTHER RECEIVABLES	GROUP					
	Current		30 – 60 days	60 – 90 days	90+ days	Total
31 March 2020						
Expected loss rate (%)	–%	–%	–%	–%	–%	–%
Gross other receivables (\$'000)	1,162	–	–	–	–	1,162
Provision for impairment of other receivables (\$'000)	–	–	–	–	–	–
Net other receivables	1,162	–	–	–	–	1,162
31 March 2019						
Expected loss rate (%)	–%	–%	–%	–%	–%	–%
Gross other receivables (\$'000)	694	–	–	–	–	694
Provision for impairment of other receivables (\$'000)	–	–	–	–	–	–
Net other receivables	694	–	–	–	–	694

Other information about customers

No customers individually account for more than 10% of the 2020 Group revenue (2019: One customer accounted for 11.0%, no other customers individually accounted for more than 10% of the 2019 Group revenue).

The concentration of credit risk is limited due to the size of the customer base.

KEY JUDGEMENTS AND ESTIMATES – EXPECTED CREDIT LOSSES FROM RECEIVABLES

Management has reviewed and assessed debtors on a branch-by-branch basis and the provision for impairment represents the best estimate of the expected credit losses based on historical credit loss experience adjusted to reflect current conditions and estimates of future economic conditions.

In making this assessment, Management takes into account qualitative and quantitative information about current and prospective macroeconomic factors affecting the ability of the debtors to repay the receivables.

The impairment provision is based on assumptions about the risk of default and expected loss rates. The Group uses judgement in making these estimates and developing inputs to the calculation. The inputs are based on the Group's past history, external market conditions as well as prospective information.

C7 BORROWINGS

	GROUP	
	2020	2019
BORROWINGS	\$'000	\$'000
Bank loans	36,000	33,000
Total borrowings	36,000	33,000
Classified as:		
Current	–	–
Non-current	36,000	33,000
Total bank loans	36,000	33,000

Summary of borrowing arrangements

The Group has a term loan facility of \$36.0 million with ASB Bank Limited of which \$36.0 million was drawn as at 31 March 2020 (2019: \$33 million). The loan facilities are secured by first ranking General Security Deed with cross guarantees and indemnities executed by all Group entities (refer note E1). The banking facilities require the Group to operate within defined financial undertakings. The Group has complied with all covenant requirements during the year. Interest is calculated on a floating rate and the annual weighted average rate is 3.13% (2019: 3.90%). The rate is reset every three months. The loan is an interest only loan and is repayable on 1 October 2021 (2019: 2 September 2019). As at 31 March 2020, the Group has an available overdraft facility of \$12.0 million with ASB Bank Limited, at an interest rate of 4.33% (2019: 5.43%). The balance of the overdraft was \$Nil as at 31 March 2020 (2019: \$Nil) and cash at bank was \$6.178 million at 31 March 2020 (2019: \$6.357 million).

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's statement of cash flows as cash flows from financing activities:

		GROUP			
		Opening balance 1 April	Financing cash flows	Non-cash changes	Closing balance 31 March
Note		\$'000	\$'000	\$'000	\$'000
For the year ended 31 March 2020					
Borrowings					
Bank loans – ASB Bank Limited ⁽ⁱ⁾	C7	33,000	3,000	–	36,000
Other financial liabilities from financing activities					
Lease liabilities ⁽ⁱⁱ⁾		–	(2,439)	13,905	11,466
Total		33,000	561	13,905	47,466
For the year ended 31 March 2019					
Borrowings					
Bank loans ASB Bank Limited ⁽ⁱ⁾	C7	36,000	(3,000)	–	33,000
Total		36,000	(3,000)	–	33,000

(i) The cash flows make up the net amount of proceeds/(payment) from borrowings, repayments of borrowings and repayment of other financial liabilities in the statement of cash flows.

(ii) Non-cash changes comprise the restated opening balance for lease liabilities of \$11.058m, plus new leases entered into during the year of \$1.942m, plus lease liabilities arising on the acquisition of JacksonStone & Partners of \$0.905m.

C8 TRADE AND OTHER PAYABLES**Accounting policy**

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost, using the effective interest rate method.

Income, expenses, assets and liabilities are recognised net of goods and services tax ("GST"), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST where invoiced.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

		GROUP	
		2020	2019
		\$'000	\$'000
TRADE AND OTHER PAYABLES	Note		
Trade payables		8,260	7,029
Goods and services tax (GST) payable		3,404	3,992
PAYE		3,025	3,278
Other payables and accruals		9,702	9,887
Deferred grant income	F6	21,778	–
Total trade and other payables		46,169	24,186

D. Financial instruments used to manage risk

IN THIS SECTION

This section explains the financial risks the Group faces, how these risks affect the Group's financial position and performance and how the Group manages these risks.

D1 FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of financial risks comprising:

- credit risk;
- liquidity risk;
- market risk interest rate risk; and
- capital risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

The Group's principal financial assets are cash and cash equivalents, and trade and other receivables.

The credit risk on cash and cash equivalents is limited because the counterparty is a bank with a high credit-rating assigned by international credit-rating agencies. The maximum credit risk on other balances is limited to their carrying values without taking into account any collateral held.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the Statement of Financial Position are net of allowances for doubtful receivables.

The Group has no significant concentration of credit risk as its exposure is spread over a large number of customers other than outlined in note C6.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and financial liabilities.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Group's exposure to interest rate risk arises mainly from its interest earning cash deposits and its interest bank borrowings. The Group is exposed to interest rate risk to the extent that it invests for a fixed term at fixed rates or borrows for a fixed term at fixed rates. The Group's policy is to obtain the most favourable term and interest rate available.

The Group's exposure to interest rate risk is to the extent that it invests for a fixed term at fixed rates. The Group's interest rate risk policy is to obtain the most favourable term and interest rate available.

Capital risk management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note C7, cash and cash equivalents (note C5) and equity attributable to equity holders of the Group, comprising retained earnings and issued share capital as disclosed in notes C1 and C2 respectively.

The Directors and Management review the capital structure on a periodic basis. As part of this review the Directors and Management consider the cost of capital and the risks associated with each class of capital. The Directors and Management will balance the overall capital structure through payment of dividends, new share issues, and share buy backs as well as the issue of new debt or the redemption of existing debt.

Fair value of financial instruments

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

Liquidity and interest rate risk management

The following tables detail the Group's remaining contractual maturity for its financial assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of financial assets and liabilities based on the earliest date on which the Group can be required to receive or pay. The tables include both interest and principal cash flows. To the extent that interest cash flows are at floating rates, the undiscounted cash flows are derived from interest rates at 31 March.

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5+ years	TOTAL
	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2020							
Financial assets							
Non-interest bearing	0.00%	53,529	–	–	–	–	53,529
Floating interest	0.00%	6,178	–	–	–	–	6,178
Financial liabilities							
Non-interest bearing	0.00%	(23,565)	(20,018)	(4,253)	(1,841)	–	(49,677)
Floating interest	3.13%	(94)	(188)	(845)	(36,470)	–	(37,597)
		36,048	(20,206)	(5,098)	(38,311)	–	(27,567)
2019							
Financial assets							
Non-interest bearing	%	32,924	–	–	–	–	32,924
Floating interest	0.75%	6,357	–	–	–	–	6,357
Financial liabilities							
Non-interest bearing	%	(15,411)	(5,785)	(3,521)	–	–	(24,717)
Floating interest	3.90%	(107)	(215)	(965)	(33,536)	–	(34,823)
		23,763	(6,000)	(4,486)	(33,536)	–	(20,259)

Sensitivity analysis

The sensitivity analysis has been based on the exposure to interest rates for borrowings and cash and cash equivalents at 31 March. The weighted average interest of cash and cash equivalents at balance date was 0.75% (2019: 0.75%).

A 50 point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

	INTEREST RATE +/- 50 bps	
	2020	2019
	\$'000	\$'000
Impact on profit and equity	180	165

E. Group structure

IN THIS SECTION

This section provides information to help readers understand the Group’s structure and how it affects the financial position and performance of the Group.

E1 SUBSIDIARIES

Accounting policies

Basis of consolidation

The Group financial statements comprise the financial statements of the company and entities (including structured entities) controlled by the company and its subsidiaries. Control is achieved when the Group:

- has powers over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its powers to affect its returns

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The results of subsidiaries acquired or disposed of during the year are included in profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

The consolidated financial statements include the financial statements of AWF Madison Group Limited and the subsidiaries listed below. Subsidiaries are entities controlled, directly or indirectly, by AWF Madison Group Limited.

NAME OF SUBSIDIARY	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
2020				
AWF Limited	New Zealand	100%	100%	Labour hire
Madison Recruitment Limited	New Zealand	100%	100%	Recruitment
Madison Force Limited	New Zealand	100%	100%	Recruitment
Absolute IT Limited	New Zealand	100%	100%	Recruitment and Payroll Services
Probity NZ Limited	New Zealand	100%	100%	Priority checks
NZ Employed Limited	New Zealand	100%	100%	Dormant
JacksonStone & Partners Limited	New Zealand	100%	100%	Recruitment
2019				
AWF Limited	New Zealand	100%	100%	Labour hire
Madison Recruitment Limited	New Zealand	100%	100%	Recruitment
Madison Force Limited	New Zealand	100%	100%	Recruitment
Absolute IT Limited	New Zealand	100%	100%	Recruitment and Payroll Services
Probity NZ Limited	New Zealand	100%	100%	Priority checks
NZ Employed Limited	New Zealand	100%	100%	Dormant

F. Other

IN THIS SECTION

This section includes the remaining information relating to the Group’s financial statements that is required to comply with financial reporting standards.

F1 EMPLOYEE BENEFITS AND SHARE BASED PAYMENTS

Accounting policies

- Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.
- Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.
- Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

- The Group pays contributions to superannuation plans, such as Kiwisaver. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.
- The Group operates an equity-settled share based incentive scheme for senior staff and directors that is settled in ordinary shares. The fair value of these share-based payments is calculated on the grant date using an appropriate valuation model. The fair value is included in employee benefits expense on a straight line basis over the vesting period, based on the Group’s estimate of the number of equity instruments that will eventually vest.

The same amount is credited to shareholders equity. At each balance date, the Group reassesses its estimates of the number of equity instruments expected to vest. The impact of the revision of original estimates, if any, is recognised in employee benefits expense immediately, with a corresponding adjustment to shareholders equity.

	GROUP	
	2020	2019
	\$'000	\$'000
EMPLOYEE BENEFITS		
Employee benefits	236,942	242,334
Employer contribution to Kiwisaver	2,152	3,188
Equity-settled share-based payments	114	161
Total employee benefits expense	239,208	245,683

	GROUP	
	2020	2019
	\$'000	\$'000
COMPENSATION OF KEY MANAGEMENT PERSONNEL		
The remuneration of key management during the year was as follows:		
Salaries and short-term benefits	3,009	3,102
Employer contribution to Kiwisaver	76	71
Equity-settled share-based payments	92	75
Total key management personnel compensation	3,177	3,248

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Employee share schemes

The Group has an ownership-based compensation scheme for senior employees of the Group. In accordance with the provisions of the restricted share scheme, as approved by shareholders, senior employees and directors may, at the discretion of the Board, be granted the opportunity of purchasing restricted shares at a price determined by the Board under the rules of the scheme.

Invited participants purchase the shares by way of an interest free loan from the Group. Participants may convert their shares from the vesting date and only when they have repaid the loan from the Group. The shares issued to participants are held as security for the loan until such time the loan has been repaid. Restricted shares are entitled to all the rights as ordinary shares, including dividends and full voting rights, but are not tradable until they are converted to ordinary shares based on the terms of the scheme.

A total of 52,000 restricted shares were issued to senior staff during the year under the terms of the Group share scheme (2019: 463,000 restricted shares were issued to senior staff during the year under the terms of the Group share scheme). At the same time an interest free loan was provided to staff to purchase these shares pursuant to the terms of the scheme.

No restricted shares were exercised during the year (2019: No restricted shares were exercised during the year).

15,000 restricted shares expired during the year (2019: 60,000 shares). The corresponding interest free loan provided to staff was also cancelled.

At 31 March 2020, there were 796,000 (2019: 759,000) shares held by staff members and corresponding loans to the value of \$1,704,920 (2019: \$1,647,270).

The following share-based payment arrangements were in existence at 31 March 2020:

	Number	Grant date	Vesting date	Expiry date	Issue price	Fair value at grant date of the option
RESTRICTED SHARE SERIES					\$	\$
D Shares	141,000	30/07/2014	1/07/2019	1/07/2020	2.57	0.87
E Shares 2017 Grant	28,000	23/11/2016	1/07/2019	1/07/2020	2.57	0.59
F Shares 2017 Grant	42,000	23/11/2016	1/01/2022	1/01/2023	2.57	0.79
E Shares 2018 Grant	28,000	2/08/2017	1/07/2019	1/07/2020	2.64	0.53
F Shares 2018 Grant	42,000	2/08/2017	1/01/2022	1/01/2023	2.64	0.82
E Shares 2019 Grant	26,000	6/06/2018	1/07/2019	1/07/2020	1.93	0.33
F Shares 2019 Grant	39,000	6/06/2018	1/01/2022	1/01/2023	1.93	0.51
G Shares 2019 Grant	151,200	1/11/2018	1/07/2021	1/07/2022	1.90	0.38
H Shares 2019 Grant	246,800	1/11/2018	1/01/2024	1/01/2025	1.90	0.55
G Shares 2020 Grant	20,800	18/06/2019	1/07/2021	1/07/2022	1.85	0.33
H Shares 2020 Grant	31,200	18/06/2019	1/01/2024	1/01/2025	1.85	0.46
Total	796,000					

The rules of the restricted share scheme (which for accounting purposes are treated as share options) allow participants to hand back to the Group restricted shares issued to them at the grant date (or during the exercise period) should the market price of the shares be below the exercise price. If the restricted shares are handed back to the Group, the loan from the Group is cancelled. Due to the nature of the restricted share scheme, the scheme has been treated as a share option scheme under NZ IFRS 2 Share-based Payment and a value placed on each restricted share in accordance with the standard.

Restricted shares are valued using Black-Scholes pricing model. Where relevant, the expected life used in the model has been adjusted based on management’s best estimate for the effects of non-transferability, exercise, and behavioural considerations. Expected volatility is based on the historical share price volatility over the expected term of the option. The valuation assumes that senior employees and directors will exercise the options at the end of the allowed one-year loan repayment period.

RESTRICTED SHARE SERIES	Grant date	Vesting date	Share price at grant date	Exercise Price	Term to vesting	Expected life	Risk Free Rate	Annualised Volatility	Option Value
			\$	\$	(Days)	(Years)	%	%	\$
D Shares	30/07/2014	1/07/2019	\$2.45	\$2.57	1,797	4.90	4.00%	30.00%	\$0.87
E Shares 2017 Grant	23/11/2016	1/07/2019	\$2.55	\$2.57	950	2.60	2.40%	26.50%	\$0.59
F Shares 2017 Grant	23/11/2016	1/01/2022	\$2.55	\$2.57	1,865	5.10	2.40%	26.50%	\$0.79
E Shares 2018 Grant	2/08/2017	1/07/2019	\$2.70	\$2.64	698	1.90	2.20%	23.10%	\$0.53
F Shares 2018 Grant	2/08/2017	1/01/2022	\$2.70	\$2.64	1,613	4.40	2.50%	26.20%	\$0.82
E Shares 2019 Grant	6/06/2018	1/07/2019	\$1.94	\$1.93	390	1.10	1.90%	26.70%	\$0.33
F Shares 2019 Grant	6/06/2018	1/01/2022	\$1.94	\$1.93	1,305	3.60	2.30%	25.70%	\$0.51
G Shares 2019 Grant	1/11/2018	1/07/2021	\$1.84	\$1.90	973	2.70	2.00%	25.10%	\$0.38
H Shares 2019 Grant	1/11/2018	1/01/2024	\$1.84	\$1.90	1,887	5.20	2.20%	26.70%	\$0.55
G Shares 2020 Grant	18/06/2019	1/07/2021	\$1.83	\$1.85	744	2.00	1.20%	24.90%	\$0.33
H Shares 2020 Grant	18/06/2019	1/01/2024	\$1.83	\$1.85	1,658	4.50	1.30%	24.70%	\$0.46

The weighted average fair value of the restricted shares granted under the restricted share scheme during the year was \$0.58 (2019: \$0.48)

The following reconciles the outstanding restricted shares granted under the restricted share scheme at the beginning and end of the year:

	GROUP			
	2020		2019	
	Option	Weighted average exercise price	Option	Weighted average exercise price
	Number	\$	Number	\$
Balance at 1 April	759,000	\$2.17	356,000	\$2.57
Granted during the year	52,000	\$1.85	463,000	\$1.90
Exercised during the year	–	\$-	–	\$-
Expired during the year	–	\$-	–	\$-
Forfeited during the year	(15,000)	\$2.57	(60,000)	\$2.57
Balance at 31 March	796,000	\$2.14	759,000	\$2.17

The number of restricted share options exercisable at 31 March 2020 is Nil (2019: Nil).

The restricted shares outstanding at 31 March 2020 had a weighted average remaining contractual life of 1,476 days (2019: 1,286 days).

During the year ended 31 March 2020 the share based payments expense recognised by the Group was a charge of \$114,225 (2019: charge of \$71,731).

There were no restricted share options exercised during the year (2019: none).

Stock appreciation rights

On 9 May 2019 the Group announced the lapse of the 2,000,000 SAR's issued to the CEO. As a result the balance of \$329,000 relating to the SARs in the Group's share scheme reserve was transferred to retained earnings. There are no outstanding SARs on issue under the scheme as at reporting date.

CEO incentive plan

On 9 May 2019 the Group announced the establishment of a new short-term incentive plan for the CEO ('STI Plan').

The STI Plan is based on share price growth where the CEO is offered an option to acquire ordinary shares of AWF Madison or ordinary shares and cash, if the volume weighted average price for AWF Madison's ordinary shares for the 30 days prior to a day nominated by the CEO between late June 2020 and 31 December 2020 ('Measured VWAP') is equal to or greater than an agreed target value.

The CEO may exercise the option at least 30 days post the release of AWF Madison Limited's result for the financial year ending 31 March 2020 and before 31 December 2020.

The number of ordinary shares or ordinary shares and cash that the CEO will receive increases as the VWAP target increases in 10 cent increments up to an agreed cap. Upon exercise, ordinary shares or ordinary shares and cash will be issued to the CEO.

The reason for offering the CEO the choice of shares and cash is to provide him with sufficient funds to pay any income tax due when the STI Plan is triggered.

Restricted shares are valued using Binomial pricing model.

INPUTS INTO THE MODEL		STI Plan share options
Grant date		9/05/2019
Vesting date		26/06/2020
Share price at grant date		\$1.69
Days until vesting		414
Expected life (years)		1.65
Risk Free Rate		1.4%
Annualised Volatility		25.0%
Option Value		\$0.42

F2 PROVISIONS

Accounting policy

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation

at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

	GROUP	
	2020 \$'000	2019 \$'000
PROVISION FOR MEDICAL COSTS		
Balance at 1 April	241	200
Payments made during the year	(152)	(272)
Revaluation of provision	100	241
Outstanding costs incurred in the current year	–	72
Balance at 31 March	189	241
Current	189	241
Non-current	–	–
Balance at 31 March	189	241

AWF Limited participates in the ACC accredited employers full self-cover plan. Under the plan AWF Limited, as employer undertakes injury management (via its appointed agent) and accepts financial responsibility for employees who suffer work-related injuries for a nominated period. AWF Limited has capped its exposure to total claims and unexpected high individual claims via stop loss cover.

KEY JUDGEMENTS AND ESTIMATES – REHABILITATION UNDER THE ACC PARTNERSHIP PROGRAMME
Provisions represent management's best estimate of the Group's liability for ongoing medical and rehabilitation costs for open claims in terms of the partnership agreement with Accident Compensation Corporation, based on past experiences and the nature of the open claims.

F3 RELATED PARTIES

Controlling entity

The SA Hull Family Trust No.2, which holds 18,194,598 (2019: 17,488,884) shares is the ultimate controlling entity of the Group, having a 53.01% (2019: 52.33%) holding.

Transactions

During the year, Group entities did not enter into any transactions with a related party that is not a member of the Group (2019: none).

At reporting date, Group entities do not have any amounts owed or owing to a related party that is not a member of the Group (2019: none).

F4 COMMITMENTS

Accounting policy

Operating leases, measurement and recognition

On 1 April 2019 the Group adopted NZ IFRS 16 (refer note G2), NZ IFRS 16 replaced NZ IAS 17 Leases, the Group previous accounting policies for leases for the year ended 31 March 2018, prior to the adoption of NZ IFRS 16 was as follows:

- 1 Leases were classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.
- 2 Rentals payable under operating leases were charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease were also spread on a straight-line basis over the lease term.

Operating lease payments represent rentals payable by the Group for its operational properties, motor vehicles and printers.

Property leases are negotiated for an average term of nine years and rentals are fixed for an average of three years. Property leases contain clauses for rental increases in line with CPI.

Motor vehicles are negotiated for a period of three to five years and are fixed. Printers are negotiated for between three and four years.

Operating leases under NZ IFRS 16

Disclosures relating to the Group's operating leases under NZ IFRS 16 for the year ended 31 March 2020 are contained within note B2.

	GROUP	
	2020	2019
	\$'000	\$'000
OPERATING LEASES RECOGNISED AS AN EXPENSE		
Minimum lease payments under operating leases recognised as an expense in the year	122	3,331
	122	3,331

	GROUP	
	2020	2019
	\$'000	\$'000
NON-CANCELLABLE OPERATING LEASE COMMITMENTS		
Less than 1 year	–	2,728
Later than 1 year and not later than 5 years inclusive	–	7,327
More than 5 years	–	1,838
Total operating lease commitments	–	11,893

	GROUP	
	2020	2019
	\$'000	\$'000
CAPITAL EXPENDITURE COMMITMENTS		
Property, plant and equipment	–	116
Intangible assets computer software	551	–
Total capital expenditure commitments	551	116

F5 CONTINGENT ASSETS AND LIABILITIES

ASB Bank Limited 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.

The Group has no other contingent assets or liabilities at 31 March 2020 (2019: \$Nil).

F6 EVENTS AFTER THE REPORTING DATE

Receipt of COVID-19 Wage Subsidy Scheme

The New Zealand Government developed a COVID-19 'Wage Subsidy Scheme' to help businesses and affected workers in the short-term, as they adjust to the initial impact of COVID-19 pandemic (which is described under 'Global pandemic of coronavirus disease 2019' in the 'About this report' section of the notes to these financial statements).

The Wage Subsidy Scheme is available to all businesses that are adversely affected by COVID-19. The Wage Subsidy Scheme supports employers adversely affected by COVID-19, so that they can continue to pay their employees, and supports workers to ensure they continue to receive an income, and stay connected to their employer, even if they are unable to work.

To be eligible for the wage subsidy, businesses must make a series of declarations regarding, actual or forecast revenue decreases in any four-week period between January and 9 June 2020 attributable to COVID-19, that they will retain employees named in the grant application for the duration of the grant, and pay each named employees at either their normal rates (for any work they do), 80% of income where reasonably possible, or the full subsidy (the full subsidy received for each named employee, except where a person's income is normally less than the subsidy amount).

Prior to reporting date, in March 2020, the Group received a grant of \$534,000 and in April 2020, the Group received grant of \$22,286,000. Both grants were recognised as liabilities on the dates they were claimed and shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Global pandemic of coronavirus disease 2019

The COVID-19 pandemic, continues to inhibit general activity and confidence levels within the community, the economy and the operations of the Group's business. While the scale and duration of these developments remain uncertain as at the date of signing these financial statements, the Group continues to monitor developments and initiate plans to mitigate adverse impacts and maximise opportunities.

Other

No other subsequent events have occurred since reporting date that would materially impact the Group's financial statements as at 31 March 2020.

G. Significant matters in the financial year

IN THIS SECTION

Significant matters which have impacted the Group’s financial performance.

G1 BUSINESS COMBINATIONS

Accounting policy

Business combinations are accounted for using the acquisition method.

The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group (if any) in exchange for control of the acquiree.

Acquisition-related costs are recognised in profit or loss as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

At the acquisition date, the identifiable assets acquired and the liabilities (including contingent liabilities) assumed are recognised at their fair value at the acquisition date, except that deferred tax assets or liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with NZ IAS 12 Income Taxes and NZ IAS 19 Employee Benefits respectively.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable

assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

The Group’s goodwill policy is set out in note B4.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the ‘measurement period’ (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is re-measured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

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, for organisations in the public, private and not-for-profit sectors. The acquisition of JacksonStone & Partners is assisting the Group to access C suite clients and the subsequent opportunities that this brings. This leverage between the Group entities is proving invaluable for the Group’s cohesion and ability to cater to client needs across levels and departments. The goodwill and identifiable intangible assets are not deductible for income tax purposes.

The initial accounting for the JacksonStone & Partners business combination has been completed (i.e. the amounts reported below are not provisional).

Name	Principal activity	Date of acquisition	Proportion acquired %	Cost of acquisition \$’000
JacksonStone & Partners	Specialist executive search and recruitment consultancy	1/6/2019	100%	10,520

Analysis of assets and liabilities acquired

	Fair value on acquisition \$’000
Non-current assets	
Plant and equipment	334
Intangible assets	
• JacksonStone & Partners brand	1,029
• Customer relationships	2,185
• Restraint of trade	1,406
Right of use assets	905
Current assets	
Trade receivables	3,061
Other receivables	59
Cash and cash equivalents	1,547
Non-current liabilities	
Deferred tax	(1,294)
Lease liabilities	(905)
Current liabilities	
Trade and other payables	(3,418)
Taxation payable	(186)
Net identifiable assets and liabilities	4,723
Goodwill on acquisition	5,797
Cost of acquisition	10,520

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, restraints of trade and candidate database 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. This amount has been received in full.

Cost of acquisition

The cost of acquisition was made up as follows:	\$’000
Paid in cash on completion date (7 June 2019)	6,700
Deferred consideration (12 November 2019)	616
Earn out tranche 1 (November 2020)	1,419
Earn out tranche 2 (November 2021)	1,785
	10,520

Deferred consideration

As part of the purchase agreement, deferred consideration of \$616,000 represented an additional cash payment to the previous owners of JacksonStone & Partners relating to a working capital adjustment upon finalisation of the financial position of JacksonStone & Partners Limited as at 1 June 2019 (acquisition date).

Contingent consideration

As at acquisition date

As part of the purchase agreement, a contingent consideration arrangement has been agreed.

Under the contingent consideration arrangement, there will be additional cash payments to the previous owners of JacksonStone & Partners, where 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, agreed by both parties, for the 12-month period to 30 September 2020, payable in November 2020; and
- a second uncapped earn out (‘Earn-out tranche 2’) which is also subject to achievement of a specified value of Net Disposable Revenue, agreed by both parties, for the 12-month period to 30 September 2021, payable in November 2021.

At acquisition date, the potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement is \$1.5m for Earn-out tranche 1 and \$1.958m for Earn-out tranche 2.

- The fair value of Earn-out tranche 1 of \$1.419m, was estimated by applying a discount factor of 3.715% to the capped earn out amount of \$1.5m. Management determined the amount based on a 100% probability of meeting the specified value of Net Disposable Revenue.
- The fair value of Earn-out tranche 2 of \$1.785m, was estimated by applying a discount factor of 3.715% to the uncapped earn out amount of \$1.958m. Management determined this value based on a range of probabilities of meeting a specified value range of Net Disposable Revenue and probability weighting these ranges.

As at 31 March 2020

There have been no material changes in the Group’s estimate of the probable cashflows to the previous owners of JacksonStone & Partners under the contingent consideration arrangement. The potential undiscounted amount of all future payments that the Group could be required to make under the contingent consideration arrangement remains at \$1.5m for Earn-out tranche 1 and \$1.958m for Earn-out tranche 2. The liability has increased by a total of \$101,000 being \$45,000 for Earn-out tranche 1 and \$56,000 for Earn-out tranche 2 due to the unwinding of the discount. The fair value of the contingent consideration arrangement at reporting date is \$1.463m for Earn-out tranche 1 and \$1.841m for Earn-out tranche 2.

Fair value measurement

Contingent consideration is the Group’s only item measured at fair value. Contingent consideration is categorised within Level 3 of the fair value hierarchy. The following is information about how the fair value of contingent consideration is determined (in particular, the valuation technique(s) and inputs used).

• Valuation technique and key inputs:	Discounted cash flow method was used to capture the present value of the Group arising from the contingent consideration.
• Significant unobservable inputs:	Discount rate
• Relationship and sensitivity of unobservable inputs to fair value:	The higher the discount rate, the lower the fair value. If the discount rate was 1% higher/ lower while all other variables were held constant, the carrying amount would decrease/ increase by \$28,000

Acquisition related costs amounting to \$263,000 have been excluded from the consideration transferred and have been 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	10,520
Less non cash consideration	
Deferred consideration	(616)
Contingent consideration	(3,204)
Consideration paid in cash	6,700
Less: cash & cash equivalents acquired	(1,547)
Net cash paid	5,153

Goodwill on acquisition

Goodwill arose in the acquisition of JacksonStone as the consideration paid included amounts in relation to the benefit of future market development and the assembled client base, candidate data base and workforce. The portion of these benefits that relates to contracts with major clients, the JacksonStone brand, and the restraint of trade agreements imposed on the vendors have been valued separately as intangible asset. The remaining benefits are not recognised separately from goodwill as they do not meet the recognition criteria for identifiable intangible assets.

KEY JUDGEMENTS AND ESTIMATES

IDENTIFICATION AND VALUATION OF IDENTIFIABLE INTANGIBLE ASSETS ARISING FROM A BUSINESS COMBINATION

The measurement of identifiable intangible assets acquired in a business combination is highly subjective and there are a range of possible values that could be attributed for initial recognition. The Group uses the skills and experience of valuation specialists in establishing an initial range within which fair value is to be recognised. Judgement is then applied in selecting the value to be recognised on the Statement of Financial Position. Judgement is also applied in determining the useful life of the intangible assets which impacts directly on the amortisation charges to be incurred following an acquisition.

In determining the values for identified intangible assets, being Brand names, Customer relationships and Restraint of trade, valuations were performed by an external valuation specialist. The fair values were determined as follows:

- Brand name was valued using the relief from royalty method under the income approach. This method essentially looks at the theoretical royalty costs that are saved by owning the brand name instead of leasing it. The key inputs are royalty rate, discount rate and forecast revenue.
- Customer relationships were valued using the multi-period excess earnings method. This method uses an indirect approach to determining the value of an intangible asset by deducting an estimate of the after tax contribution to earnings of all other assets and deriving a residual or excess earnings that is then attributed to asset being valued and capitalised at an appropriate required rate of return for that asset.

The forecast EBIT is then discounted. It is often used to value intangible assets that are a core part of the business where it is difficult to observe a direct contribution or economic benefit from ownership of the asset. Key inputs are forecast EBIT, discount rate and implied return on other identified assets.

- Restraint of trade was valued using the comparative income differential method. This method involves comparing and assessing the difference in future earnings with or without the benefit of future access to or use of the intangible asset being valued. Key inputs are forecast EBIT and discount rate.

VALUATION OF CONTINGENT CONSIDERATION RESULTING IN A BUSINESS COMBINATION

The measurement of contingent consideration resulting in a business combination is highly subjective and there are a range of possible values that could be attributed to its fair value on initial recognition and subsequent measurement. The determination of its fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor. In establishing the probability of meeting each performance target, the Group applies judgement based on the historical and forecasted performance of the acquired CGU, to which the contingent consideration is attributable. Judgement is also applied in determining discount factor, which impacts directly on the interest charges to be incurred following an acquisition.

Impact of acquisition on the results of the Group

For the period 1 June 2019 to 31 March 2020, included in Group profit after tax is \$1.943m and in Group revenue \$27.510m attributable to JacksonStone & Partners.

Had this business combination been effected at 1 April 2019, the revenue of the Group from continuing operations would have been approximately \$33.325m, and the net profit after tax for the year ended 31 March 2020 from continuing operations would have been approximately \$2.405m. Management consider these estimated numbers to represent an approximate measure of the performance of the combined group on an annualised basis and provide a reference point for comparison in future periods.

In determining the estimated revenue and profit of the Group had JacksonStone & Partners been acquired at the beginning of the current year, Management have:

- Calculated borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and
- Calculated amortisation of identifiable intangible assets acquired based on the value of these assets at date of acquisition.

G2 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 contract 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 assess whether a contract conveys the right to contract the use of an identified asset, the Group assess 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
 - 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 the predetermines how and for what purpose it will be used.

On adoption of NZ IFRS 16, the Group elected to apply the practical expedient to grandfather all leases that were previously identified as leases under NZ IAS 17, as leases under NZ IFRS 16. 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 for leases with a remaining term of less than 12 months from the date of initial application, short term leases and leases of low value assets. 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. Refer to note B2 for the Group’s significant accounting policies for the recognition and measurement of right-of-use assets and a lease liabilities.

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.
- 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 NZ IAS 17:

- a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of NZ 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 lease liabilities and right-of-use assets for leases for which the lease term ends within 12 months of the date of initial application.
- 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.
- Used the practical expedient allowed with respect to lease and non lease components.
- Excluded short terms leases (less than 12 months lease term) and low value leases (less than \$10,000).

Incremental borrowing rate

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rate at 1 April 2019.

The following was the weighted average rate for each lease category:

- premises (properties or offices) was 4.95%
- motor vehicles was 4.2%
- computer equipment 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
• Recognition exemption for short-term leases	(272)
• Redetermination of lease term	574
• Effect of discounting using the incremental borrowing rate	(1,137)
Lease liabilities recognised at 1 April 2019	11,058

Statement of cash flows

The application of NZ IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under NZ IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by NZ IAS 7 Statement of Cash Flows (the Group has opted to include interest paid as part of operating activities, consistent with its presentation of interest paid on financial liabilities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under NZ IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities.

Consequently, the net cash generated by operating activities has increased by \$2.439m, being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of NZ IFRS 16 did not have an impact on net cash flows.

The impact of the application of NZ IFRS 16 on basic and diluted earnings per share was 1.4 cents per share.

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	1 April 2019 IFRS 16 adjustments	1 April 2019 IFRS 16 reclassifications	1 April 2019 Restated
Note		\$'000	\$'000	\$'000	\$'000
Assets					
Non-current assets					
Property, plant and equipment	B1	3,038	–	–	3,038
Right of use assets	B2	–	11,058	–	11,058
Intangible assets – goodwill	B4	39,271	–	–	39,271
Intangible assets – other	B3	13,929	–	–	13,929
Total non-current assets		56,238	11,058	–	67,296
Current assets					
Cash and cash equivalents	C5	6,357	–	–	6,357
Trade and other receivables	C6	32,629	–	–	32,629
Contract assets	A2	295	–	–	295
Total current assets		39,281	–	–	39,281
Total assets		95,519	11,058	–	106,577
Equity and liabilities					
Non-current liabilities					
Deferred tax liabilities	A5	2,462	–	–	2,462
Borrowings	C7	33,000	–	–	33,000
Lease liabilities	B2	–	8,931	–	8,931
Total non-current liabilities		35,462	8,931	–	44,393
Current liabilities					
Trade and other payables	C8	24,186	–	–	24,186
Contract liabilities	A2	530	–	–	530
Taxation payable	A5	280	–	–	280
Provisions	F2	241	–	–	241
Lease liabilities	B2	–	2,127	–	2,127
Total current liabilities		25,237	2,127	–	27,364
Total liabilities		60,699	11,058	–	71,757
Net assets		34,820	–	–	34,820
Capital and reserves					
Share capital	C2	29,165	–	–	29,165
Group share scheme reserve	F1	544	–	–	544
Retained earnings	C1	5,111	–	–	5,111
Total equity		34,820	–	–	34,820

**Presentation of the Statement of Comprehensive Income for the year ended 31 March 2020
as if NZ IFRS 16 had not been adopted**

		GROUP			
		31 March 2020 As reported with adopting NZ IFRS 16	Year ended 31 March 2020 NZ IFRS 16 adjustments	Year ended 31 March 2020 NZ IFRS 16 reclassifications	31 March 2020 Amounts without adopting NZ IFRS 16
Note		\$'000	\$'000	\$'000	\$'000
Revenue from contracts with customers		263,527	–	–	263,527
Investment revenue		9	–	–	9
Direct costs		(2,462)	–	–	(2,462)
Employee benefits expense	F1	(239,208)	–	–	(239,208)
Depreciation and amortisation expense	A4, B1, B2, B3	(6,194)	2,798	–	(3,396)
Other operating expenses		(9,691)	(3,021)	–	(12,712)
Finance costs	A4	(2,084)	582	–	(1,502)
Profit before tax		3,897	359	–	4,256
Income tax expense	A5	(1,220)	(101)	–	(1,321)
Profit for the year		2,677	258	–	2,935
Other comprehensive income for the year		–	–	–	–
Total comprehensive income for the year		2,677	258	–	2,935

**Presentation of the Statement of Financial Position as at 31 March 2020
as if NZ IFRS 16 had not been adopted**

		GROUP			
		31 March 2020 As reported with adopting NZ IFRS 16	1 April 2019 to 31 March 2020 NZ IFRS 16 adjustments	1 April 2019 to 31 March 2020 NZ IFRS 16 reclassifications	31 March 2020 Amounts without adopting NZ IFRS 16
	Note	\$'000	\$'000	\$'000	\$'000
Assets					
Non-current assets					
Property, plant and equipment	B1	3,193	-	-	3,193
Right of use assets	B2	11,107	(11,107)	-	-
Intangible assets – goodwill	B4	45,068	-	-	45,068
Intangible assets – other	B3	16,194	-	-	16,194
Total non-current assets		75,562	(11,107)	-	64,455
Current assets					
Cash and cash equivalents	C5	6,178	-	-	6,178
Trade and other receivables	C6	53,071	-	-	53,071
Contract assets	A2	458	-	-	458
Total current assets		59,707	-	-	59,707
Total assets		135,269	(11,107)	-	124,162
Equity and liabilities					
Non-current liabilities					
Deferred tax liabilities	A5	3,122	101	-	3,223
Borrowings	C7	36,000	-	-	36,000
Lease liabilities	B2	9,098	(9,098)	-	-
Contingent consideration		1,841	-	-	1,841
Total non-current liabilities		50,061	(8,997)	-	41,064
Current liabilities					
Trade and other payables	C8	46,169	133	-	46,302
Contract liabilities	A2	202	-	-	202
Taxation payable	A5	950	-	-	950
Provisions	F2	189	-	-	189
Lease liabilities	B2	2,501	(2,501)	-	-
Contingent consideration		1,463	-	-	1,463
Total current liabilities		51,474	(2,368)	-	49,106
Total liabilities		101,535	(11,365)	-	90,170
Net assets		33,734	258	-	33,992
Capital and reserves					
Share capital	C2	30,868	-	-	30,868
Group share scheme reserve		330	-	-	330
Retained earnings	C1	2,536	258	-	2,794
Total equity		33,734	258	-	33,992

Companies Act 1993 disclosures

The Directors of AWF Madison Group Limited submit herewith the annual financial report of the company for the financial year ended 31 March 2020. In order to comply with the Companies Act 1993, the Directors report as follows:

The names and particulars of the Directors of the company during or since the end of the financial year are:

Directors Name	Particulars	Audit, Finance and Risk Committee	Remuneration Committee	Nomination Committee	Health & Safety Committee	Organisation Committee
Ross Keenan	Chairman and Independent Director. Joined the board in 2005.	✓	✓	✓	✓	✓
Simon Hull	Non-independent Director. Founding shareholder.	✓	✓	✓	Chairperson	✓
Julia Hoare	Independent Director. Joined the board in 2013.	Chairperson	✓	✓	✓	✓
Wynnis Armour	Non-independent Director. Joined the board in 2015. Founding shareholder of Madison Recruitment Limited.	✓	Chairperson	✓	✓	Chairperson
Nicholas Simcock	Independent Director. Joined the board in 2018.	✓	✓	✓	✓	✓

Entries recorded in the Interests Register

Entries in the Interest Register made during the year and disclosed pursuant to sections 211(1)(e) and 140(1) of the Companies Act 1993 are as follows:

(a) Directors Interests in transactions

- The Directors had no interests in transactions in the current year.

(b) Share dealings by Directors

The following table sets out each Directors relevant interest in shares of the company as at the date of this report.

Director	Ordinary shares
Ross B Keenan	205,984
Simon Hull	18,194,598
Wynnis Armour	354,703
Nicholas Simcock	10,000

Disclosure of interests by Directors

Where applicable, the disclosures also include directorships of subsidiaries of the relevant companies.

ROSS B. KEENAN

AWF Madison Group Limited	Chairman
Touchdown Limited	Director
Indemnity from the Company under the D&O Insurance policy	

SIMON HULL

AWF Madison Group Limited	Director
AWF Limited	Director
AWF Christchurch Limited	Director
Hull Properties Limited	Director
Nano Imports Limited	Director
Multihull Ventures Limited	Director
Marlborough Developments Limited (2007)	
Short Properties Limited	Director
Indemnity from the Company under the D&O Insurance policy	

JULIA HOARE

Auckland International Airport Limited	Director
AWF Madison Group Limited	Director
Meridian Energy Limited	Director
The a2 Milk Company Limited	Deputy Chairperson
Watercare Services Limited	Deputy Chairperson
Port of Tauranga Limited	Director
External Reporting Advisory Panel	Member
The Institute of Directors in New Zealand – National Council	
Indemnity from the Company under the D&O Insurance policy	

WYNNIS ARMOUR

AWF Madison Group Limited	Director
Armour Consulting Limited	Director
ArcAngels Limited	Director
Maby Limited	Director
Common Grounds Café Limited	Director
University of Canterbury Foundation	Trustee
Indemnity from the Company under the D&O Insurance policy	

NICHOLAS SIMCOCK

AWF Madison Group Limited	Director
Simcorp Limited	Director
Wrap It Up Limited	Director
Indemnity from the Company under the D&O Insurance policy	

Changes in state of affairs

During the year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Director Remuneration

The following table discloses the remuneration of the Directors of the company:

Director	Annual	Fees paid in year	Salary and Bonus	Share-based payments	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Ross B Keenan	115	115	–	–	115
Simon Hull	60	60	–	–	60
Julia Hoare	60	60	–	–	60
Wynnis Armour	60	60	–	–	60
Nicholas Simcock	60	60	–	–	60
	355	355	–	–	355

CEO Remuneration

The following discloses the remuneration arrangements in place for CEO of the Company:

Fixed Remuneration

Over the course of the 2020 Financial year, the CEO, Simon Bennett, earned fixed remuneration of \$572,000 (2019 financial year \$536,000).

Annual Performance Incentive

The annual value of the CEO's Short Term Incentive Scheme (STI) is set at 25% of fixed remuneration if all performance targets are achieved. The measures used in determining the quantum of the STI are set annually. Targets relate to both Company financial performance (60%) and individual leadership targets (40%).

The STI for the 2020 financial year has yet to be determined. For the 2019 financial year, the CEO earned an STI payment of \$46,331 paid in the 2020 financial year.

Short-Term Incentive

On 9 May 2019 the Group announced the establishment of a new short-term incentive plan for the CEO ('STI Plan').

The STI Plan is based on share price growth where the CEO is offered an option to acquire ordinary shares of AWF Madison or ordinary shares and cash, if the volume weighted average price for AWF Madison's ordinary shares for the 30 days prior to a day nominated by the CEO between late June 2020 and 31 December 2020 ('Measured VWAP') is equal to or greater than an agreed target value.

The CEO may exercise the option at least 30 days post the release of AWF Madison Limited's result for the financial year ending 31 March 2020 and before 31 December 2020.

The number of ordinary shares or ordinary shares and cash that the CEO will receive increases as the VWAP target increases in 10 cent increments up to an agreed cap. Upon exercise, ordinary shares or ordinary shares and cash will be issued to the CEO.

The reason for offering the CEO the choice of shares and cash is to provide him with sufficient funds to pay any income tax due when the STI Plan is triggered.

Long-Term Incentive

The Group operated equity-settled share based incentive scheme, refer note F1 of the financial statements.

The CEO was granted options to acquire Restricted Shares funded by interest free loans with future vesting dates:

- 30 July 2014, 90,000 Restricted D Shares at a price of \$2.57 per share with a vesting date of 1 July 2019. The participant has 12 months from vesting date to exercise the option.
- 1 November 2018, 40,000 Restricted G Shares at a price of \$1.90 per share with a vesting date of 1 July 2021.
- 1 November 2018, 60,000 Restricted H Shares at a price of \$1.90 per share with a vesting date of 1 July 2024.

Superannuation

The CEO is eligible to contribute and receive a matching Company contribution up to 3.0% of gross taxable earnings (including STI).

Summary of CEO remuneration	2020	2019
Remuneration event		
Base salary	\$545,385	\$529,500
Short-term incentive	Yet to be determined	\$46,331
Superannuation	\$16,632	\$17,275
At risk – long-term incentives:		
Restricted D Shares	90,000 at \$2.57	90,000 at \$2.57
Restricted G Shares	40,000 at \$1.90	40,000 at \$1.90
Restricted H Shares	60,000 at \$1.90	60,000 at \$1.90

Employee Remuneration

Grouped below, in accordance with section 211(1)(g) of the Companies Act 1993, are the number of employees or former employees of the company, excluding Directors of the company, who received remuneration and other benefits in their capacity as employees, totalling \$100,000 or more, during the year:

Remuneration	Number of Employees	
	2020	2019
\$100,000 – 109,999	16	10
\$110,000 – 119,999	13	6
\$120,000 – 129,999	7	9
\$130,000 – 139,999	8	6
\$140,000 – 149,999	10	3
\$150,000 – 159,999	5	4
\$160,000 – 169,999	1	6
\$170,000 – 179,999	3	3
\$180,000 – 189,999	2	1
\$190,000 – 199,999	1	3
\$200,000 – 209,999	4	1
\$210,000 – 219,999	4	–
\$220,000 – 229,999	–	3
\$230,000 – 239,999	2	–
\$240,000 – 249,999	1	2
\$250,000 – 259,999	1	–
\$260,000 – 269,999	2	2
\$270,000 – 279,999	1	3
\$280,000 – 289,999	2	1
\$290,000 – 299,999	1	–
\$300,000 – 309,999	2	–
\$330,000 – 339,999	1	1
\$360,000 – 369,999	1	–
\$490,000 – 499,999	1	–
\$660,000 – 669,999	1	1

Distribution of holders of quoted shares

Size of holding	Number of fully paid ordinary shareholders	Percentage	Number of fully paid shares	Percentage
1 – 1000	101	13.15%	55,100	0.16%
1001 – 5000	296	38.55%	893,601	2.60%
5001 – 10000	155	20.18%	1,186,903	3.46%
10001 – 50000	184	23.96%	3,933,103	11.46%
50001 – 100000	16	2.08%	1,120,539	3.26%
100001 and Over	16	2.08%	27,136,296	79.06%
	768	100.00%	34,325,542	100.00%

Substantial security holders

Pursuant to the Financial Markets Conduct Act 2013, the following persons have given notice that they were substantial security holders in the company and held a “relevant interest” in the number of fully paid ordinary shares shown below:

Substantial product holder	Fully paid shares in which relevant interest is held		
	Number	Percentage	Date of notice
Simon Alexander Hull & David John Graeme Cox	18,194,598	53.01%	5/02/2018
Masfen Securities Limited	2,085,501	6.08%	13/09/2019

Twenty largest holders of quoted equity securities

Investor	Total Units	Percentage
Simon Alexander Hull & David John Graeme Cox	18,194,598	53.01%
New Zealand Central Securities Depository Limited	2,695,039	7.85%
Masfen Securities Limited	2,085,501	6.08%
Russell John Field & Anthony James Palmer	1,125,000	3.28%
Susanne Rhoda Webster	426,750	1.24%
Peter Abe Hull & Antoinette Ngaire Edmonds & Rennie Cox Trustees No 1 Ltd	372,696	1.09%
Wynnis Ann Armour & Jocelyn Patricia Dutton	354,703	1.03%
Ian Harold Holland	333,800	0.97%
Simon James Bennett	280,007	0.82%
Philip John Talacek & Brenda Ann Talacek	254,769	0.74%
Hickman Family Trustees Limited	245,170	0.71%
Ross Barry Keenan	205,984	0.60%
Kevin James Hickman & Joanna Hickman	200,000	0.58%
Lay Dodd Trustee Services Limited & Patricia Anne Neal	129,380	0.38%
Forsyth Barr Custodians Limited	125,270	0.36%
Blair Richard Watson Tallott	107,629	0.31%
James Michael Robert Syme	100,000	0.29%
Janet Mary Hilder & Dale Paretovich	99,326	0.29%
Bernard Ralph Fuller	88,750	0.26%
Custodial Services Limited	78,375	0.23%

Registered Office

Level 6, 51 Shortland Street
PO Box 105675
AUCKLAND CITY
Ph: 09 526 8770

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
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Fax: +64 9 309 4947

Solicitors

Russell McVeagh
Vero Centre
48 Shortland Street, PO Box 8
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New Zealand
DX CX10085
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Share Registry

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or: 0800 377 388



**Registered Office of
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