Chandler Macleod Group Limited
and its controlled entities

ABN 33 090 555 052

Half-Year Report

for the six months ended 31 December 2014

Contents

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

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

Boardroom Pty Limited
Level 7, 207 Kent Street
Sydney NSW 2000

BANKERS

Westpac Banking Corporation
The Hongkong and Shanghai Banking Corporation

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 half-year ended 31 December 2014.

DIRECTORS

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

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)

SCHEME IMPLEMENTATION DEED WITH RECRUIT HOLDINGS CO., LTD

On 14 January 2015, Chandler Macleod announced that it has entered into a Scheme Implementation Deed ("SID") with Recruit Holdings Co., Ltd ("Recruit") under which Recruit, through an Australian subsidiary, would acquire 100% of the share capital in the Company for a total cash consideration of $290.4 million.

Subject to shareholder approval, Court approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in mid April 2015.

REVIEW OF OPERATIONS

The Group delivered a net profit after tax from continuing operations of $4.8 million for the six months ended 31 December 2014, down 13% over the prior corresponding period (pcp). The net profit after tax from continuing operations before transaction and restructuring costs and fair value adjustment to contingent consideration was $5.5 million, in line with the pcp. EBITDA from continuing operations before transaction and restructuring costs and fair value adjustment to contingent consideration was $18.8 million, an increase of 5% over the pcp.

The result reflects the current soft economic conditions and levels of business confidence and a reduction in contractor hours in the WA resource sector. The downturn in WA is being offset by growth in the eastern States and an increased focus on productivity and efficiency. The subdued economic conditions are also impacting permanent recruitment revenue and assessment revenue. Growth in the Managed Services business has been offset by declines in Specialist Products and International.

Revenue from continuing operations was 2% lower than the pcp. Although contract labour hours were 2% lower than the pcp, the overall margin contraction has stabilised.

Productivity and efficiency initiatives delivered significant savings in the period with FTEs down 11% and costs from continuing operations down $3.4 million or 4% from the pcp.

Directors' Report (continued)

REVIEW OF OPERATIONS (CONTINUED)

The results are:

	31 December 2014 $000	31 December 2013 $000
Revenue from continuing operations^	700,641	718,106
EBITDA* from continuing operations before reconciling items noted below	18,816	17,877
Restructuring costs	(734)	(2,490)
Fair value adjustment to contingent consideration	-	2,057
Transaction costs - acquisition related	-	(349)
Transaction costs – Scheme of Arrangement (SOA)	(323)	-
EBITDA from continuing operations	17,759	17,095
Net profit after tax from continuing operations before reconciling items noted below	5,532	5,548
Restructuring costs after tax	(514)	(1,751)
Fair value adjustment to contingent consideration	-	2,057
Transaction costs after tax - acquisition related	-	(319)
Transaction costs after tax - SOA	(226)	-
Net profit for the period from continuing operations	4,792	5,535

^ Continuing operations excludes Aviation operations
* Earnings before interest, tax, depreciation and amortisation

Capital Structure and Cashflow

Debt levels at 31 December 2014 are in line with those reported at 31 December 2013. Gearing has risen slightly to 35%. Interest expense for the half year was lower at $4.1 million, compared with $4.5 million in the pcp.

Group operating cash flow before interest, transaction and restructuring costs was $9.6 million, which was $2.8 million higher than the half year ended 31 December 2013.

Divisional Results

Staffing Services reported an EBITDA of $17.7 million before corporate overheads for the first half, down 8% on the pcp. The decrease is largely due to the impact of reduced contractor hours in the WA resources sector, being partly offset by growth in other States and non-resource sectors. Productivity and efficiency gains from centralisation of branch administration functions delivered $4.0 million and a 12% reduction in FTEs in the half.

Managed Services reported an EBITDA of $10.6 million before corporate overheads compared to $8.3 million in the prior period from continuing operations. Both the AHS and Vivir businesses produced strong growth. AHS added 600,000 rooms at newly signed hotels in the period and, as a key step in delivering their national footprint, Vivir commenced services at 47 new sites.

Specialist Products reported an EBITDA of $2.1 million before corporate overheads, down from $3.2 million in the prior period. The soft levels of business confidence has impacted the demand for the Consulting business' assessment products. Aurion achieved 19% growth in BPO volumes.

The **International** businesses contributed an EBITDA of $0.4 million compared to $1.0 million in the pcp. Whilst the New Zealand business performed in line with the prior period, Asia and Europe were impacted by difficult economic conditions.

Directors' Report (continued)

REVIEW OF OPERATIONS (CONTINUED)

DIVIDEND

The Board has determined a fully franked divided of 1.70 cents per share (2013: 1.40 cents per share). Under the SID with Recruit, Chandler Macleod is permitted to pay a dividend of up to 1.70 cents per share. If the proposed Scheme does not become effective, a dividend will still be payable but the Chandler Macleod Board may review and re-determine the amount of the dividend.

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.

Directors' Report (continued)

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors Ernst & Young which is set out on the following page and forms part of this Directors' Report.

Signed in accordance with a resolution of the directors.

Cameron Judson
Managing Director

Sydney
16 February 2015

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 review of the financial report of Chandler Macleod Group Limited for the half-year ended 31 December 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

Ernst & Young

P. S. Barnard

P. S. Barnard
Partner
Sydney
16 February 2015

Consolidated Statement of Profit and Loss

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	31 December 2014 $000	31 December^ 2013 $000
Continuing operations			
Revenue		700,617	717,422
Other income	4(a)	24	684
Total revenue		700,641	718,106
Contractor and other direct costs		(608,613)	(623,465)
Employee benefits expense	4(b)	(55,907)	(58,520)
Employee benefits expense - restructuring expense		(724)	(1,717)
Administration costs		(17,623)	(18,361)
Administration costs - restructuring expense		(10)	(773)
Transaction costs - acquisition related		-	(349)
Transaction costs - Scheme of Arrangment (SOA)	4 (e)	(323)	-
Fair value adjustment to contingent consideration	15(a)	-	2,057
Share of profit of associate		318	117
Earnings before interest, tax, depreciation and amortisation (EBITDA)		17,759	17,095
Depreciation expense		(2,554)	(2,200)
Amortisation expense	4(c)	(4,165)	(3,635)
Earnings before interest and tax (EBIT)		11,040	11,260
Net finance costs	4(d)	(4,031)	(4,487)
Profit before income tax		7,009	6,773
Income tax expense		(2,217)	(1,238)
Net profit from continuing operations		4,792	5,535
Discontinued operation			
Profit from discontinued operation after tax	5	-	567
Net profit for the period		4,792	6,102
Profit for the year is attributable to:			
Non-controlling interest		(107)	(31)
Owners of the parent		4,899	6,133
		4,792	6,102
Earnings per share from continuing operations (cents)			
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic earnings per share	6	0.90	1.19
Diluted earnings per share	6	0.88	1.16
Earnings per share (cents)			
Earnings per share for profit attributable to the ordinary equity holders of the parent:			
Basic earnings per share	6	0.90	1.31
Diluted earnings per share	6	0.88	1.28

Consolidated Statement of Other Comprehensive Income

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	31 December 2014 $000	31 December^ 2013 $000
Net profit for the period	4,792	6,102
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	774	430
Net movement on cash flow hedges	224	156
Total comprehensive income for the period	5,790	6,688
Total comprehensive income for the year attributable to:		
Non-controlling interest	(107)	(31)
Owners of the parent	5,897	6,719
	5,790	6,688

^ 31 December 2013 balances have been restated due to the discontinued operation.

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 31 DECEMBER 2014

	Note	31 December 2014 $000	30 June^ 2014 $000
CURRENT ASSETS			
Cash and cash equivalents	8	5,135	2,671
Trade and other receivables		117,127	123,150
Prepayments and other current assets		4,305	1,857
		126,567	127,678
Assets of discontinued operation		-	42
TOTAL CURRENT ASSETS		126,567	127,720
NON-CURRENT ASSETS			
Other financial assets		176	12
Property and office equipment		9,750	11,072
Intangible assets and goodwill	10	235,814	236,970
Investment in an associate	11	4,491	4,191
Deferred tax assets		10,010	10,002
TOTAL NON-CURRENT ASSETS		260,241	262,247
TOTAL ASSETS		386,808	389,967
CURRENT LIABILITIES			
Trade and other payables		70,567	80,478
Interest-bearing loans and borrowings		24,564	14,803
Income tax payable		2,847	5,349
Other financial liabilities	15(c)	1,371	2,482
Provisions		14,868	14,311
TOTAL CURRENT LIABILITIES		114,217	117,423
NON-CURRENT LIABILITIES			
Payables		1,415	1,825
Interest-bearing loans and borrowings		81,006	76,194
Other financial liabilities	15(c)	123	927
Provisions		3,700	3,477
TOTAL NON-CURRENT LIABILITIES		86,244	82,423
TOTAL LIABILITIES		200,461	199,846
NET ASSETS		186,347	190,121
EQUITY			
Contributed equity	13	187,025	186,429
Retained earnings		(2,729)	2,236
Reserves		2,284	1,582
Parent interests		186,580	190,247
Non-controlling interests		(233)	(126)
TOTAL EQUITY		186,347	190,121

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

^ 30 June 2014 balances have been restated due to the discontinued operation.

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 2014	186,429	2,236	(383)	111	1,854	190,247	(126)	190,121
Profit for the period	-	4,899	-	-	-	4,899	(107)	4,792
Other comprehensive income	-	-	224	774	-	998	-	998
Total comprehensive income/(expense) for the period	-	4,899	224	774	-	5,897	(107)	5,790
Transactions with owners in their capacity as owners:								
Shares vested under employee share plans	658	-	-	-	(658)	-	-	-
Shares acquired by/transferred to the trustee of the senior executive option plan	(62)	-	-	-	-	(62)	-	(62)
Share-based payment expense	-	-	-	-	362	362	-	362
Dividends paid	-	(9,864)	-	-	-	(9,864)	-	(9,864)
At 31 December 2014	187,025	(2,729)	(159)	885	1,558	186,580	(233)	186,347

	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	-	6,133	-	-	-	6,133	(31)	6,102
Other comprehensive income	-	-	156	430	-	586	-	586
Total comprehensive income/(expense) for the period	-	6,133	156	430	-	6,719	(31)	6,688
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)	8,454	-	-	-	-	8,454	-	8,454
Issue of shares	24,718	-	-	-	-	24,718	-	24,718
Transaction cost on issue of shares	(448)	-	-	-	-	(448)	-	(448)
Shares acquired by/transferred to the trustee of the senior executive option plan	(90)	-	-	-	-	(90)	-	(90)
Share-based payment expense	-	-	-	-	280	280	-	280
Dividends paid	-	(8,454)	-	-	-	(8,454)	-	(8,454)
At 31 December 2013	184,630	2,394	(587)	488	1,031	187,956	(42)	187,914

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

Consolidated Statement of Cash Flows

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

	Note	31 December 2014 $000	31 December^ 2013 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		776,750	781,519
Payments to suppliers and employees (inclusive of GST)		(762,388)	(773,115)
Interest received		38	8
Finance costs		(1,760)	(2,059)
Income tax paid		(4,757)	(1,597)
Transaction related costs		(323)	(449)
Restructuring costs		(1,485)	(2,706)
Net cash flows from operating activities - continuing operations		6,075	1,601
Net cash flows from operating activities - discontinued operation	5	-	929
Net cash flows from operating activities		6,075	2,530
CASH FLOWS FROM INVESTING ACTIVITIES			
Business combinations, net of cash acquired	15(a)	(1,002)	(2,512)
Purchase of property, plant and equipment		(1,072)	(942)
Purchase of software and project development costs	10	(3,036)	(2,755)
Investment in associate	15(a)	(827)	(1,922)
Dividend received from associate	11	197	-
Proceeds from sale of subsidiary	4(a)	-	326
Proceeds from disposal of property, plant and equipment		7	8
Net cash flows used in investing activities		(5,733)	(7,797)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of costs		-	31,235
Repayment of finance lease capital		(998)	(1,131)
Proceeds from/(repayment of) borrowings		15,410	(12,608)
Purchase of shares		(62)	(90)
Payment of dividends	7	(9,864)	(7,156)
Finance costs - acquisition		(2,186)	(2,450)
Net cash flows from financing activities - continuing operations		2,300	7,800
Net cash flows used in financing activities - discontinued operation	5	-	(929)
Net cash flows from financing activities		2,300	6,871
Net increase in cash		2,642	1,604
Cash and cash equivalents at beginning of financial period		2,477	3,262
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL PERIOD	8	5,119	4,866

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

^ 31 December 2013 balances have been restated due to the discontinued operation.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2014

1. CORPORATE INFORMATION

The financial report of Chandler Macleod Group Limited ('the Company') and its controlled entities for the half-year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 16 February 2015.

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 half-year were HR services including Staffing Services, Managed Services, HR Consulting and Payroll Services. Further details on the business segments are described in note 3.

There have been no significant changes in the nature of the operations and principal activities of Chandler Macleod Group Limited and its controlled entities ("the Group") since the financial year ended 30 June 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Group as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of Chandler Macleod Group Limited as at 30 June 2014.

It is also recommended that the half-year financial report be considered together with any public announcements made by the Group during the half-year ended 31 December 2014 in accordance with the continuous disclosure requirements arising under the ASX listing rules.

(a) Basis of preparation

The half-year financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2014 reporting period. The Group assessed the impact of these new standards and interpretations and does not expect that they will have a material impact on the amounts reported in the Group's financial statements. Certain disclosures and presentation may change due to the new or amended standards.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
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 2018	The Group has not determined the impact on the presentation of the Group's financial report at this stage.	1 July 2018
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.	1 January 2016	No direct impact on the amount included in the Group's financial statements.	1 July 2016
IFRS 15	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations. The core principles of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.	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)

(b) Significant accounting policies

The half-year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2014.

(c) Basis of consolidation

The half-year financial statements comprise the financial statements of Chandler Macleod Group Limited and its subsidiaries ('the Group') as at 31 December 2014.

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.

3. 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 Temporary, Contracting and Permanent Recruitment.

Managed Services consists of managed training solutions, business process outsourcing services, 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.

3. OPERATING SEGMENTS (CONTINUED)

Type of services

The following tables present revenue and profit information regarding business segments for the period ended 31 December 2014 and 31 December 2013.

Operating Segments	Staffing Services	Managed Services	Specialist Products	International	Unallocated	Total
Period Ended 31 December 2014	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue						
Services to external customers	534,099	113,750	15,473	37,295	-	700,617
Inter-segment revenue	565	120	101	-	-	786
Total segment revenue	534,664	113,870	15,574	37,295	-	701,403
Segment results	17,712	10,640	2,146	381	-	30,879
Corporate overheads	-	-	-	-	(12,063)	(12,063)
EBITDA from continuing operations before reconciling items						18,816

Operating Segments^	Staffing Services	Managed Services	Specialist Products	International	Unallocated	Total
Period Ended 31 December 2013	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
Revenue						
Services to external customers	553,531	104,044	17,120	42,727	-	717,422
Inter-segment revenue	1,187	13	75	-	-	1,275
Total segment revenue	554,718	104,057	17,195	42,727	-	718,697
Segment results	19,263	8,342	3,207	996	-	31,808
Corporate overheads	-	-	-	-	(13,931)	(13,931)
EBITDA from continuing operations before reconciling items						17,877

^ 31 December 2013 balances have been restated due to the discontinued operation.

3. OPERATING SEGMENTS (CONTINUED)

All revenue from the Staffing Services, Managed Services and Specialist Products segments are derived in Australia. International segment revenue is derived mainly from New Zealand (AUD $17.0 million) and Hong Kong (AUD $12.3 million), with the remainder (AUD $8.2 million) from the various countries the Group operates in.

Segment revenue reconciliation to the Consolidated Statement of Profit and Loss and Comprehensive Income

	31 December 2014 $000	31 December 2013 $000
Total segment revenue	701,403	718,697
Inter-segment sales elimination	(786)	(1,275)
Other income	24	684
Total revenue from continuing operations per the Consolidated Statement of Profit and Loss	700,641	718,106

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

	31 December 2014 $000	31 December 2013 $000
EBITDA from continuing operations before reconciling items	18,816	17,877
Transaction costs - acquisition related	-	(349)
Transaction costs - SOA	(323)	-
Restructuring costs	(734)	(2,490)
Fair value adjustment to contingent consideration	-	2,057
Depreciation and amortisation expense	(6,719)	(5,835)
Finance costs	(4,031)	(4,487)
Income tax expense	(2,217)	(1,238)
Net profit from continuing operations per the Consolidated Statement of Profit and Loss	4,792	5,535

4. REVENUES AND EXPENSES

	31 December 2014 $000	31 December 2013 $000
Other income		
(a) Total other income		
Gain on sale of subsidiary	-	326
Other income	24	358
	24	684
Expenses		
(b) Employee benefits expense		
Wages and salaries	46,695	49,603
Superannuation	3,610	3,587
Share-based payments	381	325
Other employee benefits	5,221	5,005
	55,907	58,520
(c) Amortisation expense		
Amortisation of software	2,233	1,700
Amortisation of acquired intangible assets	1,932	1,935
Total amortisation	4,165	3,635
(d) Finance costs		
Finance costs		
- Bank loans and overdrafts	3,900	4,295
- Finance charges payable under finance leases	70	114
- Interest expense others	29	15
- Non cash interest	70	71
Total finance costs	4,069	4,495
Finance income		
- Bank interest receivable	(38)	(8)
Total finance income	(38)	(8)
Total finance costs	4,031	4,487
(e) Other expense items		
Minimum lease payments - Operating leases	4,947	5,335
Doubtful debts - trade debtors	193	128
Loss on disposal of non-current assets	6	-
Net foreign exchange loss/(gain)	24	-
Restructuring costs comprising:		
Restructuring charges	734	2,490
Income tax benefit	(220)	(739)
Restructuring costs, net of tax	514	1,751
Transaction costs - SOA comprising:		
Transaction costs - SOA	323	-
Income tax benefit	(97)	-
Transaction costs - SOA, net of tax	226	-

5. DISCONTINUED OEPRATIONS

(a) Details of discontinued operation

In December 2013, the Group entered into an agreement in order to effect the early exit from the service agreement to supply maintenance personnel as part of the client's engineering operations consolidation program ("Aviation operations").

On 28 March 2014, the Group completed all obligations in relation to the termination of the service agreement and ceased its Aviation operations.

In accordance with AASB 5, the Aviation operations is reported as a discontinued operation for the reporting period to enhance the market understanding of the Group's performance.

(b) Financial performance of discontinued operation

	31 December 2014 $000	31 December 2013 $000
Rendering of services	-	14,373
Contractor and other direct costs	-	(12,885)
Other expenses	-	(678)
Profit from discontinued operation before tax	-	810
Tax expense	-	(243)
Profit from discontinued operation after tax	-	567

(c) Cash flow information - discontinued operation

Operating activities	-	929
Investing activities	-	-
Financing activities	-	(929)
Net cash flow	-	-

6. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the half-year 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 for the half-year 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.

	31 December 2014 $000	31 December 2013 $000
Net profit after tax - continuing operations	4,792	5,535
Net profit after tax - discontinued operation	-	567
Add loss attributable to non-controlling interest	107	31
Net profit attributable to ordinary shareholders of the parent	4,899	6,133

	Number of shares	Number of shares
Weighted average number of shares used in calculating basic earnings per share	532,653,407	466,274,524
Effect of dilutive securities:		
Senior Executive Share Plan	11,121,352	11,157,159
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	543,774,759	477,431,683

7. DIVIDENDS PAID AND PROPOSED

	31 December 2014 $000	31 December 2013 $000
(a) Recognised amounts		
Declared and paid during the year:		
Dividends declared and paid during the half-year on ordinary shares:		
Final franked dividend for the financial year 30 June 2014: 1.80 cents per share (2013: 1.80 cents)		
Settled through cash	9,864	7,156
Settled through dividend reinvestment plan	-	1,298
	9,864	8,454
(b) Unrecognised amounts^		
Dividends on ordinary shares:		
Interim franked dividend for half-year 31 December 2014: 1.70 cents per share (2013: 1.40 cents)	9,316	7,608

^ Interim dividend is calculated based on the number of issued shares as at 31 December 2014

8. CASH AND CASH EQUIVALENTS

For the purpose of the half-year Cash Flow Statement, cash and cash equivalents are comprised of the following:

	31 December 2014 $000	30 June 2014 $000	31 December 2013 $000
Cash at bank and in hand	5,135	2,671	4,928
Bank overdraft	(16)	(194)	(62)
Closing net cash balance	5,119	2,477	4,866

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.

9. PROPERTY, PLANT AND EQUIPMENT

Additions and disposals

During the half-year ended 31 December 2014, the Group acquired assets with a cost of $1,072,000 in the normal course of business (2013: $942,000).

Assets with the net book value of $13,000 were disposed of by the Group during the half-year ended 31 December 2014 (2013: zero), resulting in a loss on disposal of $6,000 (2013: gain of $8,000).

10. INTANGIBLE ASSETS AND GOODWILL

	Goodwill $000	Project Development Costs $000	Software $000	Leased Software $000	Brand Names $000	Customer Relationships $000	Total $000
At 1 July 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
At 1 July 2014							
Net of accumulated amortisation and impairment	193,925	4,749	15,280	2,308	4,600	16,108	236,970
Additions	-	2,509	527	-	-	-	3,036
Transfers	-	(3,030)	3,030	-	-	-	-
Disposal - cost	-	-	(27)	-	-	-	(27)
Amortisation	-	-	(2,485)	(576)	-	(1,104)	(4,165)
At 31 December 2014, Net of accumulated amortisation and impairment	193,925	4,228	16,325	1,732	4,600	15,004	235,814
At 31 December 2014							
Cost	193,925	4,228	34,117	6,180	7,300	21,000	266,750
Accumulated amortisation and impairment	-	-	(17,792)	(4,448)	(2,700)	(5,996)	(30,936)
Net carrying amount	193,925	4,228	16,325	1,732	4,600	15,004	235,814

11. INVESTMENT IN AN ASSOCIATE

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

	$000
Initial cash consideration	2,255
Contingent consideration	1,459
Share of profit of associate	477
Net carrying amount as of 30 June 2014	4,191
Fair value adjustment to contingent consideration	141
Share of profit of associate	318
Foreign currency movement	38
Dividend received	(197)
Net carrying amount as of 31 December 2014	4,491

12. INTEREST-BEARING LOANS AND BORROWINGS

The combined banking facilities with Westpac and HSBC comprise:

- 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

As at 31 December 2014, the Group's total facilities were $274.3 million, out of which $38.1 million was utilised under the Invoice Finance - Without Recourse facility and $178.2 million was utilised under other facilities. During the period, the Group repaid $3.7 million of the bank bill facilities with HSBC.

As at 31 December 2014, the Group had available total facilities from overseas of $11.6 million, out of which $6.6 million was utilised.

During the half year period, there were no defaults or breaches by the Company on any of the loans and banking covenants.

13. CONTRIBUTED EQUITY

	31 December 2014 $000	30 June 2014 $000
Issued and fully paid ordinary shares	187,025	186,429

(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.

Ordinary shares	Number of shares	$000
At 1 July 2014	531,598,869	186,429
- Shares vested under senior executive share plan	1,398,410	596
- Purchase of shares (i)	(182,613)	(62)
- Shares vested under senior executive option plan	182,613	62
At 31 December 2014	532,997,279	187,025

(b) Reserved shares

	Number of shares	$000
At 1 July 2014	16,386,217	9,456
- Shares vested under senior executive option plan	182,613	62
- Purchase of shares (i)	(182,613)	(62)
- Shares vested under senior executive share plan	(1,398,410)	(596)
At 31 December 2014	14,987,807	8,860

(i) On 15 August 2014 the Group acquired its own equity instrument to settle the options vested under the Senior Executive share Options Plan.

14. 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 31 December are as follows:

	31 December 2014 $000	30 June 2014 $000
Within one year	8,734	9,360
After one year and not later than five years	16,293	18,551
More than five years	2,797	3,303
Aggregate lease expenditure contracted for at reporting date	27,824	31,214

14. 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:

	31 December 2014		30 June 2014	
	Minimum lease payments $000	Present value of lease payments $000	Minimum lease payments $000	Present value of lease payments $000
Within one year	1,276	1,190	1,526	1,401
After one year and not later than five years	868	827	1,510	1,431
Total minimum lease payments	2,144	2,017	3,036	2,832
Less amounts representing finance charges	(127)	-	(204)	-
Present value of minimum lease payments	2,017	2,017	2,832	2,832

The weighted average interest rate implicit in the leases for the Group is 6.1% (As at 30 June 2014: 6.1%).

Guarantees

Bank guarantees are as follows:	31 December 2014 $000	30 June 2014^ $000
Bank guarantees in respect of leases of premises	4,864	5,554
Workers' compensation guarantees	53,704	48,504
Performance guarantees issued on behalf of Hong Kong subsidiary	2,995	2,597
Bank guarantees in respect of Singapore employment licence	19	17
	61,582	56,672

Guarantees, if called upon, are payable on demand.

^ 30 June 2014 balance has been reclassified in line with current period.

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.

15. FINANCIAL INSTRUMENTS

(a) Contingent consideration

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

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	1,258
Other movements	143
Financial liability for the contingent consideration as of 30 June 2014	1,401
Settlement of contingent consideration	(1,002)
Other movements	(30)
Financial liability for the contingent consideration as of 31 December 2014	369

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 11)	1,459
Other movements	2
Financial liability for the contingent consideration as of 30 June 2014	1,461
Settlement of contingent consideration	(827)
Fair value adjustment as at 31 December 2014	141
Other movements	123
Financial liability for the contingent consideration as of 31 December 2014	898

Due to changes in the underlying assumptions that reflect the fair value of the discounted cash payment, the fair value adjustment is recognised in investment in an associate in accordance with AASB 128.

(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 with National Australia Bank, expiring on 24 April 2015. During the half-year ended 31 December 2014, the interest rate swap was novated to Westpac and HSBC.

In the half-year ended 31 December 2014, a gain of $1,000 (2013: loss of $68,000) from remeasuring the hedging instrument at fair value is recognised in other comprehensive income and a loss of $225,000 (2013: loss of 224,000) was recycled from the hedge reserve to the income statement and included in finance costs. There was no hedge ineffectiveness during the period.

15. FINANCIAL INSTRUMENTS (CONTINUED)

(c) Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 31 December 2014:

	Carrying amount $000	Fair Value $000
31 December 2014		
Financial liabilities:		
Interest bearing loans and borrowings	81,006	81,056
Other financial liabilities		
Contingent consideration	123	123
Total non-current	**81,129**	**81,179**
Interest bearing loans and borrowings	24,564	24,519
Other financial liabilities		
Contingent consideration	1,144	1,144
Interest rate swap	227	227
Total current	**25,935**	**25,890**
Total	**107,064**	**107,069**

(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 31 December 2014, the Group held the following classes of financial instruments measured at fair value:

Financial liabilities measured at fair value

	31 December 2014 $000	Level 1 $000	Level 2 $000	Level 3 $000
Contingent consideration	1,267	-	-	1,267
Interest rate swap	227	-	227	-

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

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

Contingent consideration	$000
Opening balance	2,862
Additions	141
Other movements	93
Settlement	(1,829)
Closing balance	1,267

15. 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:

	31 December 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.

16. EVENTS AFTER THE REPORTING DATE

Dividend

On 16 February 2015, the directors of Chandler Macleod Group Limited determined an interim dividend of 1.70 cents per share totalling $9.3 million on ordinary shares in respect of the December 2014 half-year. Under the SID with Recruit, Chandler Macleod is permitted to pay a dividend of up to 1.70 cents per share. If the proposed Scheme does not become effective, a dividend will still be payable but the Chandler Macleod Board may review and re-determine the amount of the dividend. The dividend has not been provided for in the 31 December 2014 half-year financial statements.

Scheme Implementation Deed with Recruit Holdings Co., Ltd

On 14 January 2015, Chandler Macleod announced that it has entered into a Scheme Implementation Deed with Recruit Holdings Co., Ltd under which Recruit, through an Australian subsidiary, would acquire 100% of the share capital in the Company for total cash consideration of $290.4 million.

Subject to shareholder approval, Court approval and the other conditions of the Scheme being satisfied, the Scheme is expected to be implemented in mid April.

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.

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 31 December 2014 and the performance for the half-year ended on that date; and
>
> (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and

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

On behalf of the Board

Richard England

Richard England
Chairman

Sydney
16 February 2015

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Chandler Macleod Group Limited, which comprises the balance sheet as at 31 December 2014, the statement of profit and loss, the statement of other comprehensive income, statement of changes in equity and cash flow statement for the half-year ended on that date, 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 half-year end or from time to time during the half-year.

Directors' responsibility for the Half-Year Financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Chandler Macleod Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, 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.

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

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

Ernst & Young

Ernst & Young

P. S. Barnard
Partner
Sydney
16 February 2015