Konekt Limited

ABN 79 009 155 971

Appendix 4D – Half Yearly Report 31 December 2017

Konekt Limited
Directors' Report
31 December 2017

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as 'Konekt', 'the Group', 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 2017.

Directors

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

- Douglas Flynn
- Philip Small
- Anthony Crawford
- Damian Banks

Principal activities

Konekt provides Employment, Work and Workplace Services to corporate, government and insurance customers. During the financial half-year, the principal continuing activities of the consolidated entity consisted of:

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

Review of operations

Konekt reports a loss after tax for the 6-month period to 31 December 2017 of $1.3m, a reduction of $3.0m compared to same period last year. This result is on revenue of $38.8m (including a write back of $144,000 for revaluation of deferred consideration). Operating revenue of $38.3m was 47% higher than the prior corresponding period of $26.1m due to the acquisition of Mission Providence.

The Statement of financial position as at 31 December 2017 incorporates the Mission Providence acquisition and the new funding structure ($15.7m new equity and $18.3m new banking facility). The final acquisition price was $27.9m cash with a net cash outflow of $24.9m (net of $3.0m of cash acquired).

Intangible assets increased by $33.4m to $46.0m, including recognition of fair value of identifiable intangible assets (*jobactive* contract) of $10.0m amortising over the period to 30 June 2020 and recognition of goodwill of $22.6m. Based on this, it is expected that annual amortisation charges relating to the Mission Providence acquisition will be c.$3.6m per annum (pro rata for 9 months in FY18).

The Company's cash balance increased to $8.0m at 31 December 2017 from $2.8m at 30 June 2017. The Net cash outflow of $24.9m for the Mission Providence acquisition was funded by debt ($17.0m) and issuance of 32,781,254 ordinary shares at $0.48 per share ($15.7m), providing funds for transaction and integration costs as well as working capital. Operating cash flow in the half was negative $0.1m, due to the impacts of the acquisition, with many of the acquisition and integration expenses as well as the net working capital items from the acquisition being recorded under "operating" cash flows. As at 31 December 2017, net debt was $10.3m, reflecting gross debt of $18.3m ($4.0m current, $14.3m non-current) and cash on hand of $8.0m. Gross Debt/FY18 underlying EBITDA is expected to be less than 2.0x at financial year-end FY18.

Konekt's debt facility has a three-year term with principal reductions of $1.0m each quarter, the first payment having being made in early January 2018. All remaining unpaid debt is payable at the end of the 3 year period.

Management Commentary

The momentum built from FY17 has continued into the first half of FY18 with a strong improvement in both financial and operational performance. Operating Revenue grew by 47% versus the prior corresponding period to $38.3m driven by the 3-month contribution from the Mission Providence acquisition completed on 29 September 2017.

The Statutory results for the first half of FY18 include $3.1m of acquisition and integrated costs relating to the Mission Providence acquisition. Underlying EBITDA (adding back acquisition and integration costs and excluding a write back of $144,000 of deferred consideration) was up 34% to $4.0m vs. the prior corresponding period.

Mission Providence has performed strongly and to expectation following its acquisition. The half also saw strong performances from Konekt's Mental Health, Pre-employment and Consulting Services offset by volume weakness in injury management/return to work services during the period.

Lower volumes were experienced in injury management/return to work services and under the new Medibank Health Solutions (MHS) "on base" service delivery model, with volumes returning to 2016 levels, from the 2017 peak levels. Lower volumes were largely (but not fully) coupled with lower costs due to a more efficient model. Konekt continues to deliver strong value to the customer under the new contract and during the half, the term of new MHS contract was extended to June 2019.

In addition, weaker workers' compensation markets were experienced during the first half in NSW and SA due to government initiatives in these States over the past 18-24 months. This resulted in lower volumes in the legacy business. Productivity improvements are being implemented to address these weaker insurance markets.

Outlook

The Company is well positioned going into 2H FY18 with good momentum in our business and based on a 9 month contribution from Mission Providence for FY18 and current operations/market conditions, we expect for the full year FY18:

- Underlying revenue to be up over 70%
- Underlying EBITDA to be up over 70% (excluding transaction, integration and one-off costs)
- Underlying EPS before amortisation (EPSA) remains dependent upon finalisation of completion accounting, asset valuation and tax determinations related to the acquisition of Mission Providence

Dividends and Capital

The Board has determined not to declare an interim dividend. The Board's approach to dividends will be based on considering the Net Profit After Tax before amortisation (NPATA) performance of the company, as well as balancing company and shareholders interests.

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, except for the acquisition of Mission Providence Pty Ltd on 29 September 2017.

Rounding of accounts

The Company has applied the relief available under ASIC legislative Instrument 2016/191 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.

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 20.

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

15 February 2018
Sydney

Summary results for the 6 months to 31 December 2017

The following is a summary of the financial results for the 6 months ended 31 December 2017 (previous corresponding period 31 December 2016):

	Six months ended 31 Dec 17 $000s	Six months ended 31 Dec 16 $000s	Increase/ (decrease) $000s	Change
Revenue from services	38,283	26,073	12,210	47%
(Loss) / Profit before interest and tax ("EBIT")	(1,067)	2,735	(3,802)	(large)
Net interest income / (expense)	(390)	(164)	(226)	(large)
(Loss) / Profit before tax	(1,457)	2,571	(4,028)	(large)
Income tax (expense) / benefit	203	(777)	980	large
Net (Loss) / Profit attributable to members ("NPAT")	(1,254)	1,794	(3,048)	(large)

Dividends

No dividend has been declared for the half year. A final dividend on ordinary share in respect of 2017 year of 0.75 cents per share was fully paid on 8 November 2017.

Earnings per share	Six months to 31 December 2017	Six months to 31 December 2016
Basic earnings per share (cents per share)	(1.33)	2.45

The weighted average number of ordinary shares used in the calculation of earnings per share was 94,074,027 (2016: 73,154,137).

Net tangible asset backing per share	31 December 2017	31 December 2016
Net tangible asset backing per share (cents per share)	(22.98)	(0.59)

Control Gained over entities in the Half year

On 29 September 2017, the Company acquired 100% of the issued capital of Mission Providence Pty Ltd "Mission Providence or MP".

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Financial Report

General information

The financial report covers Konekt Limited as a consolidated entity consisting of Konekt Limited and the entities it controlled during the half year ended 31 December 2017. 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	**Principal Place of Business**
Level 3	Level 3
33 Erskine Street	33 Erskine 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 15 February 2018.

Konekt Limited

Statement of profit or loss and other comprehensive income

For the half year ended 31 December 2017

	Notes	Consolidated 31/12/2017 $'000	Consolidated 31/12/2016 $'000
Sales Revenue	3	38,283	26,073
Re-measurement of contingent consideration		144	222
Other income		357	240
External consultants		(2,258)	(2,230)
Depreciation and amortisation expenses		(2,102)	(470)
Finance costs		(403)	(167)
Share based payments expense		(77)	14
Salaries and employment related costs		(24,550)	(16,604)
Property expenses		(3,868)	(1,673)
Communication expenses		(949)	(450)
Motor vehicle and equipment expenses		(617)	(496)
Travel and accommodation expenses		(609)	(530)
Acquisition costs expensed to profit or loss	9	(3,104)	-
Other expenses from continuing operations		(1,704)	(1,358)
(Loss) / Profit before income tax expense		**(1,457)**	**2,571**
Income tax benefit / (expense)		203	(777)
(Loss) / Profit after income tax expense for the half year attributable to the owners of Konekt Limited		**(1,254)**	**1,794**
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the half year attributable to the owners of Konekt Limited		**(1,254)**	**1,794**
Earnings per share for profit attributable to the owners of Konekt Limited			
Basic earnings per share (cents per share)		(1.33)	2.45
Diluted earnings per share (cents per share)		(1.33)	2.41

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 2017

	Notes	Consolidated	
		31/12/2017	30/06/2017
		$'000	$'000
Current assets			
Cash and cash equivalents		8,017	2,848
Trade and other receivables		9,361	9,001
Work in progress		385	367
Other assets		1,572	290
Total current assets		**19,335**	**12,506**
Non-current assets			
Other assets		193	144
Plant and equipment		4,227	1,269
Deferred tax asset		7,288	1,710
Intangibles assets	4	46,016	12,665
Total non-current assets		**57,724**	**15,788**
Total assets		**77,059**	**28,294**
Current liabilities			
Trade and other payables	5	12,545	5,572
Deferred revenue		5,010	709
Deferred consideration	7	1,603	1,300
Employee benefits		4,790	1,562
Provisions		2,148	213
Lease liabilities		1,104	-
Current Tax Liabilities		691	1,191
Borrowings	10	4,021	26
Total current liabilities		**31,912**	**10,573**
Non-current liabilities			
Trade and other payables	5	53	84
Deferred consideration	7	-	1,284
Employee benefits		676	382
Provisions		388	-
Lease liabilities		846	-
Borrowings	10	14,260	315
Total non-current liabilities		**16,223**	**2,065**
Total liabilities		**48,135**	**12,638**
Net assets		**28,924**	**15,656**
Equity			
Contributed equity	6	53,572	38,580
Reserves		469	392
Profit reserves		3,040	3,587
Accumulated losses		(28,157)	(26,903)
Total Equity		**28,924**	**15,656**

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

Konekt Limited
Statement of changes in equity
For the half year ended 31 December 2017

	Contributed equity	Accumulated losses	Profits Reserve	Option Reserve	Total equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2016	**38,798**	**(26,536)**	**-**	**375**	**12,637**
Profit after income tax expense for the half year	-	1,794	-	-	1,794
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the half year	**-**	**1,794**	**-**	**-**	**1,794**
Transactions with owners in their capacity as owners:					
Contributions of equity	31	-	-	-	31
Dividends Paid or provided for	-	(367)	-	-	(367)
Share based payments	-	-	-	(14)	(14)
Balance at 31 December 2016	**38,829**	**(25,109)**	**-**	**361**	**14,081**
Balance at 1 July 2017	**38,580**	**(26,903)**	**3,587**	**392**	**15,656**
(Loss) /Profit after income tax expense for the half year	-	(1,254)	-	-	(1,254)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the half year	**-**	**(1,254)**	**-**	**-**	**(1,254)**
Transactions with owners in their capacity as owners:					
Contributions of equity	15,772	-	-	-	15,772
Share Issue costs (Net of Tax benefit)	(780)	-	-	-	(780)
Dividends paid or provided for	-	-	(547)	-	(547)
Share based payments	-	-	-	77	77
Balance at 31 December 2017	**53,572**	**(28,157)**	**3,040**	**469**	**28,924**

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 2017

		Consolidated	
	Notes	31/12/2017	31/12/2016
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		44,787	31,809
Payments to suppliers and employees (inclusive of GST)		(43,039)	(27,051)
Payments of one-off acquisition expenses		(1,036)	-
		711	**4,758**
Interest received		13	3
Interest paid		(137)	(1)
Income taxes paid		(650)	(48)
Net cash (used in) / from operating activities		**(63)**	**4,712**
Cash flows from investing activities			
Purchase of plant and equipment		(57)	(513)
Purchase of intangible assets		(356)	(532)
Payments for deferred consideration	7	(942)	(69)
Payment for purchase of business, net of cash acquired	9	(25,257)	-
Net cash used in investing activities		**(26,612)**	**(1,114)**
Cash flows from financing activities			
Proceeds from issue of shares	6	15,772	31
Payments for cost of issue of shares	6	(1,091)	-
Proceeds from borrowings		17,945	-
Payments of financial lease liability		(235)	-
Dividends paid		(547)	(367)
Repayment of borrowings		-	(292)
Net cash provided by / (used in) financing activities		**31,844**	**(628)**
Net increase/ (decrease) in cash and cash equivalents		**5,169**	**2,970**
Cash and cash equivalents at the beginning of the financial half-year		**2,848**	**246**
Cash and cash equivalents at the end of the financial half-year		**8,017**	**3,216**

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 2017 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'.

The interim financial report is intended to provide users with an update on the latest annual financial statements of KONEKT Ltd "KONEKT" and its controlled entities (refer to as the "Consolidated group" or "Group"). As such, 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 2017 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.

a) Intangible Assets

Customer Contracts

Contracts are recognised at fair value in connection with the acquisitions. The values of these contracts are amortised over the life of the contract.

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.

Note 2. Operating segments

Segment information is provided on the same basis as information used for internal reporting purposes by the Managing Director. There is only one reporting segment in the Group which is Employment, Work and Workplace Services. All branch operations operate under similar regulatory environments and have similar risk profile. They therefore satisfy the Aggregation criteria under paragraph 12 of AASB 8.

Total revenue as per Statement of profit or loss and other comprehensive income is the total segment revenue.

Note 3. Profit for the period

The following revenue and expenses items are relevant in explaining the financial performance for the interim period:

		Consolidated	
		31/12/2017	31/12/2016
		$'000	$'000
Sales revenue			
Rendering of services		38,283	26,073
Other expenses			
Acquisition costs	9	3,104	-

Note 4. Non-current assets – intangible assets

	Consolidated	
	31/12/2017	30/06/2017
	$'000	$'000
Goodwill		
At cost	52,297	29,698
Accumulated impairment	(18,157)	(18,157)
	34,140	**11,541**
Trademarks *		
At cost	27	27
Customer Relationships		
At cost	391	391
Accumulated amortisation	(192)	(137)
	199	**254**
Customer contract ***		
At cost	9,988	-
Accumulated amortisation	(909)	-
	9,079	**-**
Software development**		
At cost	2,275	1,919
Accumulated amortisation	(1,271)	(1,076)
	1,004	**843**
Software		
At cost	2,342	-
Accumulated amortisation	(805)	-
	1,537	**-**
Licence		
At cost	181	-
Accumulated amortisation	(151)	-
	30	**-**
	46,016	**12,665**

* The trademark relates to the Konektiva trade name registration.
** Software development relates to internal costs incurred on products and related systems development. These assets are amortised over the expected life of the product, which is typically 3 years.
*** Customer contract relates to Federal Government job active contract which is the main customer and main source of generating business income of Mission Providence. The customer contract value resulted from the acquisition of Mission Providence on 29 September 2017, was valued based on the discounted cash-flow method.

Note 4. Non-current assets – intangible assets (continued)

Reconciliations

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

	Consolidated	
	31/12/2017	30/06/2017
	$'000	$'000
Reconciliation - Goodwill		
Carrying amount at the beginning of the half year	11,541	11,707
Acquisitions through business combinations	22,599	-
Reclassification to other intangibles	-	(166)
Carrying amount at the end of the half year	**34,140**	**11,541**
Reconciliation – Customer relationships		
Carrying amount at the beginning of the half year	254	132
Recognition of customer relationships intangibles	-	239
Additions	-	-
Amortisation	(55)	(117)
Carrying amount at the end of the half year	**199**	**254**
Reconciliation – Customer Contract		
Carrying amount at the beginning of the half year	-	-
Acquisitions through business combinations	9,988	-
Additions	-	-
Amortisation	(909)	-
Carrying amount at the end of the half year	**9,079**	**-**
Reconciliation – Software Development		
Carrying amount at the beginning of the half year	843	581
Additions	358	677
Amortisation	(197)	(415)
Carrying amount at the end of the half year	**1,004**	**843**
Reconciliation – Software		
Carrying amount at the beginning of the half year	-	-
Acquisitions through business combinations	1,708	-
Amortisation	(171)	-
Carrying amount at the end of the half year	**1,537**	**-**
Reconciliation – Licence		
Carrying amount at the beginning of the half year	-	-
Acquisitions through business combinations	45	-
Amortisation	(15)	-
Carrying amount at the end of the half year	**30**	**-**

Note 5. Trade and other payables

	Consolidated	
	31/12/2017	30/06/2017
	$'000	$'000
CURRENT		
Trade payables	2,323	808
Leasehold incentives	68	78
Other payables and accruals	10,154	4,686
	12,545	**5,572**

NON-CURRENT		
Leasehold incentives	53	84
	53	**84**

Note 6. Contributed equity

a) Issued and paid up capital

	Consolidated	
	31/12/2017	30/06/2017
	$'000	$'000
Ordinary shares	**53,572**	**38,580**
	53,572	**38,580**

The number of fully paid ordinary shares in issue at year end is 106,086,835 (30 June 2017: 72,905,581). All shares rank equally.

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.

b) Movements in shares on issue

	Consolidated	
	31/12/2017	
	Number of Shares	$'000
Balance at 1 July 2017	72,905,581	38,580
Issue of New Shares	33,181,254	15,772
Share Issue costs (Net of Tax benefit)	-	(780)
Balance at 31 December 2017	**106,086,835**	**53,572**

Note 7. Deferred Consideration Payable for Acquisitions

Konekt Ltd recognises the fair value of deferred considerations for acquisitions, as of their respective acquisition dates as part of the consideration transferred in exchange for the acquired businesses. These fair value measurements require, among other things, significant estimation of post-acquisition financial performance of the acquired businesses. These calculations use cash flow projections for post-acquisition performance.

Any projected earn out payments are discounted to present value, using a discount rate deemed appropriate by Konekt to account for the time value of money in addition to the inherent risk in the earn out calculation projection. The discount rate used is 15% pre-tax (2016: 15%).

Contingent consideration classified as an asset or liability is re-measured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

During the period the deferred consideration was re-measured and reduced by $144,000 and resulted in an adjustment in the Statement of profit or loss and other comprehensive income.

	Consolidated			
	31/12/2017	31/12/2017	30/06/2017	30/06/2017
	$'000	$'000	$'000	$'000
	Purchase Consideration Payable for Acquisitions	Others	Purchase Consideration Payable for Acquisitions	Others
	$'000	$'000	$'000	$'000
Carrying amount at the beginning of the period	2,584	-	3,059	-
Additions	-	-	-	-
Settlement	(942)	-	(423)	-
Re-measurement of contingent consideration	(144)	-	(367)	-
Interest unwind	105	-	315	-
Carrying amount at end of the period	**1,603**	**-**	**2,584**	**-**

Note 8. Dividends paid

	Consolidated	
	31/12/2017	31/12/2016
	$'000	$'000
Distributions Paid		
Final Dividend in respect of 2017 full year of 0.75 cents (2016: 0.5 cents) per fully paid ordinary share 100% franked at 30% tax rate	547	367

Note 9. Business Combination

On 29 September 2017, the Group acquired 100% of Mission Providence, a leading provider of Employment Services and the New Enterprise Incentive Scheme (NEIS) under the Federal Government's Jobactive program.

Through acquiring 100% of the issued capital of Mission Providence, the Group has obtained control of the company

The aggregate details of the business combinations are as follows:

Fair Value of consideration transferred	Fair value $'000
Amount settled in cash	27,946
	27,946

Recognised amounts of identifiable net assets	Fair value $'000
Cash and cash equivalents	3,089
Trade and other receivables	2,160
Other assets	498
Intangible assets *	11,739
Plant and equipment	3,659
Deferred Tax Asset	4,914
Trade and other payables	(6,632)
Provisions	(2,355)
Employee benefits	(3,942)
Deferred revenue	(5,663)
Other liabilities	(2,120)
Net assets acquired	5,347
Goodwill	22,599
Acquisition-date fair value of the total consideration transferred	27,946

*: Included in intangible assets is customer contract which was recognised through the acquisition of Mission Providence, refer to Note 4 for further details

Due to the timing of the acquisition the half year end the accounting for the acquisition of Mission Providence has been determined only provisionally in accordance with AASB 3 Business Combinations.

Note 9. Business Combination (Continued)

Representing:	$'000
Cash paid or payable to vendor	28,346
Cash receivable from vendor	(400)
Acquisition costs expensed to profit or loss	3,104

Cash used to acquire business, net of cash acquired:	Consolidated
	31/12/2017
	$'000
Acquisition-date fair value of the total consideration transferred	27,946
Less: cash and cash equivalents acquired	(3,089)
Net cash outflow on acquisition	24,857
Acquisition costs expensed to profit or loss	3,104
Net Cash paid relating to the acquisition	27,961

Consideration transferred

The consideration paid to acquire Mission Providence Pty Ltd (Mission Providence) was $27.9m after final purchase price adjustments. The net cash outflow of $24.9m was funded by debt ($17.0m) and issuance of 32,781,254 ordinary shares at $0.48 per share ($15.7m), providing funds for transaction and integration costs as well as working capital.

Goodwill

The goodwill of $22,599,000 is primarily related to growth expectations, expected future profitability, the substantial skills and expertise of Mission Providence workforce and the expected cost synergies from merging Mission Providence with Konekt. The growth expectations will be materialised in the significant impact on future earnings. On a pro forma basis, the merged business is expected to approximately double revenue and EBITDA. Mission Providence also operates in a number of parallel markets to Konekt nationwide, which is expected to enhance Konekt's ability to deliver return to work employment and return to work from injury programs. No amount of the goodwill is deductible for tax purposes.

Acquisition-related costs amounting to $3,104,000 are not included as part of the consideration transferred and have been recognised as other expense in the consolidated statement of profit or loss and other comprehensive income.

Revenue resulting from the acquisition of Mission Providence, amounting to $14,012,000 is included in the consolidated statement of profit and loss and other comprehensive income of the Group for the half year ended 31 December 2017.

Amortisation of intangible assets arising from the acquisition will have a material impact on statutory results over the period to 30 June 2020.

Had the results of Mission Providence been consolidated from 1 July 2017, revenue of the consolidated Group would have been $52,043,000. We are unable to provide profit & loss performance for the acquisition due to a large number of expenses being shared between the acquired business and Konekt and as a result are no longer separately identifiable.

Note 10. Borrowings

	Consolidated	
	31/12/2017	30/06/2017
	$'000	$'000
CURRENT		
Interest bearing liabilities	4,021	26
NON-CURRENT		
Interest bearing liabilities	14,260	-
Interest bearing liabilities comprise of:		
i) Borrowing from CBA to fund for MP acquisition	17,000	-
ii) Borrowing from CBA to fund for deferred consideration payment	1,260	315
iii) Other loan	21	-
	18,281	**315**

CBA total facility amount is $20.8m of which, $18.3m is to fund borrowing for Mission Providence acquisition and for deferred consideration payments, and $2.2m is for the provision of bank guarantees and corporate credit cards. The borrowing will be repaid within 3 years from the funding date.

Note 11. Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting period.

Note 12. Fair value measurements

a. Valuation technique

In the absence of an active market for an identical asset or liability, the Group selects and uses one of more valuation technique to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Level 1: Market approach uses prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Level 2: Income approach converts estimated future cash flows or income and expenses into a single discounted present value.
- Level 3: Cost approach reflects the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

b. Financial instruments

The following table shows the group assets and liabilities recognised at fair value in the financial statements.

	Level of Fair value Hierarchy	31/12/2017 $'000	30/06/2017 $'000
Financial liabilities Fair Value:			
Deferred consideration payables	Level 3	1,603	2,584
		1,603	**2,584**

Note 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 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 2017 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

15 February 2018
Sydney

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Level 11, 1 Margaret St
Sydney NSW 2000
Australia

DECLARATION OF INDEPENDENCE BY ARTHUR MILNER TO THE DIRECTORS OF KONEKT LIMITED

As lead auditor for the review of Konekt Limited for the half-year ended 31 December 2017, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. 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.

Arthur Milner
Partner

BDO East Coast Partnership

Sydney, 15 February 2018

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Sydney NSW 2000
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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Konekt Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Konekt Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended, and notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration.

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 the Group is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Directors' responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal 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 Group's financial position as at 31 December 2017 and its financial 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 the Group, 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 the Group, would be in the same terms if given to the directors as at the time of this auditor's review report.

BDO East Coast Partnership

BDO

Arthur Milner
Partner

Sydney, 15 February 2018