

Annual Report 2018



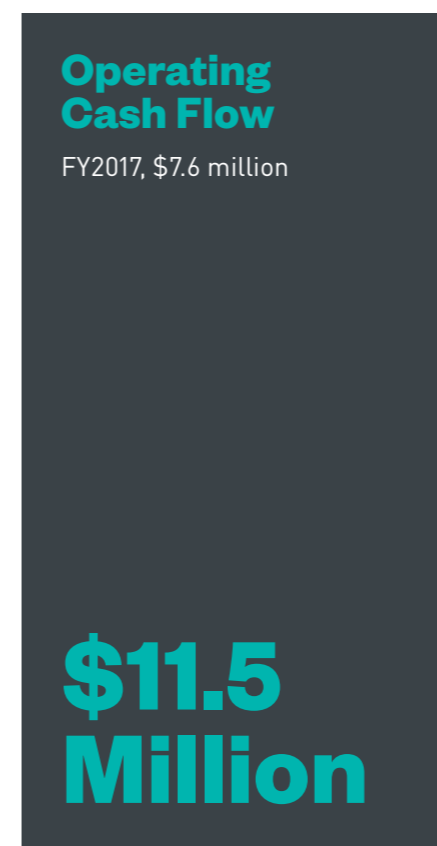
AWF MADISON

“My team and I are focussed on the long term sustainable growth of the business. We continue to work to ensure our ongoing relevance to candidates and clients in a changing market.”

Simon Bennett, CEO

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Chairman's Report.

Ross Keenan, Chairman

Dear Shareholder,

Our financial result for the March 2018 year was undoubtedly mixed, with a fall in net profit contrasting with growth in overall revenue and strong cash flows.

The very poor winter weather during 2017, and disruption to the approvals process for bringing in skilled overseas workers for the skills-short Auckland construction sector, combined to reduce profitability within AWF – as we advised the market in February.



AWF is now stable and operating well, and the business is on track for growth in the 2019 year.

The completion of the purchase of Absolute IT during the year certainly validated the decision to acquire this well-led diverse white collar business, and the strong team at Absolute delivered a result that was above our expectations. There are excellent synergies and leverage to be achieved between Absolute IT and Madison Recruitment, particularly in premises, systems and client relationships, whilst protecting brand independence and value.

It has been a great pleasure to be able to report the success of Madison in delivering at all levels to the Census project for Statistics New Zealand. By year end, Madison was back up to its own growth targets.

During the year we welcomed Nick Simcock to the Board. Nick represents a generation shift of governance. He has vast international experience in white collar recruitment and adds considerable value and support to our CEO as we navigate the changing recruitment practice landscape.

We are a small Board and each of us sits on all of the Committees, so the governance is at all times inclusive. The most impressive aspect of this is our focus on Health & Safety.

Certainly over the last year, the Board has noted a thriving Health & Safety culture, evident at all levels.

Simon Hull chairs the Board Health & Safety Committee, and within each Board meeting, he leads a detailed discussion wherein detailed reports are received, and trends and benchmarks are reviewed. Each Board member attends at least two operational Health & Safety Committee meetings each year.

During the year, the Group engaged an independent review of its capital structure and dividend policy. The Board has considered the level of debt being carried and, although cash flow is strong, it is prudent to reduce debt to provide headroom to consider other growth opportunities as they arise. On the back of recommendations contained in that advice, Directors resolved to:

- Maintain a final dividend for this year of 8.2 cents per share (16.2 cents for the year);
- Introduce a Dividend Reinvestment Plan (DRP) wherein Shareholders may elect to receive up to 50% of the value of their dividends in additional shares. The scheme, which will apply for this year's final dividend, will be fully supported by the major Shareholder, Simon Hull. Details have been advised separately.

As a Board, we wish to acknowledge the wonderful commitment from our Management Team, led by Simon Bennett. In Simon we have a strong and focussed leader, determined to build a better and sustainable business, an aim we all embrace.

It has certainly been a challenging year for our team and we acknowledge their focus on delivering high service standards and profitable business with high attention to Health & Safety. We thank you.

Finally, I wish to acknowledge the retirement of founding director Ted van Arkel. From the beginning, Ted has used his business experience to ensure business fundamentals are followed, understood, and managed effectively. Simon Hull and I, particularly, will acknowledge Ted's contribution at the AGM on 25 July. Thank you on behalf of the Board and Shareholders, Ted.

For the Board,

Ross B Keenan
Chairman

Change is inevitable. Let's embrace it.

Simon Bennett, CEO

It's well-known New Zealand's economy is being held back by skills shortages in significant areas, including Auckland construction and the IT sector.

Less widely understood is the changing nature of the labour market. Demographics, technology and globalisation are having a significant impact on workforce needs – both for employers and for workers.

Pressure on retirement incomes means an ageing population will need to work longer than previous generations, often part-time or on a contingent, as-and-when-needed basis.

Declining housing affordability, and changing employment expectations are driving people who have traditionally sat outside the labour force to seek new forms of work.

In opposition, the Labour Party devoted significant and critically important research to this

evolutionary process, establishing the Future of Work Commission.

The Commission's November 2016 report concluded that in the future, many of us will work differently – "a tsunami of change is coming."

We agree. International experience suggests the contingent workforce, currently around 10% of New Zealand's total workforce, will at least double in the next 10 years, creating significant opportunities for our businesses.

However, there are many challenges ahead in striking the right balance between the flexibility of non-traditional forms of working, and fair employment conditions.

The Labour-led Government has now started following through on the Future of Work initiative. Some mooted changes are positive, others considerably less so.

The Government is reviewing the Holidays Act. As Workplace Relations & Safety Minister Iain Lees-Galloway has noted:

"With an increasing variety of work patterns and pay arrangements, the legislative requirements of the Act are proving difficult and costly for employers to apply and employees are not receiving their full entitlements."

More worrying are some of the provisions of the Employment Relations (Triangular Employment) Amendment Bill currently before Parliament.

The widespread view among unions is that part-time, temporary and contract workers should be afforded the rights of permanent employees, and should be able to bargain collectively. This view is reflected in the Bill in provisions that will, we believe, suppress, not support, the ability of employers and workers alike to seek innovative employment arrangements.

New Zealand cannot benefit from the economic efficiency and flexibility a contingent workforce enables if

a mindset prevails that contingent working is just a means by which employers seek to exploit workers.

Regulation must enable innovation, not punish it. For example, allowing employees with multiple jobs to nominate an agency to represent all their tax and other legislative deductions, where ultimate responsibility sits with the agency, rather than numerous 'host employer' organisations.

Part-time and temporary work are powerful paths into full-time employment. In the last 12 months, a large percentage of AWF Madison's contingent workers have ended their employment with us and taken on jobs with their host employers, and over 600 people have received a formal training qualification.

Recruitment agencies have work to do with government, unions and other stakeholders to ensure we are seen as part of the solution, not part of the problem. If we are successful, everybody can benefit from the opportunities "the Gig economy" brings.

Employees can enjoy flexibility and pathways. Employers can secure the benefits of a flexible and scalable channel of their workforce.

And we can help them to formalise the provision of contingent labour, driving closer, more collaborative and longer-term relationships.

We are beginning to see more focus from leading organisations who understand the challenge and opportunity of nurturing a contingent workforce and want to secure a platform, rather than ad hoc arrangements.

Overseas, this takes the form of a Managed Service. As discussed in our preliminary announcement for the March 2018 year, Madison recently passed a milestone, signing a Managed Service contract with a large government agency. The contract is for four years, with options to renew for a further four years.



The Managed Service model gives clients visibility across all their contingent workers, whether contractors, temps, or even those on statements of work. Even when they are not in direct employment, clients can see where they have been placed in the meantime. This channel is integrated with the workforce plan and is designed to drive sourcing and retention of high performing workers. The visibility of this workforce enables pay rate alignment, cost savings and quality measurement.

For the candidates or workers, it allows certainty for periods of work with the client and future opportunities as they cycle out of the assignment.

Cross training opportunities are available, together with the ability to take longer breaks when family or other needs require them. The talent pools grows and becomes more agile, while the individuals become more valuable and higher skilled.

Given our scale and reach, AWF Madison is in a position of strength to develop excellent redeployment opportunities for our candidate community across our branch and business networks.

The development of innovative solutions such as Managed Service has been a driver to build our digital roadmap. And it has highlighted the need for us to better develop our dashboarding and automation of process for clients and candidates.

How well we can define the role of 'digital' in the AWF Madison business – what will change, and what needs to stay the same – is very important to us. We made big gains in the past year and have won significant interest from clients.

For the current year we have increased our investment in this area, and we have significant goals for testing new product and platforms for client and candidate engagement.

My team and I are focussed on the long term sustainable growth of the business. We continue to work to ensure our ongoing relevance to candidates and clients in a changing market. We have specific and measurable financial and non-financial goals for the business in the coming year.

Our specific areas of focus this year include:

- Creating synergies with our group companies. Madison IT has moved across to the Absolute IT stable and we have co-located our Hamilton and Christchurch white collar teams. We will explore opportunities in Auckland and Wellington to co-locate.
- Exploring the addition of a complementary business to leverage our market position and de-leverage our reliance on internal talent. The business may be a provider of current services that we can utilise and on-sell.
- Continuing to build alternative solutions to the traditional recruitment model, including Managed Service.
- Using technology to deliver in a changing marketplace. We will invest in our IT roadmap to provide best in-class services to the business, drive innovation and assist in product development.
- Driving the best possible return from the business with current solutions. Evolution is continuous.

A fundamental strength and focus of our business is "candidate centricity."

If we are accessible and relevant to our candidates, we will maintain the advantage in a skill-short market and become ever more a necessity for our clients.

Your management team has been working extremely hard during a notable year of laying the ground work and strengthening our foundations for the future. They are buoyed by the positive outlook and committed to the task ahead in FY2019.

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.

The uniqueness of our three businesses provides distinct advantages in the channels in which we operate. We will therefore continue to develop these businesses individually with strategies that cater for their particular markets and drivers. Their goals however will be aligned to the same group aspiration and the following four strategic imperatives:

1

Our People.

We will be driven forward by capable people who are engaged with our purpose and strategic direction, and who have the determination to do better.

2

Our Customers.

We will grow market share and add value through our reputation for quality, efficiency, relationships and customised solutions.

3

Our Country.

We are uniquely positioned and have a responsibility to provide proactive solutions to address structural challenges in the employment market.

4

Our Finances.

We are targeting double digit EBITDA growth through execution and improvement initiatives impacting cost and revenue, to create sustainable value for our shareholders.



AWF has a 30 year history of supplying semi-skilled and skilled workers to the construction, infrastructure, transport and logistics, manufacturing and mining sectors. Every day as many as 3,500 people are deployed on client sites. Through its network of branches, AWF provides hundreds of enterprises throughout New Zealand with the human capital necessary to complete major projects, meet increased demand in goods and services, or to fill the skills gap in their permanent workforce.

Positioned for the future.

The 2018 financial year built upon the prior year's investment in technology and our team worked hard to bed-in the new operating methodology. Working in a landscape of rigorous regulation and high compliance requirements, we continued to improve process efficiency to counter rising costs of delivery.

AWF's civil and construction business was impacted by timing and difficult winter conditions across the country, and in Auckland the mobilisation of the migrant workforce channel to meet construction demand was hampered by delayed arrivals.

We expect to recover the drop in turnover in the 2019 and 2020 financial years. We have a capable leadership team who are highly focussed on their medium term goals and are making good progress on their strategies. Our people are engaged with our strategic direction and with their efforts the outlook for the coming year is promising.

We are pleased with the quality of internal talent appointed in the past year – the breadth of experience and knowledge from our recent strategic hires positions AWF's senior management team as

one of the most experienced in the recruitment industry in New Zealand.

Our success in lifting the Health & Safety culture is supported by feedback from our workforce through a recent survey rating AWF as 4.5 out of 5 (5 being 'excellent') on the care we take regarding their safety. Together with other candidate engagement and retention initiatives, we have seen an increase in the average tenure of our workforce.

In Auckland we introduced a permanent recruitment channel and the achievements early on indicate good growth prospects.

We are well-positioned to capitalise on the growing interest in Managed Service offerings. This delivery model values the retention of higher quality contingent workers and allows us to work in greater partnership with clients to forecast demand for just-in-time delivery. This is in line with our goal to change the business mix away from transactional accounts to focus on mid to large organisations with fair margins and ongoing demand.

The significant transformation within the business over the last three years positions us for sustained growth.

1 Our People.

The adaptability of the AWF branch network to deliver in the midst of present and future employment market challenges is paramount to our success in delivering excellence in customer satisfaction:

- Transforming our service delivery model and refining role accountabilities will provide further learning and development opportunities.
- Developing our employer value proposition and employment brand will ensure that we attract, hire and retain people who will thrive in this modernised operating model.
- We will engage our people with AWF's purpose, strategic priorities and future state initiatives.



2 Our Customers.

Whilst AWF's core strength has traditionally been in the provision of temporary labour, we will continue to expand our higher value business and take steps to develop new service offerings:

- Demand in the construction and technical industry, particularly from Auckland, presents significant business opportunities.
- We will drive better utilisation of our temporary workforce through refining our operating model and optimising our recently implemented CRM.
- We have the capacity to develop new service offerings in response to our clients' needs.



4 Our Finances.

AWF is targeting earnings growth through a combination of sales and margin growth as well as operating efficiency:

- Our clients recognise our increasing cost of delivery due to compliance and the candidate-short market.
- Our business mix is changing in response to the increased demand for semi-skilled and skilled candidates.
- We will minimise exposure to bad debt through risk management and cautious trading terms.

3 Our Country.

AWF can make a meaningful contribution to New Zealand's productivity by addressing the shortage of labour:

- We will continue to leverage our position to assist the unemployed to become 'work ready'.
- We will work with our key customers to build pathways into employment for youth.
- To meet demand in the construction sector, we will utilise skilled migrant labour and local resources.





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 recruitment to that of professional roles 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, over 1,100 temporary employees and independent professional contractors work on assignment in New Zealand's major cities.

Delivering tailored solutions.

It has been a significant year for Madison, particularly in the second half where we delivered our largest volume project in our 20 year history.

The 2018 Census Project required us to assess, deploy, manage and pay up to 3,000 workers over a three month window. A completely tailored solution was necessary, drawing on significant resources. Our capabilities were tested and we are proud of our team's efforts in successfully delivering higher calibre candidates than has historically been recruited to carry out the work.

Another notable achievement was the design of a Contingent Workforce Managed Service for a government agency undergoing significant business transformation. We were awarded the four year contract based upon our innovative solution which draws on our candidate reach and attraction strategies, our retention initiatives and technology platforms.

To maintain relevancy to our clients it is necessary for us to evolve our service offerings and be additive to their internal capability. To do this, our sales strategy in the coming year is to invest more time with fewer

clients to afford us the opportunity for closer partnerships and the design and delivery of bespoke solutions.

This is in line with our FY19 operational focus on quality, a founding pillar of Madison's ethos. It is even more vital in the context of an increasingly complex recruitment landscape. As process automation and artificial intelligence becomes commonplace in our industry, we must utilise it as an enabler for parts of our operation. However, we maintain committed to delivering a personal service with high touchpoints.

The large projects we secured provided excellent secondment opportunities, and upon project completion we also retained a number of people who had been specially hired. We will continue to focus on the development and retention of our people, providing career pathways from within.

Madison's market position is unique – our offering is underpinned by size and scale, however without the restraints that some global competitors experience. This means we can deliver tailored solutions with greater agility. We will play to these strengths in FY19.

1 Our People.

Assisting our recruiters with achieving sustained success and supporting their skills development in a changing recruitment world is vital to our high performance culture:

- Delivering Madison's full service recruitment solutions is an all-encompassing role and as such we will focus on developing talent from within.
- On-the-job training will be supplemented with a structured learning and development programme.
- Our internal recruitment process is robust ensuring we attract the best possible talent to the Madison business.



2 Our Customers.

In the last five years, job hunting and talent acquisition has changed considerably, leading to increased delivery costs. Madison's focus on excellence in execution whilst having to "do more for less" is critical to continued customer satisfaction:

- We will monitor performance through the recently introduced NPS measure on our customer feedback platform.
- Innovative pricing solutions will be developed, and we will strengthen our unbundled recruitment offerings for large corporates to supplement their in-house capability.
- Targeting growth in retained and project work will achieve a greater balance with contingent work and mitigate the higher cost of delivery.



3 Our Country.

As the world of work changes and Post-Millennials begin entering the workforce, Madison consultants have a part to play in driving outcomes and contributing thought leadership to assist this generation:

- We will develop a programme tailored to Post-Millennials providing advice on the employment market, job hunting and employer expectations.



4 Our Finances.

Madison will achieve earnings growth through existing business and the financial contribution from new offerings such as Managed Services:

- There is considerable opportunity to develop our revenue stream from recruiting senior and specialist roles.
- Our focus on retained and project work provides increased comfort around certainty of revenue.
- We will ensure that new projects and service offerings will be additive and not take away from BAU performance.





Founded in 2000, Absolute IT caters to the specific recruitment needs of the ICT sector. 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.

From strength to strength.

Our first full year of contribution to the Group has led to the white collar segment revenue growing 51% on the prior year.

We have retained our senior team members and high performers. The team has maintained its service excellence retaining all of our key clients, while adding new clients to the top 20.

Absolute IT's strong performance throughout the year is a real testament to its leadership team and high performance culture.

With the departure of our former principals our goal was to protect our key success factors and we are satisfied that we have not only achieved this, but also maintained our brand identity and the integrity of the business. At the same time we have enjoyed leveraging Group resources with the implementation of a new finance system, launching an intranet and have generally valued the opportunity to share learnings with a wider group of industry veterans.

To leverage opportunities across clients and create more choice for job seekers, the Group decided to align all IT recruitment services under Absolute IT. On 3 April 2018 Madison's IT clients and

recruiters were transitioned to Absolute IT and we are pleased to already see positive results from this initiative.

Both our Christchurch and Hamilton teams are now co-located with Madison and both businesses are energised at the prospect of working closer together in FY19.

Looking to the future we are aware of the global trends in the IT sector – specifically the rise in AI and robotics and the continued digitisation of business. At a local level we are working with clients on transformation projects within their business. We have also seen demand for permanent vacancies rise – an indication of positive economic sentiment from our clients. Staying in touch with market trends and our clients' ongoing requirements enables us to continue being relevant to our key clients and to build new relationships within the IT sector.

Our team is cognisant of the challenge in the year ahead. We performed very well last financial year and will be focussed on optimum performance to achieve another financial best.

1 Our People.

Protecting Absolute IT's values-based hiring and culture is the key to retaining and developing a high performing team:

- We will continue to build our talent pool of like-minded individuals using our values-based selection processes to prepare for growth in headcount.
- We will continue to invest in our people's development, pro-actively identifying and nurturing potential.



2 Our Customers.

Absolute IT has grown market share through regional business strategies delivered by a long-standing service delivery team. Our reputation and approach to doing business will enable us to make further inroads:

- We will focus on new business in the Hamilton and Christchurch regions and elsewhere seek breadth and depth within existing clients.
- We will evaluate and reposition our 'payroll service' offering, to increase market penetration.



4 Our Finances.

Absolute IT's continued focus on profitability and lean operation costs will ensure we stay on track for financial growth:

- Being one financial entity will allow us access to timely and accurate reporting for management.
- Continue to align with the Group's financial, governance, reporting and compliance framework.
- Investigate additive business streams such as Managed Service offerings, both on an IT and Group level.

3 Our Country.

We will work to have a bigger impact on the growth of New Zealand's IT talent by using our position as the country's leading IT recruitment brand:

- Using our data and market insights, we will provide industry thought leadership on the IT skillsets that New Zealand-based businesses lack.
- We will facilitate discussion on the development of these skillsets and investigate partnerships to address graduate pathways into the workforce.



Financial Commentary.

Revenue

Revenue grew by \$22.9 million to \$279.3 million from \$256.4 million, an 8.9% increase on the prior year. Revenue sourced from provision services to Industry was 46.7% of total revenue and has reduced 17.3% over the prior year to \$130.4 million. Revenue sourced from providing services to Commerce of \$148.9 million, up from \$98.7 million for the prior year, accounted for 53.3% of total revenue. The growth in Revenue was attributable to the annualised impact of the Absolute IT acquisition with the prior year Revenue contributing 5 months.

Net profit after tax

After-tax profit was \$5.0 million, down from \$5.9 million in 2017.

Dividend

An interim dividend of 8.0 cents per share (2017 8.0 cents per share) was paid on 27 November 2017.

A final dividend of 8.2 cents per share (2017 8.2 cents per share) will be paid on 10 July 2018, resulting in the total dividends paid for the year being 16.2 cents per share.

Total dividend payments for the year will be \$5.3m (interim plus final), compared with \$5.3 million in the prior year.

Funding costs

Finance costs for the year were \$1.3 million, up from \$1.2 million last year, as a result of the earn-out settlement on Absolute IT.

Cash flow

Operating cash flow, at \$16.2 million was up by \$4.9 million on the previous year, due in part to the annualised impact of the Absolute IT acquisition.

Equity

Equity attributable to equity holders of the parent (Shareholder's Funds) at 31 March, 2018 was \$36.9 million (2017, \$36.9 million). The amortisation of Intangible Assets (Customer Relationships and Restraint of Trades) net of the deferred tax impact incurs a \$1.6m annual write down.

Trade and other receivables

Trade and other receivables at 31 March, 2018 were \$41.8 million, compared with \$45.5 million at 31 March, 2017. The reduction reflects the concentration of effort to collect the higher level of outstanding receivables at 31 March 2017.

Borrowings

The \$36.0 million term debt facility with the ASB Bank was fully drawn (up from \$33.5 million) the prior year, to finance the Absolute IT acquisition earn-out.

Other Current Liabilities

Trade and other payables are \$28.9 million as at 31 March, 2018, up from \$28.1 million as at 31 March, 2017.

Our Locations.



KEY	
●	AWF LOCATION
●	MADISON LOCATION
●	ABSOLUTE IT LOCATION

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 a non-executive 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, and recently retired from the Boards of several Ngāi Tahu entities and Watercare Services 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.



Wynniss Armour

Wynniss joined the Board in January 2015 as a non-executive 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 AWF, Madison and Absolute IT 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.



Eduard Van Arkel

Eduard (Ted) joined the Board as a non-executive Director in 2004 after retiring as Managing Director of the supermarket group Progressive Enterprises Ltd. He previously held senior management positions at Woolworths NZ Ltd and Fletcher Merchants [PlaceMakers]. Ted is currently Chairman of Restaurant Brands Ltd. He holds directorships in Abano Healthcare Group Ltd and the Auckland Chamber of Commerce. He also serves on a number of private companies including Philip Yates Securities Ltd, Danske Mobler Ltd and his family-owned company van Arkel & Co Ltd. He is a Patron of Youthtown Inc.



Julia Hoare

Julia joined the Board as a non-executive 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 New Zealand Post Ltd. She is on the National Council of The Institute of Directors, chairs the Auckland branch of the Institute of Directors and is on the Advisory Panel for the External Reporting Board.



Nick Simcock

Nick joined the Board as a non-executive 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.

Corporate Governance Statement.

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 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 2018, the Board comprised six Directors. Ross Keenan (Chairman), Eduard van Arkel, Julia Hoare and Nick Simcock have been determined as independent Directors as defined by NZX Listing Rule 1.6.1. Simon Hull, and Wynnism Armour are Non-executive Directors.

The Board is elected by the shareholders of the Company. In accordance with the Company's constitution and the NZX Listing Rules, one third of the Directors are required to retire by rotation every year and may offer themselves for re-election by shareholders.

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 2018 totalled \$352,000. A fee of \$115,000 per annum is paid to the Chairman, \$60,000 per annum to Eduard van Arkel, Julia Hoare, Nick Simcock, Simon Hull and Wynnism 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 review 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), Eduard van Arkel, Ross Keenan, Wynnism Armour, Simon Hull and Nick Simcock.

The Committee meets at least twice per year, with 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, Eduard van Arkel, 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 Committee members themselves are aware of their own responsibilities and duties under legislation, and the business continually strives to achieve best business practice in relation to Health & Safety practices.

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

The Committee members participate in meetings of and reviews monthly reports presented by the Group Operations Health and Safety Committee that meets formally on a monthly (10 x per year) basis.

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, Nick Simcock and Eduard van Arkel.

Remuneration of Auditors

Details of remuneration paid to Auditors are set out in A2 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 Securities 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 2018 is:

	2018		2017	
	MALE	FEMALE	MALE	FEMALE
NUMBER OF DIRECTORS	4*	2	3	2
PERCENTAGE OF DIRECTORS	67%	33%	60%	40%
NUMBER OF OFFICERS	5	4	4	4
PERCENTAGE OF OFFICERS	56%	44%	50%	50%

*NICK SIMCOCK WAS APPOINTED ON 1 JANUARY 2018.

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 2018 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.



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 2018, and the statement of comprehensive income, statement of changes in equity and statement of cashflows 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 24 to 55, present fairly, in all material respects, the consolidated financial position of the Group as at 31 March 2018, 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.

Key Audit Matter

Impairment testing of goodwill and other indefinite life intangible assets

Goodwill of \$38.6m and other indefinite life intangible assets (brand names) of \$9.4m are recorded in the consolidated financial statements at 31 March 2018 as detailed in notes B3 and B2 respectively.

Goodwill and other indefinite life intangible assets are tested for impairment annually or whenever there are indicators that these assets may be impaired.

For the purpose of impairment testing, the goodwill and other indefinite life intangible assets are allocated to cash generating units (CGU) as set out in notes B3 and B2. The recoverable amount of each CGU is determined through a value in use calculation which reflects significant unobservable inputs, including the budgeted future operating performance, discount rate and growth rate.

We identified this as a key audit matter because of the significance of the goodwill and other indefinite life intangible assets to the Group's consolidated financial statements and the judgement involved in determining the value in use of each CGU.

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 2019 financial year budget;
- Involving our internal specialists in assessing the growth rates and the discount rates for reasonableness in comparison to market data;
- Assessing the historical accuracy of the Group's previous forecasts by comparing prior period budgets to actual performance; and
- Performing a sensitivity analysis on the discount rates and growth rates.

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. The Annual Report is expected to be made available to us after the date of this auditor's report.

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

Our responsibility is to read the other information identified above when it becomes available 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. If so, we are required to report that fact.

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 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.

Andrew Dick, Partner for Deloitte Limited
Auckland, New Zealand
28 May 2018

AWF Madison Group Limited
Statement of Comprehensive Income
For the year ended 31 March 2018

	Note	GROUP	
		2018 \$'000	2017 \$'000
Revenue	A1	279,303	256,428
Investment revenue		32	2
Fair value gain on settlement of Absolute IT Limited earn-out payment	F7	170	-
Direct costs		(2,187)	(2,844)
Employee benefits expense	F1	(253,182)	(229,150)
Depreciation and amortisation expense	A2, B1, B2	(3,344)	(3,003)
Impairment	B2	-	(443)
Other operating expenses		(12,385)	(10,980)
Finance costs	A2	(1,297)	(1,193)
Acquisition related costs expense		-	(262)
Profit before tax		7,110	8,555
Income tax expense	A3	(2,062)	(2,688)
Profit for the year		5,048	5,867
Other comprehensive income for the year		-	-
Total comprehensive income for the year		5,048	5,867
Earnings per share			
Total basic earnings per share (cents/share)	C4	15.5	18.1
Total diluted earnings per share (cents/share)	C4	15.5	18.0

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

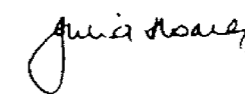
AWF Madison Group Limited
Statement of Financial Position
As at 31 March 2018

	Note	GROUP	
		2018 \$'000	2017 \$'000
Assets			
Non-current assets			
Property, plant and equipment	B1	2,498	3,348
Intangible assets – goodwill	B3	38,620	38,620
Intangible assets – other	B2	16,079	18,314
Total non-current assets		57,197	60,282
Current assets			
Cash and cash equivalents	C6	6,269	1,225
Trade and other receivables	C7	41,830	45,533
Total current assets		48,099	46,758
Total assets		105,296	107,040
Equity and liabilities			
Non-current liabilities			
Deferred tax liabilities	A3	2,748	3,117
Borrowings	C8	36,000	33,500
Total non-current liabilities		38,748	36,617
Current liabilities			
Trade and other payables	C9	28,867	28,107
Bank overdraft	C6	-	108
Taxation payable	A3	622	1,636
Provisions	F2	200	217
Absolute IT Limited earn-out payment	F7	-	3,420
Total current liabilities		29,689	33,488
Total liabilities		68,437	70,105
Net assets		36,859	36,935
Capital and reserves			
Share capital	C2	27,598	27,624
Treasury account	C3	-	(319)
Group share scheme reserve	F1	383	450
Retained earnings	C1	8,878	9,180
Total equity		36,859	36,935

For and on behalf of the Board who authorise the issue of the financial statements on 28 May 2018:



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 2018

	Note	GROUP				
		Share capital \$'000	Treasury shares \$'000	Group share scheme reserve \$'000	Retained earnings \$'000	Total equity \$'000
2017						
Balance at 1 April		27,946	(641)	370	8,599	36,274
Comprehensive income						
Profit for the year		-	-	-	5,867	5,867
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	5,867	5,867
Transactions with shareholders						
Dividends paid	C5	-	-	-	(5,286)	(5,286)
Treasury Shares expired	C3	(322)	322	-	-	-
Share based payments	F1	-	-	80	-	80
Total transactions with shareholders		(322)	322	80	(5,286)	(5,206)
Balance at 31 March		27,624	(319)	450	9,180	36,935
2018						
Balance at 1 April		27,624	(319)	450	9,180	36,935
Comprehensive income						
Profit for the year		-	-	-	5,048	5,048
Other comprehensive income		-	-	-	-	-
Total comprehensive income		-	-	-	5,048	5,048
Transactions with shareholders						
Dividends paid	C5	-	-	-	(5,350)	(5,350)
Treasury Shares cancelled	C3	(90)	90	-	-	-
Treasury Shares converted	C2, C3	66	229	(66)	-	229
Treasury Share conversion and cancellation costs	C2	(2)	-	-	-	(2)
Share based payments	F1	-	-	(1)	-	(1)
Total transactions with shareholders		(26)	319	(67)	(5,350)	(5,124)
Balance at 31 March		27,598	-	383	8,878	36,859

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 2018

	Note	GROUP	
		2018 \$'000	2017 \$'000
Cashflows from operating activities			
Receipts from customers		282,554	251,434
Payments to suppliers and employees		(266,336)	(240,074)
Net cash generated from operations		16,218	11,360
Interest received		32	2
Interest paid		(1,296)	(1,193)
Income taxes paid		(3,445)	(2,543)
Net cash from operating activities	C6	11,509	7,626
Cashflows from investing activities			
Proceeds from disposal of property, plant and equipment		155	186
Purchase of property, plant and equipment	B1	(482)	(2,032)
Purchase of intangible assets	B2	(157)	(1,104)
Net cash paid on acquisition of subsidiaries	F7	-	(9,903)
Net cash (used in)/from investing activities		(484)	(12,853)
Cashflows from financing activities			
Proceeds from the issue of share capital	C3	229	-
Share issue costs		(2)	-
Dividends paid to share holders of the parent	C5	(5,350)	(5,286)
Proceeds from borrowings	C8	2,500	33,500
Repayment of borrowings	C8	-	(21,000)
Repayment of vendor on settlement of Absolute IT Limited earn-out payment	F7	(3,250)	-
Net cash from/(used in) financing activities		(5,873)	7,214
Net increase/(decrease) in cash held		5,152	1,987
Cash and cash equivalents at start of the year		1,117	(870)
Net cash and cash equivalents at end of the year	C6	6,269	1,117

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

About this report.

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 ("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 listed company incorporated and domiciled in New Zealand. The address of its registered office and principal place of business is disclosed in the directory to the 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 ("NZ 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, modified by revaluation of certain assets and liabilities; and
- in New Zealand dollars, with values rounded to thousands (\$000) unless otherwise stated.

The financial statements were authorised for issue by the directors on 28 May 2018.

Adoption of new and revised Standards and Interpretations

New standards and amendments and interpretations to existing standards that came into effect during the current accounting period beginning on 1 April 2017

• Disclosure Initiative (Amendments to NZ IAS 7 Statement of Cash Flows)

Entities are now required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (eg drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

The adoption of Amendments to NZ IAS 7 'Statement of Cash Flows' has had a disclosure only impact on the Group's financial statements for the year ended 31 March 2018.

New standards and amendments and interpretations to existing standards that are not yet effective for the current accounting period beginning on 1 April 2017

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

The new standards, amendments and interpretations that will have an impact on the Group are discussed below and the Group intends to adopt these new standards, amendments and interpretations when they become mandatory.

• NZ IFRS 9 Financial Instruments

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in NZ IAS 39, 'Financial Instruments: Recognition and Measurement', that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income ('OCI') and fair value through profit and loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

There is now a new expected credit losses impairment model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities, there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

The effective date is annual reporting periods beginning on or after 1 January 2018.

The indicative impacts of implementing NZ IFRS 9 are as follows:

Classification and measurement of financial instruments:

The Group's financial assets currently include only those measured at amortised cost. The Group anticipates that the classification and measurement of its financial assets will remain unchanged under NZ IFRS 9.

Impairment model change from incurred losses to expected credit losses:

The introduction of the expected credit losses impairment model is expected to involve a change in the timing of when impairment losses are recognised.

With regards to the Group's trade receivables, the Group's incurred credit losses from these financial assets have historically not been material (with the exception of one significant debtor over the past two years which is considered to be an isolated case). Consequently the introduction of the expected credit losses impairment model is not expected to have a material impact on the Group's financial statements, given the Group's low exposure to counterparty default risk as a result of the Group's credit risk management processes that are in place.

The Group will adopt NZ IFRS 9 no later than the accounting period beginning on 1 April 2018.

• NZ IFRS 15 Revenue from Contracts with Customers

NZ IFRS 15 'Revenue from Contracts with Customers' will replace NZ IAS 18 'Revenue'.

NZ IFRS 15 provides a five-step model to be applied to the recognition of revenue arising from contracts with customers:

- identify the contract with the customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the entity satisfies a performance obligation.

NZ IFRS 15 also introduces new disclosures for revenue.

Under NZ IFRS 15 the Group would recognise revenue when (or as) it satisfies a performance obligation by transferring a promised service to a customer (which is when the customer obtains control of that service). A performance obligation may be satisfied at a point in time (e.g. upon the supply or recruitment of staff) or over time (e.g. consulting services). For a performance obligation satisfied over time, the Group will select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

The effective date is annual reporting periods beginning on or after 1 January 2018.

Currently the the Group's revenue is earned from the following:

- supply of temporary staff (to industry, commerce and IT);
- recruitment of contract and permanent staff (to commerce and IT); and
- organisational development related consulting services.

The Group has undertaken a preliminary assessment on the possible impact NZ IFRS 15 will have on the Group's financial statements. The preliminary analysis indicates that the standard is unlikely to have a material impact however further analysis is ongoing.

The Group will adopt NZ IFRS 15 no later than the accounting period beginning on 1 April 2018.

• NZ IFRS 16 Leases

NZ IFRS 16 'Leases' will replace 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 introduces 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 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.

The effective date is annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted, if NZ IFRS 15 Revenue from Contracts with Customers has also been adopted.

The indicative impacts of implementing NZ IFRS 16 are as follows for all leases that the Group is a party to:

Initial recognition and measurement:

- Recognition of a right of use ('ROU') asset. Initial measurement of the ROU asset would include the initial present value of the lease liability, the initial direct costs, prepayments made to lessor, less any lease incentives received from the lessor and restoration, removal and dismantling costs; and
- Recognition of a lease liability, which would reflect the initial measurement of the present value of lease payments, including reasonably certain renewals.

Subsequent measurement:

- ROU asset: Depreciate the ROU asset based on NZ IAS 16 Property, plant and equipment.
- Lease liability: Accrete liability based on the effective interest method, using a discount rate determined at lease commencement (as long as a reassessment and a change in the discount rate have not occurred) and reduce the liability by payments made.

NZ IFRS 16 will have a material impact on the Group's financial statements and will be dependent on the leases that the Group is a party to as at the beginning of the comparative accounting period presented in the Group's financial statements for the year ended 31 March 2020. The Group's operating lease commitments as at 31 March 2018 are set out in note F4, however, measurement of the lease liability and asset under NZ IFRS 16 is yet to be fully assessed.

The Group will adopt NZ IFRS 16 no later than the accounting period beginning 1 April 2019.

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:

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Revenue from the provision of services is recognised when the services are provided. Permanent placement fees are recognised in the accounting period when a candidate accepts an offer of employment. Temporary and contractors placements fees are recognised when services are provided.

Dividend and interest revenue

Dividend and interest revenue is presented as investment revenue in the statement of comprehensive income. Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Interest revenue is accrued on a time basis using the effective interest method.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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 pre-tax 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 liabilities and equity

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. All of the financial liabilities of the Group, which include trade and other payables and borrowings, are classified as financial liabilities and initially recognised at fair value less transaction costs and subsequently at amortised cost.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

KEY JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies and the application of accounting standards, the directors are required to make a number of judgments, 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.

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

Note – A1

Identification of operating segments

Note – B2

Amortisation of identifiable intangible assets

Note – B3

Testing the carrying value of goodwill

Note – F2

Rehabilitation under the ACC Partnership programme

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:

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

A1 SEGMENT PERFORMANCE

The directors have identified the following reportable segments:

Temporary staffing to industry

The Group operates branches under the brand names AWF Labour, AWF Manufacturing and Logistics, AWF Trades and TradeForce Recruitment in major towns and cities throughout New Zealand. These brands derive their revenues from temporary staffing services to industry and are considered to be one operating segment and one reportable segment for which discrete financial information is available and whose operating results are regularly reviewed by the Group's chief operating decision maker.

Temporary, contract and permanent staff services to commerce

The Group operates branches under the brand names Madison Recruitment, Madison Force, Interim Taskforce and Absolute IT (from November 2016) in major cities throughout New Zealand. These brands derive their revenues from temporary, contract and permanent staff services to commerce and are considered to be one operating segment and one reportable segment for which discrete financial information is available and whose operating results are regularly reviewed by the Group's chief operating decision maker.

The Group's reportable segments under NZ IFRS 8 Operating Segments are therefore as follows:

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

All revenues from external customers, and non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts are attributed to the Group's country of domicile.

	Segment revenue		Segment profit	
	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000
SEGMENT REVENUE AND RESULTS				
Continuing operations				
Temporary staffing to industry	130,416	157,714	4,858	8,726
Temporary, contract and permanent staff services to commerce	148,887	98,714	5,963	3,387
Total for continuing operations	279,303	256,428	10,821	12,113
Other income			32	2
Central administration costs and directors fees			(2,446)	(2,367)
Finance costs			(1,297)	(1,193)
Profit/(loss) before tax			7,110	8,555
Income tax expense			(2,062)	(2,688)
Profit for the year			5,048	5,867

Revenue reported above represents revenue generated from external customers. Inter-segment sales in the year were \$568,139 (2017: \$730,340) and have been eliminated from the above table. Inter-segment sales were eliminated from the originating segment; Temporary, contract and permanent staff services to commerce. No one customer accounts for more than 10% of the Group's revenue (2017: none).

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

	2018	2017
	\$'000	(RESTATED) \$'000
SEGMENT ASSETS		
Temporary staffing to industry	33,865	37,907
Temporary, contract and permanent staff services to commerce	70,464	69,055
Total segment assets	104,329	106,962
Unallocated assets	967	78
Total assets	105,296	107,040

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.

	2018	2017
	\$'000	(RESTATED) \$'000
SEGMENT LIABILITIES		
Temporary staffing to industry	10,618	13,032
Temporary, contract and permanent staff services to commerce	19,455	17,682
Total segment liabilities	30,073	30,714
Unallocated liabilities	38,364	39,391
Total liabilities	68,437	70,105

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.

The prior period segment assets, liabilities, depreciation and amortisation and net additions to non-current assets have been restated to more accurately align the segment values and provide consistency with the current year presentation. The restatement to segment assets and liabilities is a reallocation of \$13.8m comprising certain current and non-current assets, including deferred tax. The restatement of net additions to non-current assets is a reallocation of \$1.3m.

	Depreciation and amortisation		Impairment		Employee benefits		Net additions to non-current assets	
	2018	2017	2018	2017	2018	2017	2018	2017
OTHER SEGMENT INFORMATION	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	(RESTATED) \$'000
Temporary staffing to industry	683	937	-	443	116,738	139,425	(1,074)	1,646
Temporary, contract and permanent staff services to commerce	2,661	2,066	-	-	135,397	88,486	(2,425)	11,739
Unallocated	-	-	-	-	1,047	1,239	-	-
Total	3,344	3,003	-	443	253,182	229,150	(3,499)	13,385

KEY JUDGMENTS AND ESTIMATES – OPERATING SEGMENTS

(a) Goodwill has been allocated to reportable segments as described in note B3. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments

A2 EXPENSES

		GROUP	
		2018	2017
	Note	\$'000	\$'000
BAD AND DOUBTFUL DEBTS EXPENSE			
Bad and doubtful debts expense		221	467
Total bad and doubtful debts expense		221	467
DEPRECIATION AND AMORTISATION EXPENSE			
Depreciation of property, plant and equipment	B1	952	731
Amortisation of intangible assets	B2	2,392	2,272
Total depreciation and amortisation expense		3,344	3,003
IMPAIRMENT EXPENSE			
Intangible assets – Computer software	B2	-	443
Total impairment expense		-	443
FINANCE COSTS			
Interest on bank overdrafts and loans		1,297	1,186
Other interest expense		-	7
Total finance costs		1,297	1,193
AUDITOR'S REMUNERATION TO DELOITTE FOR:			
<i>Audit of the financial statements</i>			
Audit of the financial statements		162	179
Other services			
Due diligence services for tax		-	22
Total auditor's remuneration to Deloitte		162	201

A3 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% (2017: 28%) for New Zealand.

	GROUP	
	2018	2017
	\$'000	\$'000
INCOME TAX EXPENSE		
Current tax		
In respect of current year	2,212	3,651
In respect of prior year	219	-
	2,431	3,651
Deferred tax		
In respect of current year	(150)	(963)
In respect of prior year	(219)	-
	(369)	(963)
Total tax expense	2,062	2,688
Reconciliation to profit before tax		
Profit before income tax	7,110	8,555
Income tax at applicable rates	1,991	2,395
Tax effect of expenses that are not deductible in determining taxable profit	71	293
Income tax expense	2,062	2,688
Effective tax rate for the year	29.0%	31.4%

	GROUP	
	2018	2017
	\$'000	\$'000
CURRENT TAX ASSETS AND LIABILITIES		
Current tax liabilities		
Income tax payable	622	1,636
Total current tax liabilities	622	1,636

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					
	ACC levies	Staff expense accrual	Bad debt provision	ACC rehabilitation claims	Identifiable intangible assets	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 April 2016	73	1,279	215	125	(3,973)	(2,281)
Prior period adjustment	-	(154)	-	-	(47)	(201)
Business combination	-	-	-	-	(1,598)	(1,598)
Charge (credit to profit or loss for the year)	35	214	111	(64)	667	963
As at 31 March 2017	108	1,339	326	61	(4,951)	(3,117)
Prior period adjustment	(3)	206	(75)	-	91	219
Charge (credit to profit or loss for the year)	(68)	(140)	(166)	(5)	529	150
As at 31 March 2018	37	1,405	85	56	(4,331)	(2,748)

	GROUP	
	2018	2017
	\$'000	\$'000
IMPUTATION BALANCES		
Imputation credits available for subsequent reporting periods based on a tax rate of 28%	8,631	7,376

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

- Imputation credits that will arise from the payment of the amount of the provision for income tax; and
- Imputation debits that will arise 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.

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:

In this section 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 profit or loss.

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

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

	GROUP			
	Motor Vehicles	Fixtures and equipment	Leasehold Improvements	Total
	\$'000	\$'000	\$'000	\$'000
Cost	1,433	2,711	1,024	5,168
Less accumulated depreciation	(969)	(1,795)	(482)	(3,246)
Net book value at 1 April 2016	464	916	542	1,922
Additions	131	1,567	302	2,000
Business combinations	-	78	183	261
Disposals – cost	(555)	(144)	-	(699)
Depreciation expense	(138)	(505)	(88)	(731)
Eliminations on disposal – depreciation	478	117	-	595
Net book value at 31 March 2017	380	2,029	939	3,348
Additions	51	305	126	482
Business combinations	-	-	-	-
Disposals – cost	(318)	(416)	(493)	(1,227)
Depreciation expense	(114)	(742)	(96)	(952)
Eliminations on disposal – depreciation	260	336	251	847
Net book value at 31 March 2018	259	1,512	727	2,498
Cost	1,002	4,437	1,393	6,832
Less accumulated depreciation	(743)	(2,925)	(666)	(4,334)
Net book value at 31 March 2018	259	1,512	727	2,498

B2 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. 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 B3).

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	2,025	10,506	7,465	441	20,437
Less accumulated amortisation	(794)	(5,274)	-	(178)	(6,246)
Net book value at 1 April 2016	1,231	5,232	7,465	263	14,191
Additions	1,130	-	-	-	1,130
Business combinations	-	2,865	1,980	863	5,708
Amortisation expense	(480)	(1,659)	-	(133)	(2,272)
Impairment	(443)	-	-	-	(443)
Net book value at 31 March 2017	1,438	6,438	9,445	993	18,314
Additions	157	-	-	-	157
Business combinations	-	-	-	-	-
Amortisation expense	(238)	(1,937)	-	(217)	(2,392)
Impairment	-	-	-	-	-
Net book value at 31 March 2018	1,357	4,501	9,445	776	16,079
Cost	2,869	13,371	9,445	1,304	26,989
Less accumulated amortisation	(1,512)	(8,870)	-	(528)	(10,910)
Net book value at 31 March 2018	1,357	4,501	9,445	776	16,079

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.

The year ended 31 March 2017 impairment related to software that is no longer in use by the Group. The impairment related to the software utilised by the 'AWF Limited' cash generating unit (refer to note B3) which is included in the 'Temporary staffing to industry' operating segment (refer to note A1). The recoverable amount of the software was \$Nil.

KEY JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Computer software is amortised at a rate of 14.3% to 20.0% from the time it is brought into use.

Brand names are considered to have an indefinite life as they have no determinable limit to the period over which the brand is expected to generate cash flows for the Group.

The useful lives of customer relationships and restraint of trade used in the calculation of amortisation ranges from 4 to 6 years based on directors views of the asset life.

B3 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 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.

	GROUP	
	2018 \$'000	2017 \$'000
Balance at 1 April	38,620	30,784
Business combinations	-	7,836
Net book value as at 31 March	38,620	38,620
Allocation to cash generating units		
AWF – Temporary staffing to industry	10,561	10,561
Madison Recruitment – Temporary, contract and permanent staff services to commerce	20,223	20,223
Absolute IT – Temporary, contract and permanent staff services to commerce	7,836	7,836
Total goodwill	38,620	38,620

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. 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. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the Board for the subsequent year and estimates of future cash flows based on an estimated growth rate of 1.5% (2017: 1.5%). 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 9.85% (2017: 9.85%). 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:

- reducing the estimated growth rate of growth rates by 0.5%;
- reducing the terminal growth rate by 1%; and
- 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 the directors 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.
- Determining whether goodwill is impaired requires an appropriate discount rate to be applied to future cashflows. An independent assessment of Group's weighted average cost of capital was obtained in April 2017. The economic environment has not significantly varied during the financial year and therefore the discount rate has been retained at 9.85% under the Classical model (2017: 9.85%). The key inputs into the Classical model included a risk-free rate based on 10 year New Zealand government bonds, a market risk premium and an equity beta based on share prices of a selection of listed recruitment companies in the USA and Europe.

C. Managing funding**IN THIS SECTION**

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

- equity and dividends
- net debt; and
- receivables and payables

C1 RETAINED EARNINGS

	Note	GROUP	
		2018 \$'000	2017 \$'000
RETAINED EARNINGS AND DIVIDENDS			
Balance at 1 April		9,180	8,599
Total comprehensive income for the year		5,048	5,867
Dividends paid	C5	(5,350)	(5,286)
Balance at 31 March		8,878	9,180

C2 SHARE CAPITAL

	Note	GROUP			
		2018 No of Shares	2017 No of Shares	2018 \$'000	2017 \$'000
ORDINARY SHARE CAPITAL					
Issued and fully paid:					
Balance at 1 April		32,463,393	32,463,393	27,624	27,946
Cancellation of Treasury Shares	C3	-	-	(90)	-
Expiry of Treasury Shares		-	-	-	(322)
Conversion of Treasury Shares to Ordinary Shares	C3, F1	91,800	-	66	-
Treasury Share conversion and cancellation costs	C3	-	-	(2)	-
Total		32,555,193	32,463,393	27,598	27,624

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.

There are a number of share options over restricted shares with similar rights:

Restricted Shares

- 70,000 restricted shares were issued during the year.
- 91,800 restricted shares were converted to ordinary shares in the year.
- 245,000 restricted shares were cancelled during the year including the 36,000 residual treasury shares.

C3 TREASURY SHARES

	Note	GROUP			
		2018 No of Shares	2017 No of Shares	2018 \$'000	2017 \$'000
TREASURY SHARES					
Issued and fully paid:					
Balance at 1 April		127,800	256,200	319	641
Cancellation of Treasury Shares	C2	(36,000)	-	(90)	-
Expiry of Treasury Shares		-	(128,400)	-	(322)
Conversion of Treasury Shares to Ordinary Shares	C2, F1	(91,800)	-	(229)	-
Total		-	127,800	-	319

Treasury shares are those ordinary shares purchased by the Group in the course of establishing an Executive Share Scheme and converted to restricted shares.

C4 EARNINGS PER SHARE

	Note	GROUP	
		2018 \$'000	2017 \$'000
EARNINGS PER SHARE			
Comprehensive income for the year net of tax		5,048	5,867
Number of ordinary shares:			
As at 31 March	C2	32,555,193	32,463,393
Weighted average number of shares for basic earnings per share		32,543,956	32,463,393
Total basic earnings per share (cents per share)		15.5	18.1
Weighted average number of shares for diluted earnings per share		32,543,956	32,629,393
Total diluted earnings per share (cents per share)		15.5	18.0

In 2015, the Group set up a long term incentive scheme, offering the participant stock appreciation rights (SAR's) with a reference price of \$2.28 per SAR (refer Note F1).

At 31 March 2018 the SAR's vesting criteria was not achieved therefore they are anti-dilutive. The SAR's could potentially dilute earnings per share in the future.

At 31 March 2017 the SAR's vesting criteria was achieved and therefore if the vesting date was 31 March 2017 the SAR's would have been dilutive. The year ended 31 March 2017 weighted average share price was \$2.49 equating to 166,220 SAR diluting share equivalents thereby diluting the earnings per share to 18.0 cents per share for the year ended 31 March 2017.

The restricted shares detailed in Note F1 could also potentially dilute earnings per share in the future, but currently are anti-dilutive.

C5 DIVIDENDS

	GROUP			
	2018		2017	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Recognised amounts:				
Prior year final dividend	8.20	2,705	8.00	2,649
Interim dividend	8.00	2,645	8.00	2,637
		5,350		5,286
Final dividend declared	8.20	2,699	8.20	2,705

Subsequent event

On 28 May 2018 the directors approved the payment of a fully imputed final dividend of 8.2 cents per share (total dividend \$2,698,718) to be paid on 10 July 2018 to all shareholders registered on 29 June 2018 (2017: On 25 May 2017 the directors approved the payment of a fully imputed final dividend of 8.2 cents per share (total dividend \$2,704,950) to be paid on 4 July 2017 to all shareholders registered on 27 June 2017).

Dividend Reinvestment Plan (DRP)

The board has considered the implementation of a DRP. Subject to NZX approval, the plan will be offered to NZ resident shareholders and will apply to the final dividend.

C6 CASH AND CASH EQUIVALENTS**Accounting policy**

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.

The following terms are used in the consolidated cash flow statement:

- 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.

	GROUP	
	2018	2017
	\$'000	\$'000
CASH AND CASH EQUIVALENTS		
Cash at bank	6,269	1,225
Bank overdraft	-	(108)
Total cash and cash equivalents	6,269	1,117

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 cashflows and above.

	GROUP	
	2018	2017
	\$'000	\$'000
RECONCILIATION OF NET PROFIT AFTER TAX TO CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit after income tax	5,048	5,867
Adjustments for operating activities non-cash items:		
Depreciation and amortisation	3,344	3,003
Impairment	-	443
Loss on disposal of property, plant and equipment	224	(50)
Movement in doubtful debts provision plus bad debt write off in current year	221	467
Movement in deferred tax	(369)	(872)
Equity-settled share-based payments	(2)	80
Fair value gain on settlement of Absolute IT Limited earn-out payment	(170)	-
Total non-cash items	3,248	3,071
Movements in working capital excluding movements relating to purchase of subsidiaries:		
(Increase)/ decrease in trade and other receivables, net of bad debt expense	3,277	(4,380)
Increase/(decrease) in trade and other payables	966	2,188
Increase/(decrease) in provisions	(17)	(228)
Increase/(decrease) in taxation payable	(1,013)	1,108
Total movement in working capital	3,213	(1,312)
Cash flow from operating activities	11,509	7,626

C7 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 estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the assets impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

In determining the recoverability of a trade or other receivables, the Group considers any change in the credit quality of the receivable from the date credit was initially granted up to the end of the reporting period, reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

An allowance of \$303,000 (2017: \$897,000) has been made for estimated unrecoverable trade and other receivables.

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.

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.

Included in trade receivables are debtors with a carrying value of \$1.53 million (2017: \$6.07 million) which are overdue at the reporting date. Included in other receivables are debtors with a carrying value of \$0.16 million (2017: \$Nil) which are overdue at the reporting date. In determining the level of doubtful debt provision, an assessment has been made of the collectability of this debt. The Group does not hold any collateral over these balances.

The credit quality of trade and other receivables that are neither past due nor impaired have been assessed by reference to their aging status subsequent to reporting date, where an individual debtors have become past due subsequent to reporting date, the Group has undertaken an assessment of the collectability of these debts.

	GROUP	
	2018	2017
	\$'000	\$'000
TRADE AND OTHER RECEIVABLES		
Trade receivables	37,984	41,098
Less: Provision for impairment of trade receivables	(143)	(897)
Total trade receivables	37,841	40,201
Other receivables	4,149	5,332
Less: Provision for impairment of other receivables	(160)	-
Total trade and other receivables	41,830	45,533
PROVISION FOR IMPAIRMENT OF TRADE RECEIVABLES		
Balance at 1 April	897	589
Impairment losses recognised	143	699
Write-offs to bad debts during the year	(820)	(163)
Impairment losses reversed	(77)	(228)
Balance at 31 March	143	897
PROVISION FOR IMPAIRMENT OF OTHER RECEIVABLES		
Balance at 1 April	-	-
Impairment losses recognised	160	-
Balance at 31 March	160	-
Total provision for impairment of trade and other receivables at 31 March	303	897

	GROUP	
	2018 \$'000	2017 \$'000
AGING OF TRADE AND OTHER RECEIVABLES		
AGING OF OVERDUE TRADE RECEIVABLES THAT ARE NOT IMPAIRED		
30 – 60 days	880	2,616
60 + days	510	3,457
Total past due but not impaired trade receivables	1,390	6,073
AGING OF OVERDUE TRADE RECEIVABLES THAT ARE IMPAIRED		
30 – 60 days	-	-
60 + days	143	897
Total past due and impaired trade receivables	143	897
Total past due trade receivables	1,533	6,970
AGING OF OVERDUE OTHER RECEIVABLES THAT ARE NOT IMPAIRED		
30 – 60 days	244	256
60 + days	950	749
Total past due but not impaired other receivables	1,194	1,005
AGING OF OVERDUE OTHER RECEIVABLES THAT ARE IMPAIRED		
30 – 60 days	-	-
60 + days	261	-
Total past due and impaired other receivables	261	-
Total past due and impaired other receivables	1,455	1,005

Information about major customers

The Group has no customers making up more than 10% of the 2018 Group revenue (2017: none).

KEY JUDGEMENTS AND ESTIMATES – RECOVERY OF OVERDUE RECEIVABLES

The Group's management has reviewed outstanding debtors on a branch-by-branch basis and the doubtful debt provision at reporting date represents the best estimate of amounts that will not be collected. The concentration of credit risk is limited due to the size of the customer base. Accordingly, the directors believe that there is no further credit provision required in excess of the provision for doubtful debts.

C8 BORROWINGS – AT AMORTISED COST

	GROUP	
	2018 \$'000	2017 \$'000
BORROWINGS		
Bank loans	36,000	33,500
Total borrowings	36,000	33,500
Classified as:		
Current	-	-
Non-current	36,000	33,500
Total bank loans	36,000	33,500

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 2018 (2017: \$33.5 million).

The loan facilities are secured by cross guarantee and indemnity between AWF Limited, AWF Madison Group Limited, AWF Christchurch Limited, Madison Recruitment Limited and Madison Force Limited.

Interest is calculated on a floating rate and the annual weighted average rate is 3.48% (2017: 4.74%). The rate is reset every three months. The loan is an interest only loan and is repayable on 2 September 2019. The balance at 31 March 2018 was \$36.0 million (2017: \$33.5 million).

The Group has an overdraft facility of \$12.0 million with ASB Bank Limited. The balance of the overdraft was \$Nil as at 31 March 2018 (2017: \$108,000) and cash at bank was \$6.269 million at 31 March 2018 (2017: \$1.225 million).

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:

Reconciliation of liabilities arising from financing activities

	Note	GROUP			
		Opening balance 1 April \$'000	Financing cash flows ⁽ⁱ⁾ \$'000	Non-cash changes \$'000	Closing balance 31 March \$'000
For the year ended 31 March 2017					
Borrowings					
Bank loans – ANZ Bank Limited:					
Commercial flexi facility	C8	2,500	(2,500)	-	-
Term facility	C8	18,500	(18,500)	-	-
Bank loans – ASB Bank Limited:					
Term facility	C8	-	33,500	-	33,500
Other financial liabilities from financing activities					
Absolute IT Limited earn-out payment	F7	-	-	3,420	3,420
Total		21,000	12,500	3,420	36,920
For the year ended 31 March 2018					
Borrowings					
Bank loans – ASB Bank Limited:					
Term facility	C8	33,500	2,500	-	36,000
Other financial liabilities from financing activities					
Absolute IT Limited earn-out payment	F7	3,420	(3,250)	(170)	-
Total		36,920	(750)	(170)	36,000

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

C9 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, expenditure, 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	
	2018	2017
TRADE AND OTHER PAYABLES	\$'000	\$'000
Trade payables	6,708	9,819
Goods and services tax (GST) payable	5,011	3,452
PAYE	3,993	2,715
Other payables and accruals	13,155	12,121
Total trade and other payables	28,867	28,107

D. Financial instruments used to manage risk**IN THIS SECTION**

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

D1 FINANCIAL RISK MANAGEMENT

The Group monitors and manages the financial risks relating to the operations of the Group. These risks include market risks (which include interest rate risk), credit risk, liquidity risk and capital risk management.

Currency risk

The Group does not undertake transactions in foreign currencies and therefore has no currency risk.

Credit risk

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

The credit risk on liquid funds 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 balance sheet 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 C7.

Liquidity risk management

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.

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 C8, cash and cash equivalents (note C6) and equity attributable to equity holders of the Group, comprising retained earnings, issued share capital and treasury account as disclosed in notes C1, C2 and C3 respectively.

The directors review the capital structure on a periodic basis. As part of this review the directors consider the cost of capital and the risks associated with each class of capital. The directors 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.

As referred to in Note C5 the board has been considering the introduction of a Dividend Reinvestment Plan which is subject to NZX approval.

D2 FINANCIAL INSTRUMENTS**Accounting policy**

Financial assets and financial liabilities are recognised on the Group's balance sheet 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, other current assets (deposits), are classified as loans and receivables at amortised cost. The Group's trade and other payables are classified as financial liabilities at amortised cost except for the Absolute IT earn-out payment which was classified as a financial liability at fair value through profit or loss.

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 liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to 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
2018							
Financial liabilities							
Non-interest bearing	-%	17,821	7,018	4,028	-	-	28,867
Floating interest	3.44%	103	206	929	36,516	-	37,754
		17,924	7,224	4,957	36,516	-	66,621
2017							
Financial liabilities							
Non-interest bearing	-%	17,812	5,678	8,037	-	-	31,527
Floating interest	3.59%	209	201	903	35,206	-	36,519
		18,021	5,879	8,940	35,206	-	68,046

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% (2017: 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	
	2018	2017
	\$'000	\$'000
Impact on profit and equity	180	183

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
2018				
AWF Limited	New Zealand	100%	100%	Labour hire
Allied Work Force Christchurch 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
2017				
AWF Limited	New Zealand	100%	100%	Labour hire
Allied Work Force Christchurch 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

AWF Madison acquired the shares of Absolute IT Limited and its related companies on 1 November 2016.

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 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 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 re-assesses 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.
- The Group operates an equity-settled stock appreciation right scheme for its chief executive that is settled in ordinary shares. The fair value of the stock appreciation rights are treated as share based payments as per the requirements of NZ IFRS 2 Share Based Payment. The fair value of the SAR's are calculated on 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. The same amount is credited to shareholders equity.

	GROUP	
	2018	2017
	\$'000	\$'000
EMPLOYEE BENEFITS		
Employee benefits	250,096	226,412
Employer contribution to Kiwisaver	3,087	2,658
Equity-settled share-based payments	(1)	80
Total employee benefits expense	253,182	229,150

	GROUP	
	2018	2017
	\$'000	\$'000
COMPENSATION OF KEY MANAGEMENT PERSONNEL		
The remuneration of key management during the year was as follows:		
Salaries and short-term benefits	2,774	2,291
Employer contribution to Kiwisaver	92	80
Equity-settled share-based payments	82	41
Total key management personnel compensation	2,948	2,412

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

Employee and director share schemes

The Group has an ownership-based compensation scheme for senior employees and directors 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.

The following share-based payment arrangements were in existence at 31 March 2018:

	Number	Grant date	Vesting date	Expiry date	Issue price	Fair value at grant date
					\$	\$
RESTRICTED SHARE SERIES						
Restricted D shares	156,000	30/07/2014	1/07/2019	1/07/2020	2.57	0.87
Restricted E shares 2017 Grant	52,000	23/11/2016	1/07/2019	1/07/2020	2.57	0.59
Restricted F shares 2017 Grant	78,000	23/11/2016	1/01/2022	1/01/2023	2.57	0.79
Restricted E shares 2018 Grant	28,000	2/08/2017	1/07/2019	1/07/2020	2.64	0.53
Restricted F shares 2018 Grant	42,000	2/08/2017	1/01/2022	1/01/2023	2.64	0.82
Total	356,000					

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.

During the year ended 31 March 2018, all remaining Restricted A and C shares were either exercised or expired (described above).

INPUTS INTO THE MODEL	D Shares	E Shares 2017 Grant	F Shares 2017 Grant	E Shares 2018 Grant	F Shares 2018 Grant
Grant date	30/07/2014	23/11/2016	23/11/2016	2/08/2017	2/08/2017
Vesting date	1/07/2019	1/07/2019	1/01/2022	1/07/2019	1/01/2022
Share price at grant date	\$2.45	\$2.55	\$2.55	\$2.70	\$2.70
Exercise Price	\$2.57	\$2.57	\$2.57	\$2.64	\$2.64
Days until vesting	1,797	950	1,865	698	1,613
Expected life (years)	4.90	2.60	5.10	1.90	4.40
Risk Free Rate	4.0%	2.4%	2.4%	2.2%	2.5%
Annualised Volatility	30.0%	26.5%	26.5%	23.1%	26.2%
Option Value	0.87	0.59	0.79	0.53	0.82

The weighted average fair value of the restricted shares granted under the restricted share scheme during the year was \$0.70 (2017: \$0.71)

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

	GROUP			
	2018		2017	
	Option Number	Weighted average exercise price \$	Option Number	Weighted average exercise price \$
Balance at 1 April	622,800	\$2.56	651,200	\$2.54
Granted during the year	70,000	\$2.64	165,000	\$2.57
Exercised during the year	(91,800)	\$2.50	-	\$-
Expired during the year	(182,000)	\$2.56	(128,400)	\$2.50
Forfeited during the year	(63,000)	\$2.57	(65,000)	\$2.57
Balance at 31 March	356,000	\$2.57	622,800	\$2.56

The number of restricted share options exercisable at 31 March 2018 is Nil (2017: 273,800).

The restricted shares outstanding at 31 March 2018 had a weighted average remaining contractual life of 1,131 days (2017: 1,342 days).

During the year ended 31 March 2018 the share based payments expense recognised by the Group was a credit of \$91,000 (2017: credit of \$9,000).

The weighted average share price at the date of exercise during the year was \$2.93 (2017: there were no restricted shares exercised during the year).

Stock appreciation rights

During 2015 the Group set up a long term incentive scheme whereby the participant is offered stock appreciation rights (SAR's). These are to be settled in ordinary shares, subject to certain performance conditions being met as measured by the total shareholder return (change in the market value of ordinary shares and amount of cash dividends paid) and the holder being a current employee at the vesting date. Due to the nature of the long term incentive scheme, the scheme has been treated as a share option scheme under NZ IFRS 2 Share-based Payment and a value placed on each SAR in accordance with the standard. The fair value of the SAR's were determined using an adjusted Binomial model which incorporates performance conditions by taking into consideration the potential pay-off scenarios of the SARs.

INPUTS INTO THE MODEL	S.A.R.s
Grant date	24/07/2015
Vesting date	1/07/2020
Share price at grant date	\$2.34
Reference price	\$2.28
Days until vesting	1,804
Expected life (years)	4.94
Risk Free Rate	3.0%
Annualised Volatility	27.5%
Option Value	\$0.20

The expected volatility was determined by assessing the Group's continuously compounded daily returns for the two year period prior to the grant date.

As at 31 March 2018 there were 2,000,000 (2017: 2,000,000) SAR's in the scheme with a value of \$404,000 (2017: \$404,000).

During the year ended 31 March 2018 the share based payments expense recognised by the Group was \$89,000 (2017: \$89,000).

If the Total Shareholder Return vesting criteria is met, the number of shares issuable is calculated using the reference price, the volume weighted market price of shares for the 60 days prior to the vesting date and the maximum number of SAR's available.

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	
	2018	2017
	\$'000	\$'000
PROVISION FOR MEDICAL COSTS		
Balance at 1 April	217	445
Payments made during the year	(152)	(589)
Revaluation of provision	(65)	146
Outstanding costs incurred in the current year	200	215
Balance at 31 March	200	217
Current	200	217
Non-current	-	-
Balance at 31 March	200	217

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 16,782,812 shares is the ultimate controlling entity of the Group, having a 51.55% holding.

Transactions

During the year, Group entities entered into the following trading transactions with a related party that is not a member of the Group:

	GROUP	
	2018	2017
	\$'000	\$'000
RELATED PARTY TRANSACTIONS		
Hull Properties Limited – Property leases	-	15
Multihull Ventures Limited – Recruitment services	11	-

Simon Hull is a shareholder of Hull Properties Limited. The lease expired during the year ended 31 March 2017. No amounts remain unpaid at 31 March 2018 (2017:\$ Nil). Simon Hull is also a shareholder of Multihull Ventures Limited. No amounts remain unpaid at 31 March 2018 (2017:\$ Nil).

F4 COMMITMENTS**Accounting policy**

- 1 Leases are 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 Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss.
- 3 Rentals payable under operating leases are 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 are also spread on a straight-line basis over the lease term.

Operating leases, measurement and recognition

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.

	GROUP	
	2018	2017
OPERATING LEASES RECOGNISED AS AN EXPENSE	\$'000	\$'000
Minimum lease payments under operating leases recognised as an expense in the year	3,268	2,525
	3,268	2,525

	GROUP	
	2018	2017
NON-CANCELLABLE OPERATING LEASE COMMITMENTS	\$'000	\$'000
Less than 1 year	2,824	2,768
Later than 1 year and not later than 5 years inclusive	6,317	5,972
More than 5 years	2,277	2,241
Total operating lease commitments	11,418	10,981

	GROUP	
	2018	2017
CAPITAL EXPENDITURE COMMITMENTS	\$'000	\$'000
Property, plant and equipment	270	-
Total capital expenditure commitments	270	-

F5 CONTINGENT ASSETS AND LIABILITIES

AWF Madison Group Limited has a guarantee to NZX Limited for \$75,000 dated 24 May 2005.

The Group has no other contingent assets or liabilities at 31 March 2018 (2017: \$Nil).

F6 EVENTS AFTER THE REPORTING DATE

No subsequent event has occurred since reporting date that would materially impact the Group's financial statements as at 31 March 2018.

F7 BUSINESS COMBINATION ABSOLUTE IT LIMITED EARN-OUT PAYMENT**Accounting policy**

Acquisition of businesses are accounted for using the acquisition method.

The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised in profit or loss as incurred.

Where applicable, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant NZ IFRSs.

The Group's goodwill policy is set out in note B3.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet conditions for recognition under NZ IFRS 3 (2008) Business Combinations 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.

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, 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.

The measurement period is the period from the date of acquisition to the date the Group receives complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

Effective 1 November 2016, AWF Madison Group Limited acquired 100% of Absolute IT Limited and its related companies ('Absolute IT'). The consideration paid by the Group to the vendors included a contingent consideration liability (also referred to as an 'earn-out payment') of \$3.42 million. As at 31 March 2017, the acquisition accounting for this acquisition had been completed and no provisional amounts were disclosed in the Group's financial statements for the year ended 31 March 2017.

Under the contingent consideration arrangement, the Group was required to pay the vendors an additional amount up to a maximum of \$4.2 million if Absolute IT's earnings achieved defined thresholds for the 52 weeks to 1 November 2017. The directors estimate of the amount payable under this arrangement was \$3.42 million based on 12 month forecast Absolute IT's gross profit and represented the estimated fair value of this obligation at acquisition date.

During the year ended 31 March 2018, Absolute IT's earnings for the 52 weeks to 1 November 2017 were less than that which was estimated by the directors on acquisition date, accordingly, on 1 November 2017, the Group settled the contingent consideration liability for \$3.25 million with the balance of \$0.17 million being recognised as a fair value gain through profit or loss.

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 2018. 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
Ross Keenan	Chairman, joined the board in 2005 in a non-executive capacity. Mr Keenan is a member of the Audit, Finance and Risk Committee, the Health and Safety Committee, the Organisation Committee, and the Remuneration Committee.
Simon Hull	Director, and founding shareholder. Mr Hull is Chairman of the Boards' Health and Safety Committee and member of the Audit, Finance and Risk Committee, Chairman of the Organisation Committee and a member of the Remuneration Committee.
Eduard van Arkel	Director, joined the board in 2005 in a non-executive capacity. Mr van Arkel is a member of the Audit, Finance and Risk Committee, the Health and Safety Committee, the Organisation Committee, and the Remuneration Committee.
Julia Hoare	Director, joined the board in 2013 in a non-executive capacity. Ms Hoare is Chairperson of the Audit, Finance and Risk Committee, a member of the Organisation Committee and the Remuneration Committee.
Wynnism Armour	Director, joined the board in 2015 in a non-executive capacity. Ms Armour was a founding shareholder of Madison Recruitment Limited and is Chairperson of the Remuneration Committee; and a member of the Health and Safety Committee, the Audit, Finance and Risk Committee and the Organisation Committee.
Nicholas Simcock	Director, joined the board in January 2018 in a non-executive capacity. Mr Simcock is a member of the Audit, Finance and Risk Committee, the Health and Safety Committee, the Organisation Committee, and the Remuneration Committee.

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	190,000
Simon Hull	16,782,812
Eduard K Van Arkel	77,800
Wynnism Armour	252,375

Disclosure of interests by Directors

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

ROSS B. KEENAN

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

SIMON HULL

AWF Madison Group Ltd	Director
AWF Ltd	Director
AWF Christchurch Ltd	Director
Hull Properties Ltd	Director
Nano Imports Ltd	Director
Multihull Ventures Ltd	Director
Marlborough Developments Ltd (2007)	Director

Indemnity from the Company under the D&O Insurance policy

EDUARD KOERT VAN ARKEL

AWF Madison Group Ltd	Director
Restaurant Brands NZ Ltd	Chairman
Auckland Regional Chamber of Commerce	Director
Van Arkel & Co Ltd	Director
Danske Mobler Ltd	Director
Abano Healthcare Group	Director
Phillip Yates Securities Ltd	Director

Indemnity from the Company under the D&O Insurance policy

JULIA HOARE

Auckland International Airport Ltd	Director
AWF Madison Group Ltd	Director
New Zealand Post Ltd	Director
A2 Milk Company Ltd	Deputy Chairperson
Watercare Services Ltd	Deputy Chairperson
Port of Tauranga Ltd	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	

WYNNISM ARMOUR

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

NICHOLAS SIMCOCK

AWF Madison Group Ltd	Director
Simcorp Ltd	Director
Wrap It Up Ltd	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	110	-	-	110
Simon Hull	60	58	-	-	58
Eduard K Van Arkel	60	58	-	-	58
Julia Hoare	60	58	-	-	58
Wynnis Armour	60	58	-	-	58
Nicholas Simcock	60	10	-	-	10
	415	352	-	-	352

CEO Remuneration

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

Fixed Remuneration

Over the course of the 2018 Financial year, the CEO, Simon Bennett, earned fixed remuneration of \$512,560 (2017 financial year \$474,750).

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%).

For the 2017 financial year, the CEO earned a total STI payment of \$50,400. The STI for the 2018 financial year has yet to be determined. Payment will be made in the 2019 financial year.

Long-Term Incentive

The CEO has access to two long-term incentive schemes:

- The Group operated equity-settled share based incentive scheme, refer note F1 of the financial statements; and
- The CEO equity-settled stock appreciation right scheme, refer note F1 of the financial statements.

Equity-settled share based incentive scheme

On 30 July 2014 the CEO was granted the option to acquire 60,000 Restricted C Shares at a price of \$2.57 per share, funded by an interest free loan with a vesting date of 1 January 2017.

Also on 30 July 2014 the CEO was granted the option to acquire 90,000 Restricted D Shares at a price of \$2.57 per share, funded by an interest free loan with a vesting date of 1 July 2019.

Equity settled stock appreciation scheme

During June 2015 the CEO was offered the opportunity to participate in the Company Stock Appreciation Scheme. The CEO was issued with 2 million stock appreciation rights.

The Stock appreciation rights are based on defined performance criteria to be achieved over the 5 year period ending 1 July 2020. The quantum of this option is capped and is subject to achievement of defined performance criteria.

Superannuation

The CEO is eligible to contribute and receive a matching Company contribution up to 3.0% of gross taxable earnings (including STI). For the 2018 financial year the Company contribution was \$15,347 (2017 financial year: \$15,755).

Summary of CEO remuneration	2018	2017
Remuneration event		
Base salary	\$512,560	\$474,750
Short-term incentive	Yet to be determined	\$50,400
Superannuation	\$15,347	\$15,755
At risk - long-term incentives:		
Restricted C Shares	Expired	60,000 at \$2.57
Restricted D Shares	90,000 at \$2.57	90,000 at \$2.57

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, totaling \$100,000 or more, during the year:

Remuneration	Number of Employees	
	2018	2017
\$100,000 – 109,999	8	6
\$110,000 – 119,999	10	9
\$120,000 – 129,999	8	8
\$130,000 – 139,999	3	2
\$140,000 – 149,999	4	1
\$150,000 – 159,999	5	-
\$160,000 – 169,999	2	3
\$170,000 – 179,999	2	4
\$180,000 – 189,999	-	2
\$190,000 – 199,999	3	-
\$200,000 – 209,999	1	1
\$210,000 – 219,999	1	-
\$220,000 – 229,999	1	-
\$230,000 – 239,999	1	2
\$240,000 – 249,999	1	1
\$250,000 – 259,999	3	-
\$260,000 – 269,999	-	1
\$270,000 – 279,999	2	-
\$490,000 – 499,999	-	1
\$510,000 – 519,999	1	-

**Additional stock exchange information
As at 31 March 2018**

Link Market Services
L11, Deloitte Centre
80 Queen St
Auckland 1010
New Zealand

PO Box 91976
Auckland, 1142
New Zealand
Ph: +64 9 375 5998
or: 0800 377 388

Distribution of holders of quoted shares

Size of holding	Number of fully paid ordinary shareholders	Percentage	Number of fully paid shares	Percentage
1 – 1000	68	11.58%	37,090	0.11%
1001 – 5000	241	41.06%	736,084	2.26%
5001 – 10000	111	18.91%	877,260	2.69%
10001 – 50000	131	22.32%	2,899,695	8.91%
50001 – 100000	17	2.90%	1,282,377	3.94%
100001 and Over	19	3.24%	26,722,687	82.09%
	587	100.01%	32,555,193	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 Hull	16,716,462	51.00%	7/04/2015
Milford Asset Management Limited	1,341,047	5.20%	23/01/2014

Twenty largest holders of quoted equity securities

Investor	Total Units	Percentage
Simon Alexander Hull & David John Graeme Cox	16,782,812	51.55%
New Zealand Central Securities Depository Limited	3,788,200	11.64%
Masfen Securities Limited	1,460,051	4.48%
Russell John Field & Anthony James Palmer	1,125,000	3.46%
Peter Abe Hull & Antoinette Ngaire Edmonds & Rennie Cox Trustees No 1 Ltd	435,196	1.34%
Susanne Rhoda Webster	426,750	1.31%
Ian Harold Holland	333,800	1.03%
Wynniss Ann Armour & Jocelyn Patricia Dutton	252,375	0.78%
Joanna Hickman & John Anthony Callaghan & Kevin James Hickman	245,170	0.75%
David Mitchell Odlin	242,475	0.74%
Philip John Talacek & Brenda Ann Talacek	235,000	0.72%
Simon James Bennett	225,875	0.69%
FNZ Custodians Limited	214,456	0.66%
Kevin James Hickman & Joanna Hickman	200,000	0.61%
Ross Barry Keenan	190,000	0.58%
FNZ Custodians Limited	168,461	0.52%
Garrett Smythe Limited	156,250	0.48%
Lay Dodd Trustee Services Limited & Patricia Anne Neal	121,713	0.37%
Forsyth Barr Custodians L1m1ted	119,103	0.37%
James Michael Robert Syme	100,000	0.31%

Directory

Registered Office

Level 6, 51 Shortland Street
 PO Box 12832
 Penrose
 AUCKLAND
 Ph: 09 526 8770

Directors

Ross Keenan (Chairman)
 Eduard van Arkel (Independent Director)
 Julia Hoare (Independent Director)
 Simon Hull (Non-Executive Director)
 Wynn's Armour (Non-Executive Director)
 Nicholas Simcock (Independent Director)

Auditor

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

Solicitors

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

Share Registry

Link Market Services
 L11, Deloitte Centre
 80 Queen St
 Auckland 1010
 New Zealand
 PO Box 91976
 Auckland 1142
 Ph: +64 9 375 5998
 or: 0800 377 388



AWF MADISON

**Registered Office of
AWF Madison Group Limited**

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awfmadison.co.nz