

# KONEKT LIMITED

A.C.N. 009 155 971

## ANNUAL REPORT

**2011**

**KONEKT LIMITED**  
ABN 79 009 155 971

**CORPORATE DIRECTORY**

**Directors**

Damian Banks (Chairman and Interim Managing Director)  
John Randall (Non-Executive Director)  
Philip Small (Non-Executive Director)

**Auditors**

BDO Audit (NSW-VIC) Pty Limited  
Level 19, 2 Market Street  
SYDNEY NSW 2000  
Tel: (02) 9286 5555  
Fax: (02) 9286 5599

**Company Secretary**

Andrew Whitten

**Registered Office**

Level 12  
234 Sussex Street  
SYDNEY NSW 2000  
Tel: (02) 9650 5111  
Fax: (02) 9650 5133

**Principal Place of Business**

Level 12  
234 Sussex Street  
SYDNEY NSW 2000  
Tel: (02) 9650 5111  
Fax: (02) 9650 5133

**Share Registry**

Computershare Investor Services Pty Ltd  
Yarra Falls,  
452 Johnston Street  
ABBOTSFORD VIC 3067  
Tel: (03) 9415 5000  
Fax: (03) 9473 2500

**Home Exchange**

Australian Stock Exchange Limited  
Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

ASX Code: KKT

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## CHAIRMAN & MANAGING DIRECTOR'S REPORT

The 2010-11 year was a year of two halves. For the whole year, Konekt produced revenue of \$34.3m, 5.5% less than the previous year. The first half showed reasonable profitability, however, much of this profit was lost in the second half, resulting in a disappointing \$205,000 profit for the year. Some of this decline was due to a lower level of business in the Insurer generated referral market, some for one off expenses, and the remainder in bringing our new business priorities to fruition more slowly than planned. Substantial changes in the way in which the Insurer clients in NSW operated, coupled with a redistribution of claims work to Insurers saw falls in Konekt's Insurer based revenue and margin contribution. This trend has moderated, but continued into 2011-12.

Despite the changes occurring in the market, unfortunately Konekt maintained a high fixed cost of infrastructure and was slow to respond to the changes in revenue with corresponding offsets. A decline in business from the first to the second half, and the impact of unadjusted fixed costs, exposed some weakness in the responsiveness of Konekt's business model. The fall in Insurer revenue was partially offset by new business in the Pre Employment field, which is a higher growth business but has a lower overall margin than the traditional business lines.

In January, the Chairman, Alan Baxter, resigned, and Ken Carr joined the board as Chairman. In May, the Managing Director, Serhat Oguz left the company and Ken Carr took over as Interim Managing Director. Also in May, a new CFO was appointed, Mr Matt Ranawake.


In the period since May, changes to fixed costs have been made in the areas of property and staffing. Konekt is reviewing its staffing models to ensure that it has the right resources in the right locations to fulfil our Client needs. The company is also reviewing a new IT model based on cloud based infrastructure for communications, hosting, software and hardware provision. Konekt believes a renewal and update of these items will lead to higher staff engagement, better client and customer service, lower risk and improved communication. If approved, these initiatives will be gradually introduced in all areas over the next twelve months. All property leases are under review to ensure we are located in the most appropriate locations and with the correct level of resourcing to fit the needs of our Clients.

Konekt needs to grow its business by providing great outcomes for its customers requiring care, and servicing and selling well to those Clients who provide business to us. Part of this is doing what we do today very well, and partly by expanding the services we offer to provide a more holistic offering. New service offerings enabled by the prospective introduction of the national harmonised workplace health and safety laws are providing an opportunity to expand into the boardroom of organisations, assisting them with the introduction and compliance of the new system. In addition we are adding new products to our Clients such as Psychometric testing. The professional services optimisation team has created significant savings for our clients in Workers Compensation Insurance by helping to optimise their WH&S programs to ensure a healthy workplace but at an affordable price. McColl's transport is a significant success story in this area.

Konekt anticipates steady business in our traditional areas in the first half 2011-12. Future growth will primarily be organic. Konekt notes there are many opportunities for inorganic growth within our sector. For these opportunities to be considered, they must meet strict criteria – unfortunately most will not meet that hurdle.

Since year end, the Board has appointed me as the new Chairman and Interim Managing Director for the company. The Board expresses its appreciation to Ken Carr for his Chairmanship and filling the Interim Managing Director role. A search is underway for a new CEO for the company, simultaneously with the Board and Executive undertaking a review of the business and market opportunities available to Konekt. The CEO selection will be made against the criteria based on that review.

The Board would like to record its thanks to the whole Konekt team for their work in 2010/11, and their support during a period of market and internal change. We look forward to this coming year with enthusiasm.



**Damian Banks**  
Chairman

22nd September 2011  
Sydney, NSW

## CORPORATE GOVERNANCE STATEMENT

In fulfilling its obligations and responsibilities to its various stakeholders, the Board is a strong advocate of corporate governance.

This statement outlines the principal corporate governance procedures of Konekt Limited ("Company").

### ASX Corporate Governance Council Recommendations

In August 2007, the ASX Corporate Governance Council released its Revised Principles of Good Corporate Governance and Best Practice Principles and Recommendations. The ASX Principles and Recommendations, in conjunction with the ASX Listing Rules, require companies to disclose in their Annual Reports whether their corporate governance practices follow the ASX Recommendations.

Unless disclosed below, all recommendations have been applied for the entire financial year ended 30 June 2011.

Recommendation 2.1 states that a majority of the Board be independent and Recommendation 2.2 states that the chairperson be independent. At the date of this report the Board comprises two Non-Executive Directors, who are regarded as independent Directors. As Chairman and Interim Managing Director, Dr Ken Carr is an Executive Director and thus not independent.

During the year ended 30 June 2011 and up to the date of this report, the Board comprised of:

Mr Damian Banks (Chairman from 12 September 2011, Executive Director and Interim Managing Director from 12 September 2011)

Dr Ken Carr (Chairman from 20 January 2011, Executive Director and Interim Managing Director from 30 May 2011, resigned 12 September 2011)

Mr Alan Baxter (Chairman from 19 March 2009, resigned 20 January 2011, Independent Non-Executive Director)

Mr Serhat Oguz (Managing Director appointed 19 March 2009, resigned 30 May 2011)

Mr John Randall (Independent Non-Executive Director appointed 27 March 2009)

Mr Philip Small (Independent Non-Executive Director appointed 19 November 2009)

Recommendation 2.3 requires listed entities to establish a Nomination Committee. During the year, the Company did not have a separately established Nomination Committee. Given the current size of the Board, the Board considers that this function is efficiently achieved with full Board support, in accordance with the guidelines set out in the Board's Charter.

Recommendation 7.1 requires that the Board should establish policies on risk oversight and management. The Board has implemented suitable practices and procedures, which are consistent with its size and maturity, and during the financial year the Board considered matters of internal control and risk management on a needs basis. The Audit, Risk and Compliance Committee assess risk management and guide the development of further formal policies where appropriate.

### Roles of the Board and Management

The Board has a Charter, which clearly establishes the relationship between the Board and management and describes their functions and responsibilities.

The Board is accountable to shareholders for the activities and performance of the Company and has overall responsibility for the Company's development of the Company's business, and its corporate governance. However, the Board does not itself manage the business and affairs of the Company.

Responsibility for management of the Company's business and affairs, within the scope of the framework established by the Board, is delegated to the Managing Director, who is accountable to the Board.

## Responsibilities of the Board

The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals.

The key responsibilities of the Board include:

- Ensuring the Company is properly managed;
- Appointing and review the performance of the Managing Director;
- Approving strategy, planning, acquisitions and joint ventures, and major capital expenditure;
- Arranging for effective budgeting, capital management, financial supervision and monitoring financial performance against the strategic plan and budgets;
- Ensuring that appropriate audit arrangements are in place;
- Ensuring that effective and appropriate reporting systems are in place which will, in particular, assure the Board that proper financial, operational, compliance and risk management controls function adequately; and
- Reporting to shareholders.

## Board Structure

The composition of the Board shall be determined in accordance with the following principles and guidelines:

- The Board shall comprise at least 3 Directors, increasing where additional expertise is considered desirable in certain areas;
- The Board should not comprise a majority of Executive Directors; and
- Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.

The terms and conditions of the appointment and retirement of Directors are set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.

The composition of the Board is reviewed on an ongoing basis to ensure that the Board has an appropriate balance of experience and expertise.

The Directors in office at the date of this Annual Report are:

<b>Name and qualification</b>		<b>Date of appointment</b>
Mr Damian Banks - BEc, MAICD	Chairman and Interim Managing Director	Chairman from 12 September 2011; Executive Director and Interim Managing Director from 13 September 2011
Dr Ken Carr – DBA, MBA, BSc	Chairman and Interim Managing Director	20 January 2011; Resigned 12 September 2011
Mr Alan Baxter– BSc, Dip Ed	Independent Non-Executive Chairman	19 June 2006; Retired 20 January 2011
Mr Serhat Oguz - MBA, BBus, Grad Dip Bus Adm, Grad Dip CSP, FCPA, ACIS	Managing Director	19 March 2009; Resigned 30 May 2011
Mr John Randall - B.COM, MBA, FCA (Australia) FCA (England & Wales), ACMA, AFCHSE, MAICD	Independent Non-Executive Director	27 March 2009
Mr Philip Small - BEc (Syd), MSc (Lond), FCPA, GAICD.	Independent Non-Executive Director	19 November 2009

Details on the relevant skills and experience, and term of office of each of the Directors are set out in the Directors' Report.

## **Director Independence**

Directors are expected to bring independent views and judgement to the Board's deliberations. In response to the ASX Recommendations, the Board Charter requires the Board to include a majority of Non-Executive Independent Directors, a Non-Executive Independent Chairman and to have different persons filling the roles of Chairman and Chief Executive Officer. The Managing Director Serhat Oguz left the company towards the end of May. The Chairman Dr Ken Carr stood in and took on the role as Interim Managing Director while a search was underway for an appropriate new person to head up the business. Ken Carr resigned from the Board and as Interim Managing Director on 12 September with Damian Banks appointed as Chairman on 12 September 2011 and Executive Director and Interim Managing Director on 13 September 2011.

In considering whether a Director is independent, the Board has had regard to the independence criteria in ASX Principle 2, including the definition in Box 2.1, and other facts, information and circumstances that the Board considers relevant.

The Board considers that Mr John Randall and Mr Philip Small have continued to be Independent Directors since the dates of their appointment. As Interim Managing Director, Damian Banks is an Executive Director and thus not independent.

## **Meetings of the Board**

During the year the Board met 13 times to consider the business of the Company, its financial performance and other operational issues, and in the future will meet monthly or as required.

## **Retirement and Re-election**

The Constitution of the Company requires one third of the Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring Directors are eligible for re-election by shareholders. Reappointment is not automatic.

Having regard to these matters, Directors have not been appointed for a specific term.

When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

## **Board Performance**

The Board reviews and evaluates its own performance and the individual performance of each Director, including the Chairman and any Executive Directors. Having regard to the Company's size, operations and the Board's composition, the Board believes that a self assessment approach to performance evaluation is appropriate.

The Company has an established induction procedure which allows new Board appointees to participate fully and actively in board decision making at the earliest opportunity. Due to the significant amount of change at board level, the board has not conducted a performance review. The Board is currently in the process of conducting a self evaluation. Similarly an evaluation of the performance of its two committees, namely, the Audit, Risk and Compliance Committee and the Remuneration Committee will be conducted in conjunction with this review.

## **Directors' Remuneration**

The remuneration of Non-Executive Directors is different to that of Executives. Executive Directors receive a salary and may receive other benefits.

Non-Executive Directors receive a set fee per annum, in addition to their statutory superannuation entitlements, and are fully reimbursed for any out of pocket expenses necessarily incurred in carrying out their duties. When reviewing Directors' fees the Board takes into account any changes in the size and scope of the Company's activities.

The Board reviews the remuneration and policies applicable to Non-Executive Directors and the Managing Director on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior Executives. Where necessary, the Board will obtain independent advice on the appropriateness of remuneration packages.

The structure and disclosure of the Company's remuneration policies for Directors and senior Executives are set out in the Directors' Report.

## **Board Access to Information**

All Directors have unrestricted access to all employees of the Group and, subject to the law, access to all Company records and information held by Group employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Non-executive Directors are also given the opportunity to meet informally with management and gain a greater understanding of the Company through attendance at internal company conferences, where appropriate.

Consistent with ASX Principle 2, each Director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the Director in the proper exercise of powers and discharge of duties as a Director or as a member of a Board Committee. The Company will reimburse the Director for the reasonable expense of obtaining that advice.

## **Board Committees**

The Board, where appropriate, may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

The Board Committees assist the Board in the discharge of its responsibilities and are governed by their respective Charters, as approved by the Board. The current Board Committees comprise:

- The Remuneration Committee; and
- The Audit, Risk and Compliance Committee.

## **Remuneration Committee**

Among the specific responsibilities set out in its Charter, the Remuneration Committee reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the Directors, the Managing Director and senior management. The Committee makes recommendations to the Board on the Board's operation and performance; establishes an induction programme for Directors; undertakes a performance review of the Managing Director at least annually and establishes the goals for the forthcoming year with the Managing Director.

The members of the Remuneration Committee during the year were:

- Mr Alan Baxter (Committee Chairman until resignation on 20 January 2011)
- Dr Ken Carr (Committee Chairman appointed on 20 January 2011 until resignation on 12 September 2011)
- Mr John Randall
- Mr Philip Small (appointed on 12 September 2011)

## **Audit, Risk and Compliance Committee**

The Board has an Audit, Risk and Compliance Committee. The Committee monitors internal control policies and procedures designed to safeguard Company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4.

The Audit, Risk and Compliance Committee for the year ended 30 June 2011 comprised the following Independent Non-Executive Directors:

- Mr John Randall (Committee Chairman, appointed 2 April 2009)
- Mr Alan Baxter (Appointed 2 April 2009 until resignation on 20 January 2011)
- Dr Ken Carr (Appointed 20 January 2011 until resignation on 12 September 2011)
- Mr Philip Small (Appointed 8 February 2010)

The relevant qualifications and background of the above are summarised in the Directors' Report.

Part of the role of the Committee is to provide a direct link between the Board and the external auditors.

It also provides the Board of Directors with additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in Financial Statements.

The functions and responsibilities of the Committee are set out in the Audit, Risk and Compliance Committee Charter and include:

- Oversight of the reliability and integrity of the Company's accounting policies and financial reporting;
- Advising the Board on financial reporting and business risks;
- Monitoring compliance with regulatory requirements;
- Identifying key risks faced by the Company and ensuring appropriate risk management strategies and insurances are in place;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner; and
- Reviewing the performance of the external auditor, their qualifications and independence.

The Audit, Risk and Compliance Committee reviews the performance of the external auditors and makes recommendations to the Board of Directors in relation thereto. During the year, the Committee held 2 meetings, all of which were attended by the then appointed Committee members.

## **Financial Integrity**

The Board has policies designed to ensure that the Company's Financial Statements meet high standards of disclosure and provide the information necessary to understand the Company's financial performance and position. The policies require that the Managing Director and CFO (or acting equivalent) provide to the Board, prior to the Board approving the annual and half-yearly accounts, a written statement that the accounts present a true and fair view, in all material respects, of the Company's financial performance and position and are in accordance with relevant accounting standards, laws and regulations.

## **Audit Process**

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company's accounts are subject to an annual audit by an independent, professional auditor, who also reviews the half-yearly accounts.

Consistent with ASX Recommendation 6.2, the auditor attends and is available to answer questions at the Company's Annual General Meetings.

## **Auditor Independence**

The Company has implemented procedures and policies to monitor the independence and competence of the Company's external auditors. Details of the amounts paid for both audit work and non-audit services are set out in this Annual Report.

The Board requires that adequate hand-over occurs in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner. The Audit, Risk and Compliance Committee will liaise with the auditors in this regard.

### **Business Risks**

Consistent with ASX Principle 7, the Company is committed to the identification, monitoring and management of risks associated with its business activities and has embedded in its management and reporting systems a number of risk management controls. The Managing Director is charged with implementing appropriate risk management systems within the Company.

The Board will monitor and receive advice on areas of operational and financial risk and consider strategies for appropriate risk management arrangements.

Specific areas of risk identified initially and which will be regularly considered at Board meetings include performance of specific activities, human resources, the environment, Workers' Compensation legislation, statutory compliance and continuous disclosure obligations.

As part of the reporting process the Managing Director and CFO provide to the Board, prior to the Board approving the annual and half-yearly accounts, a written statement that the integrity of the Financial Statements (as per ASX Recommendation 4.1) are founded on a system of risk management, internal compliance and control which implements the Board's policies and the Company's risk management and internal control system is operating efficiently and effectively in all material matters.

### **Share Trading**

Under the Company's share trading policy, all employees and Directors of the Company are prohibited from trading in the Company's shares or other securities unless trading occurs in a designated trading window or with the permission of the Chairman of the Board. Trading windows where employees will be permitted to buy or sell securities will be for a period of four (4) weeks commencing 2 trading days after the public release by the Company of its annual and half year results to the ASX and for a period of 4 weeks commencing 2 trading days after the AGM. Despite the foregoing, the company may declare a trading window closed and any time in its absolute discretion.

Full details of the company's share trading policy are available on the company's website and on the ASX announcements platform.

### **Continuous Disclosure**

The Company understands and respects that timely disclosure of price sensitive information is central to the efficient operation of the Australian Stock Exchange's securities market and has adopted a comprehensive policy covering announcements to the Australian Stock Exchange, prevention of selective or inadvertent disclosure, conduct of investor and analysts briefings, media communications, commenting on expected earnings, communications black-out periods and review of briefings and communications. The policy is reviewed periodically and updated as required.

The Company Secretary has responsibility for overseeing and coordinating disclosure of information to the Australian Stock Exchange. The Company Secretary also liaises with the Managing Director in relation to continuous disclosure matters. The Managing Director is responsible for overseeing and coordinating disclosure of information to analysts, brokers and shareholders.

### **Code of Conduct**

The Board has adopted a Code of Conduct to establish and encourage observance by the Company's Directors, Executives and employees of standards of ethical and responsible decision making and behaviour, and to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. All new employees are provided with the Code of Conduct and related policies in induction. The Company has implemented an online compliance training program which includes all policies, updates and training.

## **Communications with Shareholders**

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders through the distribution of Annual Reports; and by presentations to shareholders at the Annual General Meeting, which they are encouraged to attend.

In addition, all reports, including quarterly reports and releases made by the Company throughout the year with respect to its activities, are distributed widely first via the Australian Stock Exchange and then on the Company's website.

## **Company's Website**

The Company maintains the website at [www.konekt.com.au](http://www.konekt.com.au).

The website contains a corporate governance section which includes the Guidelines covering Board Membership, the Charters of the Board Committees, Policy on Directors and Senior Executives Dealings, Board Code of Conduct, Continuous Disclosure, Communications with Shareholders and this Corporate Governance Statement.

## DIRECTORS' REPORT

The directors present their report together with the consolidated financial statements of Konekt Limited ("the company"), being the company and its subsidiaries, for the year ended 30 June 2011 and the auditors' report thereon.

### Directors

The directors of the company during the financial year and up to the date of this report are:

<b>Name and qualification</b>	<b>Date of appointment</b>	<b>Age</b>
Damian Banks - BEc, MAICD	12 September 2011	45
Dr Ken Carr – DBA, MBA, BSc, FAICD	20 January 2011; resigned 12 September 2011	54
Alan Baxter – BSc, Dip Ed	19 June 2006; retired 20 January 2011	66
Serhat Oguz – MBA, BBus, Grad Dip Bus Adm, Grad Dip CSP, FCPA, ACIS	19 March 2009; resigned 30 May 2011	47
John Randall - B.COM, MBA, FCA (Australia) FCA (England & Wales), ACMA, AFCHSE, MAICD.	27 March 2009	72
Philip Small BEc (Syd), MSc (Lond), FCPA, GAICD.	19 November 2009	61

### **DAMIAN BANKS, BEc, MAICD** – *Chairman, Interim Managing Director*

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Mr Banks has had a wide variety of roles across Banking, Finance and Consulting in a career spanning over 20 years in Australia. Most recently he has been a Consultant to the Banking, Payments and Technology industries particularly in the area of Strategy, Sales and Product Development.

In the period 1994-2009, Mr Banks had a 15 year career with Westpac Banking Corporation where he led a number of businesses within the Institutional Bank including Equities, Financial Institutions, Health and Government and Transactional Banking. Prior to leading these businesses, Mr Banks was Head of Payments and Head of Telephone Banking in the Retail and Business Bank.

Prior to Westpac, he worked at Citigroup and WR Grace after leaving University where received a Bachelor of Economics. He is a Director of Kincoppal Rose-Bay School in Sydney, and has interests in private investment companies.

Age: 45

Date of appointment: 12 September 2011

## **DIRECTORS' REPORT (cont'd)**

### **DR KEN CARR, DBA, MBA, BSc – Chairman, Interim Managing Director**

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Dr Carr is a seasoned executive and public company board director. He runs his own investment/advisory business, Kilnsey Pty Limited, specialising in turnaround management and asset realisation across a range of industries. Previously Ken was CEO of ASX listed Keycorp Limited and LongReach Group, a current Director of Freshtel Holdings Limited and two other private companies, and a past Director of Allied Technologies Limited. Ken was Partner/Principal at IBM GSA heading a consulting and professional services practice, and prior to that spent 6 years with AT&T/Lucent across Asia Pacific as Regional MD. Ken has an engineering background after spending some time in the RAF and spent 5 years living in the Middle East.

Dr Carr is Chairman of the Remuneration Committee and a member of the Audit Risk and Compliance Committee.

Age: 54

Date of appointment: 20 January 2011

Resigned: 12 September 2011

### **MR ALAN BAXTER, BSc, Dip Ed – Chairman, Non-Executive Director**

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Mr Baxter is an experienced executive who spent 35 years in a variety of roles in some of the world's largest information technology companies. These included 15 years with IBM, 7 years as Managing Director of DMR Consulting Australia and 3 years in London as Chief Operating Officer of Fujitsu Consulting's worldwide operations. Since retiring from Fujitsu Consulting he was Chairman of Fujitsu Australia and New Zealand from April 2004 to April 2006 and was a Director of Mincom Ltd between July 2004 and May 2007. He is Chairman of the Advisory Board for the School of Business Systems at the University of Sydney. He is Chairman of Innogence Limited. He has also been a non-executive director of Integrated Research Limited a listed public company since 16 June 2009.

Mr Baxter was Chairman of the Remuneration Committee and a member of the Audit Risk and Compliance Committee until his resignation.

Age: 66

Date of appointment: 19 June 2006

Resigned: 20 January 2011

### **MR SERHAT OGUZ, Grad Dip Bus Adm, Grad Dip CSP, CPA, ACIS – Managing Director**

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Mr Oguz is an experienced executive with over 21 years experience in Finance and General Management roles, both locally and internationally. Most recently Serhat was working with IBS Asia Pacific as Managing Director of Asean Operations. Immediately prior to this Serhat was Managing Director of CDC Software ANZ. Serhat has also held senior roles in multinational organizations such as SAP, Ariba, and ComputerVision.

Serhat holds professional qualifications in business and company secretarial practice.

Age: 47

Date of appointment: 19 March 2009

Resigned: 30 May 2011

## **DIRECTORS' REPORT (cont'd)**

**MR JOHN RANDALL, B.COM, MBA, FCA (Australia) FCA (England & Wales), ACMA, AFCHSE, MAICD**  
*– Non-Executive Director*

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Mr Randall is a senior business executive and chartered accountant with 30 years international experience involving leadership positions in private and public companies in Australia, Africa and the USA. He has held the positions of CEO at Ramsay Health Care Ltd and CEO of The Hospitals Contribution Fund of Australia Ltd (HCF).

Mr Randall is Chairman of the Audit Risk and Compliance Committee and is a member of the Remuneration Committee.

Age: 72

Date of appointment: 27 March 2009

**MR PHILIP SMALL, BEc (Syd), MSc (Lond), FCPA, GAICD** – *Non-Executive Director*

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Mr Small spent 10 years in the general insurance industry and is a member of the Australian & New Zealand Institute of Insurance and Finance. Since 1985 he has been involved in the insurance and banking software industry and has a detailed knowledge of the market in the Asia Pacific region. He has held a number of senior management positions as a technology executive and was President of Computer Science Corporation (CSC)'s Financial Services Group in Asia Pacific, a position he held until 2001. Prior to CSC, Philip worked for Continuum and was responsible for their operations in Asia Pacific between 1993 and 1996. Prior to this, he worked for Paxus Corporation where he headed up their European division from 1988 to 1993 and led their expansion to become the leading provider of insurance software in Europe. Philip is a Director of both Pillar Administration, a State Owned Corporation that provides back office administration services to superannuation funds and Fineos Corporation, an Irish software company.

Mr Small is a member of the Audit Risk and Compliance Committee

Age: 61

Date of appointment: 19 November 2009

**Mr MATT RANAWAKE, BBus, MBA, CPA, FAICD** – *Chief Financial Officer*

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Mr Ranawake is a senior executive with many years of experience in several industries in Asia Pacific, Australia, India and China, combined with a strong background in Finance, Commercial, Information Systems, Sales, Change Management, Strategy and Business Development. Currently he is also a non-executive director of Freshtel Holdings Limited. Prior to that he was the CFO of Consistel Group in Singapore where he was instrumental in raising funds from Intel Capital and JAFCO Asia. Prior to joining Consistel, Matt was the Chief Financial Officer of LongReach Group Limited, a ASX listed Australian telecommunications equipment manufacturer and vendor, where he was involved in raising capital and managing its merger. He has held senior management positions in Telstra Corporation, British Telecom and Marconi. Matt also has several years of experience in gas, electric and petroleum industries.

Age: 55

Date of appointment: 2 May 2011

## **DRECTORS' REPORT (cont'd)**

### **Mr FRANK HARDIMAN, BBus, FCPA – *Company Secretary***

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Mr Hardiman was also Chief Financial Officer of the Konekt Group, a position he was appointed to on 15 September 2008 until 2 December 2010. He has had over 34 years experience in senior financial positions. Prior to joining Konekt he was Chief Financial Officer for 16 years of the publicly listed PPK Group Limited (formerly Plaspak Group Ltd) and is a Fellow of the Australian Society of CPAs.

Age: 57

Date of appointment: 19 March 2009.

Resigned: 2 December 2010

### **Mr ANDREW WHITTEN, BA,MLLP,ACIS Public Notary – *Company Secretary***

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Mr Whitten is an admitted solicitor with a specialty in Corporate Finance and Securities Law and is a Solicitor Director of Whittens Lawyers and Consultants. Andrew is currently the company secretary of a number of publicly listed companies. He is a responsible officer of a Nominated Adviser to the National Stock Exchange of Australia Limited, and has been involved in a number of corporate and investment transactions including Initial Public Offerings on ASX and NSX, corporate reconstructions, reverse mergers and takeovers. Andrew's firm currently acts for numerous publicly listed companies. Andrew holds the following professional qualifications: Bachelor of Arts (Economics UNSW); Master of Laws and Legal Practice (Corporate Finance and Securities Law-UTS); Graduate Diploma in Applied Corporate Governance from the Institute of Chartered Secretaries and is an elected Associate of that institute. Andrew is also a Public Notary.

Age: 34

Date of appointment: 1 June 2011.

## DIRECTORS' REPORT (cont'd)

### Directors' Interests in shares and options of the company

The relevant interest of each director in shares and options of the company at the date of this report is as follows:

Director	Fully Paid Ordinary Shares		Performance Rights	Options Over Ordinary Shares
	Direct	Indirect	Direct	Direct
Damian Banks	8,784,680	-	-	-
John Randall	197,517	-	-	-
Philip Small	400,000	-	-	-

### Performance Rights

In total there were 1,133,336 performance rights outstanding at the date of this report. None were held by the above directors and the balance 1,133,336 by senior executives. The following are details of these outstanding performance rights;

No of rights	Exercise price	Expiry date
1,133,336	\$0.00	5 February 2014

During the year 1,516,664 performance rights were exercised and 1,516,664 ordinary shares issued. 2,350,000 performance rights lapsed. Since the end of the financial year no ordinary shares have been issued as a result of the exercise of performance rights.

### Options

There are no options over ordinary shares outstanding at the date of this report.

### Deferred Employee Share Plan

Unissued ordinary shares of Konekt Limited under the Deferred Employee Share Plan at the date of this report are as follows:

No of deferred shares	Exercise price	Exercise date
845,625	\$0.00	1 August 2012

### Meetings of directors

During the year, the following meetings were held. Attendances were:

Director	Board Meetings		Audit, Risk and Compliance Committee		Remuneration Committee	
	No. of meetings held whilst a Director	No. of meetings attended	No. of meetings held whilst a Member	No. of meetings attended	No. of meetings held whilst a Member	No. of meetings attended
Dr Ken Carr	5	5	1	1	1	1
Alan Baxter	8	7	1	1	-	-
Serhat Oguz	12	11	-	-	-	-
John Randall	13	13	2	2	1	1
Philip Small	13	13	2	2	-	-

## DIRECTORS' REPORT (cont'd)

### Principal Activities

The Group operates in the insurance management sector, principally involved in workplace health services.

### Operating Results

The consolidated net profit after income tax of the consolidated entity for the financial year was \$205,321 (2010 Profit \$3,880,491). Total Revenue and Other Income was \$34,311,000 (2010: \$36,187,000).

### Review of Operations

A review of operations of the consolidated entity during the year and subsequent to the end of financial year is contained in the Managing Director's and Chairman's Report on page 4.

### Dividends Paid or Recommended

Since the end of the financial year no dividends were declared. An unfranked Final Dividend for the previous financial year of 0.5 cents per share was paid on 15 October 2010.

### Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the year.

### Likely Developments and Expected Results

The company expects steady business in traditional business areas, although reliance on insurers will and has diminished over recent months as the focus shifts to a more balanced business model. Growth will mainly be organic. The company is mindful that profit growth will be needed to ensure shareholder value into the future.

### Remuneration Report – Audited

#### Details of Parent Entity Directors and Key Management Personnel

<i>(i) Parent Entity Directors</i>	<i>Position</i>	<i>Period of service</i>
D. Banks	Chairman, Interim Managing Director	Director since 12 September 2011
K. Carr	Chairman, Interim Managing Director	Director since 20 January 2011, resigned 12 September 2011
A. Baxter	Chairman Non Executive Director	Director 19 June 2006, resigned 20 January 2011
S. Oguz	Managing Director	Director 19 March 2009, resigned 30 May 2011
J. Randall	Non Executive Director	Employed since 30 July 2007 Director 27 March 2009 to current
P. Small	Non Executive Director	Director 19 November 2009 to current
<i>(ii) Key Management Personnel</i>		
M. Ranawake	Chief Financial Officer	Employed since 2 May 2011
F. Hardiman	Chief Financial Officer Company Secretary	Company Secretary from 19 March 2009, resigned 2 December 2010 Employed since 15 September 2008
<i>(ii) Senior Executives</i>		
R. Nelson	Chief Business Development Officer	Employed since 1 October 2009, resigned 24 June 2011
M. May	Chief Operating Officer	Employed since 8 November 2004, Appointed COO 6 September 2010
N. Ward	Principal Professional Consulting Group	Employed since 22 April 2003, Appointed Principal 21 June 2011

## DIRECTORS' REPORT (cont'd)

### Directors' and Key Management Personnel Remuneration

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and key management personnel of the Group. The Board remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities, level of performance and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

To assist in achieving the objectives, the Board links the nature and amount of executive directors' and officers' emoluments to the Group's financial and operational performance. Over the last five years bonus payments have been paid to key management personnel in the 2007, 2008, 2009 and 2010 years.

Year	EBIT \$'000s	Cash bonuses to KMP \$'000s
2011	182	-
2010	2,210	153
2009	1,347	87
2008	(7,047)	25
2007	(1,448)	46

Remuneration and other terms of employment for the Managing Director, and Key Management Personnel are formalised in service agreements. Each of these provides for a performance related cash bonus and superannuation. Other major provisions of the agreements relating to remuneration are set out below:

	Short term employee benefits			Post-employment benefits	Termination	Long term benefits	Share based payments		Total	Percentage of remuneration as share based payments
	Cash salary & fees	Cash bonus	Annual leave	Super-annuation		Long service leave	Other Equity Instruments	Performance Rights		
<b>30 June 2011</b>										
<b>Parent Entity Directors:</b>										
Dr Ken Carr	65,722*	-	-	4,025	-	-	-	-	69,747	0%
Alan Baxter	55,495	-	-	4,995	-	-	-	(3,910)	56,580	(6.9%)
Serhat Oguz	273,213	-	25,839	24,926	342,108	(12,091)	-	(27,232)	626,763	(4.3%)
John Randall	6,000	-	-	46,320	-	-	-	-	52,320	0%
Philip Small	48,000	-	-	4,320	-	-	-	-	52,320	0%
<b>Total Remuneration: Parent Entity Directors</b>										
	448,430	-	25,839	84,586	342,108	(12,091)	-	(31,142)	857,730	(3.6%)
<b>Key Management Personnel of the Consolidated Entity:</b>										
Matt Ranawake	30,000	-	2,263	2,700	-	490	-	-	35,453	0%
Frank Hardiman	66,451	-	8,995	12,266	41,106	(4,714)	-	(1,018)	123,086	(0.8%)
<b>Total Remuneration: Parent Entity Directors and Key Management Personnel</b>										
	544,881	-	37,097	99,552	383,214	(16,315)	-	(32,160)	1,016,269	(3.2%)
<b>Senior Executives of the Consolidated Entity:</b>										
Russell Nelson	143,308	-	12,293	17,174	52,788	(1,490)	449	-	224,522	0.2%
Matthew May	137,769	-	17,368	13,085	-	7,113	449	1,971	177,755	1.4%
Nicholas Ward	4,154	-	285	374	-	106	16	14	4,949	0.6%
<b>Total Remuneration: Parent Entity Directors, Key Management Personnel and Senior Executives</b>										
	830,112	-	67,043	130,185	436,002	(10,586)	914	(30,175)	1,423,495	(2.1%)

## DIRECTORS' REPORT (cont'd)

\* Dr Ken Carr's cash salary & fees includes \$21,000 paid for performing the duties as Interim Managing Director

There were no performance rights granted to key management personnel or executives as compensation during the reporting period.

No part of Directors, Key Management Personnel, or Executive remuneration is performance based for 2011.

Key management personnel are those directly accountable and responsible for the operational management and strategic direction of the consolidated entity.

30 June 2010	Short term employee benefits			Post-employment benefits	Termination	Long term benefits	Share based payments		Total	Percentage of remuneration as share based payments
	Cash salary & fees	Cash bonus	Annual leave	Super-annuation		Long service leave	Options	Performance Rights		
<b>Parent Entity Directors</b>										
Alan Baxter	100,000	-	-	9,000	-	-	-	7,088	116,088	6.1%
Serhat Oguz	261,226	128,269	22,637	23,510	-	6,054	-	19,686	461,382	4.3%
John Randall	-	-	-	52,230	-	-	-	-	52,320	0%
Philip Small	29,609	-	-	2,665	-	-	-	-	32,278	0%
<b>Total Remuneration:</b>										
<b>Parent Entity Directors</b>	<b>390,835</b>	<b>128,269</b>	<b>22,637</b>	<b>87,495</b>	<b>-</b>	<b>6,054</b>	<b>-</b>	<b>26,774</b>	<b>662,064</b>	<b>4.0%</b>
<b>Key Management Personnel of the Consolidated Entity:</b>										
Frank Hardiman	157,504	24,932	13,335	15,175	-	3,093	-	3,138	217,177	1.4%
<b>Total Remuneration: Parent Entity Directors &amp; Key Management Personnel</b>										
	<b>548,339</b>	<b>153,201</b>	<b>35,972</b>	<b>102,670</b>	<b>-</b>	<b>9,147</b>	<b>-</b>	<b>29,912</b>	<b>879,241</b>	<b>3.4%</b>

### Share Options

During the financial year, no ordinary shares were issued as a result of the exercise of options.

### Other Equity Instruments granted as remuneration

During the financial year, deferred shares were granted to Serhat Oguz, Frank Hardiman, Russell Nelson, Matthew May and Nicholas Ware under the Konekt Deferred Employee Share Plan. Each was granted 6,765 deferred shares with the fair value being \$1,000 in each case.

The rights to these shares lapsed when Serhat Oguz, Frank Hardiman and Russell Nelson left the company, as they did not satisfy the continuity of service condition. There was no share based payment value recognised when these rights were forfeited. The value of options lapsed was \$1,000 per person.

For Matthew May and Nicholas Ward, the share based payment value was \$1,000 each, and they must satisfy the continuity of service condition until 18 August 2012 in order for these deferred shares to be granted as remuneration.

There are no performance conditions attached to the equity instruments issued. The purpose of the equity instruments is to encourage employee retention.

## DIRECTORS' REPORT (cont'd)

Key management and group executive participants	Grant date	Vesting date	Amount paid	Service condition
Serhat Oguz	18/08/2010	-	-	Shares were held less than 2 years and unable to meet service condition
Frank Hardiman	18/08/2010	-	-	Shares were held less than 2 years and unable to meet service condition
Russell Nelson	18/08/2010	-	-	Shares were held less than 2 years and unable to meet service condition
Matthew May	18/08/2010	18/08/2012	-	Shares must be held for minimum of 2 years to meet the service condition
Nicholas Ward	18/08/2010	18/08/2012	-	Shares must be held for minimum of 2 years to meet the service

### Service Agreements

Remuneration and other terms of employment for the Managing Director and Key Management Personnel are formalised in service agreements. Each of these provides for a performance related cash bonus and superannuation. Other major provisions of the agreements relating to remuneration are set out below:

Damian Banks – Interim Managing Director

- Term of agreement: no fixed term
- Either party must give 60 days notice in writing to terminate the agreement
- Salary of \$31,667 per month. Mr Banks has waived Chairman's fees while he is the Interim Managing Director
- There is no short term nor long term incentive payable

Matt Ranawake – Chief Financial Officer

- Term of agreement: no fixed term
- Base salary, including superannuation, amounting to \$180,000 to be reviewed annually by the Remuneration Committee.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 3 months notice.
- Short term incentive equal to \$40,000 based on achieving performance criteria set at the Board's discretion.

Ken Carr – Interim Managing Director

- Resigned on 12 September 2011

Serhat Oguz – Managing Director

- Resigned on 30 May 2011

## DIRECTORS' REPORT (cont'd)

Frank Hardiman – Chief Financial Officer & Company Secretary

- Resigned on 2 December 2010

### Performance Rights

Performance rights were granted under the Executive Option and Performance Rights Plan ('Plan') which was approved by shareholders at the 2008 Annual General Meeting. The Plan allows the Company to grant options or rights to selected key employees to acquire ordinary shares in the Company. Participants are required to satisfy performance and service conditions at the time of the offer.

The exercise price for performance rights is nil.

Key management and group executive participants	Date of exercise	No of rights exercised	Exercise value	Total value	Ordinary shares issued
Alan Baxter	18/08/2010	50,000	-	\$7,390	50,000
Alan Baxter	17/01/2011	150,000	-	\$20,400	150,000
Serhat Oguz	18/08/2010	500,000	-	\$73,900	500,000
Frank Hardiman	18/08/2010	25,000	-	\$3,695	25,000
Frank Hardiman	24/02/2011	75,000	-	\$8,175	75,000
Matthew May	18/08/2010	25,000	-	\$3,695	25,000
Matthew May	24/02/2011	75,000	-	\$8,175	75,000
Nicholas Ward	18/08/2010	8,333	-	\$1,232	8,333
Nicholas Ward	24/02/2011	25,000	-	\$2,725	25,000

Rights cannot be transferred and will not be quoted on the ASX.

A right may only be exercised by a date determined by the Board and will lapse if not exercised at a date determined by the Board not exceeding 10 years, subject to applicable performance hurdles and other restrictions set in the offer letter. An unexpired option or right will also lapse on a date six months after a participant dies, retires, is made redundant or becomes disabled, or the date one month after the participant ceases to be employed by the Konekt Group for any other reason.

### *Performance Conditions*

Performance conditions are deemed to be an essential component of all senior executive equity incentives. The proposed issue of rights is designed to provide both motivation to perform and to provide retention incentive. The performance conditions are the same for the Managing Director, Non-executive directors and each executive who has been granted performance rights. There are two (2) separate performance conditions to be applied to the rights, for 50% of the Tranche weightings, as follows:

## DIRECTORS' REPORT (cont'd)

### Performance Condition 1 – 50% of the Tranche weighting – Earnings per Share (expressed in cps)

Tranche	Performance Condition	Threshold (25% vests)	Budget (50% vests)	Target (100% vests)
1	EPS for FYE 30/6/2009 equals or exceeds	1.6	2.0	2.4
2	EPS for FYE 30/6/2010 equals or exceeds	1.8	2.2	2.8
3	EPS for FYE 30/6/2011 equals or exceeds	2.4	2.8	3.4

EPS means Earnings Per Share in cents per share (“cps”). EPS is defined as basic earnings per share (after tax) before any goodwill and/or amortisation, adjusted for significant items (as noted in the Company’s financial statements), goodwill write-offs which represent more than 5% of the Group’s pre-tax profit for the year; and material capital restructurings that have occurred over the relevant period, as determined by the Board.

All rights are available up to the last performance measurement date. That is, if a prior year threshold, budget or target is not met, the rights are still available but prior year rights must then meet a cumulative EPS measure, that is, the sum of the relevant years.

### Performance Condition 2 – 50% of the Tranche weighting – Share price escalator

	Performance Condition	Threshold (25% vests)	Budget (50% vests)	Target (100% vests)
1	Share Price at 30/6/2009 equals or exceeds (1)	\$0.08	\$0.10	\$0.15
2	Share Price at 30/6/2010 equals or exceeds (1)	\$0.18	\$0.22	\$0.25
3	Share Price at 30/6/2011 equals or exceeds (1)	\$0.30	\$0.35	\$0.40

(1) On a five day volume weighted average basis at that date or up to the last available date.

All rights are available up to the last performance measurement date. That is, if a prior year threshold, budget or target is not met, the rights are still available but prior year rights must then meet the next year threshold, budget or target level. For example, at 30<sup>th</sup> June 2010, the share price was below \$0.18, and so none of the rights have vested, and none have been forfeited, but all are still subject to the higher Tranche 3 hurdle, and so on.

#### General Conditions

**Exercise Rights:** Subject to any adjustments in accordance with the Plan Rules and/or the ASX Listing Rules, each Performance Right entitles the holder to acquire one (1) ordinary share in the capital of the Company on exercise of the Performance Right.

**Exercise Parcels:** Exercise may be in whole or in part, as long as they are in marketable parcels of no less than \$5,000.00 worth of shares.

**Timing of Exercises:** Performance Rights, once vested, may be exercised only in accordance with any administrative restrictions as set out in the Plan.

## **DIRECTORS' REPORT (cont'd)**

Other Conditions: Unless the Board of the Company decides otherwise, the Performance Rights being offered will expire on the earlier of:

- a) the Last Exercise Date (per above); or
- b) a day at the determination of the Board in accordance with the Plan Rules if the participant ceases to be an employee of the Company; or
- c) the day on which a participant defaults hereunder.

Konekt Limited does not have a policy for KMPs restricting or removing the 'at risk' element of their options/rights.

### **END OF AUDITED REMUNERATION REPORT**

#### **Audit Services**

During the year, audit and review fees payable to BDO amounted to \$117,600.

#### **Non-audit Services**

There were no non-audit services performed by the Group's external auditors for the year ended 30 June 2011.

#### **Environmental Regulations**

The Group's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

#### **Significant Events after the end of the reporting period**

There have been no significant events which have occurred since the end of the reporting period.

#### **Indemnification and Insurance of Directors**

The company has agreed to indemnify all current directors of the company and former directors of the company against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors of the company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. Subject to the terms of the Directors' and Officers' Insurance policy the agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

The company has also agreed to indemnify the current directors of its subsidiaries for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

The company has agreed to indemnify executive officers and employees for all liabilities to another person (other than the company or a related body corporate) that may arise from their position in the company and its subsidiaries, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the company will meet the full amount of any such liabilities, including costs and expenses.

#### **Insurance premiums**

The directors have taken out a Directors' and Officers' Insurance policy but have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the policy as such disclosure is prohibited under the terms of the contract.

## **DIRECTORS' REPORT (cont'd)**

### **Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

### **Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Konekt support and have adhered to the principles of Corporate Governance except as outlined in the Corporate Governance Statement which is contained in the Corporate Governance Statement on page 5.

### **Auditor's Independence Declaration**

The auditor's independence declaration under section 307C of the Corporations Act can be found on page 25 of this report.

### **Rounding of Accounts**

The parent entity has applied the relief available in ASIC Class Order 98/100 and, accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a Resolution of the Board of Directors.



### **Director**

22nd September 2011  
Sydney, NSW



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**DECLARATION OF INDEPENDENCE BY MELISSA ALEXANDER TO THE  
DIRECTORS OF KONEKT LIMITED**

As lead auditor of Konekt Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Konekt Limited and the entities it controlled during the period.

**Melissa Alexander**

Director

**BDO Audit (NSW-VIC) Pty Ltd**

Dated in Sydney, this 22<sup>nd</sup> day of September 2011.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2011**

		<b>Consolidated 2011 \$'000s</b>	<b>2010 \$'000s</b>
	<b>Notes</b>		
<b>Revenue from continuing operations</b>	4	34,135	35,971
Other income	4	176	216
External consultants		(2,250)	(1,264)
Depreciation and amortisation expenses	5	(320)	(386)
Finance costs	5	(8)	(84)
Share based payments expense	5	(9)	(72)
Salaries and employment related costs		(23,315)	(24,524)
Property expenses		(3,163)	(2,865)
Communication expenses		(864)	(904)
Motor vehicle and equipment expenses		(1,310)	(1,250)
Travel and accommodation expenses		(710)	(752)
Other expenses from continuing operations	5	(2,177)	(1,960)
<b>Profit from before income tax expense</b>		<b>185</b>	<b>2,126</b>
Income tax credit	7	20	1,754
Profit for the year		205	3,880
<b>Total comprehensive income for the year</b>		<b>205</b>	<b>3,880</b>
Basic earnings per share (cents per share)	6	0.3	5.5
Diluted earnings per share (cents per share)	6	0.3	5.3

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2011**

	Notes	Consolidated 2011 \$'000s	2010 \$'000s
<b>Current Assets</b>			
Cash and cash equivalents	8	162	1,129
Trade and other receivables	9	4,668	4,167
Work in Progress	10	725	461
Other assets	11	175	280
<b>Total Current Assets</b>		<b>5,730</b>	<b>6,037</b>
<b>Non Current Assets</b>			
Other receivables	12	113	98
Plant & equipment	13	493	761
Tax assets	14	1,774	1,754
Intangible assets	15	3,570	3,564
<b>Total Non Current Assets</b>		<b>5,950</b>	<b>6,177</b>
<b>Total Assets</b>		<b>11,680</b>	<b>12,214</b>
<b>Current Liabilities</b>			
Trade and other payables	16	3,514	4,235
Provisions	17	300	-
Interest bearing liabilities	18	67	67
<b>Total Current Liabilities</b>		<b>3,881</b>	<b>4,302</b>
<b>Non Current Liabilities</b>			
Interest bearing liabilities	19	17	85
Provisions	17	273	168
Trade and other payables	16	75	190
<b>Total Non Current Liabilities</b>		<b>365</b>	<b>443</b>
<b>Total Liabilities</b>		<b>4,246</b>	<b>4,745</b>
<b>Net Assets</b>		<b>7,434</b>	<b>7,469</b>
<b>Equity</b>			
Contributed equity	19	39,165	39,040
Reserves		239	230
Accumulated losses		(31,970)	(31,801)
<b>Total Equity</b>		<b>7,434</b>	<b>7,469</b>

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated	
	30 June 2011	30 June 2010
	\$'000s	\$'000s
<b>Cash Flows from Operating Activities</b>		
Receipts from customers	36,911	39,917
Payments to suppliers and employees	(37,534)	(36,996)
Interest received	11	2
Interest paid	(8)	(84)
<b>Net cash flows (used in)/provided by Operating Activities (note 28a)</b>	<b>(620)</b>	<b>2,839</b>
<b>Cash Flows from Investing Activities</b>		
Purchase of plant & equipment & intangible assets	(50)	(253)
Proceeds from sale of plant & equipment	-	11
<b>Net cash flows used in Investing Activities</b>	<b>(50)</b>	<b>(242)</b>
<b>Cash Flows from Financing Activities</b>		
Net proceeds from issue of ordinary shares	125	140
Cost of share buy-back	-	(21)
Proceeds from borrowings	-	202
Repayment of borrowings	(48)	(50)
Dividends paid	(374)	-
<b>Net cash flows (used in)/provided by Financing Activities</b>	<b>(297)</b>	<b>271</b>
<b>Net (decrease)/increase in cash held</b>	<b>(967)</b>	<b>2,868</b>
Cash and cash equivalents at the beginning of the financial year	1,129	(1,739)
<b>Cash and cash equivalents at the end of the financial year (note 28b)</b>	<b>162</b>	<b>1,129</b>

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2011**

	Contributed Equity	Accumulated losses	Option Reserve	Total equity
	\$'000s	\$'000s	\$'000s	\$'000s
<b>As at 30 June 2009</b>	<b>38,921</b>	<b>(35,681)</b>	<b>158</b>	<b>3,398</b>
Total comprehensive income for the year	-	3,880	-	3,880
<u>Transactions with owners in their capacity as owners:</u>				
Issue of share capital	140	-	-	140
Recognition of Performance Rights (Note 5)	-	-	72	72
Buy back of unmarketable parcels	(21)	-	-	(21)
<b>As at 30 June 2010</b>	<b>39,040</b>	<b>(31,801)</b>	<b>230</b>	<b>7,469</b>
Total comprehensive income for the year	-	205	-	205
<u>Transactions with owners in their capacity as owners:</u>				
Issue of share capital	125	-	-	125
Dividends paid	-	(374)	-	(374)
Recognition of shares granted under Employee Share Acquisition Plan	-	-	53	53
Recognition of Performance Rights (Note 5)	-	-	(44)	(44)
<b>As at 30 June 2011</b>	<b>39,165</b>	<b>(31,970)</b>	<b>239</b>	<b>7,434</b>

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Konekt Limited for the year ended 30 June 2011 were authorised for issue in accordance with a resolution of the directors on 22nd September 2011 and cover the consolidated entity of Konekt Limited and its subsidiaries as required by the Corporations Act 2001. Separate financial statements for Konekt Limited as an individual entity are no longer presented as a consequence of a change to the Corporations Act 2001. However, limited financial information for Konekt Limited as an individual entity is included in Note 31. Konekt Limited is a listed public company, incorporated and domiciled in Australia.

#### **Basis of Preparation**

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

#### *Compliance with IFRS*

The financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

#### *Reporting Basis and Conventions*

The financial statements are presented in Australian currency, and have been prepared on an accruals basis and are based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

#### **a) Principles of Consolidation**

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of Konekt Limited ("company" or "parent entity") as at 30 June 2011 and the results of all of its subsidiaries for the year then ended. Konekt Limited and its subsidiaries together are referred to in these financial statements as the Group.

A subsidiary is any entity controlled by Konekt Limited. Control exists where Konekt Limited has the power to govern the financial and operating policies of another entity.

All inter-company balances and transactions between entities within the Group, including any unrealised profits or losses, have been eliminated on consolidation.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011**

### **b) Foreign Currencies**

Transactions in foreign currencies of entities within the Group are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts receivable and payable to and by the entities within the Group, that are outstanding at the end of the reporting period and are denominated in foreign currencies, have been converted to local currency using rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in operating profit as they arise.

### **c) Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value, and bank overdrafts.

### **d) Trade and Other Receivables**

Trade and other receivables are recognised and carried at original invoice amount less an allowance for any uncollectible debts and in the majority of cases have repayment terms between 14 and 30 days, although some customers have payment terms extending to 60 days.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit and loss. Objective evidence of impairment includes financial difficulties of the debtor, default payments or debts more than 90 days overdue. On confirmation that the trade receivable will not be collectible the gross carrying value of the asset is written off against the associated provision.

From time to time, the Group elects to renegotiate the terms of trade receivables due from customers with which it has previously had a good trading history. Such renegotiations will lead to changes in the timing of payments rather than changes to the amounts owed and are not, in the view of the directors, sufficient to require the de-recognition of the original instrument.

### **e) Work in Progress**

Work in progress is measured at the lower of cost or net realisable value. Cost consists of staff salaries and direct expenses together with an appropriate level of overheads.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### f) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit and loss during the financial period in which they are incurred.

#### *Depreciation*

All assets have limited useful lives and are depreciated using the straight line method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset.

Assets are depreciated from the date of acquisition.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(o)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit and loss. When re-valued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

The depreciation rates used for each class of asset are as follows:

	2011	2010
Plant and equipment	10% to 50%	10% to 50%
Leasehold improvements	15% to 40%	15% to 40%
Leased plant and equipment	25%	25%

### g) Trade and Other Payables

Liabilities for trade creditors and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis except, for the GST components of cash flows arising from investing and financing activities, which are disclosed as operating cash flows.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### i) Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. Amounts disclosed as revenue are net of credits, duties and taxes paid. The following recognition criteria must be met before revenue is recognised.

#### *Rendering of Services*

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

#### *Interest*

Revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset

#### *GST*

All revenue is stated net of the amount of Goods and Services Tax (GST).

### j) Income Tax

The charge for current income tax expense is based on the results of the year adjusted for any non-assessable or disallowable items. It is calculated using the tax rates that have been enacted or are substantially enacted by the reporting period.

Deferred tax is recognised for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply for the period when the asset is realised or the liability is settled. Deferred tax is credited to profit and loss except where it relates to items that may be credited directly to equity or to other comprehensive income, in which case the deferred tax is credited directly against equity or other comprehensive income.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account, or which may be realised in the future, is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Konekt Limited and its wholly-owned subsidiaries have implemented the tax consolidation legislation for the whole of the financial year. Konekt Limited is the head entity in the tax consolidated Group. The stand-alone taxpayer within a Group approach has been used to allocate current income tax expense and deferred tax balances to wholly-owned subsidiaries that form part of the tax consolidated Group. Konekt Limited has assumed all the current tax liabilities and the deferred tax assets arising from unused tax losses for the tax consolidated Group via intercompany receivables and payables because a tax funding arrangement has been in place for the whole financial year. The amounts receivable/payable under tax funding arrangements are due upon notification by the head entity, which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly-owned subsidiaries in order for the head entity to be able to pay tax instalments. These amounts are recognised as current intercompany receivables or payables.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### k) **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from the services rendered by employees to reporting date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

An Employee Share Acquisition Plan was implemented in 2006.

#### *Superannuation Plan*

The Group contributes to several superannuation plans. Contributions are charged as expenses as they are incurred.

#### *Share-based Payments*

Share-based compensation benefits are provided to directors and senior executives via options or performance rights under the Konekt Performance Rights and Options Plan. Information relating to this plan is set out in Note 19(d).

The fair value of options granted under the plan is recognised as a benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the directors become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Offers are also made from time to time to all eligible staff under the Konekt Share Acquisition Plan and the Konekt Deferred Employee Share Plan. Any issues under these plans are recognised as a benefit expense with a corresponding increase in equity in relation to any portion which is not funded by the employee.

### l) **Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

### m) **Leased Assets**

Leases are classified at their inception as either operating or finance leases based on the substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred. Provisions are made for onerous leases where property has been vacated and there is no foreseeable subletting likely under the lease because of vacancy rates within the area or building.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

Capitalised leased assets are amortised over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold assets is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

### **n) Intangible Assets**

#### *(i) Goodwill*

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price exceeds the fair value attributed to its net assets and contingent liabilities at date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Impairment losses or goodwill cannot be reversed.

#### *(ii) Trademarks*

Trademarks are considered to have an indefinite useful life. As such they are tested annually for impairment, and are carried at cost less any impairment losses.

#### *(iii) IT website development and software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. Costs capitalised include external direct costs of materials, with amortisation calculated on a straight line-basis over 3 years. IT website development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the group has an intention and ability to use the asset

### **o) Impairment of Assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate recoverable amount for an individual asset, recoverable amount is determined for the cash generating unit to which the asset belongs. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### **p) Borrowing Costs**

Borrowing costs are expensed when incurred.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd)**

### **FOR THE YEAR ENDED 30 JUNE 2011**

#### **q) Earnings Per Share**

Basic earnings per share is determined by dividing the profit attributable to members of Konekt Limited after related income tax expense by the weighted average number of ordinary shares outstanding during the financial year.

Earnings used to calculate diluted earnings per share are calculated by adjusting the basic earnings by the after-tax effect of dividends and interest associated with dilutive potential ordinary shares. The weighted average number of shares used is adjusted for the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

#### **r) Interest-Bearing Liabilities**

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit and loss over the period of the loans and borrowings using the effective interest method.

The fair value of a liability portion of a convertible note is determined using a market rate of interest for an equivalent non-convertible note and stated on an amortised cost basis until conversion or maturity of the notes. The remainder of the proceeds is allocated to the conversion option and is shown as equity. Issue costs are apportioned between the liability and equity components based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

All 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 end of the reporting period.

#### **s) New Accounting Standards and Interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 (issued December 2009 and amended December 2010) amends the requirements for classification and measurement of financial assets for periods beginning on or after 1 January 2013. Due to the recent release of these amendments and that adoption is only mandatory for the 30 June 2014 year end, the Group has not yet made an assessment of the impact of these amendments.

AASB 2010-4 deletes various disclosures from AASB 7 Financial Instrument: Disclosures relating to credit risk, renegotiated loans and receivables and the fair value of collateral held. There will be no impact on initial adoption to amounts recognised in the financial statement as the amendments result in fewer disclosures only.

AASB 10 (issued August 2011) introduces a single 'control model' for all entities, including special purpose entities (SPEs). When this standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity does not have any special purpose entities.

AASB 10 (issued August 2011) also introduces the concept of 'de facto' control for entities with less than a 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders. Additional guidance is also included to determine when decision making authority over an entity has been delegated by a principal to an agent. There will be no impact when this standard is first adopted for the year ended 30 June 2014, as all group companies are 100% owned with no delegation of decision making authority.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

AASB 11 (issued August 2011) states that joint arrangements will be classified as either 'joint operations' (where parties with joint control have rights to assets and obligations for liabilities) or 'joint ventures' (where parties with joint control have rights to the net assets of the arrangement). When this

standard is first adopted for the year ended 30 June 2014, there will be no impact on transactions and balances recognised in the financial statements because the entity has not entered into any joint arrangements.

IFRS 13 (issued May 2011) has been amended. Currently, fair value measurement requirements are included in several Accounting Standards. IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognised at fair value in the statement of financial position or disclosed in the notes in the financial statements. Due to the recent release of this standard, the entity has yet to conduct a detailed analysis of the differences between the current fair valuation methodologies used and those required by IFRS 13. However, when this standard is adopted for the first time for the year ended 30 June 2014, there will be no impact on the financial statements because the revised fair value measurement requirements apply prospectively from 1 July 2013.

Amendments to AASB 2011-9 (issued September 2011) to align the presentation of items of other comprehensive income (OCI) with US GAAP. When this standard is first adopted for the year ended 30 June 2014, there will be no impact on amounts recognised for transactions and balances for 30 June 2014 (and comparatives). However, the statement of comprehensive income will include name changes and include subtotals for items of OCI that can subsequently be reclassified to profit or loss in future (e.g. foreign currency translation reserves) and those that cannot subsequently be reclassified (e.g. fixed asset revaluation surpluses).

AASB 119 (2011) issued September 2011 has been amended. The main changes include:

- Elimination of the 'corridor' approach for deferring gains/losses for defined benefit plans;
- Actuarial gains/losses on remeasuring the defined benefit plan obligation/asset to be recognised in OCI rather than in profit or loss, and cannot be reclassified in subsequent periods;
- Subtle amendments to timing for recognition of liabilities for termination benefits; and

Employee benefits expected to be settled (as opposed to due to settled under current standard) within 12 months after the end of the reporting period are short-term benefits, and therefore not discounted when calculating leave liabilities. Annual leave not expected to be used within 12 months of end of reporting period will in future be discounted when calculating leave liability.

The entity currently calculates its liability for annual leave employee benefits on the basis that it is due to be settled within 12 months of the end of the reporting period because employees are entitled to use this leave at any time. The amendments to IAS 19 require that such liabilities be calculated on the basis of when the leave is expected to be taken, i.e. expected settlement.

When this standard is first adopted for 30 June 2014 year end, annual leave liabilities will be recalculated on 1 July 2012. Leave liabilities for any employees with significant balances of leave outstanding who are not expected to take their leave within 12 months will be discounted, which may result in a reduction of the annual leave liabilities recognised on 1 July 2012, and a corresponding increase in retained earnings at that date.

AASB 2010-6 (issued November 2010) provides additional disclosures required for entities that transfer financial assets, including information about the nature of financial assets involved and the risks associated with them. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

AASB 1054 (issued May 2011). The amendment moves additional Australian specific disclosure requirements for for-profit entities from various Australian Accounting Standards into this Standard as a result of the Trans-Tasman Convergence Project. The requirement to disclose each class of capital commitment and expenditure commitment contracted for at the end of the reporting period (other than commitments for the supply of inventories) is removed. When this Standard is adopted for the first time for the year ended 30 June 2012, the financial statements will no longer include disclosures about capital and other expenditure commitments as these are no longer required by AASB 1054.

AASB 12 (issued August 2011). Combines existing disclosures from IAS 27 Consolidated and Separate Financial Statements, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. The amendment introduces new disclosure requirements for interests in associates and

joint arrangements, as well as new requirements for unconsolidated structured entities. As this is a disclosure standard only, there will be no impact on amounts recognised in the financial statements. However, additional disclosures will be required for interests in associates and joint arrangements, as well as for unconsolidated structured entities.

AASB 13 (issued September 2011). Additional disclosures required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. Extensive additional disclosure requirements for items measured at fair value that are 'level 3' valuations in the fair value hierarchy that are not financial instruments, e.g. land and buildings, investment properties etc. When this standard is adopted for the first time on 1 July 2013, additional disclosures will be required about fair values.

### t) **Rounding of Amounts**

The Group has applied the relief available under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## 2. **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

### *Key Estimate - Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Refer to Note 15 for the impairment assessment relating to intangible assets.

### *Key Judgement – Unrecognised tax losses*

Unrecognised tax losses at 30 June 2011 may only be utilised to shelter 7.3% of taxable income once remaining recognised Group tax losses of \$3,615,212 have first been utilised. There is no expiry date on the future deductibility of unused tax losses.

## 3. **DIVIDENDS**

Final dividend resolved to be paid of \$NIL. (2010: 0.5 cents per share unfranked)

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**4. REVENUE & OTHER INCOME**

From continuing operations

	<b>Consolidated</b>	
	<b>30 June 2011</b>	<b>30 June 2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<i>Sales revenue</i>		
Services	34,135	35,971
<b>Other income</b>		
Interest received – other persons	11	2
Other income	144	157
Foreign exchange gain	21	50
Net gain on disposal of property, plant and equipment	-	7
	<u>176</u>	<u>216</u>

**5. EXPENSES**

The operating result before income tax includes the following specific expenses:

**Depreciation**

Leasehold improvements	123	157
Plant and equipment	187	229
	<u>310</u>	<u>386</u>

**Amortisation Expense**

Website costs	10	-
	<u>10</u>	<u>-</u>

**Finance costs**

Interest expense	8	84
	<u>8</u>	<u>84</u>

**Share option payment expense**

Options issued	-	-
Recognition of Employee Share Plan issue	53	-
Performance rights on issue	(44)	72
	<u>9</u>	<u>72</u>

**Payments under operating leases**

Motor vehicle leases	557	521
Equipment	278	204
Property leases	2,233	2,075
	<u>3,068</u>	<u>2,800</u>

**Other expenses from continuing operations includes the following major items:**

Internal consultants costs	903	909
Insurance costs	103	118
Marketing costs	90	126
Computer expenses	166	179
Printing, stationery and office supplies	112	171
Professional fees	281	171
Bank charges	74	72
Bad debt expense	124	(19)
Other	324	233
	<u>2,177</u>	<u>1,960</u>

**Individually Significant Items**

Income tax credit from recognition of prior year tax losses and temporary differences	-	2,430
	<u>-</u>	<u>2,430</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**6. EARNINGS PER SHARE**

	<b>2011</b>	<b>2010</b>
	<b>¢</b>	<b>¢</b>
Basic earnings per share	0.3	5.5
Diluted earnings per share	0.3	5.3
Weighted average number of shares used in the calculation of basic EPS	74,698,769	70,892,959
calculation of diluted EPS	74,698,769	72,559,625

The amount used in the numerator in calculating basic and diluted EPS is the same as the net profit reported in the consolidated statement of comprehensive income.

	<b>2011</b>	<b>2010</b>
<b>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</b>	74,698,769	70,892,959
Adjustments for calculation of diluted earnings per share:		
Performance rights that have met vesting conditions	-	1,666,666
<b>Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share</b>	74,698,769	72,559,625

**7. INCOME TAX**

	<b>Consolidated 2011 \$'000s</b>	<b>2010 \$'000s</b>
Profit from continuing operations before income tax expense	185	2,126
Tax at the Australian tax rate of 30%	56	638
Non deductible expenses:		
Entertainment	17	15
Other non-deductible	6	1
Share based payment expense	(35)	22
Recognition of previously unrecognised tax losses	(64)	(1,555)
Recognition of previously unrecognised temporary differences	-	(875)
Income tax (benefit) at effective tax rate of 30%	(20)	(1,754)
<b>Unrecognised deferred tax assets</b>		
Deferred tax assets have not been recognised in the balance sheet for the following items:		
Unused tax losses	3,029	3,029
Deductible temporary differences	-	-
	3,029	3,029
Potential benefit at 30% (2010: 30%)	909	909

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

The potential future income tax benefit will only be obtained if:

- (i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions to be realised;
- (ii) conditions for deductibility imposed by the law are complied with; and
- (iii) no changes in income tax legislation adversely affect the realisation of the benefits from the deductions.

Unrecognised tax losses at 30 June 2011 may only be utilised to shelter 7.3% of taxable income once remaining recognised Group tax losses of \$3,615,212 have first been utilised. There is no expiry date on the future deductibility of unused tax losses.

*Tax consolidation*

For the purposes of income taxation, Konekt Limited and its 100% owned subsidiaries have formed a tax consolidated Group. Members of the Group have entered into tax sharing agreements in order to allocate income tax expense to the relevant entity on a pro-rata basis and this is recorded via intercompany receivables/payables. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax obligations. At the end of the reporting period the possibility of default is remote. The head entity of the tax consolidated Group is Konekt Limited. Konekt Limited has formally notified the Australian Taxation Office of its adoption of the tax consolidation regime. The company is currently evaluating the availability of tax losses to the Group, which may result in a variation of tax losses not brought to account.

There were no franking credits available as at 30 June 2011.

	<b>Consolidated 2011 \$'000s</b>	<b>2010 \$'000s</b>
<b>Current tax expense</b>		
Current tax expense	(150)	676
Adjustment for previous years	-	-
Income tax (benefit) at effective tax rate of 30%	<u>(150)</u>	<u>676</u>
<b>Deferred tax expense / (credit)</b>		
Origination and reversal of temporary differences	194	(875)
Benefit of tax losses previously unrecognised	(64)	(1,555)
Total income tax (credit)/expense in profit or loss	<u>(20)</u>	<u>(1,754)</u>
<b>8. CASH ASSETS</b>		
Cash at bank	155	1,120
Cash on hand	7	9
	<u>162</u>	<u>1,129</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**9. TRADE & OTHER RECEIVABLES (CURRENT)**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Trade debtors	4,836	4,223
Less provision for doubtful debts	(193)	(69)
	4,643	4,154
Other debtors	25	13
	4,668	4,167

**Age analysis of trade receivables that are past due but not impaired at the reporting date**

	<b>Consolidated</b>					
	<b>Total</b>	<b>2011 Amount Impaired</b>	<b>Amount not Impaired</b>	<b>Total</b>	<b>2010 Amount Impaired</b>	<b>Amount not Impaired</b>
	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>	<b>\$'000s</b>
Not Past due	3521	-	3,521	3,291	-	3,291
Past due > 30 days	700	-	700	756	-	756
Past due > 60 days	326	(1)	325	386	-	386
Past due > 90 days	289	(192)	97	(210)	(69)	(279)
Total	4,836	(193)	4,643	4,223	(69)	4,154

Past due amounts not impaired are unsecured. In most cases they are with large customers who regularly pay accounts and amounts have been held up for minor processing and approval reasons. Their fair value is equivalent to the amount outstanding. Trade receivables that are neither past due nor impaired related to long standing customers with a good track record.

Payment terms on receivables past due but not considered impaired have not been re-negotiated. The Group has been in direct contact with the relevant customers and is reasonably satisfied that payment will be received in full.

As at 30 June 2011 the Group had total current trade receivables of \$193,141 (2010 \$68,566) that was impaired. The amounts relate to customers where it is considered that recovery of the amount are unlikely. In 2010 the impaired amount exceeded the 90 day balance as the 90 day balance is a net of amounts owed by some customers and credits not taken up by other customers. Customers with credits in 90 days usually have debit amounts owing in more current periods.

**Analysis of allowance amount**

Opening Balance	69	96
Provisions for doubtful receivables	131	(19)
Receivables written off during the year	(7)	(8)
Closing Balance	193	69

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**10. WORK IN PROGRESS**

	<b>Consolidated 2011 \$'000s</b>	<b>2010 \$'000s</b>
Work in progress	725	461

**11. OTHER ASSETS (CURRENT)**

Prepayments	175	280
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**12. OTHER RECEIVABLES (NON CURRENT)**

Security Deposits	113	98
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**13. PLANT & EQUIPMENT**

Plant and equipment at cost	3,239	3,215
Less accumulated depreciation	(2,866)	(2,683)
	<u>373</u>	<u>532</u>
Leasehold improvements at cost	821	807
Less accumulated amortisation	(701)	(578)
	<u>120</u>	<u>229</u>
Total written down value	<u>493</u>	<u>761</u>

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

**Plant and equipment**

Carrying amount at beginning of the year	532	632
Additions	34	132
Disposals	(6)	(3)
Depreciation	(187)	(229)
Carrying amount at end of year	<u>373</u>	<u>532</u>

**Leasehold improvements**

Carrying amount at beginning of the year	229	298
Additions	16	88
Disposals	(2)	-
Amortisation	(123)	(157)
Carrying amount at end of year	<u>120</u>	<u>229</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**14. TAX ASSETS**

	<b>Consolidated Entity</b>	
	<b>2011 \$'000s</b>	<b>2010 \$'000s</b>
Deferred tax assets comprise temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	58	21
Employee benefits and other provisions	627	751
FBT accrual	10	9
Leasehold Incentive	30	-
Audit fee accrual	19	19
Deferred income	9	67
Adjustment for previous year over provision	(64)	-
	689	867
Tax losses	1,085	887
Total Deferred Tax Asset	1,774	1,754

<b>Movements in Deferred Tax Assets</b>	<b>Opening balance at 1 July 2010 \$'000s</b>	<b>(Charged)/ credited to profit or loss \$'000s</b>	<b>(Charged)/ credited to other comprehensive income \$'000s</b>	<b>(Charged)/ credited to equity \$'000s</b>	<b>Closing balance at 30 June 2011 \$'000s</b>
<i>Amounts recognised in profit or loss</i>					
Doubtful debts	21	37	-	-	58
Employee benefits and other provisions	751	(124)	-	-	627
FBT accrual	9	1	-	-	10
Leasehold Incentive	-	30	-	-	30
Audit fee accrual	19	-	-	-	19
Deferred income	67	(58)	-	-	9
Adjustment for previous year over provision	-	(64)	-	-	(64)
Tax losses	887	198	-	-	1,085
Total	1,754	20	-	-	1,774

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**15. INTANGIBLE ASSETS**

	<b>Consolidated Entity</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Goodwill		
At cost	21,680	21,680
Accumulated impairment	(18,157)	(18,157)
	<u>3,523</u>	<u>3,523</u>
Trade Marks		
At cost	27	11
Website development		
At cost	30	30
Accumulated amortisation	(10)	-
	<u>20</u>	<u>30</u>
	<u>3,570</u>	<u>3,564</u>
Reconciliation - Goodwill		
Balance at beginning of period	3,523	3,523
Impairment losses	-	-
Balance at end of period	<u>3,523</u>	<u>3,523</u>

**Accumulated Impairment**

Goodwill on consolidation from the investments in subsidiaries has been written down to its recoverable amount based on forecast discounted cash flows for the Group. Goodwill is allocated to the Group's cash-generating units (CGU's) identified according to the states in which Konekt has business operations.

The recoverable amount of a cash-generating unit is based on value-in-use calculations which use cash flow projections based on budgets approved by management covering a 5 year period. The growth rate used in these budgets does not exceed the long-term average growth rate for the business in which the cash-generating unit operates.

Key assumptions used for value-in-use calculations are as follows:

- The discount rate used was 11.3% (2010: 10%)
- Forecasts are performed on an individual CGU basis, taking into consideration trading outlook and future growth prospects for each CGU

Management determined budgeted gross margins based on past performance and its expectations for the future. The weighted average growth rates used are consistent with those used in industry reports. The discount rate used is pre-tax and is specific to the relevant segment and country in which Konekt operates.

Should these assumptions prove to be incorrect and/or should there be unfavourable/favourable variances in actual results as compared to budgeted, an impairment write-down or write-back in relation to goodwill may be required in future periods.

The recoverable amount of the goodwill is estimated to be \$10.6m over 5 years, which exceeds the carrying amount at 30 June 2011 by \$7.1m.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

	Consolidated Entity	
	2011 \$'000s	2010 \$'000s
Reconciliation - Trade Marks		
Balance at beginning of period	11	9
Additions	-	2
Re-class	16	-
Balance at end of period	27	11

The Trade Mark relates to the Konektiva trade name registration.

Reconciliation - Website Development		
Balance at beginning of period	30	-
Additions	-	30
Balance at end of period	30	30

**16. TRADE AND OTHER PAYABLES (CURRENT)**

Trade creditors	496	312
Other creditors and accruals	1,925	2,748
Employee benefits	1,093	1,175
	3,514	4,235

**TRADE AND OTHER PAYABLES (NON-CURRENT)**

Deferred income	-	73
Leasehold incentive	75	117
	75	190

**17. PROVISIONS**

<b>Current</b>	160	-
Make good provision		
Restructuring or redundancy provision	140	-
	300	-
<b>Non-Current</b>		
Employee benefits	273	168

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**18. INTEREST BEARING LIABILITIES**

	<b>Consolidated Entity</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>Current – unsecured</b>		
Other loans	67	67
	<u>67</u>	<u>67</u>
<b>(a) The carrying amounts of assets pledged as security are:</b>		
Floating charge over assets, including investments	11,680	12,214
	<u>11,680</u>	<u>12,214</u>
<b>(b) Refer to Note 29 for details of banking facilities.</b>		
<b>Non-Current - unsecured</b>		
Other loans	17	85
	<u>17</u>	<u>85</u>

Other loans current & non-current relates to a 3 year loan taken out in October 2009 to finance the acquisition of Microsoft licences.

**19. CONTRIBUTED EQUITY**

**a) Issued and paid up capital**

Ordinary shares	39,165	39,040
	<u>39,165</u>	<u>39,040</u>

The number of fully paid ordinary shares in issue at year end is 75,523,069 (2010: 72,315,155).

**b) Movements in shares on issue**

	<b>2011</b>		<b>2010</b>	
	<b>Number of</b>	<b>\$'000s</b>	<b>Number of</b>	<b>\$'000s</b>
	<b>Shares</b>		<b>Shares</b>	
Beginning of the financial year	72,315,155	39,040	70,427,402	38,921
<u>Issued during the year</u>				
Exercise of options	1,516,664	-	2,000,000	140
Buyback of un-marketable parcels	-	-	(112,247)	(21)
Employee share plan issue	1,691,250	125	-	-
End of the financial year	<u>75,523,069</u>	<u>39,165</u>	<u>72,315,155</u>	<u>39,040</u>

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### c) Capital risk management

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions and through the payment of annual dividends to shareholders. In order to achieve this objective, the Group seeks to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through altering its dividend policy, new share issues, or the reduction of debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

There has been no significant changes to the Group's capital management objectives, policies and processes in the year nor has there been any change in what the Group considers to be its capital.

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
<b>Gearing ratios</b>		
Net Debt	-	-
Total equity	7,434	7,469
Gearing Ratio	-	-

The Group is required by its bankers under its covenants to have a capital adequacy of 5%. Capital adequacy ratio is measured as Net Tangible Assets divided by Total Tangible Assets. During the year the company complied with banking covenants.

### d) Share based options and performance rights

Options granted over ordinary shares (these options have no voting or dividend rights until exercised):

As at 30 June 2011 there are no outstanding options on issue.

#### (i) Performance rights

Performance rights were granted under the Executive Option and Performance Rights Plan ('Plan') which was approved by shareholders at the 2009 Annual General Meeting. The Plan allows the Company to grant options or rights to selected key employees to acquire ordinary shares in the Company. Participants are required to satisfy performance and service conditions at the time of the offer.

The exercise price for performance rights is nil.

Rights cannot be transferred and will not be quoted on the ASX.

A right may only be exercised by a date determined by the Board and will lapse if not exercised at a date determined by the Board not exceeding 7 years, subject to applicable performance hurdles and other restrictions set in the offer letter. An unexpired option or right will also lapse on a date six months after a participant dies, retires, is made redundant or becomes disabled, or the date one month after the participant ceases to be employed by the Group for any other reason.

There were no performance rights issued during the year. 1,516,664 performance rights were exercised and a further 2,350,000 performance rights lapsed during the year. During the prior year there were no performance rights issued or exercised

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**(ii) Options & Performance Rights**

600,000 Options were issued on 16 November 2006. 400,000 of these lapsed when Stuart Craig and Max-Lloyd-Jones ceased to be directors. The remaining rights lapsed during the year.

1,500,000 Performance Rights were issued to the CEO on 14 August 2008. Of these, 500,000 were exercised during the year and the remainder lapsed.

1,800,000 Performance Rights were issued to non-executive Directors on 23 December 2008. Of these, 200,000 were exercised during the year and the remainder lapsed.

3,600,000 Performance Rights were issued to employees on 12 February 2009. Of these, 816,664 were exercised during the year and 1,650,000 have lapsed. The balance 1,133,336 remains outstanding as at the date of this report.

2,837,835 shares were issued to employees on 12 February 2009 under the Konekt Employee Share Plan, where \$500 in shares were granted to employees under a matching contribution from the employees.

845,625 shares were issued to employees under the Konekt Employee Share Acquisition Plan (ESAP), and 845,625 shares were issued to employees under the Konekt Deferred Employee Share Plan (DESP) on 18 August 2010. The shares in the ESAP were acquired by employees via 100% salary sacrifice commitment, and the shares in the DESP were provided by Konekt free subject to satisfying 3 years service. If the 3 year service period is not satisfied, the shares are forfeited.

Details are provided below:

	<b>Consolidated Entity</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000</b>	<b>\$'000</b>
Share-based payment expense recognised during the financial year		
Opening balance	230	158
Cost of options issued	-	-
Issue of Performance rights	(44)	72
Recognition of Employee Share Plan issue	53	-
Closing balance of reserve	239	230

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

Details of options & performance rights outstanding as part of the share option plan during the financial year is as follows:

Consolidated 2011									
Grant Date	Vesting Date	Expiry Date	Applicable spot price	Balance at beginning of year	Granted during the year	Exercised during the year	(Lapsed) during the year	Balance at end of the year	Fair Value
				Number	Number	Number	Number	Number	\$
<b>Performance rights</b>									
14.08.2008	14.08.2009	14.08.2013	\$0.056	500,000	-	(125,000)	(375,000)		-
14.08.2008	14.08.2010	14.08.2013	\$0.056	500,000	-	(125,000)	(375,000)		-
14.08.2008	14.08.2010	14.08.2013	\$0.056	500,000	-	(250,000)	(250,000)		-
23.12.2008	23.12.2009	23.12.2013	\$0.0408	200,000	-	(50,000)	(150,000)		-
23.12.2008	23.12.2010	23.12.2013	\$0.0408	200,000	-	(150,000)	(50,000)		-
23.12.2008	23.12.2011	23.12.2013	\$0.0408	200,000	-	-	(200,000)		-
12.02.2009	05.02.2010	05.02.2014	\$0.035	966,655	-	(241,664)	(724,991)		-
12.02.2009	05.02.2011	05.02.2014	\$0.035	966,673	-	(575,000)	(108,337)	283,336	10,625
12.02.2009	05.02.2012	05.02.2014	\$0.035	966,672	-	-	(116,672)	850,000	5,695
				5,000,000	-	(1,516,664)	(2,350,000)	1,133,336	

The exercise price for performance rights is \$nil.

Consolidated 2010									
Grant Date	Vesting Date	Expiry Date	Exercise Price	Applicable spot price	Balance at beginning of year	Granted during the year	Lapsed during the year	Balance at end of the year	Fair Value
					Number	Number	Number	Number	\$
<b>Share options</b>									
16.11.2006	16.11.2006	16.11.2009	\$0.50	\$0.30	100,000	-	(100,000)#	-	24,486
16.11.2006	01.10.2007	16.11.2009	\$0.50	\$0.30	100,000	-	(100,000)#	-	29,949
18.04.2008	18.04.2009	18.4.2010	\$0.06	\$0.055	1,000,000	-	(1,000,000)*	-	
18.04.2008	18.04.2009	19.11.2009	\$0.08	\$0.055	1,000,000	-	(1,000,000) #	-	
19.11.2009	19.11.2009	18.4.2010	\$0.08	\$0.125	-	1,000,000	(1,000,000)*	-	
Weighted average exercise price					\$0.109	\$0.08	\$0.10	-	
<b>Performance rights</b>									
14.08.2008	14.08.2009	14.08.2013	-	\$0.056	500,000	-	-	500,000	22,375
14.08.2008	14.08.2010	14.08.2013	-	\$0.056	500,000	-	-	500,000	20,475
14.08.2008	14.08.2010	14.08.2013	-	\$0.056	500,000	-	-	500,000	20,275
23.12.2008	23.12.2009	23.12.2013	-	\$0.0408	200,000	-	-	200,000	15,660
23.12.2008	23.12.2010	23.12.2013	-	\$0.0408	200,000	-	-	200,000	15,720
23.12.2008	23.12.2011	23.12.2013	-	\$0.0408	200,000	-	-	200,000	16,200
12.02.2009	05.02.2010	05.02.2014	-	\$0.035	1,166,655	-	(200,000)#	966,655	24,180
12.02.2009	05.02.2011	05.02.2014	-	\$0.035	1,166,673	-	(200,000)#	966,673	25,320
12.02.2009	05.02.2012	05.02.2014	-	\$0.035	1,166,672	-	(200,000)#	966,672	26,520
					7,800,000	1,000,000	(3,800,000)	5,000,000	

# Lapsed 1,800,000

\* Exercised 2,000,000

The weighted average share price at the date of exercise of options exercised during the year ended 30 June 2011 was \$0.1370 (2010 – \$0.1625).

The weighted average remaining contractual life of performance rights outstanding at the end of the period was 2.6 years (2010 – 3.6 years)

The above options and performance rights were issued as part of the share option plan with the exception of the options granted on 27.02.2006 and 1 million options granted on 18.04.2008 which

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

were granted to unrelated external companies. 1 million options also granted on 18.04.2008 were granted to Westvalley Superannuation Fund, a related party of then Managing Director Carl Woodbridge, which was granted as part of a convertible note issue. The 1 million options granted to Westvalley Superannuation fund were cancelled at the Annual General Meeting on 19 November 2009 and a replacement 1 million options granted to Westvalley Superannuation fund at the same meeting.

### *Performance rights granted during 2011*

There were no performance rights granted during the year.

#### e) **Obligations to issue ordinary shares**

There are no obligations to issue ordinary shares.

#### f) **Restricted securities**

There are no restricted securities at the date of these financial statements.

#### g) **Terms and conditions of contributed equity**

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has a vote on a show of hands.

## 20. **CAPITAL AND LEASING COMMITMENTS**

### **Non-cancellable operating lease commitments**

Future operating leases contracted for but not capitalised in the financial statements and payable:

	Consolidated Entity 2011				Consolidated Entity 2010			
	Equipment \$'000s	Motor Vehicle \$'000s	Property \$'000s	Total \$'000s	Equipment \$'000s	Motor Vehicle \$'000s	Property \$'000s	Total \$'000s
Due within 1 year	162	496	1,486	2,144	185	488	1,633	2,306
Due later than 1 year but less than 5 Year	222	289	4,358	4,869	187	461	3,160	3,808
Due later than 5 Years	-	-	-	-	-	-	1,058	1,058
<b>Total</b>	<b>384</b>	<b>785</b>	<b>5,844</b>	<b>7,013</b>	<b>372</b>	<b>949</b>	<b>5,851</b>	<b>7,172</b>

The Group leases property, photocopiers, computers and motor vehicles under non-cancellable operating leases expiring from one to five years. Leases generally provide the Group with a right of renewal at which time all terms are renegotiated.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**21. CONTINGENT LIABILITIES**

The directors are not aware of any contingent liabilities as at 30 June 2011.

**22. SUPERANNUATION PLANS**

The company and its subsidiaries contribute to several defined contribution employee superannuation plans.

Details of contributions to the defined contribution plans during the year and contributions payable at the end of the reporting period are as follows:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$'000s</b>	<b>\$'000s</b>
Employer contributions to the plans	1,658	1,822
Employer contributions payable to the plans at the end of the reporting period	168	116

**23. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**a) Remuneration of Parent Entity Directors and Key Management Personnel**

*Remuneration of Parent Entity Directors and Key Management Personnel*

	<b>Consolidated Entity</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	581,978	737,511
Post-employment benefits	99,552	102,670
Long-term benefits	(16,315)	9,147
Termination benefits	383,214	-
Share-based payments	(32,160)	29,912
	<u>1,016,269</u>	<u>879,241</u>

Key management personnel remuneration has been included in the Remuneration Report section of the Directors Report.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**b) Option holdings of Parent Entity Directors and Key Management Personnel**

<b>30 June 2011</b>	<b>Balance at 1 July 2010</b>	<b>Granted</b>	<b>Options exercised</b>	<b>Lapsed</b>	<b>Balance at 30 June 2011</b>	<b>Total vested at 30 June 2011</b>	<b>Total vested and exercisable at 30 June 2011</b>	<b>Total vested and un-exercisable at 30 June 2011</b>
<b>Share options</b>								
Alan Baxter	-	-	-	-	-	-	-	-
<b>Performance rights</b>								
Alan Baxter	600,000	-	200,000	(400,000)	-	-	-	-
Serhat Oguz	1,500,000	-	500,000	(1,000,000)	-	-	-	-
Frank Hardiman	300,000	-	100,000	(200,000)	-	-	-	-
	2,400,000	-	800,000	(1,600,000)	-	-	-	-

<b>30 June 2010</b>	<b>Balance at 1 July 2009</b>	<b>Granted</b>	<b>Options exercised</b>	<b>Cancelled</b>	<b>Balance at 30 June 2010</b>	<b>Total vested at 30 June 2010</b>	<b>Total vested and exercisable at 30 June 2010</b>	<b>Total vested and un-exercisable at 30 June 2010</b>
<b>Share options</b>								
Alan Baxter	200,000	-	-	(200,000)	-	-	-	-
<b>Performance rights</b>								
Alan Baxter	600,000	-	-	-	600,000	200,000	50,000	150,000
Serhat Oguz	1,500,000	-	-	-	1,500,000	500,000	125,000	375,000
Frank Hardiman	300,000	-	-	-	300,000	100,000	25,000	75,000
	2,600,000	-	-	(200,000)	2,400,000	800,000	200,000	600,000

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**c) Shareholdings of Parent Entity Directors and Key Management Personnel**

<b>30 June 2011</b>	<b>Balance 1 July 2010</b>	<b>Granted as Remuneration</b>	<b>On Exercise of Options</b>	<b>Net Change Other</b>	<b>Balance 30 June 2011</b>
	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>
<b>Parent Entity Directors</b>					
Ken Carr	-	-	-	200,000	200,000
Alan Baxter#	1,055,586 *	-	200,000	(1,255,586)	-
Philip Small	300,000	-	-	100,000	400,000
Serhat Oguz#	-	1,000	500,000	(501,000)	-
John Randall	197,517	-	-	-	197,517
<b>Key Management Personnel</b>					
Matt Ranawake	-	-	-	-	-
Frank Hardiman#	408,232 *	1,000	100,000	(509,232)	-
<b>Total</b>	<b>1,961,335</b>	<b>2,000</b>	<b>800,000</b>	<b>(1,965,818)</b>	<b>797,517</b>

\* Alan Baxter's shares are all held indirectly through Bond Street Custodians Ltd and 8,232 of Frank Hardiman's shares are held indirectly through Hardiman Nominees Pty Ltd.

# Messer's Baxter, Oguz and Hardiman resigned from the company during the year.

<b>30 June 2010</b>	<b>Balance 1 July 2009</b>	<b>Granted as Remuneration</b>	<b>On Exercise of Options</b>	<b>Net Change Other</b>	<b>Balance 30 June 2010</b>
	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>	<b>Ordinary Shares</b>
<b>Parent Entity Directors</b>					
Alan Baxter	755,586	-	-	300,000	1,055,586 *
Philip Small	-	-	-	300,000	300,000
Serhat Oguz	-	-	-	-	-
John Randall	-	-	-	197,517	197,517
<b>Key Management Personnel</b>					
Frank Hardiman	508,232	-	-	(100,000)	408,232 *
<b>Total</b>	<b>1,263,818</b>	<b>-</b>	<b>-</b>	<b>697,517</b>	<b>1,961,335</b>

\* Alan Baxter's shares are all held indirectly through Bond Street Custodians Ltd and 8,232 of Frank Hardiman's shares are held indirectly through Hardiman Nominees Pty Ltd.

**d) Other Transactions and Balances with Parent Entity Directors and Key Management Personnel**

There were no other transactions and balances with directors or key management personnel.

**e) Services**

Ken Carr was paid a fee of \$21,000 as Interim Managing Director during May and June. There are no other services provided by directors or Key Management personnel other than for their remuneration.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**24. REMUNERATION OF AUDITORS**

	Consolidated Entity	
	2011 \$	2010 \$
Amounts paid/payable to BDO for audit or review of the financial statements for the Group	117,600	117,600
	117,600	117,600

**25. SEGMENT REPORTING**

The Group has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach', i.e. segment information is provided on the same basis as information used for internal reporting purposes by the Chief Executive Officer. This has not resulted in an increase in the number of reportable segments as it still considered that there is only one reporting segment in the Group which is Injury Management. All branch operations operate under similar regulatory environments, offer the same injury management service offerings and have similar risk profile. They therefore satisfy the Aggregation criteria under paragraph 12 of AASB 8. Corporate overheads are also allocated to branches.

Revenues of \$4,531,000 (2010: \$5,157,000) and \$4,214,000 (2010: \$6,963,000) are derived from two single customers of the Group. Each of these separate revenues amounts to more than 10% of the Group's revenues from external customers.

Total revenue as shown in note 4 is the total segment revenue.

The Managing Director reviews the performance of segments before aggregation based on Net Profit Before Tax. This performance measure is equal to Net Profit Before Tax as disclosed in the relevant comprehensive income.

**26. SUBSIDIARIES**

**a) Subsidiaries**

	Country of Incorporation	Percentage owned (%)
Parent Entity:		
Konekt Limited	Australia	-
Subsidiaries of Konekt Limited:		
Konekt International Pty Ltd	Australia	100%
Konekt Australia Pty Ltd	Australia	100%
Konektiva Pty Ltd	Australia	100%
Konekt Workplace Health Solutions Pty Ltd	Australia	100%

The proportion of the voting interest is equal to the proportion of voting power held.

**b) Subsidiaries Acquired**

There were no acquisitions during the year.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### c) **Deed of cross guarantee**

A deed of cross-guarantee between Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and Konekt Limited was enacted during the 2006 financial year and relief was obtained from preparing financial statements for Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd and Konekt Workplace Health Solutions Pty Ltd under

ASIC Class Order 98/1418 issued by the Australian Securities and Investments Commission. Under the deed, Konekt Limited guarantees to support the liabilities and obligations of Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and vice versa. Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd and Konekt Workplace Health Solutions Pty Ltd are the only parties to the Deed of Cross Guarantee and are members of the Closed Group.

## 27. **FINANCIAL INSTRUMENTS DISCLOSURE**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

### a) **Off balance sheet derivative instruments**

The Group does not have any such instruments in place.

### b) **Credit risk exposure**

Credit risk is the risk that counter parties to a financial asset will fail to discharge their obligations, causing the Group to incur a financial loss. The entity has no significant concentration of credit risk to a Group of debtors nor a single debtor. The Group is only exposed to risk in health services sector and none of the debtors are credit rated. The maximum exposure to credit risk is that of the year-end trade receivables, cash and other debtors balances.

### c) **Fair values**

The directors are satisfied that the carrying values of the financial assets and liabilities are the equivalent of the fair value of those items. For the methods of determining fair value and any significant assumptions, see Note 1 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**d) Interest rate risk exposure**

The Group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

30 June 2011	Weighted average interest rate	Floating interest rate \$'000s	Fixed interest rate maturing in less than 1 year \$'000s	Fixed interest rate maturing in 1 – 5 years \$'000s	Non- interest bearing \$'000s	Total \$'000s
Financial Assets						
Cash assets	4.75%	155	-	-	7	162
Receivables		-	-	-	4,668	4,668
<b>Total Financial Assets</b>		155	-	-	4,675	4,830
Financial Liabilities						
Other loans	10.37%	-	67	17	-	84
Payables		-	-	-	1,765	1,765
<b>Total Financial Liabilities</b>		-	67	17	1,765	1,849
<b>Net Financial (Liabilities)/Assets</b>		155	(67)	(17)	2,910	2,981
30 June 2010	Weighted average interest rate	Floating interest rate \$'000s	Fixed interest rate maturing in less than 1 year \$'000s	Fixed interest rate maturing in 1 – 5 years \$'000s	Non- interest bearing \$'000s	Total \$'000s
Financial Assets						
Cash assets	4.5%	1,120	-	-	9	1,129
Receivables		-	-	-	4,167	4,167
<b>Total Financial Assets</b>		1,120	-	-	4,176	5,296
Financial Liabilities						
Other loans	10.37%	-	67	85	-	152
Payables		-	-	-	2,101	2,101
<b>Total Financial Liabilities</b>		-	-	-	2,101	2,253
<b>Net Financial (Liabilities)/Assets</b>		1,120	(67)	(85)	2,075	3,043

No financial assets or liabilities are readily tradable on organised markets.

## NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011

### *Sensitivity Analysis*

For each 1% increase in interest rates, Group profit before tax will increase by \$1,555 (2010 increase by \$11,000). Correspondingly for each 1% fall in interest rates Group profit before tax will decrease by \$1,555 (2010 decrease by \$11,000).

### e) **Liquidity Risk**

Bank overdraft facilities comprise the total Group borrowings and are concentrated with one lender being the National Australia Bank. Whilst this does increase liquidity risk due to concentration it would not be practical to spread this risk because of the low level of borrowing and the fact that security available is only one debtors ledger.

### *Maturity Analysis – Group 2011*

	<b>Carrying Amount</b>	<b>Contractual cashflows \$'000s</b>	<b>&lt; 6 months \$'000s</b>	<b>6 – 12 months \$'000s</b>	<b>1-3 Years \$'000s</b>	<b>&gt; 3 Years \$'000s</b>
<b>Financial Assets</b>						
Trade Receivables	4,643	4,643	4,643	-	-	-
Other Receivables	25	25	25	-	-	-
<b>Total Financial Assets</b>	<b>4,668</b>	<b>4,668</b>	<b>4,668</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>						
Bank overdraft	-	-	-	-	-	-
Other loans	84	84	34	33	17	-
Trade Payables	1,765	1,765	1,765	-	-	-
<b>Total Financial Liabilities</b>	<b>1,849</b>	<b>1,849</b>	<b>1,799</b>	<b>33</b>	<b>17</b>	<b>-</b>

### *Maturity Analysis – Group 2010*

	<b>Carrying Amount</b>	<b>Contractual cashflows \$'000s</b>	<b>&lt; 6 months \$'000s</b>	<b>6 – 12 months \$'000s</b>	<b>1-3 Years \$'000s</b>	<b>&gt; 3 Years \$'000s</b>
<b>Financial Assets</b>						
Trade Receivables	4,154	4,154	4,154	-	-	-
Other Receivables	13	13	13	-	-	-
<b>Total Financial Assets</b>	<b>4,167</b>	<b>4,167</b>	<b>4,167</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>						
Bank overdraft	-	-	-	-	-	-
Trade Payables	152	152	34	33	85	-
<b>Total Financial Liabilities</b>	<b>2,101</b>	<b>2,101</b>	<b>2,101</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>2,253</b>	<b>2,253</b>	<b>2,135</b>	<b>33</b>	<b>85</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**f) Risk management policies and objectives**

Activities undertaken by Konekt Limited and its subsidiaries may expose the Group to risk. The Group has no market risk as it is not exposed to foreign exchange risk or price risk. Liquidity risk is managed by the board requiring the Group to maintain adequate committed credit facilities. The Group does not have a policy for managing interest rate risk because interest is a relatively insignificant cost and it is possible that net borrowings may be very low or nil at points during the year.

Credit risk arises from cash or cash equivalents and deposits with banks as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit checks are done on new customers. The majority of existing customers are very large insurance companies and large corporates. Follow-up on overdue accounts is done by branch offices if amounts are overdue with further involvement of head office credit once amounts exceed 90 days.

**28. CASH FLOW INFORMATION**

**a) Reconciliation of cash flow from operations with profit after income tax:**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	\$'000s	\$'000s
Profit after income tax	205	3,880
<b>Non cash items</b>		
Depreciation and amortisation expense	320	386
Loss / (profit) on disposal of plant & equipment	8	(7)
Share based payments expense	9	72
Deferred income	(151)	(162)
<b>Changes in assets and liabilities</b>		
Movement in debtors and creditors	(1,501)	410
Movement in deferred tax asset	(20)	(1,754)
Movement in other assets	105	(139)
Movement in other provisions	405	153
<b>Net cash flow provided by operating activities</b>	<b>(620)</b>	<b>2,839</b>

**b) Reconciliation of Cash**

Cash balance comprises:		
Cash at bank	155	1,120
Cash on hand	7	9
Cash at the end of the financial year	<u>162</u>	<u>1,129</u>

**NOTES TO THE FINANCIAL STATEMENTS (cont'd)  
FOR THE YEAR ENDED 30 JUNE 2011**

**29. FINANCE FACILITIES**

	<b>Consolidated Entity</b>	
	<b>2011</b>	<b>2010</b>
	\$,000s	\$,000s
<b>Credit Standby Arrangements with Banks</b>		
Credit facility	3,410	3,324
Amount utilised	-	-
Unused credit facility	<u>3,410</u>	<u>3,324</u>

**Banking Facilities**

*Debt Finance Facility*

\$5,000,000 variable interest rate facility.

Note that at 30 June 2011 the credit facility amount represents 75% of the Group's debtor balance under 90 days that could be drawn under the \$5m Debt Finance Facility.

Finance will be provided under these facilities provided the company and the Group have not breached any borrowing requirements and the required financial covenants are met. All covenants have been met during the 2010-11 Financial Year.

The Group has a bank guarantee facility of \$776,309 of which \$203,742 was unused at 30 June 2011.

**30. RELATED PARTY TRANSACTIONS**

There are no transactions between the Group and related parties, other than those disclosed elsewhere in the Financial Statements.

**31. ADDITIONAL FINANCIAL INFORMATION OF THE PARENT ENTITY**

	<b>2011</b>	<b>2010</b>
	\$'000s	\$'000s
Current assets	58	8
Total assets	1,832	1,763
Current liabilities	6,522	6,081
Total liabilities	6,522	6,081
<b>Shareholders' equity</b>		
Issued capital	39,165	39,040
Reserves – share option	239	230
Accumulated losses	(44,094)	(43,588)
Total equity	<u>(4,690)</u>	<u>(4,318)</u>
Profit or loss	(506)	(6,744)
Total comprehensive income	(506)	(6,744)

Details of guarantees entered into by the parent entity in relation to debts of subsidiaries

Refer note 26(c)

The Parent Entity has no other commitments or contingent liabilities.

## **NOTES TO THE FINANCIAL STATEMENTS (cont'd) FOR THE YEAR ENDED 30 JUNE 2011**

### **32. SUBSEQUENT EVENTS**

There are no matters or circumstances that have arisen since 30 June 2011 that have significantly affected:

- a) The Group's operations in future financial years,
- b) The results of these operations in future financial years, and
- c) The Group's state of affairs in future financial years

## DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date.
2. In the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included on pages 17 to 23 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2011, comply with section 300A of the Corporations Act 2001.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.
5. Konekt International Pty Ltd, Konekt Australia Pty Ltd, Konektiva Pty Ltd, Konekt Workplace Health Solutions Pty Ltd and Konekt Limited identified in note 26(a) are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 26 (c).
6. The Group has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**Director**

22<sup>nd</sup> September 2011  
Sydney, New South Wales

## INDEPENDENT AUDITOR'S REPORT

To the members of Konekt Limited

### Report on the Financial Report

We have audited the accompanying financial report of Konekt Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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 control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, 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 judgement, 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 control relevant to the entity's preparation of the financial report that gives a true and fair view 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 control. 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Konekt Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## Opinion

In our opinion:

- (a) the financial report of Konekt 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 2011 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 1.

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 23 of the directors' report for the year ended 30 June 2011. 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 Konekt Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

BDO Audit (NSW-VIC) Pty Ltd

Melissa Alexander  
Director

Sydney, 22<sup>nd</sup> September 2011.

## ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 31 August 2011.

### (a) Distribution of equity securities

The number of shareholders, by size of holding, in each class of share is:

	Ordinary shares		Options		Performance Rights	
	No. of Holders	No. of Shares	No. of Holders	No. of Options	No. of Holders	No. of P.R.s
1 – 1,000	100	45,536	-	-		
1,001 – 5,000	237	597,213	-	-		
5,001 – 10,000	99	732,070	-	-		
10,001 – 100,000	197	7,952,633	-	-	8	533,336
100,001 and over	67	66,195,617	-	-	3	600,000
	701	75,523,069	-	-	11	1,133,336

The number of shareholders holding less than a marketable parcel of shares are:

	391	956,536	-	-	-	-
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### (b) Twenty largest shareholders – ordinary shares quoted on the ASX

The names of the twenty largest holders of ordinary shares quoted on the ASX as at 19 September 2011 are:

	Listed ordinary shares	
	Number of Shares Held	% Held
1. HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,562,108	15.31
2. JACANA ARCH PTY LTD	5,729,596	7.59
3. SALIDEN PTY LTD	4,500,000	5.96
4. JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	4,296,848	5.69
5. UBS NOMINEES PTY LTD	4,062,000	5.38
6. AUSTRALIAN EXECUTOR TRUSTEES LIMITED (NO 1 A/C)	3,275,501	4.34
7. KONEKT EMPLOYEE SHARE PLAN MANAGERS PTY LTD <EESP A/C>	2,241,112	2.97
8. NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	2,055,084	2.72
9. DIXSON TRUST PTY LIMITED	1,850,000	2.45
10. MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C>	1,729,834	2.29
11. MR JERRY ADLER + MRS GITA ADLER <ADLER FAMILY SUPER FUND A/C>	1,420,030	1.88
12. DR JON BERRICK	1,400,000	1.85
13. BOND STREET CUSTODIANS LIMITED	1,155,586	1.53
14. FALCASTLE PTY LTD <DAHL SUPERFUND A/C>	1,112,871	1.47
15. DELTA REAL-TIME COMPUTERS PTY LTD	1,070,000	1.42
16. NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C>	1,000,000	1.32
17. DR VERN THOMAS MADDEN + MRS CLARE MAREE MADDEN <MAD-BOY SUPER FUND A/C>	925,000	1.22
18. MR EDWARD JAMES DALLY + MRS SELINA DALLY <E J DALLY SUPER FUND A/C>	901,950	1.19
19. KONEKT EMPLOYEE SHARE PLAN MANAGERS PTY LTD <DESP A/C>	845,625	1.12
20. NATIONAL NOMINEES LIMITED	750,120	0.99
Total ordinary shares quoted on ASX held by the top 20 holders	51,883,265	68.70
Total ordinary shares quoted on ASX	75,523,069	100%

## ASX ADDITIONAL INFORMATION (cont'd)

### (c) Unquoted Securities

There were no unquoted options as at 30 June 2011.

### (d) Substantial Shareholders

Substantial shareholders in the Company are set out below:

	<b>No. of shares</b>	<b>% Held</b>
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	11,562,108	15.31
JACANA ARCH PTY LTD	5,729,596	7.59
SALIDEN PTY LTD	4,500,000	5.96

### (e) Other Disclosures

- (i) The name of the Company secretary is Mr Andrew Whitten.
- (ii) The address of the principal registered office in Australia is Level 12, 234 Sussex Street, Sydney NSW 2000.
- (iii) Registers of securities are held at the following addresses:

Computershare Investor Services Pty Ltd  
Yarra Falls  
452 Johnston Street  
ABBOTSFORD VIC 3067

Konekt Limited  
Level 12, 234 Sussex Street  
SYDNEY NSW 2000

- (iv) **Stock Exchange Listing**  
Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited.