

Chandler Macleod Group Limited and its controlled entities

ABN 33 090 555 052

Financial Report
for the year ended 30 June 2014

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Corporate Information

ABN 33 090 555 052

DIRECTORS

R.A.F. England (Chairman, Non-Executive Director)
M.H. Carnegie (Non-Executive Director)
J.J. Cowin (Non-Executive Director)
E.A. Crouch (Non-Executive Director)
J.C. Plummer (Deputy Chairman, Non-Executive Director)
C.J.C. Judson (Managing Director and Chief Executive Officer)

COMPANY SECRETARIES

M.H. Sloper
G.J. Coolahan
O.J. Wilson (resigned 3 June 2014)

REGISTERED OFFICE

Level 18, 363 George Street
Sydney NSW 2000
(02) 9269 8666

PRINCIPAL PLACE OF BUSINESS

Level 18, 363 George Street
Sydney NSW 2000
(02) 9269 8666

SHARE REGISTER

Computershare Investor Services Pty Limited
Yarra Falls
452 Johnston Street
Abbotsford VIC 3067

BANKERS

National Australia Bank
Australia and New Zealand Banking Group

AUDITORS

Ernst & Young

INTERNET ADDRESS

www.chandlermacleod.com

Directors' Report

The Board of Directors of Chandler Macleod Group Limited ("the Company") submit their report in respect of the financial year ended 30 June 2014.

DIRECTORS

The names and details of the Directors in office during the financial year to the date of this report are as follows. The Directors were in office for this entire period unless otherwise stated.

Richard England – Non-Executive Chairman FCA, MAICD

Richard England was appointed a Director of the Company on 27 February 2008, and became Chairman on 2 May 2008. Richard is a member of the Audit and Risk Management Committee and the Remuneration and Nomination Committee. Richard brings to the Company over 30 years of experience in the accounting and financial services profession as well as broad management experience.

Until 1994, Richard spent most of his professional career with Peat Marwick and EY and its predecessor firms, first becoming a partner in 1982. He practiced in the areas of Corporate Recovery and Restructuring. Richard is currently Chairman of Ruralco Holdings Limited. He is a Non-Executive Director of Macquarie Atlas Roads Limited, Nanosonics Limited and Japara Healthcare Limited.

Mark Carnegie – Non-Executive Director Bachelor of Arts, Bachelor of Science, Master of Jurisprudence

Mark Carnegie was appointed a Director of the Company on 6 February 2009. Mark was a member of the Company's Remuneration and Nomination Committee from February 2009 until May 2011.

Mark has had more than 30 years experience as an entrepreneur, investor and corporate adviser in New York, London and Sydney. He was co-founder of Carnegie, Wylie & Company before the acquisition of that business by Lazard Inc and was previously the CEO of Lazard Australia Private Equity Pty Ltd (formerly LCW Private Equity Pty Ltd), Lazard's Australian private equity business. Mark established M.H. Carnegie & Co. Pty Ltd in 2010, a venture capital and private equity firm. Mark is a Director of Strike Energy Limited and a large number of private companies.

Gareth Young – Alternate Non-Executive Director to Mr Carnegie (resigned 25 July 2013) Bachelor of Science in Economics

Gareth Young was appointed as the Alternate Non-Executive Director to Mark Carnegie on 31 January 2013.

Gareth is a Director and a member of the investment committee at Lazard Australia Private Equity ("LAPE"). Prior to joining LAPE in August 2011, Gareth spent seven years with ISIS Equity Partners, a private equity firm based in London, as a member of their investment team where he successfully led and supported a number of new investments, recapitalisations, refinancing events, restructuring events and exits. Gareth's experience also includes periods in the corporate restructuring divisions of Arthur Andersen and EY in London.

Gareth holds a B.Sc. in Economics (First Class Honours) from University of London, is a member of the Institute of Chartered Accountants for England & Wales and has completed the Program for Leadership Development at Harvard Business School.

Directors' Report (continued)

DIRECTORS (CONTINUED)

Jack Cowin – Non-Executive Director

Bachelor of Arts, Doctorate of Laws

Jack Cowin was appointed a Director of the Company on 1 March 2011. On 26 May 2011 Jack was appointed Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee.

Jack Cowin is the Founder and Executive Chairman of Competitive Foods Australia Pty Ltd, which owns and operates over 350 fast food restaurants in Australia. It also operates several food manufacturing plants for the supermarket and food service industries, exporting to 29 countries. Jack is Chairman of Domino's Pizza Enterprises Limited, a Director of Network Ten and a Director of BridgeClimb and was appointed a Director of Fairfax Media Limited on 19 July 2012. He brings significant experience and understanding of the sectors in which Chandler Macleod operates.

Elizabeth Crouch – Non-Executive Director

Bachelor of Economics, FAICD

Elizabeth Crouch was appointed a Director of the Company on 1 March 2011. On 26 May 2011 Elizabeth was appointed Chair of the Audit and Risk Management Committee and a member of the Remuneration and Nomination Committee.

Elizabeth Crouch is a company director and consultant to government and the private sector. She spent 16 years with the Federal Government before moving into the private sector, where she held various positions including the role of Chief Executive of the Housing Industry Association. Elizabeth is Deputy Chancellor of Macquarie University and an Alternative Director of Macquarie University Hospital, Chair of the City Sydney Health Infrastructure and Transport audit committees. She is an executive coach and mentor with the Orijen Group and the former Chairman of Railcorp and the Public Transport Ticketing Corporation. She also holds a number of positions with community and sports organizations including as a Director of the North Harbour Rays.

John Plummer – Non-Executive Deputy Chairman

Bachelor of Commerce, MBA, FCIS

John Plummer was appointed a Director of the Company on 30 May 2005. From 1 September 2007, John became a Non-Executive Director and a member of the Remuneration and Nomination Committee until May 2011. John was also Chairman of the Audit and Risk Management Committee from April 2009 until May 2011.

John is also a Director of Kinetic Superannuation Limited. John is a past National President of the Recruitment and Consulting Services Association, the peak body of the employment services industry in Australia and New Zealand.

Cameron Judson – Managing Director and CEO

Bachelor of Arts, MBA (Executive)

Cameron Judson was appointed CEO and Managing Director of the Company on 2 July 2012.

As CEO and Managing Director of Chandler Macleod Group Limited, Cameron is responsible for delivering sustainable profitable growth, improving operational performance and driving innovation and change. With Chandler Macleod since 2005, Cameron held strategic roles as Director Workforce Services, Director of Business Services, Executive General Manager Client Services and Regional General Manager NSW before his appointment as Chief Operating Officer in 2010. As Chief Operating Officer, he was instrumental in developing and executing the Group's strategy.

Before joining Chandler Macleod, Cameron held senior positions within Chubb and TNT, companies with international operations delivering services to most major vertical markets.

Directors' Report (continued)

COMPANY SECRETARIES

The qualifications and experience of the Company Secretaries in office at the end of the financial year are as follows:

Morgan Sloper

MLM, BALLB (Hons), GdipLegalPrac

Morgan Sloper is Chandler Macleod's Chief Legal & Risk Officer and was appointed Company Secretary on 31 January 2013. Leading the Legal, Risk and Safety functions for the Group, Morgan supports the achievement of Chandler Macleod's strategy, through the provision of valued legal and risk advice and guidance, to ensure the organisation effectively manages its regulatory requirements and commercial risks. Morgan re-joined Chandler Macleod in 2013, having previously held the role of General Counsel and Company Secretary at Chandler Macleod between 2007 and 2008.

Morgan brings over 15 years of legal and risk management experience from across Australia, the USA and Asia, and having worked for several leading organisations including Brightpoint, Quiksilver and Optus.

Gregory Coolahan

Dip Law (SAB)

Greg Coolahan, the Company's Group Legal Counsel, was appointed Company Secretary on 17 April 2011.

As Group Legal Counsel, Greg is responsible for contract and tender reviews, commercial and corporate legal advice, insurance maintenance and renewal, and general legal advice, services and training. Greg was formerly Commercial and Legal Director at Ross Human Directions prior to its acquisition by the Company. He previously held a senior legal and commercial role within Otis Elevator Company (Australia and International).

Owen Wilson

Bachelor of Commerce, ACA

Owen Wilson, the Company's Chief Financial Officer, was appointed Company Secretary on 9 April 2009. He provided notice of resignation of his position on 3 June 2014 and will be leaving the Company in September 2014.

Owen joined the Company following a 15 year career with the ANZ Banking Group during which he held various finance roles culminating in the role of Chief Financial Officer of the Institutional Division of ANZ. Owen was responsible for ANZ's international partnership business in Asia where he oversaw their investments in numerous banks and credit card businesses across the region. He was a director of numerous companies in Australia and Asia including ANZ Royal Bank in Cambodia and the listed AmBank Group in Malaysia.

Prior to joining ANZ, Owen had a successful career with KPMG in Melbourne and London. He has excellent experience with high end relationship businesses through his work in Institutional Banking and he has managed high volume low margin operations in his previous role.

Directors' Report (continued)

CORPORATE STRUCTURE

The Company is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its controlled entities ("the Group") during the financial year were HR outsourcing, recruitment, consulting and managed services.

OPERATIONS AND FINANCIAL REVIEW

Operations

During the year the Group offered a complete range of temporary and permanent recruitment services in Australia and Internationally. The Group provided a range of managed services to help clients reduce risk and improve productivity. In addition, the Group offered specialist products and services in relation to consulting and assessment as well as payroll and HR information systems.

Since it was founded in 1959, Chandler Macleod has earned its place as a market leader in human resources services. Through consistently building on our proven track record of unleashing potential in people and businesses, 55 years on we have diversified to provide products and services to some of Australia's largest companies and organisations, including 60% of the ASX Top 100.

Chandler Macleod works with individuals and organisations to plan, source, assess, develop and manage their talent to deliver productivity and new opportunities where they may not have been possible before. Our team of more than 1,100 internal employees and around 20,000 employees working on client sites during the year makes Chandler Macleod one of the largest employers in our region.

Chandler Macleod maintains a delivery infrastructure across Australia, New Zealand, Asia, the UK and Ireland providing national, regional, and locally-focused client management. We operate a 24 hours a day, 7 days a week service, and can draw from our database of more than half a million qualified candidates who are actively seeking opportunities.

The Group results for the year include the full year impact of Vivir Healthcare Pty Ltd ("Vivir"). Since joining the Group on 5 December 2012, Vivir has performed in line with expectations and has reinforced the strategic direction to change the business mix.

Revenue for the year was \$1,413 million, a decrease of 6% over last year. This is due to a fall in contractor hours worked, margin reduction and a continuation of the slowdown in permanent recruitment activity. A drop in demand in Western Australia has added to the softness in the east coast states across many sectors of the economy.

Offsetting the underlying fall in revenue, underlying expenses were reduced by 7% due to cost reduction initiatives across the business. Excluding acquisitions the reduction was 9%. A restructuring charge for the year of \$4.2 million was booked relating to redundancy and property rationalisation costs.

In December 2013 the Group completed a capital raising for \$24.7 million that resulted in reduced debt levels at year end. Net interest expense for the year was \$8.5 million in line with the prior year. The increased interest expense associated with the Vivir acquisition was largely offset by the impact of interest rate reductions and lower debt levels from the capital raising.

Directors' Report (continued)

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Operations (continued)

Chandler Macleod's ongoing commitment to safety and wellbeing resulted in a 10% reduction in the Group's Total Recordable Injury Frequency Rate. In May, the Group was awarded the Recruitment and Consulting Services Association's McLean Award for Workplace Safety, which is a testament to Chandler Macleod's continued focus and efforts to reduce injury frequency, severity and costs. The Group has developed a strong safety leadership and culture, striving for best case safety outcomes by assessing and controlling all high risk activities and continuing to invest in safety leadership programs.

In December 2012 Chandler Macleod acquired the Vivir business. At the time of acquisition the potential earn out was recorded as a liability at fair value. In accordance with accounting standards, movement in the fair value of the liability is recorded in the Statement of Comprehensive Income. In the prior year the original fair value of \$4.6 million was reduced to \$2.4 million due to post acquisition changes to the underlying assumptions. In the current year a further reassessment of the underlying assumptions has resulted in the earn out liability being reduced to nil and a further \$2.8 million fair value adjustment has been included in the Statement of Comprehensive Income.

In July 2013 Chandler Macleod acquired a 40% interest in Cornerstone Global Partners Limited, a recruitment solutions business with offices in Beijing and Shanghai. In August 2013 the Group acquired a 73.7% stake in Grafton Consulting Limited, a New Zealand based company that provides a broad range of human resource consulting services. Both acquisitions are performing above expectations and are increasing the geographic spread of Chandler Macleod services.

The **Staffing Services Division** reported an EBITDA of \$39.0 million before corporate overheads for the year, down 19% from the prior year. Reduced contract labour hours and lower margins, and lower permanent recruitment activity in most sectors contributed to the result. Conditions in Western Australia saw a large fall in volumes, particularly in mining. The drop in revenue was partially offset by cost reductions achieved during the period.

The **Managed Services Division** reported an EBITDA of \$19.4 million before corporate overheads compared to \$17.9 million in the prior period. The full year contribution from Vivir, together with growth in AHS, was partially offset by the run off of the Qantas Avalon contract and another large BPO contract.

The **Specialist Products Division** reported an EBITDA of \$6.8 million before corporate overheads, in line with the prior year result. Strong growth in Aurion was offset by lower demand for Consulting products, particularly assessment and development products. The Consulting business has undertaken significant restructuring and reduced its cost base in line with the drop in revenue.

The **International** businesses contributed an EBITDA of \$1.9 million compared to \$2.3 million in the prior year. The New Zealand result benefited from the addition of Grafton Consulting, while difficult trading conditions across the Asian businesses saw declines in all those geographies.

Directors' Report (continued)

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Operations (continued)

The results are:

	30 June 2014 \$000	30 June 2013 [^] \$000
Revenue	1,413,197	1,503,909
EBITDA* before restructuring, fair value adjustment to contingent consideration, acquisition and related transaction costs	40,196	45,253
Restructuring costs	(4,252)	(7,333)
Fair value adjustment to contingent consideration	2,775	1,800
Acquisition and related transaction costs	(565)	(1,630)
EBITDA	38,154	38,090
Net profit after tax before restructuring, fair value adjustment to contingent consideration, impairment of intangibles, acquisition and related transaction costs	14,207	18,251
Restructuring costs after tax	(2,991)	(5,133)
Fair value adjustment to contingent consideration	2,775	1,800
Impairment of intangibles	-	(2,700)
Acquisition and related transaction costs after tax	(522)	(1,510)
Net profit for the period	13,469	10,708

* Earnings before interest, tax, depreciation and amortisation

[^] 30 June 2013 balances have been restated (Note 5b & Note 23d).

Financial Position

The Board has declared a fully franked final dividend of 1.8 cents per share (2013: 1.8 cents per share). The Company's Dividend Reinvestment Plan ("DRP") has been suspended by the Board.

The capital raising in December 2013 and improved working capital management together contributed to a reduction in net debt to \$88 million at 30 June 2014. Gearing has fallen to 32%. Interest expense for the year was \$8.5 million in line with the prior year. The full year interest expense associated with the Vivir acquisition was more than offset by reduced debt levels. The Group has negotiated new banking arrangements with Westpac and HSBC. These arrangements will allow for more efficient management of funding resulting in lower funding costs in 2015.

During the period the Group had banking facilities totalling \$268.4 million, of which \$178.7 million was utilised at year end. The group operated within its loan covenants throughout the year.

The operating cash flow before interest, restructuring costs and acquisition related transaction costs was \$36 million. This outcome exceeded previous expectations due to strong cash collections and working capital management.

Directors' Report (continued)

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Strategy and Outlook

The Group's strategy is built around the following 5 pillars:

1. Change the Business Mix:

Increase our profit margins by focusing on growth in higher margin products, sectors and skills and selectively adding new products and services to our offering.

The AHS and Vivir businesses continue to deliver in line with expectations and increase the contribution of non-recruitment revenue to the Group. This has helped the Group to maintain EBITDA margins, particularly in the second half of the year, despite margin pressures in other parts of the business. The Group is also increasing its investment in the Aurion business to better position it for the significant growth phase that is already being seen in current pipeline activity.

2. Organise around the Client:

Maximise our relationships with clients by aligning our structure, account management, sales and marketing practices to reflect a single view of our clients. On the back of the rollout of the new Business Intelligence tool, account management and client servicing processes are being refined.

3. Improve Productivity and Efficiency:

During the year operating expenses (excluding the impact of acquisitions) decreased by 9% or \$14.6 million. A number of group projects are underway to improve productivity and efficiency including a core system upgrade, development of a candidate portal, further centralisation of back office activities where appropriate and the continued development and rollout of the Business Intelligence system to encompass whole of Group. This includes tiered servicing levels, clearly defined client servicing points and centralisation of certain processes into centres of excellence to improve customer service levels.

There has also been a reduction in premises costs as properties continue to be rationalised across the Group – 11 properties were exited during 2014.

4. Build our International Network:

Focus on leveraging our network of businesses across Australia, New Zealand, Asia, UK and Ireland to grow organically with a view to identifying opportunities that will support building scale in our international network.

The Grafton (NZ) and Cornerstone (China) acquisitions are performing ahead of expectations and have helped to offset the reduction in perm activity experienced across most geographies. 2014 has seen a strengthening of the management team across the International network with several key appointments being made.

5. Enhance Risk Management:

Enhance our risk management by having a clear approach to identifying and managing risks to achieve sustainable returns for shareholders, clients and our people.

During the course of the year, the Group's Risk Management Policy and Framework has been implemented at the project, business unit, divisional and departmental level. The Policy and Framework describes and informs a proactive, structured and integrated approach to risk identification, analysis, evaluation, treatment and reporting. Key risks and issues, and the corresponding mitigation strategies, are reported and discussed on a monthly basis by the Executive Risk Management Committee, with direct oversight from the Group's Chief Executive Officer and Board of Directors.

Directors' Report (continued)

OPERATIONS AND FINANCIAL REVIEW (CONTINUED)

Strategy and Outlook (continued)

It is difficult to predict the timing and extent of the improvement in business confidence in 2015. The stronger second half result reported in 2014 demonstrates that there is some increased momentum in the business since the Federal Election. Hours worked in the Staffing Services business have returned to prior year levels and we are confident that this trend will continue, although the full impact of customer driven margin reductions is still flowing through. The AHS, Vivir and Aurion businesses are showing good growth signs and have very strong pipelines. The significant costs savings that have been delivered in 2013 and 2014 will also provide benefits in future periods.

Future financial outcomes will be impacted by a number of factors:

- Business confidence is mixed across industries but overall appears to be stable since the Federal Budget indicators point to further modest improvement. Reduced demand in the mining sector is expected to continue.
- Margin pressure from customers is expected to continue but at a reduced rate. Productivity and efficiency initiatives are in train to reduce the impact of lower margins..
- The pipeline remains solid, particularly in the AHS, Vivir and Aurion businesses. These businesses are expected to deliver strong growth in 2015.
- A stronger focus on managing customer profitability through the new management information system should see additional benefits in 2015 and beyond.
- The Consulting and International businesses have been restructured and are well positioned to take advantage of improving market conditions
- The full year benefit of cost reductions achieved this year will be seen in 2015 and additional productivity cost initiatives will deliver further savings in 2015 and 2016.

DIVIDENDS	Cents	\$000
Final 2014 dividends declared	1.80	9,864
Dividends paid in the year:		
Interim 2014 dividends	1.40	7,609
Final 2013 dividends	1.80	8,454

Directors' Report (continued)

ACQUISITION OF GRAFTON CONSULTING LIMITED (GRAFTON)

On 6 August 2013, OCG Consulting Limited (OCG), a subsidiary of Chandler Macleod Group (CMG), acquired 73.7% of shares in Grafton. Grafton delivers a broad range of human resource consulting services to both Corporate and SME clients throughout New Zealand.

The acquisition price comprised of upfront cash payment of NZ\$2.9 million and three deferred payments, based on an earn out arrangements. Under the shareholders agreement, OCG has a call option over the remaining 26.3% of shares. The remaining minority shareholders have put options to OCG, exercisable at various stages up to August 2016. On this basis, 100% ownership is virtually certain at acquisition date, therefore Grafton has been accounted for as a wholly-owned subsidiary.

Refer to note 23 of the financial statement for details.

ACQUISITION OF CORNERSTONE GLOBAL PARTNERS LIMITED (CORNERSTONE)

On 19 July 2013, Chandler Macleod Group (HK) Limited acquired 40% interest in Cornerstone Global Partners Limited (Cornerstone).

Cornerstone delivers a range of recruitment solutions including candidate search and talent management consulting, along with recruitment outsourcing and contracting solutions. Cornerstone services clients across China through their offices in Beijing and Shanghai. Refer to note 15 of the financial statement for details.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the reporting period, apart from the acquisition of Grafton and investment in Cornerstone disclosed above.

ENVIRONMENTAL REGULATION PERFORMANCE

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Directors' Report (continued)

SIGNIFICANT EVENTS AFTER YEAR END

Dividend

On 18 August 2014, the directors of Chandler Macleod Group Limited declared a final dividend on ordinary shares in respect to the 2014 financial year. The total amount of the dividend is \$9.9m which represents a fully franked dividend of 1.80 cents per share. The dividend has not been provided for in the 30 June 2014 financial statements. The directors have suspended the Company's DRP.

New banking facility

On 18 August 2014, the Group entered into a combined facilities agreement with Westpac Banking Corporation and the Hong Kong & Shanghai Banking Corporation which comprises:

- Cash Advance facility of \$51.2 million
- Bank Guarantee facility (Australia and overseas) of \$11 million
- Multi Option facility (Australia and overseas) up to \$10 million
- Invoice Finance - With Recourse facility up to \$90 million
- Invoice Finance - Without Recourse facility up to \$55 million
- Workers Compensation Bond Facility of \$55.5 million

The Group will terminate all of its current facilities with NAB and ANZ on or before 29 September 2014.

MEETINGS OF DIRECTORS

There were 15 Board meetings, 6 Audit and Risk Management Committee meetings and 7 Remuneration and Nomination Committee meetings held during the financial year. The number held that each Director was eligible to attend, and the number of meetings attended by each Director is as follows:

Directors	Board of Directors		Audit and Risk Management Committee		Remuneration and Nomination Committee	
	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED
R. England	15	15	6	6	7	7
M. Carnegie	15	13	-	N/A	-	N/A
J. Cowin	15	13	6	4	7	6
E. Crouch	15	15	6	6	7	7
J. Plummer ¹	15	15	6	6	7	6
C. Judson ¹	15	11	6	4	7	4

1. Mr Plummer and Mr Judson attended as invited guests of the Audit & Risk Management Committee and the Remuneration and Nomination Committee.

OPTIONS AND SHARES OR OTHER INTERESTS

Shares or other interests

During the 2014 financial year, the Company allocated 3,422,135 (2013: 6,091,657) shares under the Senior Executive Share Plan (SESP). Details of the SESP are disclosed in the Long-Term Incentive section of the Remuneration Report and in note 29 of the financial statements.

Unissued shares

As at the date of this report, there were 458,645 unissued ordinary shares under options (458,645 at the reporting date). Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of option

During the financial year, employees and executives have exercised options to acquire 176,470 fully paid ordinary shares in Chandler Macleod Group Limited at a weighted average exercise price of \$0.51 per share.

Directors' Report (continued)

RELEVANT INTERESTS AND CONTRACTS

The relevant interests of Directors in the ordinary shares of the Company at the date of this report are set out in the table below. For details of movement of the Directors' relevant interests in ordinary shares during the year refer to note 27(b) of the Financial Statements.

Director	Direct	Indirect	Total
R. England	-	1,000,000	1,000,000
M. Carnegie	-	-	-
J. Cowin	-	29,212,929	29,212,929
E. Crouch	-	-	-
J. Plummer	49,234,912	24,228,320	73,463,232
C. Judson	66,608	5,467,937	5,534,545*

*Including 2,202,917 shares held by CPU Share Plans Pty Ltd as trustee of the Senior Executive Share Plan on behalf of Mr Judson which had not vested as at 30 June 2014.

No Director is a party to a contract that confers the right of the Director to call for the delivery of shares, debentures or interests in registered schemes made available by the Company or a related body corporate.

EARNINGS PER SHARE

	2014	2013
Earnings per share (cents per share)	2.71	2.39
Diluted earnings per share (cents per share)	2.65	2.31

INDEMNIFICATION OF OFFICERS

During the financial year the Company paid a premium in respect to a contract insuring the Directors of the Company and its officers and any related body corporate against liabilities incurred (including legal costs) as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001.

The Company has agreed to indemnify each Director, to the extent permitted by law, for all liabilities (including legal costs) incurred by the Director as an officer or former officer of the Company or a related body corporate.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, the Company has agreed to indemnify its auditors, EY, as part of the terms of its audit engagement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify EY during or since the financial year.

AUDITOR INDEPENDENCE DECLARATION

The Auditor's Independence Declaration follows the Directors' Report.

NON-AUDIT SERVICES

Details to the non-audit services provided by the consolidated entity's auditor are provided at note 33 to the Financial Statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. EY received or are due to receive \$235,495 for the provision of non-audit services (\$167,522 for tax compliance and \$67,973 for other assurance services).

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

This Remuneration Report outlines the Director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its Regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for Key Management Personnel ('KMP') who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or otherwise) of the Company and the Group.

Details of KMP

(i) Directors

C. Judson	Managing Director and Chief Executive Officer
R. England	Non-Executive Director and Chairman
J. Plummer	Non-Executive Director and Deputy Chairman
M. Carnegie	Non-Executive Director
G. Young	Non-Executive Alternate to Mr. Carnegie (resigned 25 July 2013)
E. Crouch	Non-Executive Director
J. Cowin	Non-Executive Director

(ii) Executives

O. Wilson	Chief Financial Officer (notice of resignation received 3 June 2014)
D. Johnson	Chief Operating Officer - Staffing Services (resigned 1 November 2013)
T. Sinibaldi	Chief Operating Officer - Staffing Services (appointed 1 November 2013)
M. Loader	Chief Operating Officer - Managed Services
K. Frame	Chief Operating Officer - Specialist Products (appointed 13 January 2014)

Apart from O. Wilson's notice of resignation, there were no changes in KMPs after the reporting date and before the date the financial report was authorised for issue.

Remuneration and Nomination Committee

The Company does not have a discrete remuneration committee. However, the functions of such a committee are performed by the Remuneration and Nomination Committee ("Committee"), which has been established by resolution of the Board of Directors. The Committee is responsible, among other things, for determining and reviewing remuneration arrangements for the Board and executives. The primary objective of the Committee is to assist the Board to fulfil its corporate governance and overseeing responsibilities in relation to:

- The Company's overall people strategy including remuneration components, performance measurements and accountability frameworks, organisational structure and culture, business alignment and external competitiveness;
- CEO and executive remuneration framework, including performance incentives and hurdles;
- CEO and executive recruitment, retention, talent management and succession planning;
- Chairman and Non-Executive Director remuneration framework;
- Board structure, membership, tenure and succession planning; and
- Board induction and training.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Remuneration and Nomination Committee (continued)

The Committee is chaired by Mr Jack Cowin and, pursuant to its Charter, is comprised of no less than two and no more than five members appointed by the Board, all of whom must be Non-Executive Directors. As at the date of this Remuneration Report, the Committee comprises three Non-Executive Directors.

The Committee appointed Daman Patterson, Chief People Officer of the Group as their Principal Adviser. To ensure the remuneration committee is fully informed when making remuneration decisions, it seeks external remuneration advice. The advice has been obtained from independent external remuneration consultants to structure a market competitive framework that is aligned with its overall business strategy and objectives, pursuant to the Remuneration Policy described below.

During 2014, the Committee engaged Mercer Group as independent remuneration consultants to the Company in order to ensure the remuneration committee is provided with advice, and as required, remuneration recommendations, free from undue influence by members of the KMP to whom the recommendations may relate.

The engagement of Mercer Group by the remuneration committee was based on an agreed set of protocols that would be followed by the Group, members of the remuneration committee and members of KMP. The fees paid to Mercer for their services were \$13,125.

During the 2014 year, Mercer Group provided the Company with:

- Outline of the key management personnel (KMP) remuneration review - methodology and deliverables
- Requirements for listed companies when engaging remuneration consultants to advise on KMP remuneration
- Discussion of the appropriate benchmarking peer group for Chandler Macleod
- Company context including current programs, market for talent, key objectives and linkage to company/people strategy

Remuneration Policy

The Remuneration Policy of the Company for its Directors and executives recognises the need for the Company to attract, motivate and retain highly skilled people to undertake the responsibilities of these roles. The Remuneration Policy also recognises that the Board is responsible to the shareholders of the Company to ensure that interests of the Directors and executives of the Company are aligned with the interests of the shareholders.

The primary objective of the Remuneration Policy is to align Director and executive remuneration with sustainable shareholder value. To this end the remuneration policy of the Company embodies the following principles:

- Providing fair, consistent and competitive rewards to attract and retain high calibre executives;
- Motivating the Company's Directors and executives to achieve superior performance;
- A remuneration framework that is linked to Company performance and total shareholder return; and
- Building a partnership between the Company and its Directors and executives by encouraging share ownership in the Company by Directors and executives.

The combination of fixed and variable pay components including short and long-term incentive strategies is aligned with these principles, in order to achieve the above objective of the Remuneration Policy.

The executives, including Executive Directors and the Company Secretaries, have an "at risk" or variable component designed to align shareholder value by tying incentive payments to measures of the Company's performance. Measures include:

- Profit of the consolidated entity;
- Working capital/debtor management; and
- Regional or divisional revenue and profit.

Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering into contracts to hedge their exposure to shares and options awarded as part of their remuneration package.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration for its Non-Executive Directors at a level that provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders. The maximum total fees payable by the Company to the Non-Executive Directors collectively is \$800,000 per annum.

Non-Executive Directors are paid a fee for being a Director of the Company. An additional fee is paid for each Committee on which a Non-Executive Director sits. Non-Executive Directors do not receive any bonus or incentive payment based upon Company or personal performance. The Board annually reviews the fees paid to Non-Executive Directors and considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking its annual review process. The annual fees of the Non-Executive Directors effective from 1 January 2014 (inclusive of superannuation) were;

- Chairman - \$250,000;
- Deputy Chairman - \$150,000;
- Non-Executive Director - \$100,000;

All Non-Executive Directors are retained under standard letters of appointment. The tenure of Non-Executive Directors is subject to the Company Constitution and the *Corporations Act 2001*.

Non-Executive Directors are reimbursed expenses and may be supported in their role through Company sponsored professional development activities, Company supplied technology, insurance and indemnity cover and other benefits.

No retirement benefits or other forms of bonus or incentive payments are paid to Non-Executive Directors.

Structure and Elements of Executive Remuneration

Each executive is employed under an executive service agreement. Remuneration for executives (including Executive Directors) comprises three elements, making up a Total Remuneration for each person. Those elements are:

- Total Fixed Remuneration;
- Short Term Incentive; and
- Long Term Incentive.

The remuneration packages of all executives are reviewed annually against a comparator group of ASX-listed companies of similar size. Companies are chosen by reference to market capitalisation and annual revenue to compare remuneration for similar size companies where available comparisons are also made to companies operating in the same sector. The annual benchmarking may or may not lead to changes in an executive's total fixed remuneration. Other factors considered in setting remuneration levels include an individual's contribution to the Company's performance, relevant industry experience and tenure. Whilst the Company seeks to position remuneration in the median level, there are no guaranteed increases in total fixed remuneration for executives.

Total Fixed Remuneration ("TFR")

The fixed remuneration includes all benefits, such as salary, superannuation contributions and salary sacrifice benefits. The Company may, in addition, provide other benefits such as mobile phones, home office facilities, indemnity and insurance cover.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Short Term Incentive ("STI")

The purpose of STI's is to reward executives for their contribution to the achievement of the Group and business unit outcomes, as well as individual key performance indicators (KPI). The Company's STI plan provides for a cash payment based on a target percentage of TFR ranging from 20% of TFR to 40% of TFR. The target payment may then be discounted for under performance or increased for over performance and it is capped at a maximum value of 80% of TFR. To achieve target STI the performance criteria require a reasonable degree of performance improvement beyond previous performance levels. To achieve the maximum STI requires consistent outstanding performance of an order that is rarely achieved.

The performance indicators for determining an award of STI comprise a combination of key financial and non-financial indicators which can be appropriately measured. The indicators include performance against overall company financial targets, performance against business units' financial targets and performance against individual objectives. These financial performance measures include EBITDA, net profit after tax, compliance to payment terms and revenue growth. The split between financial and non-financial indicators are reviewed each year by the Remuneration and Nomination Committee. Each performance metric has a threshold performance level below which no STI is payable. The Committee reviews the process for setting STI performance criteria and the process for determining whether those criteria have been met, and approves the target STI percentage of TFR for each eligible executive.

Long Term Incentive ("LTI")

The purpose of the LTI is to reward executives for their contribution to the creation of shareholders' value over the longer term. It is intended that an offer of shares be made annually under the LTI plan or plans, as applicable, subject to satisfaction of performance criteria, the ability of the Company to offer such plans, Board and (if appropriate) shareholder approval and future directions in executive variable remuneration.

Senior Executive Share Plan ("SESP")

During the period the Company operated the Senior Executive Share Plan.

The SESP commenced on 17 December 2007 and is an incentive plan for meeting certain performance conditions. The SESP is consistent with the principles and objectives of the Remuneration Policy of building a partnership between the Company and its executives by encouraging ownership by the executives of shares in the Company.

The LTI target under the SESP for each eligible executive is set as a percentage of TFR. The designated percentage, which ranged from 10% to 40% during the reporting period, is determined based on a combination of each executive's level of responsibility, performance, potential and retention risk.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Senior Executive Share Plan ("SESP") (Continued)

For shares allocated after 1 July 2008 and prior to 1 March 2011 one third of the share allocations will vest at the completion of 1, 2 and 3 years of service after their allocation, subject to the relevant person still being employed at the time of vesting. The vesting of these shares is not dependent on the satisfaction of a performance condition as the Board elected to base vesting on retention of executives. This scheme came to an end after the completion of three years vesting period on 15 August 2013.

For shares allocated post 1 March 2011, one quarter of this share allocation will vest at the completion of 1, 2, 3 and 4 years of service after their allocation, subject to the relevant person still being employed at the time of vesting. The vesting of these shares is also dependent on the achievement of certain performance hurdles set by the Remuneration & Nomination Committee at the commencement of each financial year.

During the 2014 financial year, the Company allocated 3,422,135 (2013: 6,091,657) shares.

In regards to the SESP, the Board has the discretion that on a redundancy the shares (that have not vested and may be subject to hurdle rates or tenure) can remain on record with the employee until the Board declares that the hurdle rates are met or otherwise. The retrenched employee would then be entitled (if the hurdle rates are met) to the proportion of their shares for their period of employment in relation to that grant of shares.

The tables below set out the basis on which shares will vest:

A summary of the vesting and hurdles for the CEO and CFO is set out below:

Vesting period	End of Year 1	End of Year 2	End of Year 3	End of Year 4
Service allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation
Time Based	33.3%	33.3%	33.3%	33.3%
EPS Based	33.3%	33.3%	33.3%	33.3%
EBITDA Based	33.3%	33.3%	33.3%	33.3%

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Senior Executive Share Plan ("SESP") (Continued)

A summary of the vesting and hurdles for all other executives is set out below:

Vesting period	End of Year 1	End of Year 2	End of Year 3	End of Year 4
Service allocation Vesting period	1/4 of allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation
Time Based	40%	40%	40%	40%
EPS Based	30%	30%	30%	30%
EBITDA Based	30%	30%	30%	30%

Mr Cameron Judson is the only Director participating in the SESP, and was allocated 541,667 shares during the 2014 financial year (2013: 1,1415,000), comprising shares acquired on market prior to 2014 which had been forfeited by prior participants and were re-allocated to Mr Judson. The performance hurdles for the 2014 allocation are based on the target Earnings per Share and EBITDA set by the Remuneration and Nomination Committee as set out above. Table 2 - allocation of shares under SESP (page 23) provides details of shares allocated and vested during the year to KMPs.

Senior Executive Option Plan ("SEOP")

Share Options may be granted to senior executives of the Group under the SEOP, which commenced on 21 November 2007 unless otherwise determined by the Board. Options granted under the SEOP are conditional on the option holder being an employee of the Group at the time of vesting, and such other conditions as the

- (a) Board may see fit to impose and
- (b) Options granted under the SEOP expire 7 years from the date of offer.

The share options were granted to certain employees of OCG Consulting Limited, a wholly owned subsidiary of the Group at an exercise price of \$0.01. On 30 June 2011, 500,000 options were granted, one third of the options granted will vest at the completion of 1, 2 and 3 years of service from the grant date, subject to the relevant person still being employed at the time of vesting.

During 2014 financial year, 306,688 share options were granted. One quarter of these options will vest at the completion of 1, 2, 3 and 4 years of service after their allocation, subject to the relevant person still being employed at the time of vesting. The vesting of these shares is also dependent on the achievement of certain performance hurdles set by the Remuneration & Nomination Committee at the commencement of each financial year.

176,420 share options were exercised during the year (2013: 127,403) and 44,170 options were forfeited due to resignation of an eligible executive (2013: nil).

Other Share Plans

Exempt Employee Share Plan

The Exempt Employee Share Plan ('EESP'), a 'salary sacrifice' type plan which provides benefits to all employees who earn no more than \$180,000 per annum. The EESP (which came into operation from July 2006) was continued and involves participating employees contributing salary by way of tax effective salary deductions with shares purchased on market by a licensed trustee

Deferred Tax Employee Share Plan

The Deferred Tax Employee Share Plan ('DTESP'), a 'salary sacrifice' type plan which provides benefits to all employees. The operation of this plan was discontinued from 1 July 2013.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED) (CONTINUED)

Post Employment

The post employment elements of remuneration include statutory superannuation contributions made by the Company or sacrificed by the employee. Those executives and directors with agreed severance packages are outlined under Employment Contracts.

Employment Contracts

All executives, including Executive Directors and the Company Secretaries, are employed under written contracts.

The terms of the contracts for the CEO and Executives identified as KMP as at 30 June 2014 are detailed in the table below:

Director	Duration of Contract	Notice of Termination ¹	Termination payments ¹
C. Judson	Open	12 months by Mr Judson or 12 months by the Company	Pay in lieu of notice
Executives			
O. Wilson	Open	6 months by Mr Wilson or 12 months by the Company	Pay in lieu of notice
T. Sinibaldi	Open	3 months by Ms Sinibaldi or 3 months by the Company	Pay in lieu of notice
M. Loader	Open	6 months by Ms Loader or 6 months by the Company	Pay in lieu of notice
K. Frame	Open	3 months by Mr Frame or 3 months by the Company	Pay in lieu of notice

1. No person specified above is entitled to notice of termination or a termination payment upon termination for cause. The notice and severance details are provided on the basis of what the person would be entitled to under their employment contract if terminated other than for cause at the date of this report.

On termination on notice by the Company, any LTI shares that have vested or that will vest during the notice period will be released. LTI options and shares that have not yet vested will be forfeited. The Company may terminate the contract at any time without notice if serious misconduct has occurred. Where termination with cause occurs the executive is entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause any unvested options will immediately be forfeited.

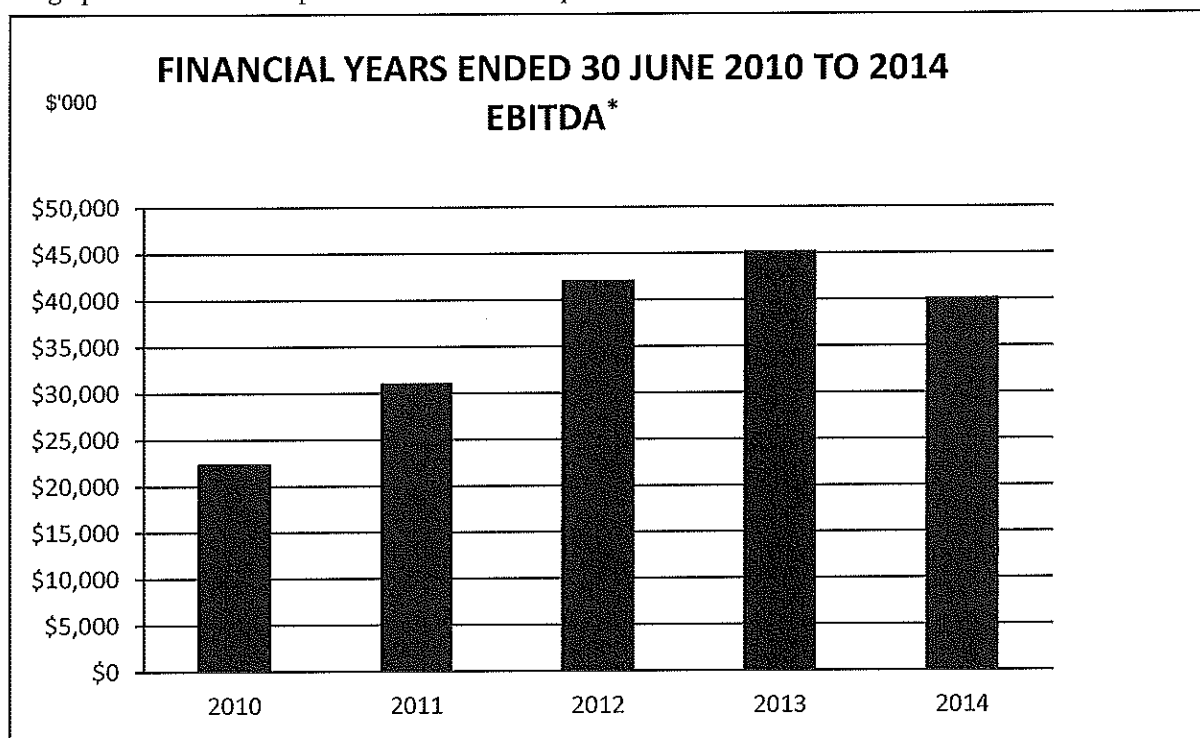
In regards to the SESP, the Board has the discretion that on a redundancy the shares (that have not vested and may be subject to hurdle rates or tenure) can remain on record with the employee until the Board declares that the hurdle rates are met or otherwise. The retrenched employee would then be entitled (if the hurdle rates are met) to the proportion of their shares for their period of employment in relation to that grant of shares.

Directors' Report (continued)

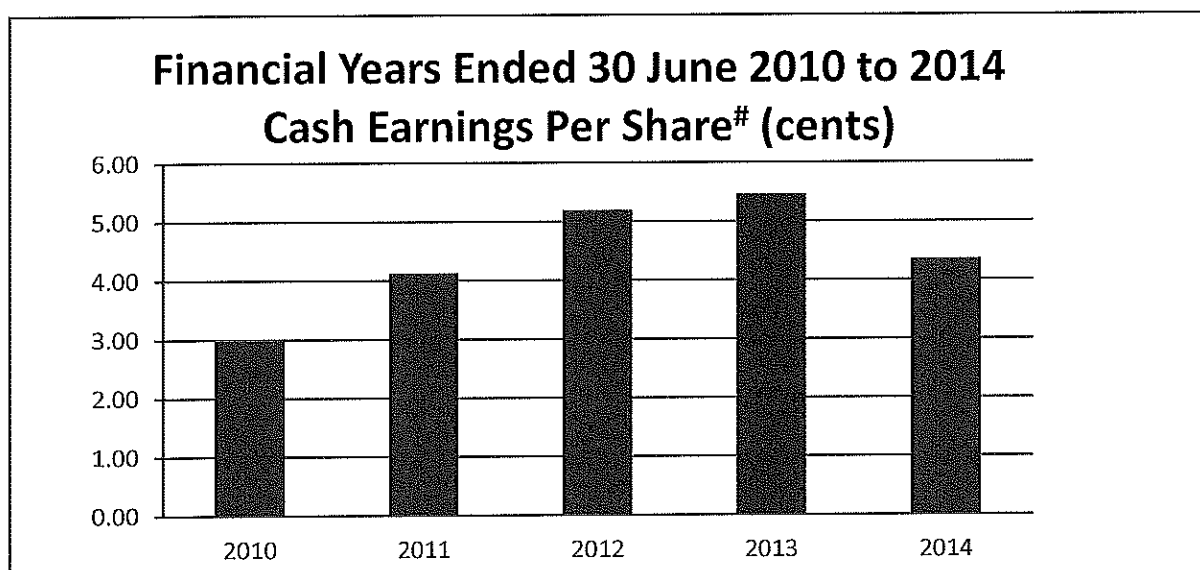
REMUNERATION REPORT (AUDITED) (CONTINUED)

Group performance

The graphs below show the performance of the Group as reflected in the movements in EBITDA and earnings per share.



* EBITDA before restructuring, fair value adjustment to contingent consideration, acquisition and related transaction costs



Cash EPS is calculated at EPS plus amortisation of intangibles

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Group performance - continued

The most significant measure driving the STI payment outcomes is the financial performance of the Group. The Key Management Personnel of the Group are measured against the achievement of Group EBITDA targets and EBITDA growth against the corresponding period. Business heads are measured on achievement of their particular business EBITDA and EBITDA growth target with an element of their STI target also linked to Group outcomes.

STI's have been recommended with reference to the performance of the Company against the budget set for 2014 year and the contribution of the individuals to the achievement of that target and against their individual KPIs. The Group's EBITDA before restructuring, fair value adjustment to contingent consideration, acquisition and related transaction costs in 2014 reflects a decline against prior year. Considering the Group performance, the Executives were awarded 45% of the total STI amount payable at target.

Table 1: Remuneration of Key Management Personnel of the Group

The table below sets out the nature and amount of remuneration of each Executive and Non-Executive Director received for the year ended 30 June 2014.

	Short-Term			Post Employment	Long-Term	Share-based Payment ¹	Total Benefits	Total Performance Related
	Salary & Fees ²	Cash Bonus ³	Non Monetary Benefits	Super- annuation	Long service leave ⁴			
	\$	\$	\$	\$	\$	\$	\$	%
Directors								
C. Judson								
2014	638,554	100,000	-	25,000	17,188	151,441	932,183	11%
2013	579,226	200,000	-	16,470	11,689	251,713	1,059,098	19%
R. England								
2014	219,725	-	-	17,775	-	-	237,500	0%
2013	208,530	-	-	16,470	-	-	225,000	0%
J. Plummer								
2014	125,854	-	-	11,646	-	-	137,500	0%
2013	114,676	-	-	10,324	-	-	125,000	0%
M. Carnegie								
2014	93,588	-	-	1,412	-	-	95,000	0%
2013	88,667	-	-	-	-	-	88,667	0%
J. Cowin								
2014	105,260	-	-	9,740	-	-	115,000	0%
2013	100,915	-	-	9,085	-	-	110,000	0%
E. Crouch								
2014	114,413	-	-	10,587	-	-	125,000	0%
2013	110,089	-	-	9,911	-	-	120,000	0%
Total Remuneration: Directors								
2014	1,297,394	100,000	-	76,160	17,188	151,441	1,642,183	
2013	1,202,103	200,000	-	62,260	11,689	251,713	1,727,765	

1 This relates to total costs under the Share Option Plan, Exempt Employee Share Plan and Senior Executive Share Plan which are all equity settled.

2 This includes salaries, annual leave and Director fees.

3 Cash bonus relates to the individual year and is not necessarily paid out at year end.

4 2013 long service leave was restated to reflect long service leave earned during the financial year.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Remuneration of Key Management Personnel of the Group (continued)

	Short-Term			Post Employment	Long- Term	Share-based Payment ¹	Termination /Resignation payments	Total Benefits	Total Performance Related
	Salary & Fees ²	Cash Bonus ³	Non Monetary Benefits	Super- annuation	Long service leave ⁴				
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Executives									
O. Wilson									
2014	578,861	100,000	12,267	19,206	4,386	(82,642)	-	632,078	16%
2013	464,715	175,000	16,725	16,470	6,600	321,761	-	1,001,271	17%
T. Sinibaldi ⁵									
2014	225,010	50,000	-	11,850	9,235	16,989	-	313,084	16%
2013	-	-	-	-	-	-	-	-	0%
M. Loader ⁶									
2014	377,117	90,000	-	16,814	13,696	65,520	-	563,147	16%
2013	-	-	-	-	-	-	-	-	0%
K. Frame ⁷									
2014	168,448	20,000	-	8,887	106	-	-	197,441	10%
2013	-	-	-	-	-	-	-	-	0%
D. Johnson ⁸									
2014	265,020	-	10,811	13,331	(900)	(52,659)	95,833	331,436	0%
2013	417,581	160,000	11,446	16,470	368	108,546	-	714,411	22%
Total Remuneration: Executives									
2014	1,614,456	260,000	23,078	70,088	26,523	(52,792)	95,833	2,037,186	
2013	882,296	335,000	28,171	32,940	6,968	430,307	-	1,715,682	
Total Remuneration: Key Management Personnel									
2014	2,911,850	360,000	23,078	146,248	43,711	98,649	95,833	3,679,369	
2013	2,084,399	535,000	28,171	95,200	18,657	682,020	-	3,443,447	

1 This relates to total share based payments expensed during the period under Share Option Plan, Exempt Employee Share Plan and SESP which are all equity settled.

2 This includes salaries and annual leave.

3 Cash bonus relates to the individual year and is not necessarily paid out at year end.

4 2013 long service leave was restated to reflect long service leave earned during the financial year.

5 Ms Sinibaldi met the definition of a key management person on her appointment as Chief Operating Officer for Staffing Services on 1 November 2013. The benefits for the 2014 financial year reflect earnings since her appointment.

6 Ms Loader became key management person for the 2014 financial year under AASB 124, but was not a key management person for 2013.

7 Mr Frame met the definition of a key management person on his appointment as Chief Operating Officer for Specialist Products on 13 January 2014.

8 Mr Johnson resigned from his position on 1 November 2013.

Directors' Report (continued)

REMUNERATION REPORT (AUDITED)

Equity instruments

Table 2: Allocation of shares under SESP

Key Management Personnel included in the SESP	Balance at beginning of period	Allocation during the period	Vested during the period	Forfeited during the period	Unvested balance at end of period	Fair Value at grant date
	1 July 2013				30 June 2014	\$
C. Judson	2,340,699	541,667	(265,974)	(413,475)	2,202,917	0.44
O. Wilson	3,600,000	-	(408,000)	(792,000)	2,400,000	0.42
T. Sinibaldi	156,250	150,000	(17,500)	(26,250)	262,500	0.44
M. Loader	670,000	237,500	(67,000)	(100,500)	740,000	0.45
D. Johnson	875,000	375,000	(150,000)	(1,100,000)	-	0.44
Total	7,641,949	1,304,167	(908,474)	(2,432,225)	5,605,417	-

The unvested shares under SESP are held by CPU Share Plan Pty Ltd as the trustee of the SESP.

ROUNDING OF AMOUNTS

The entity is a company of the kind specified in Australian Securities and Investments Commission Class Order 98/0100. In accordance with that class order, amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

This report has been made in accordance with a resolution of Directors.



Richard England
Chairman

Sydney
18 August 2014



Building a better
working world

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Auditor's Independence Declaration to the Directors of Chandler Macleod Group Limited

In relation to our audit of the financial report of Chandler Macleod Group Limited for the financial year ended 30 June 2014, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

P. S. Barnard
Partner
Sydney
18 August 2014

Consolidated Statement of profit and loss and other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$000	2013 \$000
Revenue		1,412,242	1,502,601
Other income		955	1,308
Total revenue		1,413,197	1,503,909
Contractor and other direct costs		(1,222,467)	(1,296,897)
Employee benefits expense	5(a)	(115,298)	(125,195)
Employee benefits expense - restructuring expense		(3,372)	(7,333)
Administration costs		(33,257)	(34,173)
Administration costs - restructuring expense		(880)	-
Other costs		(2,456)	(2,391)
Acquisition transaction related costs		(565)	(1,630)
Fair value adjustment to contingent consideration	25(a)	2,775	1,800
Share of profit of associate	15	477	-
Earnings before interest, tax, depreciation and amortisation (EBITDA)		38,154	38,090
Depreciation	13	(4,749)	(4,935)
Amortisation^	5(b)	(7,528)	(6,625)
Impairment of intangibles	14	-	(2,700)
Earnings before interest and tax (EBIT)		25,877	23,830
Finance costs (net)	5(c)	(8,504)	(8,482)
Profit before income tax		17,373	15,348
Income tax expense	6	(3,904)	(4,640)
Net profit for the year		13,469	10,708
Profit for the year is attributable to:			
Non-controlling interest		(115)	14
Owners of the parent		13,584	10,694
		13,469	10,708
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		53	394
Net movement on cash flow hedges		360	58
Total comprehensive income for the year		13,882	11,160
Total comprehensive income for the year attributable to:			
Non-controlling interest		(115)	14
Owners of the parent		13,997	11,146
		13,882	11,160
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic earnings per share	7	2.71	2.39
Diluted earnings per share	7	2.65	2.31

^ 30 June 2013 balances have been restated as a result of adjusting the Vivir purchase price allocation (Note 5).

The accompanying notes form an integral part of this Consolidated Statement of profit and loss and other Comprehensive Income.

Consolidated Statement of Financial Position

AS AT 30 JUNE 2014

	Note	2014 \$000	2013 [^] \$000
CURRENT ASSETS			
Cash and cash equivalents	9	2,671	3,262
Trade and other receivables	10	123,192	117,964
Prepayments and other current assets	11	1,857	3,082
TOTAL CURRENT ASSETS		127,720	124,308
NON-CURRENT ASSETS			
Other financial assets	12	12	73
Property and office equipment	13	11,072	13,017
Intangible assets and goodwill	14	236,970	231,967
Investment in an associate	15	4,191	-
Deferred tax assets	6	10,002	7,093
TOTAL NON-CURRENT ASSETS		262,247	252,150
TOTAL ASSETS		389,967	376,458
CURRENT LIABILITIES			
Trade and other payables	17	80,478	75,040
Interest-bearing loans and borrowings	18	14,803	18,990
Income tax payable		5,349	1,755
Other financial liabilities	19	2,482	-
Provisions	20	14,311	16,765
TOTAL CURRENT LIABILITIES		117,423	112,550
NON-CURRENT LIABILITIES			
Payables	17	1,825	2,265
Interest-bearing loans and borrowings	18	76,194	97,637
Other financial liabilities	19	927	3,916
Provisions	20	3,477	3,624
TOTAL NON-CURRENT LIABILITIES		82,423	107,442
TOTAL LIABILITIES		199,846	219,992
NET ASSETS		190,121	156,466
EQUITY			
Contributed equity	21	186,429	150,825
Retained earnings	22	2,236	4,715
Reserves		1,582	937
Parent interests		190,247	156,477
Non-controlling interests		(126)	(11)
TOTAL EQUITY		190,121	156,466

[^] 30 June 2013 balances have been restated (Note 23d).

The accompanying notes form an integral part of this Consolidated Statement of Financial Position.

Consolidated Statement of Changes in Equity

	Contributed Equity	Retained Earnings	Hedge Reserve	Translation Reserves	Employee Share Reserves	Owners of the Parent	Non- Controlling Interest	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2013[^]	150,825	4,715	(743)	58	1,622	156,477	(11)	156,466
Profit for the period	-	13,584	-	-	-	13,584	(115)	13,469
Other comprehensive income	-	-	360	53	-	413	-	413
Total comprehensive income for the period	-	13,584	360	111	-	13,997	(115)	13,882
Transactions with owners in their capacity as owners:								
Issue of shares as part of deferred settlement	300	-	-	-	-	300	-	300
Shares vested under employee share plans	871	-	-	-	(871)	-	-	-
Issue of shares under dividend reinvestment plan (DRP)	3,108	-	-	-	-	3,108	-	3,108
Issue of shares	31,874	-	-	-	-	31,874	-	31,874
Transaction cost on issue of shares	(459)	-	-	-	-	(459)	-	(459)
Shares acquired by/ transferred to the trustee of the senior executive share plan	(90)	-	-	-	-	(90)	-	(90)
Share-based payment	-	-	-	-	1,103	1,103	-	1,103
Dividends paid	-	(16,063)	-	-	-	(16,063)	-	(16,063)
At 30 June 2014	186,429	2,236	(383)	111	1,854	190,247	(126)	190,121
At 1 July 2012	148,585	8,084	(801)	(336)	2,761	158,293	(25)	158,268
Profit for the period (restated)	-	10,694	-	-	-	10,694	14	10,708
Other comprehensive income/(expense)	-	-	58	394	-	452	-	452
Total comprehensive income/(expense) for the period	-	10,694	58	394	-	11,146	14	11,160
Transactions with owners in their capacity as owners:								
Issue of shares as part of deferred settlement	734	-	-	-	-	734	-	734
Shares vested under employee share plans	2,739	-	-	-	(2,739)	-	-	-
Shares acquired by/ transferred to the trustee of the senior executive share plan	(1,233)	-	-	-	-	(1,233)	-	(1,233)
Share-based payment expense	-	-	-	-	1,600	1,600	-	1,600
Dividends paid	-	(14,063)	-	-	-	(14,063)	-	(14,063)
At 30 June 2013[^]	150,825	4,715	(743)	58	1,622	156,477	(11)	156,466

[^] 30 June 2013 balances have been restated (Note 23d).

The accompanying notes form an integral part of this Consolidated Statement of Changes in Equity.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$000	2013 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		1,548,773	1,678,018
Payments to suppliers and employees (inclusive of GST)		(1,510,304)	(1,619,959)
Finance income		20	34
Acquisition transaction related costs		(338)	(1,472)
Employee benefit expense - restructuring costs		(4,573)	(6,097)
Finance costs		(3,578)	(3,677)
Income tax paid		(2,586)	(6,264)
Net cash flows from operating activities	9(b)	27,414	40,583
CASH FLOWS FROM INVESTING ACTIVITIES			
Business combinations, net of cash acquired	23	(2,512)	(39,723)
Purchase of property, plant and equipment		(2,149)	(2,704)
Purchase of software and project development costs	14	(6,158)	(4,374)
Investment in associate	15	(2,255)	-
Proceeds from sale of subsidiary		326	-
Proceeds from disposal of property, plant and equipment		9	668
Net cash flows used in investing activities		(12,739)	(46,133)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of costs		31,223	-
Proceeds from borrowings		-	35,000
Repayment of finance lease capital		(2,208)	(1,908)
Repayment of borrowings		(26,730)	(8,602)
Purchase of shares	21(a)	(90)	(499)
Payment of dividends	8	(12,955)	(14,063)
Finance costs – acquisition		(4,700)	(5,404)
Net cash flows from financing activities		(15,460)	4,524
Net decrease in cash		(785)	(1,026)
Cash and cash equivalents at beginning of financial year	9	3,262	4,288
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	9	2,477	3,262

The accompanying notes form an integral part of this Consolidated Statement of Cash Flows.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

1. CORPORATE INFORMATION

The financial report of Chandler Macleod Group Limited ('the Company') and its controlled entities for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 18 August 2014. Chandler Macleod Group Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group during the financial year were HR outsourcing, recruitment, consulting and managed services. Further details on the business segments are described in note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for interest-bearing loans & borrowings and other financial liabilities.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(b) Statement of compliance

Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS), as issued by International Accounting Standards Board.

New accounting standards and interpretations

(i) Changes in accounting policy and disclosures.

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period. These include AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interests in Other Entities, AASB 128 Investment in Associates and Joint Ventures (2011), AASB 13 Fair Value Measurement and related AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13, AASB 119 Employee Benefits (2011), AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (2011), AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements and AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities.

AASB 12 Disclosure of Interests in Other Entities sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in AASB 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries. For example, where a subsidiary is controlled with less than a majority of voting rights. The Group does not have any subsidiaries with material non-controlling interests, nor unconsolidated structured entities. AASB 12 disclosures are provided in notes 15, 24 and 31.

2013-3 - Amendments to AASB 136 Recoverable Amount Disclosures for Non Financial Assets remove the unintended consequences of AASB 13 on the disclosures required under AASB 136. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted. The Group has early adopted these amendments to AASB 136 in the current period since the amended/additional disclosures provide useful information as intended by the AASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 16. These amendments would continue to be considered for future disclosures.

There is no material impact on the Group's financial statements on the adoption of these new accounting standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) *Accounting Standards and Interpretations issued but not yet effective.*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 30 June 2014 are outlined in the table below:

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	This adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	No direct impact on the amount included in the Group's financial statements.	1 July 2014
AASB 9	Financial instruments	This amendment improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes which may impact the Group are described below; New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.	1 January 2017	The Group has not determined the impact on the presentation of the Group's financial report at this stage.	1 July 2017

* Designates the beginning of the applicable annual reporting period

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Chandler Macleod Group Limited and its subsidiaries ('the Group') (as outlined in note 31) as at 30 June each year.

Controls are achieved where the Company has power over the investee, exposure, or rights to variable returns from its involvement with the investee and the ability to use its power to affect its returns.

The results of subsidiaries acquired or disposed during the year are included in the Consolidated Statement of profit and loss and Comprehensive Income 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 the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounting for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

(d) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through Consolidated Statement of profit and loss and Comprehensive Income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in Consolidated Statement of profit and loss and Comprehensive Income. If the contingent consideration is classified as equity, it shall not be remeasured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Operating segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision makers to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management also considers other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers - being the Board of Directors, the Chief Financial Officer and the Chief Operating Officers of Staffing Services, Managed Services and Specialist Products. The accounting policies applied by the Group in the operating segments internally are consistent with the accounting policies of the Group.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements. AASB 8 disclosures are shown in note 4.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) *Rendering of services*

Revenue is measured at fair value of the consideration received or receivable taking into account trade discounts and volume rebates.

Revenue from temporary placements is recognised on an accrual basis in accordance with the time worked indicated on client approved time sheets.

Permanent placement fees are recognised on the candidate's acceptance of the role.

Revenue from rendering of services is recognised upon the delivery of services.

Sales of consulting services are recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services to be provided. Services provided but not yet billed are taken up as accrued revenue. Sales of software are recognised on delivery and installation of the software and the specific terms contained within the customer contract for delivery and installation of the software.

(ii) *Interest income*

Revenue is recognised as the interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(g) Borrowing costs

Borrowing costs are expensed in the Consolidated Statement of profit and loss and Comprehensive Income when incurred on an accrual basis using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as lessee

Finance leases

Finance leases, which transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the Consolidated Statement of profit and loss and Comprehensive Income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating leases

Operating lease payments are recognised as an expense in the Consolidated Statement of profit and loss and Comprehensive Income on a straight-line basis over the term of the lease (where fixed increments). Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

(i) Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Consolidated Statement of Financial Position.

(j) Trade and other receivables

Trade receivables, which have terms between 7 and 60 days, are measured initially at fair value and subsequently at amortised cost using the effective interest rate method less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectable are written off when identified. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts.

(k) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on investment in subsidiaries that is not carried at fair value (because its fair value cannot be reliably measured), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

For non-financial assets other than goodwill, refer to note 2(t) for the impairment accounting policy.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Foreign currency translation

(i) *Functional and presentation currency*

Both the functional and presentation currency of Chandler Macleod Group Limited and its Australian subsidiaries is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using the functional currency.

(ii) *Transactions and balances*

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the overseas subsidiaries are the currencies of the primary economic environment in which the subsidiaries operate (note 31).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Chandler Macleod Group Limited at the rate of exchange ruling at the reporting date and their Consolidated Statement of profit and loss and Comprehensive Income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Consolidated Statement of profit and loss and Comprehensive Income.

(m) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit and loss; or

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Income tax (continued)

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

Effective 1 July 2003 for the purposes of income taxation, Chandler Macleod Group Limited and its 100% owned subsidiaries in Australia formed a tax consolidation group. Members in the group entered into a tax sharing agreement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Chandler Macleod Group Limited. Details of the tax funding agreement are disclosed in note 6.

(n) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST components of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(o) Property and office equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in Consolidated Statement of profit and loss and Comprehensive Income as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property and office equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

	Life	Method
Leasehold improvements	3 - 5 Yrs	Straight Line
Office equipment	3 - 5 Yrs	Straight Line
Leased assets	3 - 5 Yrs	Straight Line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end.

Derecognition and disposal

An item of Property and office equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in Other Income/Expense in the Consolidated Statement of profit and loss and Comprehensive Income in the year the asset is derecognised.

(p) Other financial assets / liabilities

Financial assets are recognised initially at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year end.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subject to impairment testing at least annually. Refer to note 2(t) for the impairment accounting policy.

(ii) Parent Company investment in subsidiaries

Investments in subsidiaries and associates are carried at cost in the Consolidated Statement of Financial Position of the parent entity.

(iii) Interest rate swap

The Group uses interest rate swaps to manage its exposure to interest rates. Interest rate swaps are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to the fair value at the end of each reporting period. At 30 June 2014, the interest rate swap is designated as an effective hedging instrument and the resulting gain or loss is recognised in the hedging reserves.

(q) Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it derecognises the asset if it has transferred control of the assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest levels within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than an operating segment determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash generating units) to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(s) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for any intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the Consolidated Statement of profit and loss and Comprehensive Income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Intangible assets (continued)

Research and project development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected benefits from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets is as follows:

Goodwill

Useful lives	<i>Indefinite</i>
Amortisation method used	<i>Not depreciated or revalued</i>
Internally generated/acquired	<i>Acquired</i>
Impairment test/ Recoverable amount testing	<i>Annually and more frequently where an indicator of impairment exists.</i>

Brand Names

Useful lives	<i>Indefinite</i>
Amortisation method used	<i>Not depreciated or revalued</i>
Internally generated/acquired	<i>Acquired</i>
Impairment test/ Recoverable amount testing	<i>Annually and more frequently where an indicator of impairment exists.</i>

Project Development Costs and Software

Useful lives	<i>Finite</i>
Amortisation method used	<i>3-8 years straight line, once in use</i>
Internally generated/acquired	<i>Internally generated</i>
Impairment test/ Recoverable amount testing	<i>Annually for assets not yet available for use and more frequently where an indication of impairment exists. The amortisation method is reviewed at each financial year end.</i>

Customer Relationships

Useful lives	<i>Finite</i>
Amortisation method used	<i>7-10 years straight line, once in use</i>
Internally generated/acquired	<i>Acquired</i>
Impairment test/ Recoverable amount testing	<i>Annually for assets not yet available for use and more frequently where an indication of impairment exists. The amortisation method is reviewed at each financial year end.</i>

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Consolidated Statement of profit and loss and Comprehensive Income when the asset is derecognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value.

In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future 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. Impairment losses relating to continuing operations are recognised as a separate line item in the Consolidated Statement of profit and loss and Comprehensive Income.

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Consolidated Statement of profit and loss and Comprehensive Income. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(u) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. Due to the short term nature of trade and other payables, their carrying values are assumed to approximate their fair value.

(v) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received less directly attributable transaction costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statement of profit and loss and Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(x) Employee leave benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

(i) *Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in Provisions in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

(ii) *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(y) Share-based payment transactions

(i) *Equity-settled transactions*

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Group has a number of employee share plans, namely:

- the Exempt Employee Share Plan ('EESP'), a 'salary sacrifice' type plan which commenced on 1 July 2006 and provides benefits to all employees who earn no more than \$180,000 per annum;
- the Deferred Tax Employee Share Plan ('DTESP'), a 'salary sacrifice' type plan which also commenced on 1 July 2006 and provides benefits to all employees. The operation of this plan was discontinued from 1 July 2013;
- the Senior Executive Option Plan ('SEOP') is applicable to senior executives and commenced on 21 November 2007 after being approved by the Company's shareholders at its 2007 Annual General Meeting;
- the Senior Executive Share Plan ('SESP'), an incentive plan for meeting certain performance targets, which commenced on 17 December 2007, having been approved by the Company's shareholders at its 2007 Annual General Meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Share-based payment transactions (continued)

(i) *Equity-settled transactions(continued)*

The dilutive effect of outstanding options and shares allocated under the Senior Executive Share Plan are reflected as additional share dilution in the computation of earnings per share. The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at balance date.

(z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(aa) Earnings per share

Basic earnings per share ('EPS') is calculated as net profit attributable to members of parent company, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the parent company, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ab) Comparatives

Prior period adjustments

During the 2013 financial year, CMG acquired 100% of the shares in Vivir. In accordance with accounting standards, CMG provisionally recognised the fair value of assets and liabilities acquired from Vivir in the Consolidated Statement of Financial Position as at 30 June 2013.

The fair value of the net assets acquired was finalised in the current financial year and as a result, the previously reported balances have been adjusted in the comparative period. Please refer to note 23 (d) for details.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Significant accounting judgements

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include brand and performance, technology, economic and political environments and future brand expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Capitalised development costs

Development costs are only capitalised by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis.

This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are outlined in note 16.

Allowance for impairment loss on trade receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. A provision for impairment loss is recognised when there is objective evidence that the trade receivables are impaired. The impairment losses are outlined in note 10.

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Workers compensation provision

The workers compensation premiums are determined based on the industry in which the Group operates, the amount of wages the Group pays and the Group's claims experience.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

Make good provision

Provision is made for the anticipated cost of future restoration of leased premises. The provision includes future cost estimates associated in “making good” premises at the end of the Group’s occupancy. These future cost estimates are discounted to their present value. The calculation of this provision requires assumption as to the likely term of occupancy and expected costs of “make-good”. The related carrying amounts are disclosed in note 20.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers’ warranties (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 13.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value of the Share Option Plan is determined using the Black-Scholes model. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Uninsured risks provision

Uninsured risks comprise insurance deductibles and provisions for outstanding litigation. The carrying amount reflects the best estimate of claims based on the available information as at the end of the period.

Unused tax losses

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Fair value measurement of contingent consideration

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial instrument and, thus, a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor.

4. OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors, the Chief Financial Officer and the Chief Operating Officers of Staffing Services, Managed Services and Specialist Products (the chief operating decision makers - CODM) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the nature of the services provided. Discrete financial information about each of these operating businesses is reported to the CODM on at least a monthly basis.

Staffing Services consists of Workforce and Recruitment.

Managed Services consists of managed training solutions, business process outsourcing services, aviation, AHS and Vivir business.

Specialist Products consists of consulting, payroll outsourcing and payroll software services.

International consists of Hong Kong, China, Singapore, Indonesia, New Zealand, UK and Ireland.

Amounts not relating to the above reportable segments are classified as Unallocated in the segment analysis below.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2.

Inter-segment sales

Transfer prices between business segments are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Corporate charges

Corporate charges comprise non-segmental expenses such as head office expenses and interest. Corporate charges are allocated to each business segment on a proportionate basis linked to segment revenue so as to determine a segmental result.

Major customers

The Group has a number of customers to which it provides services. During the period, one customer generated 11.4% of the Group's total revenue (2013: 13%). These revenues are attributable to all reportable segments. For the purpose of identifying the major customers the Group considered entities under common control as a single customer.

4. OPERATING SEGMENTS (CONTINUED)

Type of services

The following tables present revenue and profit information regarding business segments for the years ended 30 June 2014 and 30 June 2013.

Operating Segments	Staffing Services	Managed Services	Specialist Products	International	Unallocated	Total
Year Ended 30 June 2014	\$000	\$000	\$000	\$000	\$000	\$000
Revenue						
Services to external customers	1,063,263	233,208	34,624	81,147	-	1,412,242
Inter-segment revenues	1,908	65	444	-	-	2,417
Total segment revenue	1,065,171	233,273	35,068	81,147	-	1,414,659
Segment results	38,953	19,375	6,803	1,911	-	67,042
Corporate overheads	-	-	-	-	(26,847)	(26,847)
EBITDA before restructuring, earn-out fair value adjustment, acquisition and related transaction costs						40,195
Other segment information						
Non cash expenses						
Depreciation & amortisation	4,706	1,421	1,785	502	3,863	12,277
Operating Segments	Staffing Services	Managed Services	Specialist Products	International	Unallocated	Total
Year Ended 30 June 2013[^]	\$000	\$000	\$000	\$000	\$000	\$000
Revenue						
Services to external customers	1,159,743	231,638	36,728	74,492	-	1,502,601
Inter-segment revenues	1,426	46	1,219	-	-	2,691
Total segment revenue	1,161,169	231,684	37,947	74,492	-	1,505,292
Segment results	48,051	17,917	6,767	2,284	-	75,019
Corporate overheads	-	-	-	-	(29,766)	(29,766)
EBITDA before restructuring, earn-out fair value adjustment, acquisition and related transaction costs						45,253
Other segment information						
Non cash expenses						
Depreciation & amortisation	4,931	1,617	1,674	373	2,965	11,560

[^] 30 June 2013 balances have been restated (Note 23).

4. OPERATING SEGMENTS (CONTINUED)

Revenue by geographical locations

All revenue from the Managed Services, Staffing Services and Specialist Products segments are derived in Australia. International segment revenue is derived mainly from New Zealand (AUD \$32.8 million) and Hong Kong (AUD \$27.4 million), with the remainder (AUD \$20.8 million) from the various countries the Group operates in.

Segment revenue reconciliation to the Consolidated Statement of profit and loss and Comprehensive Income

	2014 \$000	2013 \$000
Total segment revenue	1,414,659	1,505,292
Inter-segment sales elimination	(2,417)	(2,691)
Other income	955	1,308
Total revenue from operations per the Consolidated Statement of profit and loss and Comprehensive Income	1,413,197	1,503,909

Segment earnings before interest, tax, depreciation and amortisation (EBITDA) reconciliation to the Consolidated Statement of profit and loss and Comprehensive Income

	2014 \$000	2013 \$000
EBITDA before restructuring, fair value adjustment to contingent consideration, and transaction related costs	40,196	45,253
Acquisition transaction related costs	(565)	(1,630)
Restructuring costs	(4,252)	(7,333)
Fair value adjustment to contingent consideration	2,775	1,800
Depreciation and amortisation expense	(12,277)	(11,560)
Impairment of intangibles	-	(2,700)
Finance costs	(8,504)	(8,482)
Income tax expense	(3,904)	(4,640)
Net profit from operations per the Consolidated Statement of profit and loss and Comprehensive Income	13,469	10,708

5. REVENUES AND EXPENSES

	Note	2014 \$000	2013 \$000
Expenses			
(a) Employee benefits expense			
Wages and salaries		97,955	106,221
Superannuation		7,019	7,692
Share-based payments	29 (a)	655	1,009
Other employee benefits		9,669	10,273
		<u>115,298</u>	<u>125,195</u>
(b) Amortisation expense			
Amortisation of software		3,664	3,136
Amortisation of acquired intangible assets		3,864	3,489
Total amortisation	14	<u>7,528</u>	<u>6,625</u>
(c) Finance costs			
<i>Finance costs</i>			
- Bank loans and overdrafts		8,010	8,805
- Finance charges payable under finance leases		204	47
- Interest expense others		64	37
- Non cash interest		246	(373)
<i>Total finance costs</i>		<u>8,524</u>	<u>8,516</u>
<i>Finance income</i>			
- Bank interest receivable		(20)	(34)
<i>Total finance income</i>		<u>(20)</u>	<u>(34)</u>
Total finance costs		<u>8,504</u>	<u>8,482</u>
(d) Other expense items			
Minimum lease payments - Operating leases		10,370	10,995
Doubtful debts - trade debtors	10	155	20
Gain on disposal of non-current assets		(7)	(71)
Net foreign exchange loss/(gain)		38	(27)
<i>Restructuring costs comprising:</i>			
Employee benefits expense		3,372	7,333
Administration costs - onerous lease provision and others		880	-
Income tax benefit		(1,261)	(2,200)
Restructuring costs, net of tax		<u>2,991</u>	<u>5,133</u>

6. INCOME TAX

The major components of income tax expense are:

	2014 \$000	2013 [^] \$000
Consolidated statement of profit or loss		
<i>Current income tax</i>		
Current income tax charge	6,573	3,973
Adjustments in respect of current income tax of previous years	(340)	(317)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(2,329)	984
Income tax expense reported in the statement of profit or loss	3,904	4,640
Income tax recognised directly in equity		
Share based payments	(563)	-
Capital raising costs	(172)	-
Net movement on revaluation of cash flow hedges	155	24
Income tax recognised in equity	(580)	24

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Note	2014 \$000	2013 [^] \$000
Total accounting profit before income tax		17,373	15,348
At the Group's statutory income tax rate of 30% (2013: 30%)		5,212	4,604
Adjustments in respect of net income tax of previous years, including utilisation of previously unrecognised tax losses		(340)	(302)
Tax losses not brought to account		9	19
Accounting profit on disposal of controlled entity		(98)	-
Impairment of intangible		-	810
Change in contingent consideration on acquisition of Vivir	23	(833)	(540)
Expenditure not allowable for income tax purposes		101	76
Other		(147)	(27)
Aggregate income tax expense		3,904	4,640

[^] 30 June 2013 balances have been restated (Note 23d)

6. INCOME TAX (CONTINUED)

	Consolidated Statement of Financial Position		Consolidated Statement of profit and loss and other Comprehensive Income	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Recognised deferred tax assets and liabilities				
Deferred income tax at 30 June relates to the following:				
Accelerated depreciation for tax purposes	(1,510)	(1,373)	(137)	137
Prepayments	(28)	(78)	50	(4)
Intangibles	(916)	(1,611)	695	1,335
Share based payments	(2,564)	(3,094)	530	(114)
Losses available for offset against future taxable income	1,603	1,867	(264)	(198)
Provisions and accruals	12,518	11,063	1,455	(2,140)
Amounts recognised in equity				
Share based payments	563	-	-	-
Capital raising costs	172	-	-	-
Net on revaluation of cash flow hedges movement	164	319	-	-
Deferred tax expense/(income)			2,329	(984)
Net deferred tax assets/(liabilities)	10,002	7,093		
Reflected in the statement of financial position as follows:				
Deferred tax assets	18,374	17,132		
Deferred tax liabilities	(8,372)	(10,039)		
Deferred tax assets, net	10,002	7,093		
Reconciliation of deferred tax assets, net:			2014	2013
			\$000	\$000
Opening balance as of 1 July			7,093	10,675
Tax income/(expense) during the period recognised in profit and loss			2,329	(984)
Tax income/(expense) recognised in equity			580	(24)
Deferred taxes acquired in business combinations			-	(2,574)
Closing balance as at 30 June			10,002	7,093

6. INCOME TAX (CONTINUED)

Income tax losses

As at 30 June 2014, there are unrecognised income tax losses of \$44,000 (2013:\$ 94,000) available to offset against future years' taxable income. The benefit of these losses of \$8,800 (2013:\$19,000) has not been brought to account as realisation is not probable.

Unrecognised temporary differences

As at 30 June 2014, there are unrecognised Deferred Tax Asset of \$1,640,293 related to other temporary differences which has not been brought to account as realisation is not deemed probable over the term of the remaining deductible period of 13 years.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The allocation of current and deferred taxes to members of the tax consolidated group is consistent with the modified stand alone approach method adopted under UIG 1052. Allocations under the tax funding agreement are made annually. The head entity recognises the Group's aggregate current tax liability and the benefit of any tax losses in the tax-consolidated group.

7. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the Company for the period by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the exercise of directors' options into ordinary shares under the share options plan.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share.

	2014 \$000	2013 \$000
Net profit after tax	13,469	10,708
Add loss/(less profit) attributable to non-controlling interest	115	(14)
Net profit attributable to ordinary shareholders of the parent	13,584	10,694
Weighted average number of shares used in calculating basic earnings per share	Number of shares 497,439,249	Number of shares 447,813,708
Effect of dilutive securities:		
Senior Executive Share Plan	10,237,816	14,261,554
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	507,677,065	462,075,262

8. DIVIDENDS PAID AND PROPOSED

	2014 \$000	2013 \$000
(a) Recognised amounts		
Declared and paid during the year:		
Final fully franked dividend for 2013: 1.80 cents per share (2012: 1.60 cents)		
Settled through cash	7,156	7,487
Settled through dividend reinvestment plan	1,298	-
Interim fully franked dividend for 2014: 1.40 cents per share (2013: 1.40 cents)		
Settled through cash	5,799	6,576
Settled through dividend reinvestment plan	1,810	-
	<u>16,063</u>	<u>14,063</u>
(b) Unrecognised amounts		
Dividends on ordinary shares:		
Final fully franked dividend for 2014: 1.80 cents per share (2013: 1.80 cents)	9,864	8,454
(c) Imputation credit balance		
The amount of imputation credits available for the subsequent financial year are:		
- imputation account balance as at the end of the financial year at 30% (2013: 30%)	10,350	16,498
- imputation credits that will arise from the payment of income tax payable as at the end of the financial year	5,349	1,755
	<u>15,699</u>	<u>18,253</u>
The amount of imputation credits available for future reporting periods:		
- impact on the imputation account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(4,227)	(3,623)
	<u>11,472</u>	<u>14,630</u>

9. CASH FLOW RECONCILIATION

(a) Cash and cash equivalents

	2014 \$000	2013 \$000
Cash at bank and in hand	2,671	3,262
Bank overdraft (Note 18)	(194)	-
Closing net cash balance	2,477	3,262

Cash at bank earns interest at floating rates based on daily bank deposit rates unless the account has an interest offset arrangement in which case no interest is earned.

(b) Reconciliation to Cash Flow Statement

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

	Note	2014 \$000	2013 \$000
Reconciliation of net profit after income tax to net cash provided by operating activities			
Net profit after income tax		13,469	10,708
Non-Cash Items			
Depreciation of plant and equipment		4,749	4,935
Amortisation of intangibles		7,528	6,625
Change in contingent consideration on acquisition of Vivir	23	(2,775)	(1,800)
Impairment of brand names	16	-	2,700
Net gain on disposal of property and office equipment		(7)	(71)
Share based payments		540	1,604
Doubtful debts		155	20
Non cash interest		246	(373)
<i>Reclass from operating activities:</i>			
Interest on acquisition funding classified as financing		4,700	5,404
Disposal of subsidiary classified as investing		(326)	-
Changes in assets and liabilities			
(Increase)/Decrease in trade and other receivables		(5,264)	23,764
(Increase)/Decrease in deferred tax		(2,909)	983
Decrease/(Increase) in other assets		1,286	(298)
Increase/(Decrease) in trade and other payables		5,298	(8,226)
Increase/(Decrease) in current tax liability		3,594	(3,442)
Decrease in provisions		(2,870)	(1,950)
Net cash flow from operating activities		27,414	40,583

10. TRADE AND OTHER RECEIVABLES

	2014 \$000	2013 \$000
CURRENT		
Trade debtors	110,778	106,790
Allowance for impairment loss (a)	(741)	(710)
	110,037	106,080
Accrued revenue	10,501	8,420
Other receivables	2,654	3,464
	123,192	117,964

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and are on 7-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Movements in the allowance for impairment loss were as follows:

	2014 \$000	2013 \$000
At 1 July	710	1,007
Acquisitions	-	9
Charge for the year	155	20
Amounts written off	(137)	(333)
Amounts recovered	13	7
At 30 June	741	710

At 30 June, the ageing analysis of trade receivables is as follows:

		Total \$000	0-30 days	31-60 days	61-90 days	+91 days PDNI*	+91 days CI**
2014	Consolidated	110,778	100,275	6,050	2,597	1,115	741
2013	Consolidated	106,790	101,228	3,639	1,123	90	710

* Past due not impaired ('PDNI')

** Considered impaired ('CI')

Receivables past due but not considered impaired (PDNI) for the Group are \$1,115,000 (2013: \$90,000). Payment terms on these amounts have not been re-negotiated. For major receivables PDNI, outstanding receivables are regularly monitored and assessed. For minor receivables PDNI, credit has been stopped until full payment is made. Each operating unit has been in direct contact with the relevant debtor and is satisfied that payment will be received in full.

Other balances within trade and other receivables do not contain impaired assets and are not past due. Further these items contain no evidence of an inability or unwillingness to settle payment and it is expected that these other balances will be received when due.

(b) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

11. PREPAYMENTS AND OTHER CURRENT ASSETS

	2014 \$000	2013 \$000
Prepaid workcover premium	95	261
Other prepayments	1,762	2,821
	<u>1,857</u>	<u>3,082</u>

12. OTHER FINANCIAL ASSETS (NON-CURRENT)

Security deposit	9	9
Other	3	64
	<u>12</u>	<u>73</u>

13. PROPERTY AND OFFICE EQUIPMENT

	Leasehold improvements \$000	Office equipment \$000	Leased assets \$000	Total \$000
Year ended 30 June 2014				
At 1 July 2013, net of accumulated depreciation	6,044	5,014	1,959	13,017
Acquisitions	60	40	-	100
Additions	1,006	1,263	437	2,706
Disposal - cost	(982)	(764)	-	(1,746)
Disposal - accumulated depreciation	982	762	-	1,744
Depreciation charge for the year	(2,182)	(2,102)	(465)	(4,749)
At 30 June 2014, net of accumulated depreciation	<u>4,928</u>	<u>4,213</u>	<u>1,931</u>	<u>11,072</u>
At 1 July 2013				
Cost	12,750	14,539	2,477	29,766
Accumulated depreciation	(6,706)	(9,525)	(518)	(16,749)
Net carrying amount	<u>6,044</u>	<u>5,014</u>	<u>1,959</u>	<u>13,017</u>
At 30 June 2014				
Cost	12,834	15,078	2,914	30,826
Accumulated depreciation	(7,906)	(10,865)	(983)	(19,754)
Net carrying amount	<u>4,928</u>	<u>4,213</u>	<u>1,931</u>	<u>11,072</u>

13. PROPERTY AND OFFICE EQUIPMENT (CONTINUED)

	Leasehold improvements \$000	Office equipment \$000	Leased assets \$000	Total \$000
Year ended 30 June 2013				
At 1 July 2012, net of accumulated depreciation	6,850	6,527	892	14,269
Acquisition	-	101	-	101
Additions	1,300	1,482	1,383	4,165
Disposal - cost	(1,012)	(1,857)	-	(2,869)
Disposal - accumulated depreciation	1,012	1,274	-	2,286
Depreciation charge for the year	(2,106)	(2,513)	(316)	(4,935)
At 30 June 2013, net of accumulated depreciation	6,044	5,014	1,959	13,017
At 1 July 2012				
Cost	12,462	14,813	1,094	28,369
Accumulated depreciation	(5,612)	(8,286)	(202)	(14,100)
Net carrying amount	6,850	6,527	892	14,269
At 30 June 2013				
Cost	12,750	14,539	2,477	29,766
Accumulated depreciation	(6,706)	(9,525)	(518)	(16,749)
Net carrying amount	6,044	5,014	1,959	13,017

Assets pledged as security

Included in the balance of office equipment are assets over which first mortgages have been granted as security over banking facilities entered into by the parent company, Chandler Macleod Group Limited. Assets under finance lease and commercial hire purchase arrangements are pledged as security for the associated lease and commercial hire purchase liabilities.

The value of assets pledged as security is:

	2014 \$000	2013 \$000
Leasehold improvements	4,928	6,044
Property and office equipment	4,213	5,014
Property and office equipment under finance lease	1,931	1,959
	11,072	13,017

14. INTANGIBLE ASSETS AND GOODWILL

	Goodwill	Project Development Costs	Software	Leased Software	Brand Names	Customer Relationships	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2013							
Cost	190,255	4,088	26,478	3,477	7,300	21,000	252,598
Accumulated amortisation and impairment (restated)	-	-	(12,553)	(2,693)	(2,700)	(2,685)	(20,631)
Net carrying amount (restated)	190,255	4,088	13,925	784	4,600	18,315	231,967
Year ended 30 June 2014							
At 1 July 2013, net of accumulated amortisation and impairment (restated)	190,255	4,088	13,925	784	4,600	18,315	231,967
Arising on acquisition (Note 23a)	3,670	-	-	-	-	-	3,670
Additions	-	5,833	325	2,703	-	-	8,861
Transfers	-	(5,172)	5,172	-	-	-	-
Disposal - cost	-	-	(1,388)	-	-	-	(1,388)
Disposal - accumulated amortisation	-	-	1,388	-	-	-	1,388
Amortisation	-	-	(4,142)	(1,179)	-	(2,207)	(7,528)
At 30 June 2014, net of accumulated amortisation and impairment	193,925	4,749	15,280	2,308	4,600	16,108	236,970
At 30 June 2014							
Cost	193,925	4,749	30,587	6,180	7,300	21,000	263,741
Accumulated amortisation and impairment	-	-	(15,307)	(3,872)	(2,700)	(4,892)	(26,771)
Net carrying amount	193,925	4,749	15,280	2,308	4,600	16,108	236,970

14. INTANGIBLE ASSETS AND GOODWILL (CONTINUED)

	Goodwill	Project Development Costs	Software	Leased Software	Brand Names	Customer Relationships	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
At 1 July 2012							
Cost	152,514	1,287	24,954	3,477	7,300	12,000	201,532
Accumulated amortisation and impairment	-	-	(8,713)	(1,740)	-	(853)	(11,306)
Net carrying amount	152,514	1,287	16,241	1,737	7,300	11,147	190,226
Year ended 30 June 2013[^]							
At 1 July 2012, net of accumulated amortisation and impairment	152,514	1,287	16,241	1,737	7,300	11,147	190,226
Arising on acquisition	37,552	-	-	-	-	9,000	46,552
Additions	-	4,040	334	-	-	-	4,374
Arising on changes in estimates of prior year acquisition	189	-	-	-	-	-	189
Transfers	-	(1,239)	1,239	-	-	-	-
Disposal - cost	-	-	(53)	-	-	-	(53)
Disposal - accumulated amortisation	-	-	4	-	-	-	4
Amortisation	-	-	(3,840)	(953)	-	(1,832)	(6,625)
Impairment (i)	-	-	-	-	(2,700)	-	(2,700)
At 30 June 2013, net of accumulated amortisation and impairment	190,255	4,088	13,925	784	4,600	18,315	231,967
At 30 June 2013[^]							
Cost	190,255	4,088	26,478	3,477	7,300	21,000	252,598
Accumulated amortisation and impairment	-	-	(12,553)	(2,693)	(2,700)	(2,685)	(20,631)
Net carrying amount	190,255	4,088	13,925	784	4,600	18,315	231,967

- (i) During the period, the Group decided to fully integrate the Julia Ross business systems and phase out the use of the Julia Ross brand. As a result, the \$2.7 million intangible value allocated against this brand was written off.

[^] 30 June 13 balances have been restated (Note 23d).

15. INVESTMENT IN AN ASSOCIATE

On 19 July 2013, Chandler Macleod Group (HK) Limited acquired a 40% interest in Cornerstone Global Partners Limited ("Cornerstone") for an upfront cash payment of \$2.3 million and two contingent consideration payments based on the financial performance of the acquired entity over the next two years. Cornerstone is an organisation based in China who delivers a range of recruitment solutions, including candidate search and talent management consulting, along with recruitment outsourcing and contracting solutions.

The Group's interest in Cornerstone is accounted for using the equity method in the consolidated financial statements.

	30 June 2014 \$000	30 June 2013 \$000
Initial cash consideration	2,255	-
Contingent consideration	1,459	-
Share of profit of associate	477	-
Carrying amount of the investment	4,191	-

15. INVESTMENT IN AN ASSOCIATE (CONTINUED)

	30 June 2014 \$000	30 June 2013 \$000
Current assets	1,928	-
Non-current assets	39	-
Current liabilities	(660)	-
Net Assets	1,307	-
Proportion of the Group's ownership	40%	-
Group's share of net assets	523	-

	30 June 2014 \$000	30 June 2013 \$000
Revenue	5,062	-
Profit before tax	1,237	-
Income tax expense	(44)	-
Profit for the year	1,193	-
Group's share of profit for the year	477	-

No dividends have been received from Cornerstone during the 2014 financial year.

The difference between the Group's share of net assets and the initial cash consideration is the goodwill recognised.

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES

Goodwill acquired through business combinations has been allocated to individual cash generating units (CGU) in line with the consolidated entity's reporting segments and step down to identify the individual business units.

The CGUs are aligned to the Board reporting structure, the structure for which budgets and strategic plans are prepared, the day to day management of the business and the level at which goodwill is monitored. The carrying amount of goodwill allocated to CGUs that are significant individually, or in aggregate is as follows:

	2014 \$000	2013 [^] \$000
Staffing Services	105,786	105,786
Consulting	10,241	10,241
OCG	6,787	6,787
Managed Services	2,162	2,162
Recruitment - Overseas	3,770	3,770
AHS	28,785	28,785
Vivir	32,724	32,724
Grafton	3,670	-
Total goodwill	193,925	190,255
Brand names	4,600	4,600
Total goodwill and brand names assets	198,525	194,455

[^] 30 June 13 balances have been restated (Note 23d).

16. IMPAIRMENT TESTING OF GOODWILL AND INTANGIBLES WITH INDEFINITE LIVES (CONTINUED)

The recoverable amount of each of these units has been determined based on a value in use calculation using cash flow projections based on the 2015 financial budgets approved by the Board, then extrapolated for a further four years.

The discount rates applied to cash flow projections are pre tax rates of 12.5%-15.0% (2013: 14.0% - 17.0%) and the cash flows beyond the approved budgets are extrapolated using 2.5% (2013: 3%) growth rate for all cash generating units.

The discount rate for each CGU is calculated based on the Group's weighted average cost of capital after adjusting for the current market assessment of the risk specific to each CGU. It also takes into consideration of the individual risk of the underlying assets that have not been incorporated into the cash flow projections.

Sensitivity to changes in assumptions

The calculation of value in use for the cash generating units is most sensitive to the following assumptions:

Gross margins

Management recognises that demand volume and pricing have the most significant impact on gross margins. A sustained decrease in gross margins would increase the risk of impairment.

Growth rates

The Group recognises that uncertainty in the market in which it operates could have significant impact on growth rates assumptions. Considering the historical growth rates, economic outlook during the testing period and industry benchmark, management believes that 2.5% growth rate over five years and at perpetuity is appropriate.

A decrease in growth rate assumptions used to extrapolate cash flows beyond the budget period will result in reduced valuations of cash generating units. A material reduction in the long term growth rate would increase the risk of impairment.

Discount rates

The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Any increase in the above factors would lead to a rise in the pre-tax discount rate. This will result in reduced valuation of CGUs and would increase the risk of impairment.

Management believes that a reasonable possible increase in the discount rate by 2% at each cash generating unit, assuming all other assumptions remain constant, would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of these cash generating units.

17. TRADE AND OTHER PAYABLES

	2014 \$000	2013 \$000
Current		
Trade creditors	5,219	6,564
Other creditors and accruals	75,259	68,176
Deferred settlement for businesses acquired	-	300
	<u>80,478</u>	<u>75,040</u>
Non current		
Rent free accrual	1,825	2,265
	<u>1,825</u>	<u>2,265</u>

17. TRADE AND OTHER PAYABLES (CONTINUED)

Terms and conditions relating to the above trade and other payables:

- Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- Accruals for interest payable are normally settled monthly in arrears throughout the financial year.
- Other creditors are non-interest bearing.
- Deferred settlement liability includes amounts to be paid in respect of acquisitions in previous years.

(a) Fair value

Due to the short term nature of current payables, their carrying value is assumed to approximate their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 26.

18. INTEREST-BEARING LOANS AND BORROWINGS

	2014 \$000	2013 \$000
Current		
Finance lease liability (Note 24)	1,401	1,326
Borrowings secured by fixed and floating charge:		
- Bank overdraft	194	-
- Bank recourse borrowings	-	6,304
- Flexible credit facility	1,458	1,360
- Bank bills	11,750	10,000
	14,803	18,990
Non-current		
Finance lease liability (Note 24)	1,431	600
Borrowings secured by fixed and floating charge:		
- Term loan	2,917	887
- Bank recourse borrowings	32,446	45,000
- Bank bills	39,400	51,150
	76,194	97,637

The combined banking facilities with NAB and ANZ were amended on 30 June 2014 which comprise:

Facility	ANZ Limit (\$million)	NAB Limit (\$million)	Expiry Date
Recourse receivables - Tranche A	18.0	27.0	31 July 2015
Recourse receivables - Tranche B	22.0	33.0	31 July 2014
Receivable purchase	-	35.0	31 July 2014
Bank bill	20.0	43.4	31 July 2015
Overdraft	-	3.0	31 July 2014
Credit card	-	0.4	31 July 2014

Receivables purchase facility

Under this facility, the Group sells selected trade receivables to NAB and receives the full amount of the invoiced value of those trade receivables in cash. The Group pays a service fee and interest to NAB on this facility and there is no retention of cash or discount on the consideration received from NAB. Interest is charged at a floating rate based on the Bank Bill Swap Bid Rate and the debtors' credit risk.

18. INTEREST-BEARING LOANS AND BORROWINGS (CONTINUED)

The Group transfers substantially all of the risks and rewards to NAB which bears the collection risks without the right to receive payments from the Group in the event of any loss arising from the non-collectability of these receivables. As at the year end the Group utilised \$33,855,122 (2013: \$33,024,094) under this facility.

Facilities for overseas entities (not included in table above)

OCG Consulting Limited, the New Zealand subsidiary of the Group has a banking facility with the ANZ Banking Group New Zealand which provides a flexible credit facility of AUD\$0.6 million, an overdraft facility of AUD\$1.7 million and a term loan facility of AUD\$2.9 million in New Zealand.

ACI, a subsidiary of the Group operating in Indonesia, has a facility agreement with PT ANZ Panin Bank, which comprises a Revolving Loan Facility up to AUD\$1.0 million and an Overdraft Facility up to AUD\$1.1 million. The ultimate parent Chandler Macleod Group Limited provided a guarantee to secure the facilities.

AHS, a subsidiary of the Company acquired in 2012 financial year has a banking facility with the ANZ which provides an overdraft facility of \$0.3 million.

At 30 June 2014, the Group had available \$89,696,167 (2013: \$62,544,000) of undrawn committed borrowing facilities.

- (a) **Fair value**
All current and non-current borrowings recognised above are recognised at amounts that represent fair value.
- (b) **Interest rate, foreign exchange and liquidity risk**
Details regarding interest rate, foreign exchange and liquidity risk are disclosed in note 26.
- (c) **Assets pledged as security**
The facilities are secured by a registered equitable mortgage over the Group's total assets.
- (d) **Compliance to covenants**
During the year, there were no defaults or breaches by the Company on any of the loans.

19. OTHER FINANCIAL LIABILITIES

	2014 \$000	2013 \$000
Current		
Financial liabilities at fair value through other comprehensive income		
Cash flow hedges	547	-
Financial liabilities at fair value through profit and loss		
Contingent consideration (Note 25)	1,935	-
	<u>2,482</u>	<u>-</u>
Non-current		
Financial liabilities at fair value through other comprehensive income		
Cash flow hedges	-	1,062
Financial liabilities at fair value through profit and loss		
Contingent consideration (Note 25)	927	2,854
	<u>927</u>	<u>3,916</u>

Financial liabilities at fair value through other comprehensive income reflect the change in fair value of interest rate swap contracts, designated as cash flow hedges to hedge exposure on interest bearing liabilities.

As part of accounting for the acquisition of Vivir, contingent consideration with an estimated fair value of \$4,575,300 was recognised at the acquisition date and subsequently the total provision was reversed during the 2013 and 2014 financial years.

20. PROVISIONS

	2014 \$000	2013 \$000
Current		
Long service leave	3,632	3,944
Annual leave	9,280	10,964
Make good	199	159
Uninsured risks	1,200	1,698
	<u>14,311</u>	<u>16,765</u>
Non-current		
Long service leave	1,916	2,206
Make good	1,561	1,418
	<u>3,477</u>	<u>3,624</u>

Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee leave entitlements, are set out below:

	Make Good Provisions \$000	Uninsured Risks \$000	Total \$000
At 1 July 2013	1,577	1,698	3,275
Arising during the year	220	320	540
Utilised	(37)	(818)	(855)
At 30 June 2014	<u>1,760</u>	<u>1,200</u>	<u>2,960</u>
Current 2014	199	1,200	1,399
Non-current 2014	<u>1,561</u>	<u>-</u>	<u>1,561</u>
	<u>1,760</u>	<u>1,200</u>	<u>2,960</u>
Current 2013	159	1,698	1,857
Non-current 2013	<u>1,418</u>	<u>-</u>	<u>1,418</u>
	<u>1,577</u>	<u>1,698</u>	<u>3,275</u>

Make good provisions

The Group leases office facilities throughout Australia, New Zealand, Hong Kong, Singapore, Indonesia, United Kingdom and Ireland and in accordance with the lease agreements, the Group must restore the leased premises to the original condition at the end of the lease terms.

Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the cost that will ultimately be incurred.

Uninsured risks

Uninsured risks comprise insurance deductibles and provisions for outstanding litigation.

21. CONTRIBUTED EQUITY

	2014 \$000	2013 \$000
Issued and fully paid ordinary shares	186,429	150,825

(a) Movements in shares on issue

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

	Number of shares	\$000
Ordinary shares		
At 1 July 2013	450,876,017	150,825
- Issue of shares as part of deferred consideration (i)	576,036	300
- Shares vested under senior executive share plan	1,841,120	781
- Purchase of shares (ii)	(176,471)	(90)
- Shares vested under senior executive option plan	176,471	90
- Issue of shares under DRP (iii)	2,893,897	1,298
- Issue of shares (iii)	15,956,004	7,156
- Issue of shares (iv)	54,929,884	24,718
- Transaction cost on issue of shares, net of tax (v)	-	(459)
- Issue of shares under DRP (vi)	4,525,911	1,810
At 30 June 2014	531,598,869	186,429

(b) Reserved shares

	Number of shares	\$000
At 1 July 2013	18,803,373	10,537
- Shares vested as part of deferred consideration (i)	(576,036)	(300)
- Shares vested under senior executive share plan	(1,841,120)	(781)
- Purchase of shares (ii)	176,471	90
- Shares vested under senior executive option plan	(176,471)	(90)
At 30 June 2014	16,386,217	9,456

- (i) A total of 576,036 fully-paid ordinary shares in Chandler Macleod Group Limited, valued at \$300,000 were issued on 15 August 2013, as part of the deferred consideration payment for the acquisition of the Inspire businesses.
- (ii) On 15 August 2013 the Group acquired its own equity instrument to settle the options vested under the Senior Executive share Options Plan.
- (iii) 298 shareholders participated in the DRP totalling \$1,297,872 and the balance of \$7,156,308 was underwritten by Moelis & Company with an issue price at \$0.4485 per share.
- (iv) Fully underwritten institutional placement with an issue price at \$0.45 per share.
- (v) The Group incurred \$651,000 transaction cost in relation to issue of shares. The deferred tax benefits of \$192,000 are recognised in equity.
- (vi) As part of the interim dividend, 4,525,911 shares were issued under the DRP at 0.3998 per share.

21. CONTRIBUTED EQUITY (CONTINUED)

(c) Capital management

When managing capital, management's objective is to provide liquidity for the business and to provide optimal returns to shareholders and benefits for other stakeholders. Management aims to maintain the lowest cost of capital.

Management are constantly reviewing the capital structure to take advantage of favourable costs of capital. As the market is constantly changing, the directors may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2014, the Group paid dividends of \$16,063,000 (2013: \$14,063,000). The Group has no fixed dividend payout ratio. Management monitor capital through the gearing ratio (net debt/total capital). The gearing ratios based on continuing operations at 30 June 2014 and 2013 were as follows:

	2014 \$000	2013 [^] \$000
Total borrowings *	90,997	116,627
Less cash and cash equivalents	(2,671)	(3,262)
Net debt	88,326	113,365
Total equity	190,121	156,466
Total capital	278,447	269,831
Gearing ratio	31.7%	42.0%

* Includes interest bearing loans and borrowings

[^] 30 June 2013 balances have been restated (Note 23d).

22. RETAINED EARNINGS

Movements in retained earnings were as follows:

	2014 \$000	2013 [^] \$000
Balance at 1 July	4,715	8,084
Profit for the year	13,584	10,694
Ordinary shares dividend paid	(16,063)	(14,063)
Balance at 30 June	2,236	4,715

[^] 30 June 2013 balances have been restated (Note 23d).

23. BUSINESS COMBINATION

Acquisition during 2014

(a) Acquisition of Grafton Consulting Limited (Grafton)

On 6 August 2013, OCG Consulting Limited (OCG), a subsidiary of CMG, acquired 73.67% of shares in Grafton. Grafton delivers a broad range of human resource consulting services throughout New Zealand. Under the shareholders agreement, OCG has a call option over the remaining 26.33% of shares. The minority shareholders also have a put option to require OCG to purchase the remaining shares at various stages up to August 2016. On this basis, 100% ownership is virtually certain at acquisition date, therefore Grafton has been accounted for as a wholly-owned subsidiary.

The acquisition price comprised an initial cash payment of NZ\$2.9 million and three deferred payments based on earn out arrangement depending on the financial performance of Grafton. As at the acquisition date, it is estimated that the minimum deferred payment will be NZ\$0.7 million. There is no cap for the maximum deferred payment. A liability of NZ\$1.4 million was recorded for the contingent consideration at the acquisition date based on the available information at the time.

Option can be exercised at various stages up to August 2016.

The provisional fair value and carrying value of the identifiable assets and liabilities of these acquisitions as at the date of acquisition is as follows:

	Grafton
	\$000
Consideration	
Cash paid	2,512
Estimated contingent consideration liability (Note 25)	1,258
Total consideration	3,770
Statement of Financial Position	
Non-current assets	100
Provisional fair value of identifiable net assets/(liabilities)	100
Goodwill arising on acquisition	3,670
Acquisition date fair-value of consideration transferred	
Cash paid	2,512
Total cash consideration paid	2,512

Acquisitions during 2013

(b) Vivir Acquisition - Revision of provisional acquisition accounting

On 5 December 2012, the Group acquired 100% of the shares in Vivir Healthcare Pty Ltd ("Vivir"). Vivir is a managed service business operating in Australia's large and rapidly expanding residential aged care and community care sectors. It delivers high-quality outcome focused physiotherapy, pain management, dietetics and workplace health and safety to approximately 240 residential aged care facilities ("ACFs"). On a per-resident basis, Vivir provided clinical services to over 18,000 ACF beds through 13,000 unique weekly appointments.

In accordance with AASB3, CMG provisionally recognised the fair value of assets and liabilities acquired from Vivir in the Consolidated Statement of Financial Position as at 30 June 2013 and the difference of \$39.0 million between the acquisition price of \$39.3 million and the net tangible assets \$0.3 million acquired was provisionally accounted for as goodwill.

23. BUSINESS COMBINATION (CONTINUED)

(b) Vivir Acquisition - Revision of provisional acquisition accounting (continued)

Subsequent to 30 June 2013, a valuation was carried out and the following intangibles were identified and separately recognised in accordance with the relevant accounting standards:

	\$000
Customer Contracts/Relationships	9,000
Increase in fair value of deferred tax liabilities	(2,700)
Fair value adjustments to income tax payable	158
Goodwill	32,724

(c) Acquisition of Trilogy

On 19 November 2012, the business of Trilogy Resources Pty Ltd in Western Australia was acquired by CMG for \$4.8 million. Trilogy specialises in providing IT Project Management and IT development contractors.

(d) Prior year adjustments

As a result of the above Vivir fair value adjustments, the following adjustments have been made to June 2013 comparative Consolidated Statement of Financial Position as required by AASB3.

	30 June 2013 As previously stated \$000	Amendments to fair value \$000	Amortisation \$000	30 June 2013 Restated \$000
Non-Current Assets				
Goodwill	196,555	(6,300)	-	190,255
Other intangibles	33,237	9,000	(525)	41,712
Intangible assets and goodwill	229,792	2,700	(525)	231,967
Net deferred tax assets / (liabilities)	9,635	(2,700)	158	7,093
Equity				
Retained earnings	5,082	-	(367)	4,715

24. COMMITMENTS AND CONTINGENCIES

Operating lease commitments - Group as lessee

The Group has entered into commercial leases for access to certain premises. These leases have an average life of between 2 and 5 years with renewal options included in most contracts. Rental payments are fixed with inflation or fixed percentage escalation clauses on which contingent rentals are determined.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	2014 \$000	2013 [^] \$000
Within one year	9,360	8,373
After one year and not later than five years	18,551	24,391
More than five years	3,303	3,231
Aggregate lease expenditure contracted for at reporting date	31,214	35,995

[^] 30 June 2013 balance has been restated.

24. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Finance lease and hire purchase commitments – Group as lessee

The Group has finance leases for computer equipment and software licences. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2014		2013	
	Minimum lease payments \$000	Present value of lease payments \$000	Minimum lease payments \$000	Present value of lease payments \$000
Within one year	1,526	1,401	1,399	1,326
After one year and not later than five years	1,510	1,431	629	600
Total minimum lease payments	3,036	2,832	2,028	1,926
Less amounts representing finance charges	(204)	-	(102)	-
Present value of minimum lease payments	2,832	2,832	1,926	1,926

The weighted average interest rate implicit in the leases for the Group is 6.1% (2013: 7.3%).

Guarantees

Bank guarantees are as follows:

	2014 \$000	2013 \$000
Bank guarantees in respect of leases of premises	6,223	5,140
Workers' compensation guarantees	48,504	47,848
Performance guarantees issued on behalf of Hong Kong subsidiary	1,928	1,984
Bank guarantees in respect of Singapore employment licence	17	-
	56,672	54,972

Guarantees, if called upon, are payable on demand.

Litigation

The consolidated entity has been involved from time to time in various claims and lawsuits incidental to the ordinary course of business. Based on legal advice obtained, other than the amounts already provided for in the accounts, the directors do not expect any material liability to eventuate.

25. FINANCIAL INSTRUMENTS

(a) Contingent consideration

Contingent consideration include deferred earn out payments in relation to Vivir, Grafton and Cornerstone acquisition.

As part of the share sale agreement with the previous owners of Vivir Healthcare Pty Ltd, a portion of the consideration was based on an earn out arrangement depending on the performance of the acquired entity for the 2014 financial year. The below table summarises the fair value adjustments of the contingent consideration:

Vivir Healthcare Pty Ltd	\$000
Initial fair value of the contingent consideration at acquisition date	4,574
Fair value adjustment as at 30 June 2013	(1,800)
Other movements	80
Financial liability for the contingent consideration as of 30 June 2013	2,854
Fair value adjustment as at 30 June 2014	(2,775)
Other movements	(79)
Financial liability for the contingent consideration as of 30 June 2014	-

As part of accounting for the acquisition of Vivir, contingent consideration with an estimated fair value of \$4.6m was recognised as at the acquisition date. The 2014 Vivir Gross Margin was lower than the amount required for the earn out payment, as a result, the total earn out provision was reversed during the 2013 and 2014 financial years. This fair value adjustment is recognised in operating profit.

As part of the assets purchase agreement with the previous owners of Grafton Consulting Group Limited dated 2 August 2013, a portion of the consideration was determined to be contingent, based on the performance of the acquired entity over three years.

Grafton Consulting Group Limited	\$000
Initial fair value of the contingent consideration at acquisition date (Note 23a)	1,258
Other movements	143
Financial liability for the contingent consideration as of 30 June 2014	1,401

Due to changes in the underlying assumptions that reflect the fair value of the discounted cash payment, the fair value adjustment is recognised in operating profit in accordance with AASB 3.

As part of the share purchase agreement with the owners of Cornerstone Global Partners Limited dated 15 July 2013, a contingent consideration was recognised in addition to the initial cash payment in respect to the acquired interest in the entity.

Cornerstone Global Partners Limited	\$000
Initial fair value of the contingent consideration at acquisition date (Note 15)	1,459
Other movements	2
Financial liability for the contingent consideration as of 30 June 2014	1,461

Due to changes in the underlying assumptions that reflect the fair value of the discounted cash payment, the fair value adjustment is recognised in operating profit in accordance with AASB 3.

(b) Interest rate swap – cash flow hedge

The Group hedged \$50 million of this exposure by taking out interest rate swap contracts at 5.91% as at 24 April 2012, expiring on 24 April 2015.

In the year ended 30 June 2014, a gain of \$126,000 (2013: loss of \$181,000) from remeasuring the hedging instrument at fair value is recognised in other comprehensive income and a loss of \$641,000 (2013: loss of 239,000) was recycled from the hedge reserve to the income statement and included in finance costs. There was no hedge ineffectiveness during the period.

25. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2014:

	Carrying amount \$000	Fair Value \$000
30 June 2014		
Financial liabilities:		
Interest bearing loans and borrowings	76,194	75,579
<i>Other financial liabilities</i>		
Contingent consideration	927	927
Total non-current	77,121	76,506
Interest bearing loans and borrowings	14,803	14,792
<i>Other financial liabilities</i>		
Contingent consideration	1,935	1,935
Interest rate swap	547	547
Total current	17,285	17,274
Total	94,406	93,780

(d) Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
- Level 2 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
- Level 3 - Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

As at 30 June 2014, the Group held the following classes of financial instruments measured at fair value:

Financial liabilities measured at fair value

	30 June 2014 \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
Contingent consideration	2,862	-	-	2,862
Interest rate swap	547	-	547	-
	30 June 2013 \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
Contingent consideration	2,854	-	-	2,854
Interest rate swap	1,062	-	1,062	-

Reconciliation of recurring fair value measurements categorised within level 3 of the fair value hierarchy

	\$000
Contingent consideration	
Opening balance	2,854
Gains recognised in income	(2,775)
Additions	2,717
Other movements	66
Closing balance	2,862

25. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Valuation techniques

The valuation techniques and inputs used by the Company for valuation of the interest rate swap contracts is a mark to market valuation.

The fair value of the contingent considerations has been determined using a discounted cash flow model. The valuation requires management to make certain assumptions about unobservable inputs to the model, of which the significant unobservable inputs are disclosed in the table below:

	30 June 2014
Average growth rate for cash flows in subsequent years	6%-13%
Discount rate	5.2%-6.15%

An increase/decrease in the forecast cash flows and the growth rate for cash flows in the subsequent periods would both lead to an increase/decrease in the fair value of the contingent consideration instruments.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank recourse receivables financing, bank receivables purchase facility, bank bill facility, overdrafts, finance leases, loans, cash at bank and interest rate swaps.

The main purpose of these financial instruments is to provide financing for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group's policies with regard to financial risk management are clearly defined in its Treasury Policy and are adhered to.

They are an integral part of the Group's long term strategy, covering areas such as market risk including foreign exchange and interest rate risk, liquidity risk and credit risk. The Group's Treasury Policy assigns responsibilities for managing financial risks and details the manner in which those risks are monitored.

The Group manages its exposure to key financial risks in accordance with these policies. The objective of these policies is to support the delivery of the Group's financial targets whilst protecting future financial security.

Primary responsibility for identification and control of financial risks rests with the Executive Risk Management Committee which reports to the Audit and Risk Management Committee of the Board.

Risk Exposures and Responses

(a) Market risk

The Group monitors its financial performance and applies a number of levers to minimise downside risk to results that might arise from a downturn in the economy, adverse regulatory changes and tighter margins. The Group has a client base that is well diversified in terms of individual exposure, industry and geography. The Group also reviews its banking facilities and funding structure to mitigate any risks that might arise from market liquidity issues.

(i) Interest rate risk

The Group constantly analyses its interest rate exposure to decide the potential renewals of existing positions, alternative financing and the mix of fixed and variable interest rates.

Interest on amounts drawn under the receivables purchase facility are charged at the Bank Bill Swap Bid rate adjusted for the credit risk of the relevant debtor. At year end, the amount utilised under this facility was \$33,855,122 (2013: \$33,024,094).

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Risk Exposures and Responses (continued)

(i) Interest rate risk (continued)

Interest rate swap - cash flow hedge

The Group is exposed to interest rate changes on utilised facilities under the receivable financing facilities, bank bill facility and overdraft facilities which are all floating rate interest loans. The Group hedged \$50 million of this exposure by taking out interest rate swap contracts at 5.91% as at 24 April 2012 for the next 36 months.

The interest rate swaps require settlement of net interest receivable or payable each 30 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The swap is matched directly against the underlying borrowings and interest expense and as such is considered highly effective. It is settled on a net basis. The swap is measured at fair value and all gains and losses attributable to the hedged risks are taken directly to equity and re-classified into profit and loss when the interest expense is recognised.

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

	2014	Total \$000 2013	Weighted average effective interest rate % 2014	2013
(i) Financial assets				
<i>Floating rate</i>				
Cash	2,671	3,262	-	-
Deposit	9	9	3.0	3.0
(ii) Financial liabilities				
<i>Fixed rate</i>				
Financial lease liability	2,832	1,926	6.1	7.3
Deferred settlement for business acquisitions	2,862	3,154	-	-
Bank bill	17,554	-	5.9	-
Bank recourse borrowings	32,446	50,000	5.9	5.9
<i>Floating rate</i>				
Bank overdraft	194	-	12.5	12.5
Bank recourse borrowings	-	1,304	4.7	5.3
Bank bill	33,596	61,150	4.6	5.8
Flexible credit facility	1,458	1,360	9.8	7.6
Term loan	2,917	887	6.9	5.9

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

Judgements of reasonably possible movements: (\$000)	Post Tax Profit		Hedge Reserve	
Higher/(Lower)	2014	2013	2014	2013
Consolidated				
+1.0% (100 basis points)	(524)	(697)	288	625
-1.0% (100 basis points)	524	697	(288)	(625)

The movements in profit are due to higher/lower interest costs from variable rate debt balances.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Risk Exposures and Responses (continued)

(ii) Foreign currency risk

The Group operates internationally but is not materially exposed to foreign exchange risk arising from currency exposures to the Australian dollar. Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group does not hedge this foreign exchange and translation exposure.

The impact of the exchange movements on the Consolidated Statement of Financial Position is not considered material.

Net assets of overseas operations represents 4.4% (2013: 6.1%) of the Group net assets. The largest individual balance represents 3.6% (2013:3.9%) of the Group net assets.

Net profit after tax from the overseas operations represents 2% (2013: 11.4%) of the Group net profit after tax.

(b) Credit risk

Credit risk arises from the financial assets of the Group, which mainly consist of cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of the trade and other receivables with that counter party.

Trade and other receivables are not credit insured. However the Group's policy is that all new customers who wish to trade on credit terms are subject to credit verification procedures which can include an assessment of their independent credit rating, financial position, past experience and industry reputation. In addition, receivables balances are monitored on an ongoing basis. The Group minimises concentration of credit risk in relation to trade receivables by undertaking transactions with a large number of customers from across a broad range of industries.

Details of the Trade and Other Receivables and their ageing based on contractual maturity is shown in note 10.

(c) Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring cash flow forecasts and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group's objective is to maintain a balance of continuity of funding and flexibility through the use of bank overdrafts and recourse financing, finance lease and other loans. The Group's availability of funding through an adequate level of committed credit facilities are described in note 18.

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Risk Exposures and Responses (continued)

(c) Liquidity risk (continued)

The Group also considers equity funding in order to maintain debt/equity ratios within acceptable limits. The Group's gearing ratio is reported under note 21(c) capital management.

Maturity analysis of financial liabilities¹

Year ended 30 June 2014 (\$000)	On demand	Less than 1 year	Over 1 to 5 years	More than 5 years	Total
CONSOLIDATED					
Liabilities					
Bank overdraft	194	-	-	-	194
Trade and other payables	-	80,478	1,825	-	82,303
Deferred settlement for business acquired	-	1,935	927	-	2,862
Interest-bearing loans and borrowings	-	14,609	76,194	-	90,803
Other financial liabilities	-	547	-	-	547
	194	97,569	78,946	-	176,709
<hr/>					
Year ended 30 June 2013 (\$000)	On demand	Less than 1 year	Over 1 to 5 years	More than 5 years	Total
CONSOLIDATED					
Liabilities					
Bank overdraft	-	-	-	-	-
Trade and other payables	-	75,040	2,265	-	77,305
Deferred settlement for business acquired	-	300	2,854	-	3,154
Interest-bearing loans and borrowings	-	18,990	97,637	-	116,627
Other financial liabilities	-	-	1,062	-	1,062
	-	94,330	103,818	-	198,148

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements.

¹ Guarantees are set out in note 24 and are not included in the amounts shown above.

27. RELATED PARTY DISCLOSURES

(a) Ultimate parent

Chandler Macleod Group Limited is the ultimate parent company.

(b) Directors' shareholdings

PARENT COMPANY

	2014	2013
Ordinary shares:		
Shares held at the beginning of the year	106,744,167	103,576,161
Shares acquired/(disposed of) during the year	-	99,212
Shares movement on changes of directors	-	2,359,761
Shares issued during the year	265,974	709,033
Shares held at end of year	107,010,141	106,744,167

The table above only shows details of directors' shareholdings for those directors holding office at 30 June 2014. The amounts include shareholdings of related parties to the directors (refer to remuneration report for further details).

Loans

The parent entity entered into the following transactions during the year with controlled entities in the Group:

- Loans were advanced and repayments received on intercompany accounts; and
- Management and other services provided under agreements.

These transactions were undertaken on commercial terms and conditions. Amounts due to and receivable from related parties in the wholly owned group are set out in the respective notes to the financial statements.

28. KEY MANAGEMENT PERSONNEL

Compensation of Key Management Personnel

	2014	2013 [^]
	\$	\$
Short-term employee benefits	3,294,928	2,647,570
Post-employment benefits	146,248	95,200
Other long-term benefits	43,711	18,657
Share-based payment	98,649	682,020
Termination/Resignation payments	95,833	-
	3,679,369	3,443,447

[^] 2013 long service leave was restated to reflect long service leave earned during the financial year.

Loans to Key Management Personnel

There were no loans to specified directors or executives during the financial year.

29. SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table below:

	2014 \$	2013 \$
Expense arising from equity-settled share-based payment transactions		
- Exempt Employee Share Plan (EESP)	137,700	115,112
- Senior Executive Share Plan (SESP)	460,316	1,546,103
- Senior Executive Option Plan (SEOP)	79,795	53,687
Total expense arising from share-based payment transactions	677,811	1,714,902

(b) Types of share-based payment plans

Exempt Employee Share Plan, 'EESP'

Exempt Employee Share Plan ('EESP'), a 'salary sacrifice' type plan which commenced on 1 July 2006 and provides benefits to all employees who earn no more than \$180,000 per annum.

Deferred Tax Employee Share Plan, 'DTESP'

Deferred Tax Employee Share Plan ('DTESP'), a 'salary sacrifice' type plan which also commenced on 1 July 2006 and provides benefits to all employees. The operation of this plan was discontinued from 1 July 2013.

Senior Executive Share Plan, 'SESP'

The SESP commenced on 17 December 2007 and is an incentive plan for meeting certain performance conditions. The SESP is consistent with the principles and objectives of the Remuneration Policy of building a partnership between the Company and its executives by encouraging ownership by the executives of shares in the Company.

The LTI target under the SESP for each eligible executive is set as a percentage of TFR. The designated percentage, which ranged from 15% to 40% during the reporting period, is determined based on a combination of each executive's level of responsibility, performance, potential and retention risk.

For shares allocated under the SESP prior to 1 July 2008, the performance condition was linked to the Company's performance over each vesting period (i.e. 3 years, 4 years, 5 years) having regard to the Total Shareholder Return ("TSR") of the Company relative to a peer group of companies that represent appropriate investment alternatives for shareholders. This scheme was completed during the 2013 financial year.

For shares allocated after 1 July 2008 and prior to 1 March 2011 one third of the share allocations will vest at the completion of 1, 2 and 3 years of service after their allocation, subject to the relevant person still being employed at the time of vesting.

The vesting of these shares is not dependent on the satisfaction of a performance condition as the Board elected to base vesting on retention of executives. This scheme came to an end after the completion of three years on 15 August 2013.

For shares allocated post 1 March 2011, one quarter of this share allocation will vest at the completion of 1, 2, 3 and 4 years of service after their allocation, subject to the relevant person still being employed at the time of vesting. The vesting of these shares is also dependent on the achievement of certain performance hurdles set by the Remuneration & Nomination Committee at the commencement of each financial year.

During the 2014 financial year, the Company allocated 3,422,135 (2013: 6,091,657) shares.

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

A summary of the vesting and hurdles for the CEO and CFO is set out below:

Vesting period	End of Year 1	End of Year 2	End of Year 3	End of Year 4
Service allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation
Time Based	33.3%	33.3%	33.3%	33.3%
EPS Based	33.3%	33.3%	33.3%	33.3%
EBITDA Based	33.3%	33.3%	33.3%	33.3%

A summary of the vesting and hurdles for all other staff is set out below:

Vesting period	End of Year 1	End of Year 2	End of Year 3	End of Year 4
Service allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation	1/4 of allocation
Time Based	40%	40%	40%	40%
EPS Based	30%	30%	30%	30%
EBITDA Based	30%	30%	30%	30%

Mr Cameron Judson is the only Director participating in the SESP, and was allocated 541,667 shares during the 2014 financial year (2013: 1,415,000), comprising shares acquired on market prior to 2014 and had been forfeited by prior participants which were re-allocated to Mr Judson. The performance hurdles for the 2014 allocation are based on the target Earnings per Share and EBITDA set by the Remuneration and Nomination Committee.

Senior Executive Option Plan, 'SEOP'

Share Options may be granted to senior executives of the Group under the SEOP, which commenced on 21 November 2007 unless otherwise determined by the Board. Options granted under the SEOP is conditional on the option holder being an employee of the Group at the time of vesting, and such other conditions as the Board may see fit to impose and Options granted under the SEOP expire 7 years from the date of offer.

The share options were granted to certain employees of OCG Consulting Limited, a wholly owned subsidiary of the Group at an exercise price of \$0.01. On 30 June 2011, 500,000 options were granted, one third of the options granted will vest at the completion of 1, 2 and 3 years of service from the grant date, subject to the relevant person still being employed at the time of vesting.

During 2014 financial year, 306,688 share options were granted. One quarter of these options will vest at the completion of 1, 2, 3 and 4 years of service after their allocation, subject to the relevant person still being employed at the time of vesting. The vesting of these shares is also dependent on the achievement of certain performance hurdles set by the Remuneration & Nomination Committee at the commencement of each financial year.

176,420 share options were exercised during the year (2013: 127,403) and 44,170 options were forfeited due to resignation of an eligible executive (2013: nil).

Summaries of options granted under SEOP

	2014	2013
Outstanding at the beginning of the year	372,597	500,000
Granted during the year	306,688	-
Forfeited during the year	(44,170)	-
Exercised during the year	(176,420)	(127,403)
Expire during the year	-	-
Outstanding at the end of the year	458,695	372,597

29. SHARE-BASED PAYMENT PLANS (CONTINUED)

Senior Executive Option Plan, 'SEOP' (continued)

(c) SEOP pricing model

Equity-settled transactions

The fair value of the equity-settled options is estimated as at the date of grant using the Black-Scholes pricing model taking into account the terms and conditions upon which the options and shares were granted.

The following table list the inputs to the models used for the SEOP for the years ended 30 June 2014 and 2013, respectively:

	2014	2013
Dividend yield (%)	7.00	8.00
Expected volatility (%)	10.00	10.00
Risk-free interest rate (%)	3.54	3.76
Expected life of share options (years)	4.00	1.00
Weighted average share price (\$)	0.45	0.45

30. PARENT ENTITY

Chandler Macleod Group Limited is the ultimate parent of the consolidated Group.

Information relating to Chandler Macleod Group Limited

	2014 \$000	2013 \$000
Current Assets	93,337	81,343
Total Assets	320,884	314,606
Current Liabilities	(57,206)	(53,705)
Total Liabilities	(125,806)	(160,010)
Issued capital	182,272	146,668
Retained earnings/(accumulated losses)	11,331	7,045
Other reserves	1,475	883
Total shareholders' Equity	195,078	154,596
Profit of the parent entity	19,965	11,720
Total comprehensive income of the parent entity	20,557	11,778

Commitments and Contingencies

The parent has entered into the following guarantees and commitments on behalf its subsidiaries.

Guarantees	2014 \$000	2013 \$000
Bank guarantees in respect of leases of premises	6,223	5,140
Workers' compensation guarantees	48,504	47,848
Performance guarantees issued on behalf of Hong Kong subsidiary	1,928	1,984
	56,655	54,972

Cross guarantees given by the parent and some of its subsidiaries are described in note 31.

31. CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2014 include the following controlled entities. The reporting date of all controlled entities are the same as that of the parent company.

Name of Controlled Entity	Country of Incorporation	% of shares held	
		2014 %s	2013 %s
AHS Hospitality Pty Limited*	Australia	100	100
AHS Services Group Pty Limited*	Australia	100	100
Aurion Corporation Pty Limited*	Australia	100	100
Chandler Macleod Consultants Pty Limited*	Australia	100	100
Chandler Macleod Services Pty Limited*	Australia	100	100
Diversiti Pty Limited*	Australia	100	100
Forstaff Avalon Pty Limited*	Australia	100	100
Ready Workforce (a division of Chandler Macleod) Pty Limited*	Australia	100	100
Recruitment Solutions (a division of Chandler Macleod) Pty Limited*	Australia	100	100
Ross Human Directions Limited*	Australia	100	100
VIVIR Healthcare Pty Ltd*	Australia	100	100
OCG Consulting Limited	New Zealand	100	100
Grafton Consulting Limited	New Zealand	73.7	-
Chandler Macleod Group PTE Limited (formerly Ross Recruitment (S) Pte Limited)	Singapore	100	100
Chandler Macleod Group (HK) Limited (formerly Ross Recruitment Limited)	Hong Kong	100	100
Ross Human Directions Limited	United Kingdom	100	100
Ross Human Directions Limited	Ireland	100	100
PT Advanced Career Indonesia	Indonesia	49	49

* As at 2014 financial year end these companies were accounted as closed group under the deed of cross guarantee dated 24 June 2013.

ASIC Deed of cross guarantee

The deed of cross guarantee was formed under ASIC Class Order 98/1418. Under this Class Order and the deed of cross guarantee, the companies have formed a closed group as defined in the class order and guaranteed the payment in full of the debts of the other named companies in the event of a winding up.

The consolidated Income Statement and Consolidated Statement of Financial Position of the entities that are members of the Closed Group are as follows:

CONSOLIDATED INCOME STATEMENT	CLOSED GROUP	
	2014 \$000	2013 \$000
Profit before income tax expense	19,172	14,114
Income tax expense	(3,649)	(4,346)
Net profit	15,523	9,768
Profit attributable to shareholders	15,523	9,768
Retained earnings/(accumulated losses) at beginning of financial year	4,395	8,690
Appropriations - paid or proposed	(16,063)	(14,062)
Retained earnings at end of financial year	3,855	4,396

31. CONTROLLED ENTITIES (CONTINUED)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	CLOSED GROUP	
	2014	2013 [^]
	\$000	\$000
CURRENT ASSETS		
Cash and cash equivalents	269	627
Trade and other receivables	122,987	113,559
Other financial assets	1,392	2,539
TOTAL CURRENT ASSETS	124,648	116,725
NON-CURRENT ASSETS		
Other financial assets	12,898	12,959
Property and office equipment	10,154	12,279
Intangible assets and goodwill	219,913	216,366
Deferred tax assets	9,934	9,583
TOTAL NON-CURRENT ASSETS	252,899	251,187
TOTAL ASSETS	377,547	367,912
CURRENT LIABILITIES		
Payables	74,430	69,815
Interest-bearing loans and borrowings	13,345	17,510
Income tax payable	5,280	1,547
Provisions	13,855	15,507
Other financial liabilities	543	-
TOTAL CURRENT LIABILITIES	107,453	104,379
NON-CURRENT LIABILITIES		
Payables	1,825	2,265
Interest-bearing loans and borrowings	73,277	96,837
Other financial liabilities	-	3,916
Provisions	3,430	4,375
TOTAL NON-CURRENT LIABILITIES	78,532	107,393
TOTAL LIABILITIES	185,985	211,772
NET ASSETS	191,562	156,140
EQUITY		
Contributed equity	186,429	150,825
Retained earnings	3,853	4,762
Reserves	1,280	553
TOTAL EQUITY	191,562	156,140

[^] 30 June 2013 balances have been restated (Note 23d).

32. EVENTS AFTER THE REPORTING DATE

Dividend

On 18 August 2014, the directors of Chandler Macleod Group Limited declared a final dividend on ordinary shares in respect of the 2014 financial year. The total amount of the dividend is \$9.9 m which represents a fully franked dividend of 1.8 cents per share. The dividend has not been provided for in the 30 June 2014 financial statements.

New banking facility

On 18 August 2014, the Group entered into a combined facilities agreement with Westpac Banking Corporation and the Hong Kong & Shanghai Banking Corporation which comprises:

- Cash Advance facility of \$51.2 million
- Bank Guarantee facility (Australia and overseas) of \$11 million
- Multi Option facility (Australia and overseas) up to \$10 million
- Invoice Finance - With Recourse facility up to \$90 million
- Invoice Finance - Without Recourse facility up to \$55 million
- Workers Compensation Bond Facility of \$55.5 million

The Group will terminate all of its current facilities with NAB and ANZ on or before 29 September 2014.

Apart from the matters referred to above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years.

33. AUDITORS' REMUNERATION

The following total remuneration was received by the auditors in respect of:

	2014 \$	2013 \$
Amounts received or due and receivable by:		
EY Australia - primary auditors		
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	506,183	542,448
- tax compliance	161,371	211,194
- other assurance services	61,500	119,855
Other auditors		
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	113,105	62,077
- tax compliance	16,151	21,490
- other advisory services	6,496	-
	864,806	957,064

Directors' Declaration

In accordance with a resolution of the directors of Chandler Macleod Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

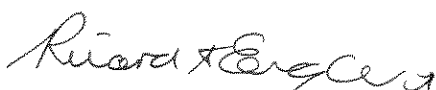
(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b); and

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2014.

(e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 31 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Richard England
Chairman

Sydney
18 August 2014



Building a better
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Independent auditor's report to the members of Chandler Macleod Group Limited

Report on the financial report

We have audited the accompanying financial report of Chandler Macleod Group Limited which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

Opinion

In our opinion:

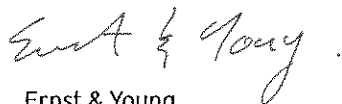
- a. the financial report of Chandler Macleod Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

Report on the remuneration report

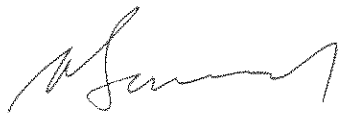
We have audited the Remuneration Report included in pages 13 to 23 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Chandler Macleod Group Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



P. S. Barnard
Partner
Sydney
18 August 2014