

Konekt Limited

ABN 79 009 155 971

Appendix 4D – Half Yearly Report 31 December 2013

Konekt Limited
Directors' report
31 December 2013

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Konekt' or 'consolidated entity') consisting of Konekt Limited (referred to hereafter as the 'company') and the entities it controlled for the half-year ended 31 December 2013.

Directors

The following persons were Directors of Konekt Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

Douglas Flynn
Philip Small
Anthony Crawford (appointed on 16 July 2013)
Damian Banks
John Randall (retired on 16 July 2013)

Principal activities

During the financial half-year the principal continuing activities of the consolidated entity consisted of:

- Injury management
- Injury prevention
- Workplace health and safety consulting

Review of operations

Konekt reports a profit after tax for the 6 months period to 31 December 2013 of \$467,000 which was an improvement of \$793,000 compared to same period last year. This was struck on revenues of \$16.1m, which were higher by 8% on the prior corresponding period of \$14.9m. The cash balance improved to \$2.65m from \$696,000 at the end of June 2013.

Management Commentary

Whilst the market continues to provide ongoing challenges, strategies adopted by Konekt to position itself for growth have started to produce desired outcomes. The company's improved financial performance in the first half year of 2013-14 is testimony to this. The NSW insurer/agent volumes and spend continue to decline, coincident with the ongoing softness in injury prevention revenue, notably in the coal sector and general mining services. The most progressive firms continue to pursue very early intervention strategies in their workplaces to their significant benefit, and we are seeing further uplift from some business wins in injury prevention.

Promoting early intervention in workplaces will be pursued with vigour by Konekt across all customer sectors, particularly with insurers and agents. Konekt launched its inaugural Market Report which emphasised early intervention as the key to improved cost effective rehabilitation outcomes. The Report, which was launched nationally with major customer presentations in capital cities, was well received as well as achieving some specific media coverage.

Sales and Customers

The business flow into the sales pipeline remains steady. The conversion of leads to revenue is an area of focus for management that is continuing, with the Revenue increase for the half showing the effect of net sales wins over the past 18 months. Konekt's business mix moved 3 percentage points in favour of corporate and government revenue relative to insurer and agent revenue, ending the half at 60% corporate and government versus 40% insurer and agent (compared to the prior year of 57% and 43% respectively). This business mix is now in line with the desired longer term mix, with the 2.5 year re-weighting of 11 percentage points.

Wins

The Medibank Health Solutions (MHS) / Australian Defence Force (ADF) contracts continue to perform well with excellent results being observed on Konekt's performance. Other sectors of note which performed well were government, financial services, and segments of both manufacturing and logistics. Offsetting these were insurers and agents in NSW, mining, mining services and some retail sectors.

Pre-employment

The poor pre-employment market has stabilised this half, albeit at a lower level than both the prior years. Soft new employment hiring in mining and mining services has seen some offset in other sectors (including diversified mining,

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oil, gas, gold, retail and contracting). Konekt continues to retain its customers, albeit at the lower volumes of new employment.

Insurers and Agents

The changes in the insurer/agent market resulting from NSW Government changes to workers compensation announced in 2012 continue to produce lower levels of revenue, although this rate of decline has slowed. It remains the Company view that some further market impact from these changes will be felt during 2014 and into 2015. In addition the South Australian insurer/agent market has now seen a significant reduction in year on year spend. Konekt has gained market share in South Australia to offset the market decline.

Corporate

With the exception of lower volumes of pre-employment, the Corporate sector is performing well. Customer feedback is positive, and volumes and revenue are performing relatively well. Konekt's very early intervention product is valued by these customers and their increased investment in injury prevention via the product is benefiting Konekt.

Government

The Government sector (including MHS/ADF) continues to perform steadily. Konekt is in active dialogue with Government customers to promote the business case that early intervention and injury rehabilitation will ameliorate further drastic claims cost increases. This is an area of significant cost reduction for government.

Expense Management

Konekt is continuing the program of managing expenses. Operating expenses excluding employee salaries and related costs and depreciation was reduced by \$406,000 or 10% versus the prior corresponding period with the principal reduction being external contractor and service provider costs. External service providers are primarily used by Konekt to complete Functional and Medical testing as part of our pre-employment services, and will continue to fluctuate in line with both demand for these services and Konekt's Branch location footprint. This is because these tests are largely completed by suppliers located beyond Konekt's physical locations.

Cash Position

The Company's cash balance improved to \$2.65m from \$696,000 at the end of June 2013. This very good result was due to increase in profit during the period, receivables being \$1.2m below the expected level due to excellent cash collection and credit control efforts, an increase in payables and provisions by \$385,000 partially offset by capital expenditure of \$368,000. The reduction in receivables included an earlier than expected aggregate collections of approximately \$750,000 which may not be repeated in subsequent half-years. The increase in payables partially reflects rebalancing of payment terms with some suppliers.

Outlook

The Board is confident that the strategies and actions being taken to grow revenue and to reduce cost base will continue to yield better performance from the company. Second half headwinds are likely from the NSW Scheme, SA Scheme and mining sector pre-employments. On the positive side of the ledger, the MHS/ADF account, some modest first half business wins and higher organic run rate revenue are available to offset those risks. The Board is expecting an overall profit for the Company for the year, including a profitable second half. The Company is more active in seeking merger and acquisition opportunities although none have met our criteria in the half-year. This remains an active portfolio of opportunity for the remainder of 2014.

Dividends and Capital

The Board has not declared a dividend for the half year. Discussion on the capital management for the Company remains an ongoing item for the Board, and buy-back of shares, capital return and dividends are weighed up against the needs of the company, potential corporate M&A activity and the lack of franking credits available to shareholders.

Significant changes in the state of affairs

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

Rounding of amounts

Konekt is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

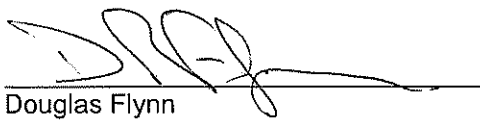
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Directors' report
31 December 2013

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 17.

This report is made in accordance with a resolution of Directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'D. Flynn', is written over a horizontal line.

Douglas Flynn
Chairman

20 February 2014
Sydney

Summary results for the 6 months to 31 December 2013

The following is a summary of the financial results for the 6 months ended 31 December 2013 (previous corresponding period 31 December 2012).

	Six months ended 31-Dec-13 \$000s	Six months ended 31-Dec-12 \$000s	Increase/ (decrease) \$000s	% Change
Revenue from services	16,076	14,904	1,172	8%
Profit/(loss) before interest and tax ("EBIT")	669	(465)	1,134	-
Interest expense	(2)	(2)	0	0%
Profit/(loss) before tax	667	(467)	1,134	-
Income tax (expense) / benefit	(200)	141	(341)	-
Net profit/(loss) attributable to members ("NPAT")	467	(326)	793	-

Dividends

No dividends have been declared or paid during the period.

Earnings per share

	Six months to 31 December 2013	Six months to 31 December 2012
Basic earnings per share (cents per share)	0.6	(0.4)

The weighted average number of ordinary shares used in the calculation of earnings per share was 75,523,069 (2012: 75,523,069)

Net tangible asset backing per share

	31 December 2013	31 December 2012
Net tangible assets backing per share (cents per share)	5.8	5.2

For further information contact:

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Chairman
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General information

The financial report covers Konekt Limited as a consolidated entity consisting of Konekt Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Konekt Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Konekt Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

<i>Registered office</i>	<i>Principal place of business</i>
Level 12	Level 12
234 Sussex Street	234 Sussex Street
Sydney NSW 2000	Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 20 February 2014.

Konekt Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2013

	Note	Consolidated	
		31/12/2013	31/12/2012
		\$'000	\$'000
Revenue from continuing operations	3	16,076	14,904
Other income	3	226	169
Expenses			
Salaries and employee related costs		(11,626)	(11,164)
External consultants		(578)	(847)
Share based payments expense		(11)	(6)
Communications expense		(492)	(465)
Travel and accommodation expense		(275)	(249)
Property expense		(1,483)	(1,480)
Motor vehicles and equipment expense		(446)	(476)
Finance costs		(2)	(2)
Depreciation and amortisation expense		(147)	(134)
Other expense from continuing operations		(575)	(717)
Profit/(loss) before income tax expense from continuing operations		667	(467)
Income tax (expense)/benefit		(200)	141
Profit /(loss) after income tax expense for the half-year		467	(326)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year		467	(326)
Profit/(loss) for the half-year is attributable to:			
Owners of Konekt Limited		467	(326)
		Cents	Cents
Earnings per share for profit/(loss) attributable to the owners of Konekt Limited			
Basic earnings per share		0.6	(0.4)
Diluted earnings per share		0.6	(0.4)

The above Statement of profit or loss and other comprehensive income should be read in conjunction with accompanying notes.

Konekt Limited
Statement of financial position
As at 31 December 2013

		Consolidated	
	Note	31/12/2013	30/06/2013
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		2,655	696
Trade and other receivables		3,236	4,387
Work in progress		371	426
Other		321	202
Total current assets		<u>6,583</u>	<u>5,711</u>
Non-current assets			
Other receivables		106	134
Plant and equipment		528	446
Intangible assets	4	3,951	3,813
Deferred tax		1,337	1,537
Total non-current assets		<u>5,922</u>	<u>5,930</u>
Total assets		<u>12,505</u>	<u>11,641</u>
Liabilities			
Current liabilities			
Trade and other payables	5	3,224	2,770
Interest bearing liabilities	6	86	82
Provisions		460	219
Total current liabilities		<u>3,770</u>	<u>3,071</u>
Non-current liabilities			
Trade and other payables	5	43	71
Interest bearing liabilities	6	72	110
Provisions		256	503
Total non-current liabilities		<u>371</u>	<u>684</u>
Total liabilities		<u>4,141</u>	<u>3,755</u>
Net assets		<u>8,364</u>	<u>7,886</u>
Equity			
Contributed equity	7	39,165	39,165
Reserves		276	265
Accumulated losses		<u>(31,077)</u>	<u>(31,544)</u>
Total equity		<u>8,364</u>	<u>7,886</u>

The above Statement of financial position should be read in conjunction with accompanying notes.

Konekt Limited
Statement of changes in equity
As at 31 December 2013

	Contributed equity \$'000	Accumulated losses \$'000	Option reserve \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2012	39,165	(31,360)	250	8,055
Profit/(loss) after income tax for the half year	-	(326)	-	(326)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	(326)	-	(326)
Transactions with owners in their capacity as owners:				
Recognition of shares granted under Employee Share Acquisition Plan	-	-	6	6
As at 31 December 2012	39,165	(31,686)	256	7,735

	Contributed equity \$'000	Accumulated losses \$'000	Option reserve \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2013	39,165	(31,544)	265	7,886
Profit/(loss) after income tax for the half year	-	467	-	467
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	467	-	467
Transactions with owners in their capacity as owners:				
Recognition of shares granted under Employee Share Acquisition Plan	-	-	11	11
Balance at 31 December 2013	39,165	(31,077)	276	8,364

The above Statement of changes in equity should be read in conjunction with accompanying notes.

Konekt Limited
Statement of cash flows
For the half-year ended 31 December 2013

	Consolidated	
Note	31/12/2013	31/12/2012
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	19,076	17,594
Payments to suppliers and employees (inclusive of GST)	(16,762)	(17,652)
	<u>2,314</u>	<u>(58)</u>
Interest received	15	12
Interest paid	(2)	(2)
	<u>2,327</u>	<u>(48)</u>
Net cash provided by/(used in) by operating activities		
Cash flows from investing activities		
Payments for plant and equipment and intangibles	(368)	(209)
Proceeds from sale of plant and equipment	-	8
	<u>(368)</u>	<u>(201)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
	<u>-</u>	<u>-</u>
Net cash provided by/(used in) financing activities		
Net increase/(decrease) in cash and cash equivalents	1,959	(249)
Cash and cash equivalents at the beginning of the financial half-year	696	1,133
	<u>2,655</u>	<u>884</u>
Cash and cash equivalents at the end of the financial half-year		

The above Statement of cash flows should be read in conjunction with accompanying notes.

Note 1. Significant accounting policies

These financial statements for the interim half-year reporting period ended 31 December 2013 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2013 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed in the relevant accounting policy. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income

The consolidated entity has applied AASB 2011-9 amendments from 1 July 2013. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation.

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 January 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 January 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'.

Konekt Limited
Notes to the financial statements
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AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 January 2013. The standard does not prescribe when to use fair value. Instead it provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and it provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach would be used to measure assets whereas liabilities would be based on transfer value.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 January 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

Note 2. Operating segments

Segment information is provided on the same basis as information used for internal reporting purposes by the Managing Director. 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 \$3,550,750 (2012: \$1,815,644) and \$2,006,209 (2012: \$1,597,535) are derived from two single customers of the Group. These revenues amounts to more than 35% of the group's revenues from external customers.

Total revenue as per note 3 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 statement of comprehensive income.

Note 3. Revenue

	Consolidated	
	31/12/2013	31/12/2012
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Rendering of services	16,076	14,904
<i>Other revenue</i>		
Interest	15	12
Other revenue	211	157
	<u>226</u>	<u>169</u>
Revenue from continuing operations	<u>16,302</u>	<u>15,073</u>

Konekt Limited
Notes to the financial statements
31 December 2013

Note 4. Non-current assets – intangible assets

	Consolidated	
	31/12/2013	30/06/2013
	\$'000	\$'000
Goodwill - at cost	21,680	21,680
Less: Accumulated Impairment	(18,157)	(18,157)
	<u>3,523</u>	<u>3,523</u>
Software development - at cost	561	383
Less: Accumulated amortisation	(160)	(120)
	<u>401</u>	<u>263</u>
Trademarks - at cost	<u>27</u>	<u>27</u>
	<u>3,951</u>	<u>3,813</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

	Goodwill	Software development	Trademarks	Total
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Balance at 1 July 2013	3,523	263	27	3,813
Additions	-	178	-	178
Amortisation expense	-	(40)	-	(40)
	<u>3,523</u>	<u>401</u>	<u>27</u>	<u>3,951</u>
Balance at 31 December 2013	<u>3,523</u>	<u>401</u>	<u>27</u>	<u>3,951</u>

Konekt Limited
Notes to the financial statements
31 December 2013

Note 5. Trade and other payables

	Consolidated	
	31/12/2013	30/06/2013
	\$'000	\$'000
Current		
Trade creditors	389	261
Other creditors and accruals	2,250	1,791
Leave liability	585	718
	<u>3,224</u>	<u>2,770</u>

	Consolidated	
	31/12/2013	30/06/2013
	\$'000	\$'000
Non-current		
Leasehold incentive	33	61
Other creditors and accruals	10	10
	<u>43</u>	<u>71</u>

Note 6. Interest bearing liabilities

	Consolidated	
	31/12/2013	30/06/2013
	\$'000	\$'000
Current		
Lease liability	86	82
	<u>86</u>	<u>82</u>
Non-current		
Lease liability	72	110
	<u>72</u>	<u>110</u>

Assets pledged as security

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing facilities

A Debt Finance Facility is provided by the National Australia Bank and has an expiry date of 30 September 2014:

	Consolidated	
	31/12/2013	30/06/2013
	\$'000	\$'000
Total facilities		
Debt finance	3,000	3,000
	<u>3,000</u>	<u>3,000</u>
Used at the reporting date		
Debt finance	-	-
	<u>-</u>	<u>-</u>
Unused at the reporting date		
Debt finance	3,000	3,000
	<u>3,000</u>	<u>3,000</u>

As at 31 December 2013 the credit facility amount represents 75% of the Group's debtor balance under 90 days that could be drawn under the \$3m Debt Finance Facility.

Konekt Limited
Notes to the financial statements
31 December 2013

Note 7. Contributed equity

Issued and paid up capital

	Consolidated		Consolidated	
	31/12/2013	30/06/2013	31/12/2013	30/06/2013
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>75,523,069</u>	<u>75,523,069</u>	<u>39,165</u>	<u>39,165</u>

Movements in ordinary share capital

Details	Date	No of shares	Issue price \$'000
Balance	1 July 2013	<u>75,523,069</u>	<u>39,165</u>
Balance	31 December 2013	<u>75,523,069</u>	<u>39,165</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 8. Events after the reporting period

No matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.


Konekt Limited
Directors' declaration

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'D. Flynn', is written over a horizontal line.

Douglas Flynn
Chairman

20 February 2014
Sydney