# KONEKT LIMITED

# AND

# CONTROLLED ENTITIES

A.C.N. 009 155 971

## ANNUAL REPORT

## 2014

# KONEKT LIMITED
A.C.N. 009 155 971

## CORPORATE DIRECTORY

**Directors**

Douglas Flynn (Chairman)
Philip Small (Non-Executive Director)
Anthony Crawford (Non-Executive Director)
Damian Banks (Chief Executive Officer and Managing Director)

**Company Secretary**

Matt Ranawake

**Registered Office**

Level 12
234 Sussex Street
SYDNEY NSW 2000
Tel: (02) 9307 4000
Fax: (02) 9307 4044

**Principal Place of Business**

Level 12
234 Sussex Street
SYDNEY NSW 2000
Tel: (02) 9307 4000
Fax: (02) 9307 4044

**Auditors**

BDO East Coast Partnership
Level 11
1 Margaret Street
Sydney NSW 2000

Tel: (02) 9251 4100
Fax: (02) 9240 9821

**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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**KONEKT PARTNERS WITH SOLDIER ON**

Konekt are delighted to have entered into a significant sponsorship arrangement with Soldier On this year. This ongoing relationship will see us provide pro-bono return to work services nationally for former returning Australian Defence Force members and their families who have engaged with Soldier On and are looking to secure new employment arrangements and successfully transition to the next phase of their life.

For some time Konekt has been looking for a partner which is aligned with our corporate values and where we can make a significant impact. In addition to fulfilling the return to work function for Soldier On, we will be providing further support through staff participation in fund raising events.

We are looking forward to a long relationship where we can make a real difference.

**About Soldier On**

Founded in 2012, the organisation was inspired by the death of a friend. Michael Fussell was killed in an IED blast in Afghanistan in 2008 and his friend John Bale looked for a way to support those who survived the blast.

He quickly realised there was no easy or accessible way for members of the Defence forces, or the public, to show their support for those wounded in battle. With his wife Danielle, they reached out to his fellow soldiers and enlisted the help of Cavin Wilson, who had been posted in Afghanistan, involved in returning soldiers killed or wounded in action. Together they decided it was time to start an organisation that connected these men and women to the wider public, ensuring these brave men and women could be cared for and lead fulfilling and successful lives.

Soldier On is about Australians coming together to show their support for our physically and psychologically wounded. We want to show the men and women of our Defence forces that we will always have their backs.

Thanks to the support of the Australian public, Soldier On work to enhance recovery, inspire communities and empower Australia’s wounded, giving those who have served our country the dignity they deserve and the chance to do and be whatever they choose.

Soldier On is independent of government and looks to build on the support offered by the Australian Defence Force (ADF) and other government agencies by supporting all of Australia’s wounded, serving and ex-serving. They are funded by generous Australians and every dollar donated to the charity goes towards programs to help our wounded.

Soldier On wants to make sure our wounded are able to overcome the obstacles caused by their injuries; enjoy happy, fulfilling lives; and feel proud for the sacrifices they have made.

They also serve as the link between wounded Australians and their communities, allowing people from all walks of life to support our wounded men and women and help them succeed in their rehabilitation and beyond.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

**Financial**

The 2013-14 year saw significant improvement in the performance of Konekt Limited ("Konekt" or "the Company") versus the prior year. Both the halves were profitable, with the second half showing growth over the first half. The Company produced revenue of $33.2m, approximately 7.8% more than the previous year. The profitability of the Company improved with profit after tax of $1,020,000 against a loss of $184,000 for the prior year. The profit after tax in the second half of $553,000 contrasted with a profit after tax of $467,000 for the first half.

Konekt continued to make further inroads into lowering its fixed cost base, with overall non staff related expenses down 4.9% year on year. Konekt reported 30 June 2014 cash of $1,891,000 (up from $696,000 a year earlier). This result showed a conversion rate of more than 100% of net profit after tax to cash, despite capital expenditure of $611,000 for the year. The primary movements were from the profit reported, with both receivables and work in progress increasing in line with business growth over the course of the year. This occurred against a backdrop that the total liabilities of the Company also increased in the year.

**Customer**

Konekt's business mix moved 5 percentage points in favour of corporate and government revenue relative to insurer and agent revenue, ending the year at 64% corporate and government versus 36% 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 year re-weighting of 11 percentage points. Konekt now foresee the likely low of State based workers compensation return to work spending occurring during the next 12-18 months, following a 2 to 3 year decline across Australia. Pre-employment markets are more difficult to predict, with growth being restarted when significant expansion in construction and mining is observed. This year did see the first full year effect of the Medibank Health Solutions (MHS) contract for the Australian Defence Force (ADF). We are again pleased to report that this workflow is successfully embedded into the Company, with excellent results again being observed on Konekt's performance.

The higher level of revenue was flagged at the half yearly report during the year, and showed steady business growth. The Government portfolio grew strongly during the year, across a number of accounts, including MHS/ADF as well as a strong contribution from Transport and Diversified Industrials. Portfolios with declines in revenue were insurers/agents, telecommunications, mining and mining services. The Company has completed its rollout of a new customer relationship management System (CRM) during the year, with all historic records successfully imported and all financial histories included.

The Company achieved some solid, but not outstanding business wins during the year. New business offset lost and declined business, but Konekt's sales potential is yet to be fully realised. This will be a strong focus in 2014-15. General business optimism observed in quarter 2 of the year did not continue, and a number of large customers and potential customers delayed their decision making contrary to prior expectations.

**Investment in Technology and Product**

Once again, this year, Konekt continued its reinvestment in technology. During the year, the Company focused on investment in selected product software. The largest investment was in our New Employer product, business process and systems. This re-birth went live late in quarter 2, and rolled out in quarter 3. By quarter 4 we have seen significant improvement in our New Employer results, with revenue rising steadily in each month of quarter 4. This investment was approximately half of the Company's capital expenditure for the year.

The JobScreen product, launched in quarter 4 of 2012-13, has seen very good customer acceptance easily justifying the investment placed in it so far. In 2014-15 Konekt intends to further invest in closing the elapsed times from referral to report via some incremental systems investment in JobScreen.

Konekt expects to invest up to $1,000,000 in 2014-15 in future growth opportunities within the business, across technology, product, premises and R&D spending. The emphasis will be on improved product and customer systems.

## CHAIRMAN AND MANAGING DIRECTOR'S REPORT (continued)

### Staffing and Training

In February 2014, the Company conducted its annual staff engagement survey which showed a 2.7% increase in engagement versus the prior year, and the highest since the initial completion of the survey in 2008. Without the most engaged staff Konekt cannot be #1 in Care. The insights provided in the survey research are being used to further improve the environment for our team in 2014-15 and beyond. The Company continued to make a significant investment in training and quality, but it is still not enough. The complexity of the business and the rising expectations of customers will mean the Company is budgeting for increased spend in training and professional development in 2014-15.

### Locations

During the year Konekt reviewed its staffing and locations to ensure that it has the right resources in the right locations to fulfil its clients' needs. In the 12 month period, Konekt relocated, refurbished or renewed leases at 13 office locations. Some readjustment in favour of faster growth locations has occurred, with a rebalancing at lower growth locations. Konekt continues with offices in 34 locations this year. Of note were significant investments in the Liverpool and Brisbane offices.

### Update on Goals

Of most importance to our customers, staff and shareholders is achieving the Company's goals. Konekt's Vision is to lead the way in making Australian workplaces injury free by 2025. Below is an update on our progress towards these initiatives:

1) **#1 in Care** The Company mission of being #1 in Care (by any measure) is to ensure that it has achieved great injury prevention and injury management outcomes for its customers.

This year we have worked on 3 key items in Care - urgency, duration and quality. We have successfully raised our Return to Work rates across both Original (Same) Employer and New Employer. We have also reduced our latency of process with a focus on urgency right across the business, resulting in lower durations of cases. We can still do much more and will be further investing in this goal in 2014-15.

2) **Customer Focus** The Company has undoubtedly become more customer focused this year. In April 2014 we completed a customer survey which showed a Net Promoter Score increase of 8 points over the prior year. Whilst this was a good improvement, we can and should do more to achieve against this goal.

3) **Demanded Products** The investment in and re-launch of New Employer was in direct response to customer demand. In addition, we reviewed and re-launched our key psychological services and soft launched a new Customer Portal for roll-out in quarter 1, 2014-15. A new ergonomic product was added to the suite with a heavy emphasis on cost savings for customers from our improved technology. Once again, a number of new product launches are planned for the coming year.

4) **Trusted Advisor** This year we saw an increased level of strategic relationship discussion with our major customers and prospects. We are producing significantly more analysis on our customer data to add to their decision making. Discussion advice was varied, and included topics of privacy of records, the NDIS/NDIA, impact of the lifting of the Comcare moratorium, state based legislative changes and the changes in psychological injury profiles. In quarter 2 we launched a seminal report on 5 years of Konekt case data – some 95,000 qualifying cases were included in the study. Konekt has a unique asset in compensable and non-compensable case data and found the contrasting data most revealing. It was well received by stakeholders.

5) **Strong Sales Culture** "Sales is the lifeblood of Konekt's success" remains in place. We have a solid sales base, have built a pipeline of short, medium and longer term opportunities and they remain available to convert.

## CHAIRMAN AND MANAGING DIRECTOR'S REPORT (continued)

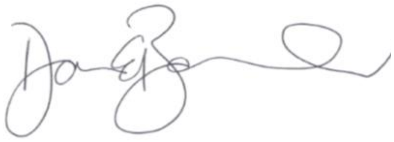
**6) Best People** Our customers demand that we have the best consultants. Retention stabilised at last year's rate (27% fewer starters over the prior year), but is still not where we aspire for it to be. The Konekt Team is investing more strongly this year and remains focused on a series of initiatives to further develop a strong and compelling employment value proposition that attracts and retains the right employees. Konekt retains a commitment rate of above 97% (commitment rate = number of permanent employees / (number of permanent employees + contractors). Engagement rose 2.7% across the year, we aim to improve this further in 2014-15.

In the first half of 2014-15 the Board has allocated an additional expense and capital amount of up to $750,000 to a new project "Strengthening the Core". More than half this amount will be expensed in the first half with benefits to flow from the second half. The project is focused on 4 areas: productivity in all aspects of our business, induction and training of new employees, our insurer/agent offer and growth of our customer base

The Board announced and commenced an on-market buy-back of shares during the year. A total of 91,057 shares were bought-back prior to balance date. The Board actively considers the capital management of the Company and weighs the ongoing needs of the Company, the possible acquisitions under consideration, possible dividends and taxation when considering the optimal capital needs. This year the Board has not declared a dividend after weighing these issues.

On behalf of the Board, we would like to express our thanks to all the Konekt Team members who have brought the Company back to profitability, increased our Care return to work results, increased our Customer Net Promoter Score and grown our Revenue.

**Douglas Flynn**
Chairman



**Damian Banks**
Chief Executive Officer

**19 August 2014**
**Sydney**

# CORPORATE GOVERNANCE STATEMENT

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

This statement outlines the principal corporate governance procedures of Konekt Limited.

### ASX Corporate Governance Council 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 2014.

Recommendation 1.1 states that companies should establish functions reserved to the Board, and those delegated to senior executives. The Company has a Board Charter which is available on the Company's website and which details these activities.

Recommendation 1.2 states that companies should undertake appropriate checks before appointing a director. Prior to the resignation of John Randall, the Board conducted a search for a new Director under the auspices of the Remuneration Committee. The Chair led the process of engagement with a recruitment firm who conducted a search for a new director for the Company. Appropriate checks were conducted as part of this activity. At the conclusion of this process Anthony Crawford was nominated as a Director and appointed on 16 July 2013.

Recommendation 1.5 states that companies should have a diversity policy which includes requirements for the Board to set measureable objectives for achieving gender diversity. Konekt is committed to providing all employees and potential employees with fair access to employment related opportunities. Decisions regarding recruitment, promotions, transfers, training and development are based on merit. The Company annually reports to the Equal Opportunity for Women in the Workplace Agency. Konekt's workplace profile indicates the organisation as a whole comprise of 76% women, 33% in senior executive positions and nil on the board.

Recommendation 2.4 states that a majority of the board of a listed entity should be independent directors and Recommendation 2.5 states that the chair of an entity should be an independent director and, in particular should not be the same person as the CEO of the entity. At the date of this report the Board comprises three Non-Executive Directors, who are regarded as Independent Directors. During the year, the Chairman, Douglas Flynn, Philip Small, John Randall (until resignation on 16 July 2013) and Anthony Crawford (from 16 July 2013) were Non-Executive Directors and thus independent. The Managing Director and CEO, Damian Banks is an Executive Director and thus not independent, as guided by Recommendation 2.5.

During the year ended 30 June 2014 and up to the date of this report, the Board comprised of:

**Douglas Flynn** (Independent Non-Executive Director appointed 19 July 2012; Chairman from 19 July 2012)
**Damian Banks** (Executive Director appointed 12 September 2011; Chief Executive Officer and Managing Director from 20 April 2012)
**Philip Small** (Independent Non-Executive Director appointed 19 November 2009)
**Anthony Crawford** (Independent Non-Executive Director appointed 16 July 2013)
**John Randall** (Resigned 16 July 2013)

Recommendation 3.1 states that companies should establish a code of conduct and disclose a summary. Konekt has a Code of Conduct for Employees which was last updated in April 2011. This Code details guides to Ethical Conduct and Decision Making, Personal Responsibilities, Manager Responsibilities, Securities and Insider Trading, Client Records, Intellectual Property, Data Privacy, Personal Conduct and Financial Integrity, Giving Gifts and Gratuities, Receiving Gifts and Gratuities, Political and Charitable Contributions, Agreements and Contracts, Confidentiality, Use of Drugs and Alcohol and Conflicts of Interest. This code is published on the Company's intranet site, and reviewed from time to time.

## CORPORATE GOVERNANCE STATEMENT (continued)

Recommendations 4.1-4.3 deal with the establishment and conduct of the Audit Committee. Konekt has an Audit, Risk and Compliance Committee which is chaired by a Non-Executive Director who is not the Chairman. The Audit, Risk and Compliance Committee must have at least 3 members, which is does, and has a formal charter which was last reviewed in October 2013.

Recommendation 4.2 requires the Board to disclose whether it has received assurance from the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The CEO and CFO have provided the Board with this assurance.

Recommendation 5.1 states companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements. Konekt does have policies for compliance with disclosure requirements. Senior Executives (on at least a monthly basis) formally confirm any information which may need to be considered by the Board as a disclosure requirement. Upon receipt of significant information Executives are required to inform the CEO (or in their absence, the Chair of the Audit Risk and Compliance Committee) of that information for consideration against the ASX disclosure requirements.

Recommendation 6.1 states that companies should provide information about itself and its governance to investors via its website. Konekt has its website at *www.konekt.com.au* which is regularly updated. In line with Recommendations 6.2 and 6.3 Konekt has a communications policy for promoting effective two-way communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

Recommendation 7.1 and 7.2 requires that the board should establish policies on risk oversight and management and review the entity's risk at least annually. 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. The Company's Risk Register was formally reviewed by this committee during the year.

Recommendations 8.1-8.3 deal with Remuneration. The Board has established a Remuneration Committee which consists of only Independent Directors and is chaired by an Independent Chair. During 2013-14 the Committee consisted of 3 members, the 3 Non-Executive Directors. The structure of Directors remuneration is distinguished from that of executive directors and senior executives.

In 2013-14, the Remuneration Committee independently sought and received remuneration advice in relation to the CEO remuneration package from a suitably qualified expert. This expert provided advice to the Committee through the Committee Chair.

Following an annual review Non-Executive Directors' fees for 2013-14 were set at $46,000 p.a. (inclusive of superannuation), with $4,000 p.a. (inclusive of superannuation) being paid to Committee Chairs. The Chairman's fee for 2013-14 was set at $82,840 p.a. (inclusive of superannuation). These were unchanged from prior year. Non-Executive Directors' fees inclusive of Board Committee fees will increase from $46,000 to $50,000 in 2014-15 and the Chairman's fee to $92,000. Committee fees for Chair of Board Committees will rise from $4,000 to $5,000 p.a. (all fees are inclusive of superannuation).

The shareholders approved a maximum pool of $350,000 for Non-Executive Executive Directors' remuneration at the 2012 AGM of the Company.

### 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.

An updated Board Charter was adopted in December 2012.

### 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 during the year and up to the date of this Annual Report are:

| Name and Qualification | | Date of appointment |
|---|---|---|
| Mr Douglas Flynn – BEng, MBA (Melb) | Chairman Independent Non-Executive Director | 19 July 2012 |
| Mr Philip Small - BEc (Syd), MSc (Lond), FCPA, GAICD | Independent Non-Executive Director | 19 November 2009 |
| Mr John Randall - B.COM, MBA, FCA (Australia), FCA (England & Wales), ACMA, AFCHSE, MAICD | Independent Non-Executive Director | 27 March 2009; Resigned 16 July 2013 |
| Mr Anthony Crawford - BA, LLB (UNSW), GAICD | Independent Non-Executive Director | 16 July 2013 |
| Mr Damian Banks - BEc, MAICD | Chief Executive Officer and Managing Director | Executive Director from 12 September 2011; Chief Executive Officer and Managing Director from 20 April 2012 |

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. Mr John Randall resigned from the Board on 16 July 2013 with Mr Anthony Crawford appointed to the Board on the same date.

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 Douglas Flynn, Mr John Randall (until his resignation on 16 July 2013), Mr Philip Small and Mr Anthony Crawford (since his appointment on 16 July 2013) have continued to be Independent Directors since the dates of their appointment. As Chief Executive Officer and Managing Director, Damian Banks is an Executive Director and thus not independent.

### Meetings of the Board

During the year the Board met 9 times to consider the business of the Company, its financial performance and other operational issues, and in the future will continue to meet 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.

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. During the year, the Board reviewed its performance, and considered the appropriate mix of skills that were ideal in appointing a new Director. During 2014-15 the Board will again be 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 inclusive of 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.

## CORPORATE GOVERNANCE STATEMENT (continued)

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. During the year, the Board completed 2 reviews of Chair and Non-Executive Director Remuneration.

The shareholders approved a maximum pool of $350,000 for Non-Executive Director's remuneration at the 2012 AGM of the Company.

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 Company and, subject to the law, access to all Company records and information held by Company employees and external advisors. 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 and subsequently were:

- Philip Small (appointed Committee Chairman on 12 September 2011);
- John Randall (resigned on 16 July 2013);
- Douglas Flynn (appointed 19 July 2012); and
- Anthony Crawford (appointed 16 July 2013).

During the year, the Committee held 2 meetings, which were attended by the then appointed Committee members.

## CORPORATE GOVERNANCE STATEMENT (continued)

### 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 during the year and subsequently comprised the following members:

- John Randall (Appointed Committee Chairman on 2 April 2009; resigned 16 July 2013);
- Anthony Crawford (Appointed Committee Chairman on 16 July 2013);
- Philip Small (Appointed 8 February 2010); and
- Douglas Flynn (Appointed 19 July 2012).

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 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 review 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, 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 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 4.3, 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, workplace health and safety, the environment, Workers' Compensation legislation, statutory compliance, information systems, disaster recovery 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 4.2) 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 at 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.

The most recent update to the trading policy was in February 2012.

### 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.

## CORPORATE GOVERNANCE STATEMENT (continued)

### 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*.

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

# DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Konekt Limited ("the Company"), being the Company and its subsidiaries ("the consolidated entity"), for the year ended 30 June 2014 ("the financial year") and the auditors' report thereon.

### Directors

The Directors of the Company during the financial year and up to the date of this report are:

**DOUGLAS FLYNN** – *Chairman*

Mr Flynn has held senior management roles and directorships in major media organisations in Australia and overseas including News Corporation Limited subsidiaries. He was appointed a Non-Executive director of Aegis Group plc board in 1996. Aegis Group is marketing services Company operating in some sixty countries. After being appointed Chief Executive of Aegis Group in 1999 Doug was instrumental in doubling the size of the Company and established a global market research business Synovate and internet services business Isobar. In April 2005 he joined Rentokil Initial plc, a global business services company, as Chief Executive and after an extensive restructuring of the Company's portfolio, balance sheet and organisation left the Company in 2008. From 2008 to early 2012 he was a consultant to and a director of Qin Jia Yuan Media services Ltd, the leading private television Company in China.

In mid-2008 Doug returned to Australia and in August that year he became a director of West Australian Newspapers Holdings Limited ("WAN"). From the second half of 2010 to deal completion in 2011 he was chairman of the Independent Directors and led the negotiation on their behalf for the $4.1b acquisition by WAN of Seven Media Group from Seven Group Holdings and KKR. The end result was the creation of Seven West Media Limited.

Doug graduated in chemical engineering from the University of Newcastle, New South Wales. He received an MBA with distinction from Melbourne University in 1979. During his university years he had a number of scholarships including Commonwealth, Commonwealth Postgraduate and Steel Industry Scholarship.

He has an active interest in a Kimberley region cattle station group, Youga Walla, in Australia's north west. He provides corporate financial advice to a number of private and public companies.

He also holds the positions of chairman of iSentia Group Limited and NEXTDC Limited.

Mr Flynn is a member of the Audit, Risk and Compliance, and Remuneration Committees.

Age: 65

Date of appointment: 19 July 2012

**DAMIAN BANKS** – *Chief Executive Officer, Managing Director*

Mr Banks has had a wide variety of roles across Banking, Finance, Health and Consulting in a career spanning over 25 years in Australia.

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 he received a Bachelor of Economics. He was a director of Kincoppal Rose-Bay School in Sydney until April 2014.

Age:48

Date of appointment: 12 September 2011

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

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 was Chairman of the Audit, Risk and Compliance Committee and was a member of the Remuneration Committee.

Age: 75

Date of appointment: 27 March 2009; resigned 16 July 2013

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

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.

Mr Small is a member of the Audit, Risk and Compliance Committee and Chair of the Remuneration Committee.

Age: 64

Date of appointment: 19 November 2009

**MR ANTHONY CRAWFORD, BA, LLB (UNSW), GAICD** – *Non-Executive Director*

Mr Crawford is the Independent Chairman of accounting and advisory firm Grant Thornton Australia. He is also Chairman of Heart Research Australia and is on the board of Hospitals Benefits Fund of Australia Ltd. Tony has had an extensive career of over 30 years with leading Australian commercial law firm, DLA Phillip Fox. As a partner for 25 years, he served as that firm's Chief Executive between 1999 and 2010 and prior to that, Chairman of its Board. Amongst other achievements, Tony led the national integration of the firm in 1999 and, in 2010, the pathway to international merger with DLA Piper.

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

Age: 59

Date of appointment: 16 July 2013

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

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, an 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 oil and gas, electric and petroleum industries.

Age: 58

Date of appointment: 2 May 2011

### Directors' Interests in shares and options of the Company as at 30 June 2014

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

| | Fully Paid Ordinary Shares | | Performance Rights | Options Over Ordinary Shares |
|---|---|---|---|---|
| **Director** | **Direct** | **Indirect** | **Direct** | **Direct** |
| Douglas Flynn | - | 3,047,752 | - | - |
| Philip Small | 800,000 | - | - | - |
| John Randall | 197,517 | - | - | - |
| Anthony Crawford | - | - | - | - |
| Damian Banks | - | 14,450,000 | - | 2,441,587 |

### Performance Rights

There were nil performance rights outstanding at the date of this report.

### Meetings of directors

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

| | **Board Meetings** | | **Audit, Risk and Compliance Committee** | | **Remuneration Committee** | |
|---|---|---|---|---|---|---|
| **Director** | **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** |
| Douglas Flynn | 9 | 9 | 2 | 2 | 2 | 2 |
| Philip Small | 9 | 8 | 2 | 2 | 2 | 2 |
| John Randall | 1 | 1 | - | - | - | - |
| Tony Crawford | 8 | 8 | 2 | 2 | 2 | 2 |
| Damian Banks | 9 | 9 | - | - | - | - |

### Principal Activities

The consolidated entity operates in workplace health services, conducting activities of injury prevention, injury management and consulting.

### Operating Results

The consolidated net profit after income tax of the consolidated entity for the financial year was $1,020,000 (2013: net loss $184,000). Total Revenue and Other Income was $33,240,000 (2013: $30,844,000).

### 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 Chairman's and Managing Director's Report on page 5.

### Dividends Paid or Recommended

Since the end of the financial year no dividends were declared (2013: $Nil).

### Significant Changes in State of Affairs

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

### Likely Developments and Expected Results

The Company achieved some solid, but not outstanding business wins during the year. New business offset lost and declined business, but Konekt's sales potential is not yet being fully realised. This will be a strong focus in 2014-15. General business optimism observed in quarter 2 of the year did not continue, and a number of large customers and potential customers remain in delayed decision making versus prior expectations. Production of future results remains difficult, although the Company is budgeting for revenue to increase in 2014-15 over 2013-14.

### Remuneration Report – Audited

The directors are pleased to present your Company's 2014 Remuneration Report. This Report sets out remuneration details for Non-Executive directors, the Managing Director and other key management personnel ('KMP").

### Remuneration Policies

The remuneration structures set out below are designed to attract and retain suitably qualified candidates, reward the achievement of strategic objectives, align executive interests with the creation of value for shareholders, to be acceptable to shareholders and to be consistent with the Company's capital management strategy.

### Non-Executive Directors' Remuneration

Fees paid to Non-Executive Directors are reviewed annually. Information comes from an independent survey and the benchmark is the median payments to directors of comparable companies. After remaining constant for 3 years, Non-Executive Directors' fees inclusive of Board Chair Committee fees will increase from $50,000 to $55,000 in 2014-15 and the Chairman's fee from $82,840 to $92,000.

Non-Executive Directors do not receive performance related remuneration or any retirement benefits.

### Executive Remuneration

Remuneration for executives is a combination of fixed and variable components. The variable component is divided into short and long-term performance based incentives.

### Fixed Remuneration

Fixed remuneration is calculated on a total cost basis and includes employer contributions to superannuation and the fringe benefit tax related to any benefits. The Remuneration Committee reviews fixed remuneration annually with reference to comparable roles in similar companies.

### Short-term Incentive

The Remuneration Committee sets Key Performance Indicators ("KPIs") for the Managing Director and approves KPIs for certain other executives. KPIs cover financial, staff, customer and strategy areas. The measures are selected to align the incentive to the company's performance and strategy. At the end of the financial year the Remuneration Committee assesses actual performance against the KPIs and awards a percentage of the predetermined maximum amount depending on the results.

### Long-term Incentive

Long term incentives are provided to the Managing Director and other senior executives under the Konekt Employee Option Plan. Under the plan options are granted which will only vest if financial performance targets are met. Options are issued for no consideration and have no dividend or voting rights. The vesting period is 3 years. The Remuneration Committee sets the vesting conditions. The exercise price is set at a premium to the share price immediately before the board meeting which approves the grant of options. The hurdles for vesting are set to drive significant shareholder value.

### Consequences of Performance on Shareholder Wealth

In considering the Company's performance and the consequences of its performance on shareholders' wealth the Remuneration Committee has regard to the following measures in respect of the current and previous financial years. Over the last 5 years short-term incentives have been paid to KMP in 2010 and 2014.

| $'000 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Sales revenue | 32,796 | 30,518 | 32,890 | 34,135 | 35,971 |
| EBITDA | 1,705 | 51 | 1,129 | 502 | 2,594 |
| EBIT | 1,378 | (249) | 887 | 182 | 2,208 |
| Profit/(loss) after income tax | 1,020 | (184) | 610 | 205 | 3,880 |
| Cash bonuses to KMP's | 70 | - | - | - | 153 |

The factors that are considered to affect total shareholder return ('TSR') are summarised below:

| $'000 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Share price at financial year end ($A) | 0.13 | 0.027 | 0.06 | 0.05 | 0.15 |
| Total dividends declared (cents per share) | - | - | - | - | 0.5 |
| Basic earnings per share (cents per share) | 1.4 | (0.2) | 0.8 | 0.3 | 5.5 |

| | | Short-term employee benefits | | | Post-employment benefits | Long-term benefits | | Share-based payments | |
|---|---|---|---|---|---|---|---|---|---|
| | | Cash salary and fees $ | Cash bonus $ | Non-monetary benefits $ | Super-annuation $ | Long service leave $ | Termination benefits $ | Options $ | Total $ |
| *Parent Entity Directors:* | | | | | | | | | |
| Douglas Flynn | **2014** | **78,794** | **-** | **-** | **4,047** | **-** | **-** | **-** | **82,841** |
| | 2013 | 77,105 | - | - | - | - | - | - | 77,105 |
| John Randall | **2014** | **-** | **-** | **-** | **3,454** | **-** | **-** | **-** | **3,454** |
| | 2013 | 25,000 | - | - | 24,923 | - | - | - | 49,923 |
| Philip Small | **2014** | **45,787** | **-** | **-** | **4,235** | **-** | **-** | **-** | **50,022** |
| | 2013 | 47,424 | - | - | 4,268 | - | - | - | 51,692 |
| Damian Banks | **2014** | **389,574** | **70,000** | **15,994** | **20,000** | **1,603** | **-** | **12,697** | **509,868** |
| | 2013 | 372,912 | - | - | 20,000 | 761 | - | 8,858 | 402,531 |
| Anthony Crawford | **2014** | **42,787** | **-** | **-** | **3,958** | **-** | **-** | **-** | **46,745** |
| | 2013 | - | - | - | - | - | - | - | - |
| *Total Remuneration: Parent Entity Directors:* | | | | | | | | | |
| **Total** | **2014** | **556,942** | **70,000** | **15,994** | **35,694** | **1,603** | **-** | **12,697** | **692,930** |
| | 2013 | 522,441 | - | - | 49,191 | 761 | - | 8,858 | 581,251 |
| *Key Management Personnel of the Consolidated Entity:* | | | | | | | | | |
| Matt Ranawake | **2014** | **187,611** | **-** | **-** | **25,000** | **1,571** | **-** | **2,255** | **216,437** |
| | 2013 | 186,156 | - | - | 25,163 | 759 | - | 1,476 | 213,554 |
| *Total Remuneration: Parent Entity Directors and Key Management Personnel of the Consolidated Entity:* | | | | | | | | | |
| | **2014** | **744,553** | **70,000** | **15,994** | **60,694** | **3,174** | **-** | **14,952** | **909,367** |
| | 2013 | 708,597 | - | - | 74,354 | 1,520 | - | 10,334 | 794,805 |

## DIRECTORS' REPORT (continued)

During the year 1,760,000 options were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan.

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

**Share Options**

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

During the year 1,760,000 options were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan. The Managing Director was issued with 800,000 options, approved by shareholders at the AGM on 8 November 2013. The following terms apply to the issue of options:

- Grant date 12 August 2013
- First exercise date 1 August 2016
- Issue price $Nil
- Exercise price $0.05
- Continuous employment with Konekt Limited up to and including 30 June 2016 for 100% of the Options to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2015, where employment is subsequently terminated by the Company and employee is not a "Bad Leaver" under the Rules of the Plan for pro-rata vesting of the Options to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date), 2/3 or the options would vest on 30 June 2015, with the number increasing pro rata after that date. Any vested options would expire at 5pm, 6 months after the date of termination.
- The vesting of Options will be subject to Konekt achieving the earnings per share ("EPS") Target below.

| August 2013 Invitation: EPS Target | Percentage of Options to vest if EPS Target achieved and Service to 30 June 2015 | Percentage of Options to vest if EPS Target achieved and Service to 30 June 2016 |
|---|---|---|
| Cumulative EPS of at least $0.075 over the three financial years 2014, 2015 and 2016 with the 2016 EPS being a minimum of $0.020. | 66.67% | 100% |
| Cumulative EPS of at least $0.06 over the three financial years 2014, 2015 and 2016 with the 2016 EPS being a minimum of $0.020. | 33.33% | 50% |
| Cumulative EPS of less than $0.06 over the three financial years 2014, 2015 and 2016. | 0% | 0% |

- Pro Rata vesting of Options between 50% and 100% on a straight-line basis for Cumulative EPS between $0.06 and $0.075. EPS is defined as annual reported net profit after tax divided by number of shares.
- No person entitled to exercise the options has any right by virtue of the option to participate in any share issue of the company.

## DIRECTORS' REPORT (continued)

## Service Agreements

Remuneration and other terms of employment for the Managing Director and KMP 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 – Chief Executive Officer, Managing Director**

- Term of agreement: no fixed term
- Either party must give 3 months' notice in writing to terminate the agreement
- Base salary, including superannuation, amounting to $410,000 to be reviewed annually by the Remuneration Committee (set in April 2012; nil increase for 2014-15)
- Short term incentive equal to $160,000 (up to 28% of the total remuneration) is performance related, based on achieving performance criteria set at the Board's discretion.
- Long term incentive of $60,000 worth of market priced options at a price of 7 cents and $5,600 worth of market options priced at 5 cents. Vesting period is 3 years for each. The percentage of remuneration that consists of options is 2.9%.

**Matt Ranawake – Chief Financial Officer, Company Secretary**

- Term of agreement: no fixed term
- Base salary, including superannuation, amounting to $221,000 to be reviewed annually by the Remuneration Committee. No part of this remuneration is performance related.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, is equal to 3 months' notice.
- Long term incentive of $15,600 worth of market priced options at a price of 7 cents and $1,400 worth of market options priced at 5 cents. Vesting period is 3 years for each. The percentage of remuneration that consists of options is 1.04%.

## Additional disclosures relating to key management personnel

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

The number of shares in the Company during the 2014 and 2013 reporting periods by each parent entity director and KMP of the consolidated entity are set out below:

| **30 June 2014** | **Balance 1 July 2013** | **Granted as Remuneration** | **On Exercise of Options** | **Net Change Other** | **Balance 30 June 2014** |
|---|---|---|---|---|---|
| | **Ordinary Shares** | **Ordinary Shares** | **Ordinary Shares** | **Ordinary Shares** | **Ordinary Shares** |
| **Parent Entity Directors** | | | | | |
| Douglas Flynn^ | 2,647,752 | - | - | 400,000 | 3,047,752 |
| Philip Small | 800,000 | - | - | - | 800,000 |
| John Randall | 197,517 | - | - | - | 197,517 |
| Anthony Crawford | - | - | - | - | - |
| Damian Banks* | 13,150,000 | - | - | 1,300,000 | 14,450,000 |
| **Key Management Personnel** | | | | | |
| Matt Ranawake | 50,000 | - | - | 50,000 | 100,000 |
| **Total** | **16,845,269** | **-** | **-** | **1,750,000** | **18,595,269** |

^ Douglas Flynn's shares are held indirectly through Flynn Superannuation Fund and Flynn Superannuation Fund Two

* Damian Banks' shares are held indirectly through Nidmas Pty Ltd and Jacana Arch Pty Ltd.

| 30 June 2013 | Balance 1 July 2012 | Granted as Remuneration | On Exercise of Options | Net Change Other | Balance 30 June 2013 |
|---|---|---|---|---|---|
| | Ordinary Shares | Ordinary Shares | Ordinary Shares | Ordinary Shares | Ordinary Shares |
| **Parent Entity Directors** | | | | | |
| Douglas Flynn^ | - | - | - | 2,647,752 | 2,647,752 |
| Philip Small | 700,000 | - | - | 100,000 | 800,000 |
| John Randall | 197,517 | - | - | - | 197,517 |
| Damian Banks* | 12,849,909 | - | - | 300,091 | 13,150,000 |
| **Key Management Personnel** | | | | | |
| Matt Ranawake | - | - | - | 50,000 | 50,000 |
| **Total** | **13,747,426** | **-** | **-** | **3,097,843** | **16,845,269** |

^ Douglas Flynn's shares are held indirectly through Flynn Superannuation Fund and Flynn Superannuation Fund Two
* Damian Banks' shares are held indirectly through Nidmas Pty Ltd and Jacana Arch Pty Ltd.

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

| 30 June 2014 | Balance at 1 July 2013 | Granted | Options exercised | Lapsed | Balance at 30 June 2014 | Total vested at 30 June 2014 | Total vested and exercisable at 30 June 2014 | Total vested and un-exercisable at 30 June 2014 |
|---|---|---|---|---|---|---|---|---|
| **Options** | | | | | | | | |
| Damian Banks | 1,641,587 | 800,000 | - | - | 2,441,587 | - | - | - |
| Matt Ranawake | 273,598 | 200,000 | - | - | 473,598 | - | - | - |
| | **1,915,185** | **1,000,000** | **-** | **-** | **2,915,185** | **-** | **-** | **-** |

| 30 June 2013 | Balance at 1 July 2012 | Granted | Options exercised | Cancelled | Balance at 30 June 2013 | Total vested at 30 June 2013 | Total vested and exercisable at 30 June 2013 | Total vested and un-exercisable at 30 June 2013 |
|---|---|---|---|---|---|---|---|---|
| **Options** | | | | | | | | |
| Damian Banks | - | 1,641,587 | - | - | 1,641,587 | - | - | - |
| Matt Ranawake | - | 273,598 | - | - | 273,598 | - | - | - |
| | | **1,915,185** | | | **1,915,185** | | | |

**END OF AUDITED REMUNERATION REPORT**

# DIRECTORS' REPORT (continued)

### Audit Services

During the year, audit and review fees paid and payable to the entity's auditor BDO East Coast Partnership was $71,750 (2013: $70,000).

### Non-audit Services

Details of the amount paid to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

### Environmental Regulations

The Company'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.

### 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.

## DIRECTORS' REPORT (continued)

### Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the company 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 8.

### Auditor's Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act can be found on page 26 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.

**Douglas Flynn**
Chairman

**Damian Banks**
Chief Executive Officer

**19 August 2014**
**Sydney**

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Level 11, 1 Margaret St
Sydney NSW 2000

Australia

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

As lead auditor of Konekt Limited for the year ended 30 June 2014, 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 audit; and
2. no contraventions of 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 year.

**John Bresolin**
Partner

**BDO East Coast Partnership**

Sydney, 19 August 2014

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
# FOR THE YEAR ENDED 30 JUNE 2014

| | Notes | Consolidated<br>2014<br>$'000 | 2013<br>$'000 |
|---|---|---|---|
| **Revenue from continuing operations** | 4 | 32,796 | 30,518 |
| Other revenue | 4 | 29 | 18 |
| Other income | 4 | 415 | 308 |
| External consultants | | (1,248) | (1,444) |
| Depreciation and amortisation expenses | 5 | (327) | (302) |
| Finance costs | 5 | (5) | (5) |
| Share based payments expense | 5 | (19) | (15) |
| Salaries and employment related costs | | (23,805) | (22,636) |
| Property expenses | | (2,990) | (2,974) |
| Communication expenses | | (959) | (949) |
| Motor vehicle and equipment expenses | | (865) | (955) |
| Travel and accommodation expenses | | (524) | (468) |
| Other expenses from continuing operations | 5 | (1,096) | (1,332) |
| **Profit/(loss) before income tax** | | **1,402** | **(236)** |
| Income tax (expense)/benefit | 7 | (382) | 52 |
| **Profit/(loss) after income tax for the year attributable to the owners of Konekt Limited** | | **1,020** | **(184)** |
| Total other comprehensive income for the year, net of tax | | - | - |
| **Total comprehensive income for the year attributable to the owners of Konekt Limited** | | **1,020** | **(184)** |
| Basic earnings per share (cents per share) | 6 | 1.35 | (0.22) |
| Diluted earnings per share (cents per share) | 6 | 1.29 | (0.22) |

*The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
# AS AT 30 JUNE 2014

| | | Consolidated | |
|---|---|---|---|
| | Notes | 2014<br>$'000 | 2013<br>$'000 |
| **Current Assets** | | | |
| Cash and cash equivalents | 8 | 1,891 | 696 |
| Trade and other receivables | 9 | 5,082 | 4,387 |
| Work in progress | 10 | 466 | 426 |
| Other assets | 11 | 261 | 202 |
| **Total Current Assets** | | **7,700** | **5,711** |
| **Non Current Assets** | | | |
| Other assets | 12 | 52 | 134 |
| Plant and equipment | 13 | 535 | 446 |
| Deferred tax asset | 14 | 1,155 | 1,537 |
| Intangible assets | 15 | 4,006 | 3,813 |
| **Total Non Current Assets** | | **5,748** | **5,930** |
| **Total Assets** | | **13,448** | **11,641** |
| **Current Liabilities** | | | |
| Trade and other payables | 16 | 2,902 | 2,052 |
| Provisions | 17 | 1,245 | 937 |
| Interest bearing liabilities | 18 | 86 | 82 |
| **Total Current Liabilities** | | **4,233** | **3,071** |
| **Non Current Liabilities** | | | |
| Trade and other payables | 16 | 23 | 71 |
| Provisions | 17 | 247 | 503 |
| Interest bearing liabilities | 18 | 29 | 110 |
| **Total Non Current Liabilities** | | **299** | **684** |
| **Total Liabilities** | | **4,532** | **3,755** |
| **Net Assets** | | **8,916** | **7,886** |
| **Equity** | | | |
| Contributed equity | 19 | 39,156 | 39,165 |
| Reserves | 19 | 284 | 265 |
| Accumulated losses | | (30,524) | (31,544) |
| **Total Equity** | | **8,916** | **7,886** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 30 JUNE 2014

| | Notes | Consolidated 30 June 2014 $'000 | 30 June 2013 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers (inclusive of GST) | | 35,766 | 33,966 |
| Payments to suppliers and employees (inclusive of GST) | | (33,976) | (34,042) |
| Interest received | | 29 | 18 |
| Interest paid | | (5) | (5) |
| **Net cash from Operating Activities** | **28a** | **1,814** | **(63)** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of plant and equipment | | (333) | (280) |
| Purchase of intangible assets | | (278) | (102) |
| Proceeds from sale of plant and equipment | | - | 8 |
| **Net cash used in Investing Activities** | | **(611)** | **(374)** |
| **Cash Flows from Financing Activities** | | | |
| Payments for on market share buy-back | | (9) | - |
| **Net cash used in Financing Activities** | | **(9)** | **-** |
| **Net increase / (decrease) in cash held** | | 1,195 | (437) |
| Cash and cash equivalents at the beginning of the financial year | | 696 | 1,133 |
| **Cash and cash equivalents at the end of the financial year** | **28b** | **1,891** | **696** |

*The above Consolidated 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 2014

| | Contributed Equity $'000 | Accumulated losses $'000 | Option Reserve $'000 | Total equity $'000 |
|---|---|---|---|---|
| **As at 30 June 2012** | **39,165** | **(31,360)** | **250** | **8,055** |
| Loss after income tax benefit for the year | - | (184) | - | (184) |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | (184) | - | (184) |
| Transactions with owners in their capacity as owners: | | | | |
| Share based payments (note 19d) | - | - | 15 | 15 |
| **As at 30 June 2013** | **39,165** | **(31,544)** | **265** | **7,886** |
| Profit after income tax expense for the year | - | 1,020 | - | 1,020 |
| Other comprehensive income for the year, net of tax | - | - | - | - |
| Total comprehensive income for the year | - | 1,020 | - | 1,020 |
| Transactions with owners in their capacity as owners: | | | | |
| Share buy-back | (9) | - | - | (9) |
| Share based payments (note 19d) | - | - | 19 | 19 |
| **As at 30 June 2014** | **39,156** | **(30,524)** | **284** | **8,916** |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Konekt Limited for the year ended 30 June 2014 (“the financial year”) were authorised for issue in accordance with a resolution of the directors on 19 August 2014 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.

**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 below. 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 10 Consolidated Financial Statements*
The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns 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 that give it the current ability to direct the activities that significantly affect the investee's returns. 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 July 2013. The standard contains the entire* disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. 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'.

*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 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*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 July 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.

*AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*
The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

*AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

*AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments*
The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

*AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement*
The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

*AASB 2012-9 Amendment to AASB 1048 arising from the Withdrawal of Australian Interpretation 1039*
This amendment is applicable to annual reporting periods beginning on or after 1 January 2013. The amendment removes reference in AASB 1048 following the withdrawal of Interpretation 1039. The adoption of this amendment will not have a material impact on the consolidated entity.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB").

*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.

*Critical accounting estimates and judgements*
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

**Parent entity information**
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 31.

**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 2014 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 Company.

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 Company, including any unrealised profits or losses, have been eliminated on consolidation.

**b) Foreign Currency**

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency.

Transactions in foreign currencies of entities within the Company are converted to Australian dollars at the rate of exchange ruling at the date of the transaction.

Amounts receivable and payable to and by the entities within the Company, that are outstanding at the end of the reporting period and are denominated in foreign currencies, have been converted to Australian dollars 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 profit or loss as they arise.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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 Company 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 or 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 Company 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 net realisable value.

### 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or 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 Company 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)).

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When re-valued assets are sold, it is Company 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:

| | 2014 | 2013 |
|---|---|---|
| Plant and equipment | 10% to 50% | 10% to 50% |
| Leasehold improvements | 15% to 40% | 15% to 40% |

### 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.

### 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 end of financial year.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 Company 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 Company 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 company 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.

### k) Employee Benefits

Provision is made for the Company'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, refer to Note 19(d) for further details.

*Superannuation Plan*

The Company 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.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

*Short-term employee benefits*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Other long-term employee benefits*

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

**l) Provisions**

Provisions are recognised when the Company has a present 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) Leases**

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.

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.

*Finance leases*

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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Intangible Assets

*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 considered to have an indefinite useful life and is not amortised. As such, 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.

*Trademarks*

Trademarks are considered to have an indefinite useful life and are not amortised. As such they are tested annually for impairment, and are carried at cost less any impairment losses.

*IT development and software*

Costs incurred in developing products or systems and costs incurred in acquiring software and licenses that will contribute to future financial year financial benefits through revenue generation and/or cost reduction are capitalised to software and systems. IT development and software costs are capitalised to have a finite useful life. Costs capitalised include external direct costs of materials, and directly attributable employee costs, with amortisation calculated on a straight line-basis between 2 and 3 years. IT web portal development costs include only those costs directly attributable to the development phase and are only recognised following completion of technical feasibility and where the company 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) Finance Costs

Finance costs are expensed when incurred unless they are attributable to qualifying assets in which case they are capitalised as part of the asset.

### 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.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

All borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

### s) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### t) Rounding of Amounts

The Company 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.

### u) Comparative Amount

Where required by accounting standards, the reclassification of comparatives has been performed in order to conform to the changes in presentation for the current financial year.

### v) New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

*AASB 9 Financial Instruments and its consequential amendments*
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2017 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets*
These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

*Annual Improvements to IFRSs 2010-2012 Cycle*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

*Annual Improvements to IFRSs 2011-2013 Cycle*
These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

*Share-based payment transactions*
The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*Provision for impairment of receivables*
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

*Goodwill and other indefinite life intangible assets*
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of assumptions including estimated discount based on the current cost of capital and growth rates of the estimated future cash flows.

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

*Income tax*
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

*Recovery of deferred tax assets*
Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

*Unrecognised tax losses*
Unrecognised tax losses of $3,029,000 at 30 June 2014 may only be utilised to shelter 7.3% of taxable income once remaining recognised Company tax losses of $1,389,091 have first been utilised. There is no expiry date on the future deductibility of unused tax losses.

*Long service leave provision*
As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

*Lease make good provision*
A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

*Estimation of useful lives of assets*

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down..

## 3. DIVIDENDS

Final dividend resolved to be paid of $Nil. (2013: $Nil)

## 4. REVENUE AND OTHER INCOME

From continuing operations

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Sales revenue** | | |
| Services | 32,796 | 30,518 |
| **Other revenue** | | |
| Interest received – other persons | 29 | 18 |
| **Other income** | 415 | 308 |

## 5. EXPENSES

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

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Depreciation** | | |
| Leasehold improvements | 130 | 82 |
| Plant and equipment | 112 | 130 |
| | **242** | **212** |
| **Amortisation Expense** | | |
| Software development costs | **85** | **90** |
| **Finance costs** | | |
| Interest expense | **5** | **5** |
| **Share based payment expense** | | |
| Recognition of Employee Share Plan issue | - | 1 |
| Equity settled share based payments expense | 19 | 14 |
| | **19** | **15** |
| **Payments under operating leases** | | |
| Motor vehicle leases | 358 | 385 |
| Equipment | 129 | 192 |
| Property leases | 2,259 | 2,181 |
| | **2,746** | **2,758** |
| **Other expenses from continuing operations includes the following major items:** | | |
| Internal consultants costs | 28 | 191 |
| Insurance costs | 102 | 104 |
| Marketing costs | 144 | 87 |
| Computer expenses | 168 | 186 |
| Printing, stationery and office supplies | 64 | 58 |
| Professional fees | 163 | 242 |
| Bank charges | 82 | 87 |
| Bad debt expense | (17) | (10) |
| Other | 362 | 387 |
| | **1,096** | **1,332** |

## 6. EARNINGS PER SHARE

| | 2014 ¢ | 2013 ¢ |
|---|---|---|
| Basic earnings per share | 1.35 | (0.22) |
| Diluted earnings per share | 1.29 | (0.22) |
| | | **No:** |
| Weighted average number of shares used in the | | |
| calculation of basic earnings per share | 75,514,075 | 75,523,069 |
| calculation of diluted earnings per share | 79,268,876 | 75,523,069 |

The amount used in the numerator in calculating basic and diluted earnings per share is the same as the net profit reported in the consolidated statement of profit or loss and other comprehensive income.

## 6. EARNINGS PER SHARE (continued)

| | Consolidated 2014 | 2013 |
|---|---|---|
| **Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share** | 75,514,075 | 75,523,069 |
| Adjustments for calculation of diluted earnings per share: | | |
| Options that have not met vesting conditions | 3,754,801 | - |
| **Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share** | 79,268,876 | 75,523,069 |

## 7. INCOME TAX

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Profit/(loss) from continuing operations before income tax | 1,402 | (236) |
| Tax at the Australian tax rate of 30% | 420 | (71) |
| Non-deductible expenses: | | |
| Entertainment | 19 | 16 |
| Other non-deductible/(assessable) | (7) | (1) |
| Share based payment expense | 6 | 4 |
| Adjustment recognised for prior periods | (56) | - |
| Income tax expense/(benefit) | 382 | (52) |
| **Unrecognised deferred tax assets** | | |
| Deferred tax assets have not been recognised in the statement of financial position for the following items: | | |
| Unused tax losses | 3,029 | 3,029 |
| | 3,029 | 3,029 |
| Potential benefit at 30% (2013: 30%) | 909 | 909 |

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 2014 may only be utilised to shelter 7.3% of taxable income once remaining recognised Company tax losses of $1,389,091 have first been utilised. There is no expiry date on the future deductibility of unused tax losses.

The directors are satisfied that the Company will be able to utilise tax losses against future profits.

### 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.

## 7. INCOME TAX EXPENSE (continued)

There were no franking credits available as at 30 June 2014.

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current tax expense / (benefit)** | | |
| Current tax expense | 692 | (140) |
| | 692 | (140) |
| **Deferred tax (benefit) / expense** | | |
| Origination and reversal of temporary differences | (254) | 88 |
| Adjustment recognised for prior periods | (56) | - |
| **Income tax expense / (benefit)** | 382 | (52) |

## 8. CASH AND CASH EQUIVALENTS

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Cash at bank | 1,891 | 696 |
| | 1,891 | 696 |

## 9. TRADE AND OTHER RECEIVABLES (CURRENT)

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Trade debtors | 5,087 | 4,433 |
| Less provision for doubtful debts | (30) | (50) |
| | 5,057 | 4,383 |
| Other debtors | 25 | 4 |
| | 5,082 | 4,387 |

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

| | Consolidated 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Total | Amount Impaired | Amount not Impaired | Total | Amount Impaired | Amount not Impaired |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Not Past due | 4,677 | (12) | 4,665 | 4,004 | (19) | 3,985 |
| Past due > 30 days | 249 | (1) | 248 | 234 | (2) | 232 |
| Past due > 60 days | 86 | (2) | 84 | 95 | (4) | 91 |
| Past due > 90 days | 75 | (15) | 60 | 100 | (25) | 75 |
| **Total** | **5,087** | **(30)** | **5,057** | **4,433** | **(50)** | **4,383** |

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 Company has been in direct contact with the relevant customers and is reasonably satisfied that payment will be received in full.

## 9. TRADE AND OTHER RECEIVABLES (continued)

As at 30 June 2014 the Company had total current trade receivables of $30,000 (2013: $50,000) that were impaired. The amounts relate to customers where it is considered that recovery of the amounts is unlikely.

**Analysis of allowance amount**

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Opening balance | 50 | 66 |
| Provision for doubtful receivables | (20) | (15) |
| Receivables written off during the year | - | (1) |
| **Closing balance** | **30** | **50** |

## 10. WORK IN PROGRESS

| | | |
|---|---|---|
| Work in progress | 466 | 426 |

## 11. OTHER ASSETS (CURRENT)

| | | |
|---|---|---|
| Prepayments | 246 | 186 |
| Lease incentive | 15 | 16 |
| | 261 | 202 |

## 12. OTHER ASSETS (NON CURRENT)

| | | |
|---|---|---|
| Security deposits | 21 | 12 |
| Prepayments | 27 | 102 |
| Leasehold incentive | 4 | 20 |
| | 52 | 134 |

## 13. PLANT AND EQUIPMENT

| | | |
|---|---|---|
| Plant and equipment at cost | 3,219 | 3,111 |
| Less accumulated depreciation | (2,919) | (2,817) |
| | 300 | 294 |
| Leasehold improvements at cost | 760 | 762 |
| Less accumulated depreciation | (525) | (610) |
| | 235 | 152 |
| Total written down value | 535 | 446 |

### 13. PLANT AND EQUIPMENT (continued)

**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.

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Plant and equipment** | | |
| Carrying amount at beginning of the year | 294 | 268 |
| Additions | 119 | 163 |
| Disposals | (1) | (7) |
| Depreciation | (112) | (130) |
| Carrying amount at end of the year | 300 | 294 |
| **Leasehold improvements** | | |
| Carrying amount at beginning of the year | 152 | 110 |
| Additions | 213 | 125 |
| Disposals | - | (1) |
| Amortisation | (130) | (82) |
| Carrying amount at end of the year | 235 | 152 |

### 14. TAX ASSETS

| | | |
|---|---|---|
| Deferred tax assets comprise temporary differences attributable to: | | |
| *Amounts recognised in profit or loss* | | |
| Doubtful debts | 9 | 15 |
| Employee benefits and other provisions | 788 | 535 |
| FBT accrual | 4 | 5 |
| Leasehold Incentive | 13 | 15 |
| Audit fee accrual | 12 | 11 |
| Deferred income | 23 | 10 |
| Work in progress | (140) | - |
| Movement in depreciation | 27 | (53) |
| | 736 | 538 |
| Tax losses | 419 | 999 |
| **Total Deferred Tax Asset** | **1,155** | **1,537** |

### 14. TAX ASSETS (continued)

| Movements in Deferred Tax Assets | Opening balance at 1 July 2013 | (Charged)/ credited to profit or loss | (Charged)/ credited to other compre-hensive income | (Charged)/ credited to equity | Closing balance at 30 June 2014 |
|---|---|---|---|---|---|
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| *Amounts recognised in profit or loss* | | | | | |
| Doubtful debts | 15 | (6) | - | - | 9 |
| Employee benefits and other provisions | 535 | 253 | - | - | 788 |
| FBT accrual | 5 | (1) | - | - | 4 |
| Leasehold Incentive | 15 | (2) | - | - | 13 |
| Audit fee accrual | 11 | 1 | - | - | 12 |
| Deferred income | 10 | 13 | - | - | 23 |
| Work in progress | - | (140) | - | - | (140) |
| Movement in depreciation | (53) | 80 | - | - | 27 |
| Tax losses | 999 | (580) | - | - | 419 |
| **Total** | **1,537** | **(382)** | **-** | **-** | **1,155** |

### 15. INTANGIBLE ASSETS

| | Consolidated 2014 | 2013 |
|---|---|---|
| | **$'000** | **$'000** |
| Goodwill | | |
| At cost | 21,680 | 21,680 |
| Accumulated impairment | (18,157) | (18,157) |
| | 3,523 | 3,523 |
| Trademarks ** | | |
| At cost | 27 | 27 |
| Software development* | | |
| At cost | 661 | 383 |
| Accumulated amortisation | (205) | (120) |
| | 456 | 263 |
| | 4,006 | 3,813 |

* Software development relates to internal costs incurred on products and related systems development. These assets are amortised over the expected life of the product, in all cases between 2-3 years. The remaining useful life of the product ranges 2-3 years.

| | 2014 | 2013 |
|---|---|---|
| Reconciliation - Goodwill | | |
| Carrying amount at the beginning of the year | 3,523 | 3,523 |
| Impairment losses | - | - |
| Carrying amount at the end of the year | 3,523 | 3,523 |
| | | |
| Reconciliation - Trademarks ** | | |
| Carrying amount at the beginning of the year | 27 | 27 |
| Additions | - | - |
| Re-classification | - | - |
| Carrying amount at the end of the year | **27** | **27** |

## 15. INTANGIBLE ASSETS (continued)

| | Consolidated Entity | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| Reconciliation – IT Development | | |
| Carrying amount at the beginning of the year | 263 | 251 |
| Additions | 278 | 102 |
| Amortisation | (85) | (90) |
| Carrying amount at the end of the year | 456 | 263 |

** The Trade Mark relates to the Konektiva trade name registration.

### 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 Company. Goodwill is allocated to the overall Company (single cash generating unit ("CGU")) as the Company operates on a national basis and maintaining a national footprint is essential to attracting and retaining major customers.

The recoverable amount of a CGU 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 CGU operates.

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

- the discount rate used was 11% pre-tax (2013: 11%);
- forecasts are performed taking into consideration trading outlook and future growth prospects for the Company with revenues rising at 5% initially reducing to 2% in the longer term and operating costs rising at 4% initially then reducing to 2% growth in the longer term; and
- terminal value calculation includes 0% growth

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 the Company operates.

Based on the above, the recoverable amount of the CGU exceed the carrying value by $12.7 million.

### Sensitivity

As disclosed in note 2, the directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill may vary in carrying amount. The sensitivities are as follows:

- Revenue would need to decrease by more than 2% for the Company before goodwill would need to be impaired, with all other assumptions remaining constant; and
- The discount rate would be required to increase by more than 5% for the Company before goodwill would need to be impaired, with all other assumptions remaining constant.

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.

## 16. TRADE AND OTHER PAYABLES (CURRENT)

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Trade creditors | 318 | 261 |
| Lease incentive | 49 | 58 |
| Other creditors and accruals | 2,535 | 1,733 |
| | **2,902** | **2,052** |

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

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Lease incentive | 12 | 61 |
| Other creditors and accruals | 11 | 10 |
| | **23** | **71** |

The carrying amounts of trade and other payables are considered a reasonable approximation of fair value.

## 17. PROVISIONS

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| **Current** | | |
| Lease make good | **93** | 75 |
| Employee benefits | **1,122** | 841 |
| Other provisions | **30** | 21 |
| | **1,245** | **937** |

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| **Non-Current** | | |
| Employee benefits | **247** | **503** |

### Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $'000 | $'000 |
| Employee benefits obligation expected to be settled after 12 months | **247** | **90** |

## 18. INTEREST BEARING LIABILITIES

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Current – unsecured** | | |
| Other loans | **86** | **82** |
| **Non-Current – unsecured** | | |
| Other loans | **29** | **110** |
| **(a) The carrying amounts of assets pledged as security are:** | | |
| Floating charge over assets, including investments | **13,448** | **11,641** |
| **(b) Refer to Note 29 for details of banking facilities.** | | |

Other loans current and non-current relates to a 3 year loan taken out in October 2012 to finance the acquisition of Microsoft licences.

## 19. CONTRIBUTED EQUITY

### a) Issued and paid up capital

| | 2014 | 2013 |
|---|---|---|
| Ordinary shares<br>The number of fully paid ordinary shares in issue at year end is 75,432,012 (2013: 75,523,069). All shares rank equally. | 39,156 | 39,165 |

**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.

Weighted average share price during the year was $0.08 per share.

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

| | 2014 Number of Shares | 2014 $'000 | 2013 Number of Shares | 2013 $'000 |
|---|---|---|---|---|
| Beginning of the financial year | 75,523,069 | 39,165 | 75,523,069 | 39,165 |
| Less: Share buy-back | (91,057) | (9) | - | - |
| **End of the financial year** | **75,432,012** | **39,156** | **75,523,069** | **39,165** |

**Share Buy-back**

During the year the Company conducted an on-market share buy-back within 10/12 limit which commenced on 16 April 2014. Until balance date 91,057 shares were bought back and duly cancelled from the share register. Lowest price paid was $0.093 per share and highest $0.098.

## 19. CONTRIBUTED EQUITY (continued)

### c) Capital risk management

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

In managing its capital, the Company'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 through the payment of dividends to shareholders. In order to achieve this objective, the Company 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 Company 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 Company considers not only its short-term position but also its long-term operational and strategic objectives.

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

| | Consolidated | |
|---|---|---|
| | 2014 | 2013 |
| | $'000 | $'000 |
| **Gearing ratios** | | |
| Debt | 115 | 192 |
| Total equity | 8,916 | 7,886 |
| Gearing Ratio | 1.29% | 2.43% |

### d) Share based options and performance rights

#### (i) Performance rights

There were no performance rights issued nor outstanding during the year.

#### (ii) Options

**Employee Share Plan**

2,837,835 shares were issued to employees on 12 February 2009 under the Konekt Employee Share Plan, where $500 in shares was 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.

Remaining shares in both plans were transferred to the individuals still employed by the Company during August 2013 and 419,430 unallocated shares held in DESP was sold on market by the share plan manager with proceeds donated to a charity nominated by Konekt. Konekt Employee Share Plans (ESAP and DESP) were closed and wound up in November 2013.

## 19. CONTRIBUTED EQUITY (continued)

**Senior Manager Long Term Incentive**

During the year 1,760,000 options were granted to the Managing Director and certain senior executives as long term incentives under the Konekt Performance Rights and Options Plan. The Managing Director was issued with 800,000 options, approved by shareholders at the AGM on 8 November 2013. The following terms apply to the issue of options:

- Grant date 12 August 2013
- First exercise date 1 August 2016
- Issue price $Nil
- Exercise price $0.05
- Continuous employment with Konekt Limited up to and including 30 June 2016 for 100% of the Options to vest (subject to satisfaction of the performance condition at the termination date); or continuous employment with Konekt Limited until at least 30 June 2015, where employment is subsequently terminated by the Company and employee is not a "Bad Leaver" under the Rules of the Plan for pro-rata vesting of the Options to vest meaning that (subject to satisfaction of the performance conditions on a pro rata basis at the termination date), 2/3 of the options would vest on 30 June 2015, with the number increasing pro rata after that date. Any vested options would expire at 5pm, 6 months after the date of termination.
- The vesting of Options will be subject to Konekt achieving the earnings per share (EPS*) Target below.

| August 2013 Invitation: EPS Target | Percentage of Options to vest if EPS Target achieved and Service to 30 June 2015 | Percentage of Options to vest if EPS Target achieved and Service to 30 June 2016 |
|---|---|---|
| Cumulative EPS of at least $0.075 over the three financial years 2014, 2015 and 2016 with the 2016 EPS being a minimum of $0.020. | 66.67% | 100% |
| Cumulative EPS of at least $0.06 over the three financial years 2014, 2015 and 2016 with the 2016 EPS being a minimum of $0.020. | 33.33% | 50% |
| Cumulative EPS of less than $0.06 over the three financial years 2014, 2015 and 2016. | 0% | 0% |

- Pro Rata vesting of Options between 50% and 100% on a straight-line basis for Cumulative EPS between $0.06 and $0.075. EPS is defined as Annual reported Net Profit after Tax divided by number of shares.

Details are provided below:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| **Share-based payments reserve** | | |
| Opening balance of reserve | 265 | 250 |
| Share based payments expense | 19 | 15 |
| **Closing balance of reserve** | **284** | **265** |

## 19. CONTRIBUTED EQUITY (continued)

Details of options and performance rights outstanding as part of the Konekt Performance Rights and Options Plan during the financial year is as follows:

**Consolidated 2014**

| Grant Date | Vesting Date | Expiry Date | Applicable exercise 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 | $ |
| **Options** | | | | | | | | | |
| 10.09.2012 | 01-09-2015 | 29.02.2016 | $0.07 | 2,735,979 | - | - | (273,598) | 2,462,381 | 54,720 |
| 28.09.2013 | 01.08.2016 | 31.01.2017 | $0.05 | - | 1,760,000 | - | - | 1,760,000 | 12,320 |
| | | | | **2,735,979** | 1,760,000 | **-** | **(273,598)** | **4,222,381** | **67,040** |

The fair value of options at grant date is independently determined using a Black Scholes model. The valuation model inputs used to determine the fair value at the grant date are as follows:

| Grant Date | Expiry Date | Share Price at Grant Date | Exercise Price | Expected Volatility | Dividend Yield | Risk Free Interest Rate | Fair Value at Grant Date |
|---|---|---|---|---|---|---|---|
| 28.09.2013 | 31.01.2016 | $0.03 | $0.05 | 52.3% | 0.0% | 3.7% | $0.007 |

**Consolidated 2013**

| Grant Date | Vesting Date | Expiry Date | Applicable exercise 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 | $ |
| **Options** | | | | | | | | | |
| 10.09.2012 | 01-09-2015 | 29.02.2016 | $0.07 | - | 2,735,979 | - | - | 2,735,979 | 54,720 |
| | | | | **-** | **2,735,979** | **-** | **-** | **2,735,979** | **54,720** |

### 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.

## 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 2014 | | | | Consolidated 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | Equipment $'000 | Motor Vehicle $'000 | Property $'000 | Total $'000 | Equipment $'000 | Motor Vehicle $'000 | Property $'000 | Total $'000 |
| Due within 1 year | 57 | 362 | 1,702 | 2,121 | 84 | 282 | 2,123 | 2,489 |
| Due later than 1 year but less than 5 Year | 60 | 262 | 1,246 | 1,568 | 45 | 326 | 1,519 | 1,890 |
| Due later than 5 Years | - | - | - | - | - | - | - | - |
| **Total** | **117** | **624** | **2,948** | **3,689** | **129** | **608** | **3,642** | **4,379** |

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

## 21. CONTINGENT LIABILITIES

As at 30 June 2014 Konekt had issued bank guarantees to the value of $687,425 primarily relating to property leases.

The directors are not aware of any other contingent liabilities as at 30 June 2014.

## 22. SUPERANNUATION PLANS

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

Details of expenses related to the defined contribution plans during the year are as follows:

| | Consolidated 2014 $'000 | 2013 $'000 |
|---|---|---|
| Defined contribution superannuation expense | 1,807 | 1,660 |

## 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

*Remuneration of Parent Entity Directors and Key Management Personnel*

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Short-term employee benefits | 744,553 | 708,597 |
| Cash bonus | 70,000 | - |
| Non-monetary benefits | 15,994 | - |
| Post-employment benefits | 60,694 | 74,354 |
| Long-term benefits | 3,174 | 1,520 |
| Share-based payments | 14,952 | 10,334 |
| | **909,367** | **794,805** |

KMP remuneration has been included in the Remuneration Report section of the Directors Report.

### b) Services

There are no other services provided by directors or KMP other than for their remuneration.

## 24. REMUNERATION OF AUDITORS

| | Consolidated 2014 | 2013 |
|---|---|---|
| | $ | $ |
| Amounts paid/payable to BDO East Coast Partnership for audit or review of the financial statements for the Company | 71,750 | 70,000 |
| Accounting advisory services | 1,000 | - |

## 25. SEGMENT REPORTING

The Company 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 Company which is Injury Management. All branch operations operate under similar regulatory environments, offer the same injury management service offerings and have a similar risk profile. They therefore satisfy the aggregation criteria under paragraph 12 of AASB 8 Operating Segments. Corporate overheads are also allocated to branches.

Revenues of $7,859,000 (2013: $3,841,000) and $4,020,000 (2013: $3,642,000) are derived from two single customers of the Company. Each of these separate revenues amounts to more than 10% of the Company's revenues from external customers.

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

The Chief Executive Officer reviews the performance of segments before aggregation based on Net Profit Before Tax. This performance measure is equal to profit before income tax expense as disclosed in the consolidated statement of profit or loss and other 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 Limited | 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.

### 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. The consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of the Closed Group are identical to the consolidated financial statements already disclosed in the financial report for Konekt Limited and its controlled entities.

## 27. FINANCIAL INSTRUMENTS DISCLOSURE

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company'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 Company 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 Company to incur a financial loss. The entity has no significant concentration of credit risk to a Company of debtors nor a single debtor. The Company is only exposed to risk in the health services sector. 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.

## 27. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

### d) Interest rate risk exposure

The Company'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 2014 | Weighted average interest rate | Floating interest rate $'000 | Fixed interest rate maturing in less than 1 year $'000 | Fixed interest rate maturing in 1 – 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 2.07% | 1,891 | - | - | - | 1,891 |
| Trade and other receivables | | - | - | - | 5,082 | 5,082 |
| Total Financial Assets | | 1,891 | - | - | 5,082 | 6,973 |
| Financial Liabilities | | | | | | |
| Interesting bearing liabilities | 10.37% | - | 86 | 29 | - | 115 |
| Trade and other payables | | - | - | - | 2,925 | 2,925 |
| Total Financial Liabilities | | - | 86 | 29 | 2,925 | 3,040 |
| **Net Financial (Liabilities)/Assets** | | 1,891 | (86) | (29) | 2,157 | 3,933 |

| 30 June 2013 | Weighted average interest rate | Floating interest rate $'000 | Fixed interest rate maturing in less than 1 year $'000 | Fixed interest rate maturing in 1 – 5 years $'000 | Non-interest bearing $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash and cash equivalents | 2.60% | 696 | - | - | - | 696 |
| Trade and other receivables | | - | - | - | 4,387 | 4,387 |
| Total Financial Assets | | 696 | - | - | 4,387 | 5,083 |
| Financial Liabilities | | | | | | |
| Interest bearing liabilities | 10.37% | - | 82 | 110 | - | 192 |
| Trade and other payables | | - | - | - | 2,123 | 2,123 |
| Total Financial Liabilities | | | 82 | 110 | 2,123 | 2,315 |
| **Net Financial (Liabilities)/Assets** | | 696 | (82) | (110) | 2,264 | 2,768 |

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

## 27. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

*Sensitivity Analysis*

For each 1% increase in interest rates, Company profit before income tax expense will increase by $18,910 (2013 increase by $6,960). Correspondingly for each 1% fall in interest rates Company profit before tax will decrease by $18,910 (2013 decrease by $6,960).

### e) Liquidity Risk

Bank overdraft facilities comprise the total Company 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 – Company 2014*

| | Carrying Amount $'000 | Contractual cashflows $'000 | < 6 months $'000 | 6 – 12 months $'000 | 1-3 Years $'000 | > 3 Years $'000 |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Trade Receivables | 5,057 | 5,057 | 5,057 | - | - | - |
| Other Receivables | 25 | 25 | 25 | - | - | - |
| Total Financial Assets | 5,082 | 5,082 | 5,082 | - | - | - |
| | | | | | | |
| **Financial Liabilities** | | | | | | |
| Bank overdraft | - | - | - | - | - | - |
| Other loans | 115 | 121 | - | 86 | 35 | - |
| Trade and other payables | 2,925 | 2,925 | 2,902 | 23 | - | - |
| Total Financial Liabilities | 3,040 | 3,046 | 2,902 | 109 | 35 | - |

*Maturity Analysis – Company 2013*

| | Carrying Amount $'000 | Contractual cashflows $'000 | < 6 months $'000 | 6 – 12 months $'000 | 1-3 Years $'000 | > 3 Years $'000 |
|---|---|---|---|---|---|---|
| **Financial Assets** | | | | | | |
| Trade Receivables | 4,383 | 4,383 | 4,383 | - | - | - |
| Other Receivables | 4 | 4 | 4 | - | - | - |
| Total Financial Assets | 4,387 | 4,387 | 4,387 | - | - | - |
| | | | | | | |
| **Financial Liabilities** | | | | | | |
| Bank overdraft | - | - | - | - | - | - |
| Other loans | 192 | 201 | - | 86 | 115 | - |
| Trade and other payables | 2,123 | 2,123 | 2,052 | 71 | - | - |
| Total Financial Liabilities | 2,315 | 2,324 | 2,052 | 157 | 115 | - |

### f) Risk management policies and objectives

Activities undertaken by Konekt Limited and its subsidiaries may expose the Company to risk. The Company 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 Company to maintain adequate committed credit facilities. The Company 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.

## 27. FINANCIAL INSTRUMENTS DISCLOSURE (continued)

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 Accounts Receivable department if amounts are overdue with further involvement of the Sales Team once amounts exceed 90 days.

## 28. CASH FLOW INFORMATION

### a) Reconciliation of cash flow from operating activities with profit after income tax:

| | Consolidated | |
|---|---|---|
| | **2014** | **2013** |
| | **$'000** | **$'000** |
| Profit/(loss) after income tax | 1,020 | (184) |
| **Non cash items** | | |
| Depreciation and amortisation expense | 327 | 302 |
| Loss on disposal of plant and equipment | - | (8) |
| Share based payments expense | 19 | 15 |
| **Changes in assets and liabilities** | | |
| Movement in trade and other debtors | (612) | 159 |
| Movement in trade and other payables | 774 | (329) |
| Movement in deferred tax asset | 382 | (52) |
| Movement in other assets | (99) | 44 |
| Movement in other provisions | 3 | (10) |
| **Net cash flow from operating activities** | **1,814** | **(63)** |

### b) Reconciliation of Cash

| | | |
|---|---|---|
| Cash and cash equivalent comprises: | | |
| Cash at bank | 1,891 | 696 |
| **Cash and cash equivalent at the end of the financial year** | **1,891** | **696** |

## 29. FINANCE FACILITIES

| | | |
|---|---|---|
| **Credit Standby Arrangements with Banks** | | |
| Credit facility | 3,000 | 3,000 |
| Amount utilised | - | - |
| **Unused credit facility** | **3,000** | **3,000** |

### Banking Facilities

*Debt Finance Facility*

$3,000,000 variable interest rate facility.

Note that at 30 June 2014 the credit facility amount represents 75% of the Company's debtor balance under 90 days that could be drawn under the $3,000,000 Debt Finance Facility. This facility is provided by the National Australia Bank and has an expiry date of 30 September 2015.

## 29. FINANCE FACILITIES (continued)

Finance will be provided under these facilities provided the Company and the Company have not breached any borrowing requirements and the required financial covenants are met. All covenants have been met during the financial year (note 19(c)).

The Company has a bank guarantee facility of $776,509 of which $89,084 was unused at 30 June 2014.

## 30. RELATED PARTY TRANSACTIONS

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

## 31. ADDITIONAL FINANCIAL INFORMATION OF THE PARENT ENTITY

| | 2014 | 2013 |
|---|---|---|
| | **$'000** | **$'000** |
| Current assets | 8 | 8 |
| Total assets | 1,162 | 1,545 |
| Current liabilities | 7,278 | 6,980 |
| Total liabilities | 7,278 | 6,980 |
| **Shareholders' equity** | | |
| Issued capital | 39,156 | 39,165 |
| Reserves – share option | 284 | 265 |
| Accumulated losses | (45,556) | (44,865) |
| **Total equity** | **(6,116)** | **(5,435)** |
| Loss after income tax expense for the year | (692) | (275) |
| Total comprehensive income for the year | (692) | (275) |

For details of guarantees entered into by the parent entity in relation to debts of subsidiaries refer to note 26(c).

The Parent Entity has no other commitments or contingent liabilities.

## 32. SUBSEQUENT EVENTS

There are no matters or circumstances that have arisen since 30 June 2014 that have significantly affected:

a) the Company's operations in future financial years;
b) the results of these operations in future financial years; and
c) the Company's state of affairs in future financial years.

# DECLARATION BY DIRECTORS

The directors of the Company declare that:

1. the financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated 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 Company's financial position as at 30 June 2014 and of its performance for the year ended on that date;

2. in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

3. the directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A;

4. 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); and

5. the Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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:

**Douglas Flynn**
Chairman

**Damian Banks**
Chief Executive Officer

19 August 2014
Sydney

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Australia

**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 2014, 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 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 gives a true and fair view and 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 Stat***ements, 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 company'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 company'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 2014 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 the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

**BDO East Coast Partnership**

BDO

J Bresolin

**John Bresolin**
**Partner**

Sydney, 19 August 2014

## 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 30 June 2014.

### (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 | 103 | 42,720 | - | - | - | - |
| 1,001 – 5,000 | 223 | 552,038 | - | - | - | - |
| 5,001 – 10,000 | 94 | 682,432 | - | - | - | - |
| 10,001 – 100,000 | 255 | 9,355,026 | - | - | - | - |
| 100,001 and over | 63 | 64,799,796 | - | - | - | - |
| | **738** | **75,432,012** | **-** | **-** | **-** | **-** |
| The number of shareholders holding less than a marketable parcel of shares are: | 285 | 409,704 | - | - | - | - |

### (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 23 July 2014 are:

| | | Listed ordinary shares | |
|---|---|---|---|
| | | **No. of Shares Held** | **% Held** |
| 1. | NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C> | 12,000,000 | 15.91 |
| 2. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 11,652,497 | 15.45 |
| 3. | DIXSON TRUST PTY LIMITED | 9,936,363 | 13.17 |
| 4. | FALCASTLE PTY LTD <DAHL SUPERFUND A/C> | 2,027,748 | 2.69 |
| 5. | MR EDWARD JAMES STEPHEN DALLY + MRS SELINA DALLY <LEKDAL FAMILY A/C> | 1,829,834 | 2.43 |
| 6. | DR & LC FLYNN NOMINEES PTY LTD <FLYNN SUPER FUND A/C> | 1,659,808 | 2.20 |
| 7. | JACANA ARCH PTY LTD | 1,450,000 | 1.92 |
| 8. | DR JON BERRICK | 1,400,000 | 1.86 |
| 9. | DR VERN THOMAS MADDEN + MRS CLARE MAREE MADDEN <MAD-BOY SUPER FUND A/C> | 1,251,025 | 1.66 |
| 10. | DR & LC FLYNN NOMINEES PTY LIMITED <FLYNN SUPER FUND TWO A/C> | 1,206,361 | 1.60 |
| 11. | DELTA REAL-TIME COMPUTERS PTY LTD | 1,070,000 | 1.42 |
| 12. | J W GIJET PTY LTD | 1,000,000 | 1.33 |
| 13. | NIDMAS PTY LTD <BANKS FAMILY SUPER FUND A/C> | 1,000,000 | 1.33 |
| 14. | BUMBLETON PTY LTD <WILLIAM COATS S/F A/C> | 978,500 | 1.30 |
| 15. | MR EDWARD JAMES DALLY + MRS SELINA DALLY <E J DALLY SUPER FUND A/C> | 901,950 | 1.20 |
| 16. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 838,945 | 1.11 |
| 17. | MR WILLIAM NEIL COATS | 802,956 | 1.06 |
| 18. | BOND STREET CUSTODIANS LIMITED <JOPORT - I42922 A/C> | 695,586 | 0.92 |
| 19. | YARRAC PTY LTD <COLEBATCH PROPERTY A/C> | 583,131 | 0.77 |
| 20. | GEGM INVESTMENTS PTY LTD | 526,515 | 0.70 |
| Total ordinary shares quoted on ASX Held by the top 20 holders | | 52,811,219 | 70.01 |
| **Total ordinary shares quoted on ASX** | | **75,432,012** | **100%** |

# ASX ADDITIONAL INFORMATION (continued)

**(c) Unquoted Securities**

There were 4,222,381 unquoted options as at 30 June 2014.

**(d) Substantial Shareholders**

Substantial shareholders in the Company are set out below:

| | No. of shares | % Held |
|---|---|---|
| Nidmas Pty Ltd | 14,450,000 | 19.13 |
| Jacana Arch Pty Ltd | 14,450,000 | 19.13 |
| AJ Berrick & Associates | 13,041,002 | 17.44 |
| Dixson Trust Pty Ltd | 9,936,363 | 13.20 |
| Helm Capital Pty Ltd | 3,847,361 | 5.09 |

**(e) Other Disclosures**

(i) The name of the Company secretary is Mr Matt Ranawake.

(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.