

Konekt Limited

ABN 79 009 155 971

Appendix 4D – Half Yearly Report 31 December 2012

Konekt Limited
Directors' report
31 December 2012

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Konekt') consisting of Konekt Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the half-year ended 31 December 2012.

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
John Randall
Philip Small
Damian Banks

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

The consolidated entity reports an unaudited loss after tax for the 6 months period to 31 December 2012 of \$326,000 which was a deterioration of \$704,000 compared to same period last year. This was struck on Revenues of \$15.1m, which were down 10% on the prior corresponding period of \$16.8m.

Management Commentary

Konekt continues to renew and reorient its business against market challenges and opportunities. Of note in the half year was the decline in NSW Insurer/Agent volumes and spend, coincident with the significant decline in injury prevention revenue, most notably in Queensland and in the coal sector, but also in general mining services and wholesalers. During the half year, an increased focus on injury prevention in the financial services and insurance sectors with an increased investment by these firms in the future wellbeing of their staff was evident. The most progressive firms in these sectors continue to pursue very early intervention strategies in their workplaces to their significant benefit.

Sales

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.

Wins

Most significant among the wins is appointment of Konekt by Medibank Health Solutions (MHS) to provide a range of health services to Australian Defence Force (ADF) under the Joint Health Command contract for a four year term. Konekt has been selected as one of two occupational rehabilitation suppliers. Prior to the MHS contract Konekt supplied occupational rehabilitation services directly to the ADF as one of over 30 suppliers. This agreement will make MHS one of Konekt's largest clients. Three significant ASX listed companies have also committed to new term contracts with Konekt during the half. Despite the MHS/ADF win during the half, revenue uplift associated with the contract is not expected until the second half of this financial year.

Pre-employment

Pre-employment volumes (led by Queensland) are down dramatically due to a slow hiring cycle in mining and construction during this half year. Q2 showed further deterioration from Q1.

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Insurance and Agents

In the Insurance sector, led by the fall in NSW, Konekt has seen significant volume reductions during the half year.

Corporate

With the exception of volumes of Pre-employment, particularly in Queensland, the Corporate use of injury management and injury prevention services 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

Government was subdued in the first quarter, but has partly rebounded in the second quarter. The significant double digit increases in workers compensation premiums this year, reflecting increased claims costs has not yet seen increased spend on early intervention and injury rehabilitation. 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.

Expense Management

Konekt is continuing the program of managing expenses. Operating costs excluding depreciation were reduced by \$729,000 or 4.5% versus the prior corresponding period with the principal reduction being external contractor and service provider costs, and motor vehicle expenses. 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

Konekt's cash position on 31 December was \$884,000 versus 30 June at \$1.1m. This movement is due to Accounts Receivable improving by \$1.2m, off-set by payment for planned capital expenditure and product development of \$209,000, planned payment of profit share for 2011-12 year to staff and the reduction in Current Trade and Other Payables by \$846,000 during the 6 months to 31 December.

Outlook

Despite the loss in the December half the Board is confident that the right actions are being taken to grow market share, revenue and to improve profitability. General political and economic volatility has contributed to the first half year performance. Konekt is increasing its sales to Corporate Customers and is continuing to keep its cost base under control.

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.


Konekt Limited
Directors' report
31 December 2012

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 15.

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



Douglas Flynn
Chairman

21 February 2013
Sydney

Summary results for the 6 months to 31 December 2012

The following is a summary of the financial results for the 6 months ended 31 December 2012 (previous corresponding period 31 December 2011).

	Six months ended 31-Dec-12 \$000s	Six months ended 31-Dec-11 \$000s	Increase/ (decrease) \$000s	% Change
Revenue from services	14,904	16,647	(1,743)	(10%)
Profit/(loss) before interest and tax ("EBIT")	(465)	541	(1,006)	(186%)
Interest expense	(2)	(3)	(1)	(33%)
Profit/(loss) before tax	(467)	538	(1,005)	(187%)
Income tax (expense) / credit	141	(160)	301	188%
Net profit/(loss) attributable to members ("NPAT")	(326)	378	(704)	(186%)

Dividends

No dividends have been declared or paid during the period.

Earnings per share

	Six months to 31 December 2012	Six months to 31 December 2011
Basic earnings per share (cents per share)	-0.4	0.5

The weighted average number of ordinary shares used in the calculation of earnings per share was 75,523,069 (2011: 75,523,069)

Net tangible asset backing per share

	31 December 2012	31 December 2011
Net tangible assets backing per share (cents per share)	5.2	5.6

For Further Information contact:

Douglas Flynn
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:

Registered office
Level 12
234 Sussex Street
Sydney NSW 2000

Principal place of business
Level 12
234 Sussex Street
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 21 February 2013.

Konekt Limited
Statement of comprehensive income
For the half-year ended 31 December 2012

		Consolidated	
	Note	31/12/2012	31/12/2011
		\$'000	\$'000
Revenue from continuing operations	3	14,904	16,647
Other income	3	169	149
Expenses			
Salaries and employee related costs		(11,164)	(11,126)
External consultants		(847)	(1,246)
Share based payments expense		(6)	(37)
Communications expense		(465)	(419)
Travel and accommodation expense		(249)	(215)
Property expense		(1,480)	(1,525)
Motor vehicles and equipment expense		(476)	(588)
Finance costs		(2)	(3)
Depreciation and amortisation expense		(134)	(123)
Other expense from continuing operations		(717)	(976)
Profit/(loss) before income tax expense from continuing operations		(467)	538
Income tax (expense)/credit		141	(160)
Profit /(loss) for the year		(326)	378
Total comprehensive income for the half-year		(326)	378
Profit/(loss) for the half-year is attributable to:			
Owners of Konekt Limited		(326)	378
		Cents	Cents
Earnings per share for profit/(loss) attributable to the owners of Konekt Limited			
Basic earnings per share		-0.4	0.5
Diluted earnings per share		-0.4	0.5

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

Konekt Limited
Statement of financial position
As at 31 December 2012

		Consolidated	
	Note	31/12/2012	30/06/2012
		\$'000	\$'000
Assets			
Current assets			
Cash and cash equivalents		884	1,133
Trade and other receivables		3,424	4,654
Work in progress		537	545
Other		302	112
Total current assets		<u>5,147</u>	<u>6,444</u>
Non-current assets			
Other receivables		172	41
Plant and equipment		431	378
Intangible assets	4	3,823	3,801
Deferred tax		1,625	1,485
Total non-current assets		<u>6,051</u>	<u>5,705</u>
Total assets		<u>11,198</u>	<u>12,149</u>
Liabilities			
Current liabilities			
Trade and other payables		2,690	3,536
Interest bearing liabilities	5	81	23
Provisions		50	69
Total current liabilities		<u>2,821</u>	<u>3,628</u>
Non-current liabilities			
Interest bearing liabilities	6	150	-
Provisions		448	423
Trade and other payables		44	43
Total non-current liabilities		<u>642</u>	<u>466</u>
Total liabilities		<u>3,463</u>	<u>4,094</u>
Net assets		<u>7,735</u>	<u>8,055</u>
Equity			
Contributed equity	7	39,165	39,165
Reserves		256	250
Accumulated losses		(31,686)	(31,360)
Total equity		<u>7,735</u>	<u>8,055</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 2012

	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2011	39,165	239	(31,970)	7,434
Profit after income tax expense for the half-year	-	-	378	378
Total comprehensive income for the half-year	-	-	378	378
Transactions with owners in their capacity as owners	-	37	-	37
Balance at 31 December 2011	<u>39,165</u>	<u>276</u>	<u>(31,592)</u>	<u>7,849</u>

	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Consolidated				
Balance at 1 July 2012	39,165	250	(31,360)	8,055
Loss after income tax expense for the half-year	-	-	(326)	(326)
Total comprehensive income for the half-year	-	-	(326)	(326)
Transactions with owners in their capacity as owners	-	6	-	6
Balance at 31 December 2012	<u>39,165</u>	<u>256</u>	<u>(31,686)</u>	<u>7,735</u>

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 2012

	Note	Consolidated	
		31/12/2012	31/12/2011
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		17,594	18,671
Payments to suppliers and employees (inclusive of GST)		(17,861)	(18,240)
		<u>(267)</u>	<u>431</u>
Interest received		12	6
Interest paid		(2)	(2)
		<u>(257)</u>	<u>435</u>
Cash flows from investing activities			
Payments for plant and equipment and intangibles		(209)	(128)
Proceeds from sale of plant and equipment		8	-
		<u>(201)</u>	<u>(128)</u>
Cash flows from financing activities			
Proceeds from borrowings		245	21
Repayment of borrowings		(36)	(52)
		<u>209</u>	<u>(31)</u>
Net cash provided by/(used in) financing activities		<u>209</u>	<u>(31)</u>
Net increase/(decrease) in cash and cash equivalents		(249)	277
Cash and cash equivalents at the beginning of the financial half-year		<u>1,133</u>	<u>162</u>
Cash and cash equivalents at the end of the financial half-year		<u><u>884</u></u>	<u><u>439</u></u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2012 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 general purpose 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 2012 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.

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 2012. 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.

Note 2. Operating segments

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 \$1,815,644 (2011: \$2,097,656) and \$1,597,535 (2011: \$1,556,671) 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 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.

Konekt Limited
Notes to the financial statements
31 December 2012

Note 3. Revenue

	Consolidated	
	31/12/2012	31/12/2011
	\$'000	\$'000
From continuing operations		
<i>Sales revenue</i>		
Rendering of services	14,904	16,647
<i>Other revenue</i>		
Interest	12	6
Other revenue	157	143
	<u>169</u>	<u>149</u>
Revenue from continuing operations	<u>15,073</u>	<u>16,796</u>

Note 4. Non-current assets – intangible assets

	Consolidated	
	31/12/2012	30/06/2012
	\$'000	\$'000
Goodwill - at cost		
	21,680	21,680
Less: Impairment		
	<u>(18,157)</u>	<u>(18,157)</u>
	<u>3,523</u>	<u>3,523</u>
Software development - at cost		
	329	281
Less: Accumulated amortisation		
	<u>(56)</u>	<u>(30)</u>
	<u>273</u>	<u>251</u>
Trademarks - at cost		
	27	27
	<u>3,823</u>	<u>3,801</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 2012	3,523	251	27	3,801
Additions	-	48	-	48
Amortisation expense	-	(26)	-	(26)
	<u>3,523</u>	<u>273</u>	<u>27</u>	<u>3,823</u>
Balance at 31 December 2012	<u>3,523</u>	<u>273</u>	<u>27</u>	<u>3,823</u>

Konekt Limited
Notes to the financial statements
31 December 2012

Note 5. Current liabilities – interest bearing liabilities

	Consolidated	
	31/12/2012	30/06/2012
	\$'000	\$'000
Lease liability	81	23
	<hr/>	<hr/>
	81	23
	<hr/> <hr/>	<hr/> <hr/>

Note 6. Non-current liabilities - interest bearing liabilities

	Consolidated	
	31/12/2012	30/06/2012
	\$'000	\$'000
Lease liability	150	-
	<hr/>	<hr/>
	150	-
	<hr/> <hr/>	<hr/> <hr/>

Assets pledged as security

As at 31 December 2012 the bank debt finance facility amount represents 75% of the Group's debtor balance under 90 days that could be drawn under the \$3m facility provided by National Australia Bank.

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 arrangements

The Debt Finance Facility is provided by the National Australia Bank and has an expiry date of 30 September 2013:

	Consolidated	
	31/12/2012	30/06/2012
	\$'000	\$'000
Total facilities		
Debt finance	3,000	3,000
	<hr/>	<hr/>
	3,000	3,000
Used at the reporting date		
Debt finance	-	-
	<hr/>	<hr/>
	-	-
Unused at the reporting date		
Debt finance	3,000	3,000
	<hr/>	<hr/>
	3,000	3,000
	<hr/> <hr/>	<hr/> <hr/>

Konekt Limited
Notes to the financial statements
31 December 2012

Note 7. Equity – contributed equity

	Consolidated		Consolidated	
	31/12/2012	30/06/2012	31/12/2012	30/06/2012
	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 2012	<u>75,523,069</u>	<u>39,165</u>
Balance	31 December 2012	<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.

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 2012 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 2012 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



Douglas Flynn
Chairman

21 February 2013
Sydney

DECLARATION OF INDEPENDENCE BY JOHN BRESOLIN TO THE DIRECTORS OF KONEKT LIMITED

As lead auditor for the review of Konekt Limited for the half-year ended 31 December 2012, 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 review; and
- no contraventions of any applicable code of professional conduct in relation to the review.

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



John Bresolin
Partner

BDO East Coast Partnership

Sydney, 21 February 2013

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Konekt Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Konekt Limited, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Konekt Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We 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 review report.

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO East Coast Partnership


John Bresolin
Partner

Sydney, 21 February 2013