



# **DKN Financial Group Limited**

ACN 008 112 150

**Financial report for the half-year ended 31  
December 2010**

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## Financial report for the half-year ended 31 December 2010

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## Directors' Report

The Directors of DKN Financial Group Limited submit herewith the financial report of DKN Financial Group Limited and its subsidiaries (the Group) for the half-year ended 31 December 2010. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names of the directors of the company during the half-year and up to the date of this report are:

R E Hunwick – Chairman  
C F Kelaher  
P J Dunn  
K J Wright  
G P Johnstone  
C W Rutherford

P Butterworth - Chief Executive Officer

### Review of operations

A summary of consolidated revenues and results for the half-year by significant business segments is set out below.

	Segment revenues		Segment results	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Platform Solutions	8,113	8,213	6,689	6,802
Product Solutions	810	825	608	417
Equity Partners	432	513	224	401
Lonsdale Financial Group	2,821	3,673	(75)	54
Total Segment Revenue/Result	12,176	13,224	7,446	7,674
Unallocated (including asset impairment writeback)	444	313	(2,195)	(2,264)
Profit before income tax expense	12,620	13,537	5,251	5,410
Income tax expense			(1,518)	(1,540)
Net Profit after income tax expense			3,733	3,870
Net Profit attributable to members of DKN Financial Group Limited			3,733	3,870

Comments on the operations and the results of those operations are set out below and are supplemented by the ASX announcement made on 16 February 2011.

The net profit result for the first half includes a writeback of a previously impaired asset of \$241,000.

An overview of the half-year is set out below:

- Underlying profit (excluding Asset Impairment Writeback), after tax, of \$3.49m, compared to \$3.87m for prior corresponding period (pcp).
- Funds Under Advice (FUA) of \$7.92b, up 6.5% since end June, 2010.
- Positive net inflows of \$221m.
- Net cash of \$7.8m as at 31 December 2010.
- Operating expense to net operating revenue 58%.
- Post-tax Return On Capital Value of 13% (annualised) from minority equity investments.
- Retained highly skilled team and expanded quality community of wealth management practices

DKN has claimed significant deductions from income tax following the merger with Lonsdale Financial Group Limited in 2007. As a result, there have been no tax payments made in respect of the years ended 30 June 2008, 2009 or 2010. These claims are yet to be assessed by the Tax Office.

In light of the sound operational performance of the Group, the Directors aim to declare an interim unfranked dividend from accumulated profits at 31 March 2011 of 2 cents per share. This dividend will be subject to continued satisfactory performance at that date.

**Auditor's independence declaration**

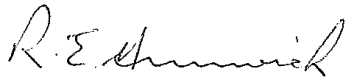
The auditor's independence declaration is included on page 4 of the Half-Year Report.

**Rounding off of amounts**

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1997, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the *Corporations Act 2001*.

On behalf of the Directors



**R E Hunwick**

Chairman

Melbourne, 16 February 2011

**Deloitte**®

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

550 Bourke Street  
Melbourne VIC 3000  
GPO Box 78B  
Melbourne VIC 3001 Australia

DX 111  
Tel: +61 (0) 3 9671 7000  
Fax: +61 (0) 3 9671 7001

[www.deloitte.com.au](http://www.deloitte.com.au)

The Board of Directors  
DKN Financial Group Limited  
120 Collins Street  
MELBOURNE VIC 3000

16 February 2011

Dear Board Members

**DKN Financial Group Limited**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of DKN Financial Group Limited.

As lead audit partner for the review of the financial statements of DKN Financial Group Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Peter Caldwell  
Partner  
Chartered Accountants



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

550 Bourke Street  
Melbourne VIC 3000  
GPO Box 78B  
Melbourne VIC 3001 Australia

DX 111  
Tel: +61 (0) 3 9671 7000  
Fax: +61 (0) 3 9671 7001

[www.deloitte.com.au](http://www.deloitte.com.au)

## **Independent Auditor's Review Report to the Members of DKN Financial Group Limited**

We have reviewed the accompanying half-year financial report of DKN Financial Group Limited, which comprises the condensed statement of financial position as at 31 December 2010, and the condensed statement of comprehensive income, the condensed statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 16.

### *Directors' Responsibility for the Half-Year Financial Report*

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

### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of DKN Financial Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

# Deloitte

## *Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of DKN Financial Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

## *Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU  
Peter A. Caldwell  
Partner  
Chartered Accountants  
16 February 2011

## Directors' declaration

The directors declare that:

- (a) 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;
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

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

On behalf of the Directors



**R E Hunwick**  
Chairman

Melbourne

## Condensed consolidated statement of comprehensive income for the half-year ended 31 December 2010

	Half-year ended 31 December 2010 \$000	Half-year ended 31 December 2009 \$000
<b>Continuing operations</b>		
Revenue	12,192	13,067
Share of profits of associates accounted for using the equity method	428	470
Partner Program distribution	(488)	(532)
Compliance costs	(60)	(51)
Employee benefits expense	(3,608)	(3,744)
Professional service fees	(490)	(497)
Consulting fees	(101)	(36)
Insurance expense	(303)	(330)
Administration expense	(65)	(93)
Occupancy expense	(388)	(310)
Depreciation and amortisation expenses	(281)	(244)
Finance costs	(293)	(539)
Services to associates	(625)	(604)
Travel & entertainment	(211)	(200)
Marketing	(143)	(112)
Impairment Writeback of Assets	241	-
Other expenses	(554)	(835)
<b>Profit before income tax expense</b>	<b>5,251</b>	<b>5,410</b>
Income tax expense	(1,518)	(1,540)
<b>Profit for the period</b>	<b>3,733</b>	<b>3,870</b>
<b>Other comprehensive Income</b>		
Gain/(loss) on cash flow hedges	61	144
Income tax relating to components of other comprehensive income	(18)	(43)
<b>Other Total comprehensive income for the period</b>	<b>43</b>	<b>101</b>
<b>Total comprehensive income for the period</b>	<b>3,776</b>	<b>3,971</b>
Basic (cents per share)	2.60	2.76
Diluted (cents per share)	2.48	2.59

Notes to the financial statements are included on pages 12 to 16.

## Condensed consolidated statement of financial position as at 31 December 2010

	31 December 2010 \$000	30 June 2010 \$000
<b>Current assets</b>		
Cash and cash equivalents	7,835	17,638
Trade and other receivables	2,117	2,778
Other financial assets	703	305
<b>Total current assets</b>	<b>10,655</b>	<b>20,721</b>
<b>Non-current assets</b>		
Investments accounted for using the equity method	12,017	10,290
Other financial assets	151	154
Plant and equipment	1,435	1,300
Intangible assets	91,854	91,956
Goodwill	43,085	42,959
<b>Total non-current assets</b>	<b>148,542</b>	<b>146,659</b>
<b>Total assets</b>	<b>159,197</b>	<b>167,380</b>
<b>Current liabilities</b>		
Borrowings	-	10,200
Trade and other payables	1,981	1,644
Provisions	702	1,431
<b>Total current liabilities</b>	<b>2,683</b>	<b>13,275</b>
<b>Non-current liabilities</b>		
Provisions	257	256
Deferred tax liability	8,624	7,578
Leasehold liabilities incentives	89	115
<b>Total non-current liabilities</b>	<b>8,970</b>	<b>7,949</b>
<b>Total liabilities</b>	<b>11,653</b>	<b>21,224</b>
<b>Net assets</b>	<b>147,544</b>	<b>146,156</b>
<b>Equity</b>		
Issued capital	169,418	168,421
Options	2,740	2,563
Reserves	-	(43)
Accumulated losses	(24,614)	(24,785)
<b>Total equity</b>	<b>147,544</b>	<b>146,156</b>

Notes to the financial statements are included on pages 12 to 16.

## Condensed consolidated statement of changes in equity for the half-year ended 31 December 2010

	Note	Share Capital \$'000	Options \$'000	Cash Flow Hedge Reserve \$'000	Accumulated Losses \$'000	Total \$'000
<b>Balance at 1 July 2009</b>		<b>168,421</b>	<b>2,346</b>	<b>(206)</b>	<b>(26,309)</b>	<b>144,252</b>
Profit/(Loss) for period		-	-	-	3,870	3,870
Gain/(Loss) on cash flow hedge (net of tax)		-	-	101	-	101
Total Comprehensive Income for the period		-	-	101	3,870	3,971
Issue of Options		-	40	-	-	40
Payment of dividends		-	-	-	(2,840)	(2,840)
<b>Balance at 31 December 2009</b>		<b>168,421</b>	<b>2,386</b>	<b>(105)</b>	<b>(25,279)</b>	<b>145,423</b>
<b>Balance at 1 July 2010</b>		<b>168,421</b>	<b>2,563</b>	<b>(43)</b>	<b>(24,785)</b>	<b>146,156</b>
Profit/(Loss) for period		-	-	-	3,733	3,733
Gain/(Loss) on cash flow hedge (net of tax)		-	-	43	-	43
Total Comprehensive Income for the period		-	-	43	3,733	3,776
Issue/Lapse of Options		-	177	-	-	177
Accumulated Loss related to subsidiary sold during year	10	-	-	-	44	44
Conversion of performance rights		997	-	-	-	997
Payment of dividends		-	-	-	(3,606)	(3,606)
<b>Balance at 31 December 2010</b>		<b>169,418</b>	<b>2,740</b>	<b>-</b>	<b>(24,614)</b>	<b>147,544</b>

Notes to the financial statements are included on pages 12 to 16.

## Condensed consolidated Statement of Cash Flows for the half-year ended 31 December 2010

	Half-year ended 31 December 2010 \$'000	Half-year ended 31 December 2009 \$'000
<b>Cash flows from operating activities</b>		
Management fees and commissions received	12,883	12,504
Payments to suppliers/advisers	(7,989)	(8,765)
Interest and other costs of finance paid	(286)	(513)
Income tax refunded (paid)	(490)	2,813
<b>Net cash provided by operating activities</b>	<b>4,118</b>	<b>6,039</b>
<b>Cash flows from investing activities</b>		
Interest received	438	345
Distributions received from equity accounted investments	386	469
Proceeds from repayment of loans to related parties	181	706
Payment for plant and equipment	(306)	(207)
Payment for acquiring interest in equity accounted investments	(814)	-
<b>Net cash used in investing activities</b>	<b>(115)</b>	<b>1,313</b>
<b>Cash flows from financing activities</b>		
Dividends paid	(3,606)	(2,840)
Repayment of borrowings	(10,200)	(1,600)
Proceeds from issue of equity securities	-	40
<b>Net cash used in financing activities</b>	<b>(13,806)</b>	<b>(4,400)</b>
Net increase/(decrease) in cash and cash equivalents	(9,803)	2,952
Cash and cash equivalents at the beginning of the half-year	17,638	11,472
<b>Cash and cash equivalents at the end of the half-year</b>	<b>7,835</b>	<b>14,424</b>

Notes to the financial statements are included on pages 12 to 15.

## Notes to the condensed consolidated financial statements for the half-year ended 31 December 2010

### 1. Significant accounting policies

#### Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and *AASB 134 'Interim Financial Reporting'*. Compliance with AASB 134 ensures compliance with *International Financial Reporting Standard IAS 34 'Interim Financial Reporting'*. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

#### Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The Group has adopted all of the new and revised Standards and interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

New and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group include:

- Amendments to AASB 5,8,101,117,118,136 and 139 as a consequence of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual improvement project*.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no effect on the amounts reported for the current or prior periods.

## 2. Segment Information

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

The Group's reportable segments are as follows:

- Platform Solutions – responsible for the sourcing and management of platforms
- Product Solutions – responsible for sourcing and researching investment and risk products
- Lonsdale Financial Group – responsible for the provision of services to the Lonsdale advisor network
- Equity Partners – responsible for management of the acquisition and succession program in accounting and financial planning practices.

The following is an analysis of the revenue and results for the period, analysed by reportable segment.

### Segment revenue

	2010	2009
	\$000	\$000
Platform Solutions	8,113	8,213
Product Solutions	810	825
Equity Partners	432	513
Lonsdale	2,821	3,673
Total of all segments	12,176	13,224
Unallocated	444	313
Consolidated Revenue	12,620	13,537

### Segment result

	2010	2009
	\$000	\$000
Platform Solutions	6,689	6,802
Product Solutions	608	417
Equity Partners	224	401
Lonsdale	(75)	54
Segment result	7,446	7,674
Corporate Expenses	(2,307)	(1,851)
Asset Impairment Writeback	241	-
Depreciation/Amortisation	(281)	(244)
Interest Received	438	345
Interest Expense	(286)	(514)
Earnings before income tax expense	5,251	5,410
Income tax expense	(1,518)	(1,540)
Profit/(Loss) for the period from continuing operations	3,733	3,870

	Half-year ended 31 December 2010		Half-year ended 31 December 2009	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>3. Dividends</b>				
During the period, DKN Financial Group Ltd made the following dividend payments:				
<b><u>Recognised amounts</u></b>				
<b>Fully paid ordinary shares</b>				
Final dividend	2.0	2,885	2.0	2,840
	2.0	2,885	2.0	2,840
<b><u>Unrecognised amounts</u></b>				
<b>Fully paid ordinary shares</b>				
Interim dividend	-	-	-	-

#### 4. Issuances, repurchases and repayments of securities

There were the following movements in DKN Financial Group Ltd's securities during the half year ended 31 December, 2010:

	Fully Paid Ordinary Shares	Options
Balance at 1 July, 2010	141,981,621	9,458,500
Conversion of Performance rights	2,250,000	-
Issue of Options	-	5,495,000
Options Lapsed	-	(1,711,000)
	-	-
Balance as at 31 December, 2010	144,231,621	13,242,500

#### 5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

##### Carrying Value of Assets – Intangibles and Goodwill

'Value in use' method has been used to calculate the recoverable amount for the purpose of impairment testing of these assets in accordance with AASB136 "Impairment of Assets". The following key assumptions have been made in calculating the 'value in use':

Growth Rate beyond 5 years	5%
Discount Rate	12%

### **Carrying Value of Assets – Associate Investments**

'Value in use' method has been used to calculate the recoverable amount for the purpose of impairment testing of these assets in accordance with AASB136 "Impairment of Assets". The following key assumptions have been made in calculating the 'value in use':

Growth Rate beyond 5 years	3%
Discount Rate	15%

There has been no change to these rates since the last reporting period.

### **6. Contingent Liabilities**

There are no contingent liabilities as at 31 December 2010. There were no contingent liabilities as at 31 December 2009.

### **7. Further Acquisition of Equity Partners**

During November 2010, DKN Stakeholders Pty Ltd purchased a 20% holding in Moneyplan Australia Pty Ltd. The founder and Managing director of Moneyplan Australia Pty Ltd, Peter Dunn is also a director of DKN Financial Group Limited. This is the eighth equity investment undertaken by DKN since it launched its Equity Partner strategy in May 2005. Moneyplan Australia provide specialist financial planning services including Risk, Aged Care and Self Managed Super fund advice to a wide range of clients.

### **8. Merger of Equity Partners**

In July 2010, existing equity partners Thornton Group (SA) Pty Ltd and Tulare Financial Planners Pty Ltd merged their business operations. DKN holds 34.71% of the merged entity. The merged entity provides a wide range of services including financial planning, investment, self-managed superannuation and risk services.

### **9. Reinstatement of Equity Partner's carrying value**

In the year ending June 30, 2010, it was disclosed that 76% of a prior impairment charge made against an Equity Partner investment was reversed due to that investment's performance significantly improving. During the current period, the remaining 24% of that impairment charge was reversed due to the continuing improvement in that asset.

### **10. Control of entity lost during the period.**

During the period, DKN, through its subsidiary company Lonsdale Financial Group Limited, sold 50% of its equity in Lonsdale Financial Choice Pty Ltd to Acceptance Finance Pty Ltd. Lonsdale Finance Choice Pty Ltd ceased to be a subsidiary company of the group as a result of that transaction. It is envisaged that by joining the Acceptance Finance group, Lonsdale Finance Choice Pty Ltd will benefit from the resulting scale that the new group will bring.

## 11. Subsequent Events

No matter or circumstance has arisen since 31 December 2010 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years, or
- the results of those operations in future financial years, or
- the consolidated entity's state of affairs in future financial years.