Reckon Limited
ACN 003 348 730

Directors' Report

The directors of Reckon Limited submit herewith the financial report of Reckon Limited and it's subsidiaries (the Group) for the half year ended 30 June 2022. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the company's directors in office during or since the end of the half-year are as follows:

Greg Wilkinson
Clive Rabie
Phil Hayman
Sam Allert

Review of Operations

Overview of financial performance for the half-year:

Reckon Limited ("Reckon" or the "Company") (ASX: RKN) is pleased to report strong financial and operational performance for the six-month period ended 30 June 2022 (H1 CY2022).

Financial highlights (total group):

- Normalised NPAT of $6m, up 5% on the prior corresponding period (PcP)[1]
- Normalised EBITDA of $18m, a 6% increase on PcP
- Normalised revenues of $39m, up 2% on PcP
- Annual recurring revenues (ARR) of $36m, marking a 5% increase on the PcP
- Fully franked interim dividend of $0.03 per share

Financial highlights (continuing operations):

- Normalised NPAT of $4m, up 8% on the prior corresponding period (PcP)
- Normalised EBITDA of $11m, a 6% rise on PcP
- Normalised revenues of $27m, up 2% on PcP
- Annual recurring revenues (ARR) of $24m, a 6% increase on the PcP

Note 1: Non-IFRS - Growth has been normalised and is for continuing businesses and on a constant currency basis as set out in the Additional Information table. This applies to all results in this report.

Sale of Practice Management Accountant Group:

- Sale of the Practice Management Accountant Group to The Access Group for a cash consideration of $100m, an 8.4x multiple of FY21 EBITDA for the operating division
- Additional partially franked special dividend of between $0.54 and $0.58 is expected to be declared from sale of the Accountants Group division, subject to finalisation of completion accounts, tax payments and other aspects of completion

Operational highlights:

- Reckon now fully focused on advancing growth across its Business and Legal Groups through ongoing investment and launch of new cloud products and other cross selling opportunities
- R&D spend of $11m, underpinning continued growth in cloud-based products
- Agreement with ASX-listed payments company Novatti (ASX: NOV) for launch of an integrated payments solution

Group Net Profit After Tax (NPAT) from continuing operations was $4m on a constant-currency basis, a 8% uplift on the previous corresponding period (PcP). Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) from continuing operations was $11m, a 6% uplift on the PCP.

First-half highlights included the $100m cash sale of Accountants Group division (refer ASX announcement: 1 August 2022), with strong revenue and earnings growth across the Company's remaining operating divisions. Proceeds of the sale are expected to fund the payment of a partially franked special dividend of between $0.54 and $0.58 to shareholders as well as reduce a portion of the Company's debt.

Momentum in the first half from continuing operations was underpinned by growth in subscription revenue in the Company's remaining two divisions; Small Business (accounting and payroll solutions for SMEs) and Legal (practice management and workflow for law firms).

Group revenue from continuing operations was $27m, up 2% on the PcP, with recurring subscription revenue accounting for 90% of total revenue.

The Business Group recorded H1 subscription revenue of $19.9m, up 6% on PCP. The integrated payments solution with Novatti, which holds a 19.9% stake in the Company, is also expected to create additional revenue opportunities for the Business Group.

The Legal division recorded H1 subscription revenues of $4.4m (up 5% on the PcP) and further established its footprint in the US market, where its customer base includes five of the world's largest law firms.

Segment performance (continuing operations):

Business Group

- H1 revenues of $21.9m (up 3% on PcP),
- Comprising 91% subscription revenue, with over 400,000 employees now paid via Reckon software
- EBITDA increased to $12.3m, an 6% increase over PcP
- Cloud revenue up by 9% on PCP, representing 52% of the divisions HY revenue
- Continued growth across our cloud and mobile payroll solutions, with integration of Novatti payments solution expected to support H2 CY2022 sales growth

Practice Management – Legal Group

- H1 subscription revenues of $4.4m, up 5% from PcP
- Continued investment in cloud-based software services and sales capability
- Opportunity to introduce cloud practice management suite for law firms still largely using desktop software
- Reckon retains 70% of division with incentives for US management to increase equity through revenue milestones
- US$5m committed to fund growth via combination of cash and loans

	HY22 ($m)	HY21 ($m)	Growth
Revenue			
Revenue from continuing operations at constant currency (Non-IFRS)	27.0	26.5	2%
Discontinued operations	11.6	12.1	
Currency impact[a]	-	(0.3)	
Reported revenue	38.6	38.3	
EBITDA			
EBITDA from continuing operations at constant currency (Non-IFRS)	11.1	10.4	6%
Discontinued operations	6.1	6.6	
Transaction costs and acquisition related non-cash treasury share expense	(0.4)	(0.6)	
Reported EBITDA	16.8	16.4	
NPAT			
NPAT from continuing operations at constant currency (Non-IFRS)	4.1	3.8	8%
Transaction costs and acquisition related non-cash treasury share expense	(0.4)	(0.6)	
Discontinued operations	1.6	2.1	
Non-controlling interest	(0.4)	(0.2)	
Reported NPAT	4.9	5.1	

Notes:
a. Currency impact represents the difference in translation of HY22 and HY21 for transactions denominated in foreign currency.

Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports), Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditors, BDO Audit Pty Ltd, which is attached to these financial statements.

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

On behalf of the directors

Greg Wilkinson
Chairman
Sydney, 9 August 2022

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2022

	Note	Half-year 30 June 2022 $'000	30 June 2021 $'000 Restated[1]
Continuing operations			
Revenue from sale of goods and rendering of services	**3**	**27,000**	**26,174**
Product costs		(3,511)	(3,267)
Employee benefits expenses		(8,402)	(8,642)
Share-based payments expenses		(581)	(626)
Marketing expenses		(1,631)	(1,390)
Premises and establishment expenses		(272)	(282)
Telecommunications		(169)	(154)
Other expenses		(1,634)	(1,820)
Transaction costs		(59)	(160)
Depreciation and amortisation		(6,253)	(5,452)
Finance costs		(89)	(485)
Profit before income tax		**4,399**	**3,896**
Income tax expense		(1,113)	(913)
Profit for the half-year from continuing operations		**3,286**	**2,983**
Profit from discontinued operations - trading		2,025	2,222
Discontinued operations - sale costs expensed		(420)	(64)
Profit from discontinued operations attributable to owners of the parent	2, 11	1,605	2,158
Profit for the half-year		**4,891**	**5,141**
Profit attributable to:			
Owners of the parent		5,316	5,368
Non-controlling interest		(425)	(227)
		4,891	**5,141**
Earnings per share		cents	cents
Basic earnings per share		4.7	4.7
Diluted earnings per share		4.6	4.6
Earnings per share from continuing operations		cents	cents
Basic earnings per share		3.3	2.8
Diluted earnings per share		3.2	2.7
Earnings per share from discontinued operations		cents	cents
Basic earnings per share		1.4	1.9
Diluted earnings per share		1.4	1.9

1. Refer note 11 in the accompanying notes

The above condensed consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2022

	Half-year 30 June 2022 $'000	30 June 2021 $'000
Profit for the half-year	**4,891**	**5,141**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value movement on interest rate swap	58	151
Exchange differences on translation of net asset values of foreign operations - continuing operations	441	160
Exchange differences on translation of net asset values of foreign operations - discontinued operations	(41)	(4)
	458	307
Total comprehensive income	**5,349**	**5,448**
Total comprehensive income attributable to:		
Owners of the parent	5,774	5,675
Non-controlling interest	(425)	(227)
	5,349	**5,448**

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position as at 30 June 2022

	Note	June 2022 $'000	December 2021 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		848	1,394
Trade and other receivables	8	1,594	2,969
Inventories		449	566
Current tax receivables		724	420
Other assets		1,442	1,937
		5,057	7,286
Assets classified as held for sale	11	34,182	-
Total Current Assets		39,239	7,286
Non-Current Assets			
Trade and other receivables	8	141	-
Property, plant and equipment		1,040	1,810
Deferred tax assets		39	42
Intangible assets	14	29,183	58,202
Other assets		134	170
Right of use assets		2,605	4,362
Total Non-Current Assets		33,142	64,586
Total Assets		72,381	71,872
LIABILITIES			
Current Liabilities			
Trade and other payables		3,753	4,468
Provisions		1,920	3,022
Contract liabilities		5,720	5,912
Other financial liabilities		-	58
Lease liabilities		1,151	1,737
		12,544	15,197
Liabilities directly associated with assets classified as held for sale	11	3,655	-
Total Current Liabilities		16,199	15,197
Non-Current Liabilities			
Trade and other payables		421	1,183
Borrowings	6	14,266	16,137
Deferred tax liabilities		4,697	3,995
Provisions		198	268
Lease liabilities		1,874	3,269
Total Non-Current Liabilities		21,456	24,852
Total Liabilities		37,655	40,049
NET ASSETS		34,726	31,823
EQUITY			
Issued capital	4	20,524	20,524
Reserves		(48,265)	(48,626)
Retained earnings		61,317	58,631
Equity attributable to owners of the parent		33,576	30,529
Non-controlling interest		1,150	1,294
TOTAL EQUITY		34,726	31,823

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

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2022

	Issued capital $'000	Share buy back reserve $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Acquisition of non-controlling interest reserve $'000	Swap hedging reserve $'000	Retained earnings $'000	Non-controlling interest $'000	Total $'000
Total equity at 1 January 2022	**20,524**	**(42,018)**	**(1,689)**	**1,291**	**(6,152)**	**(58)**	**58,631**	**1,294**	**31,823**
Profit for the half-year	-	-	-	-	-	-	5,316	(425)	4,891
Fair value movement on interest rate swap	-	-	-	-	-	58	-	-	58
Exchange differences on translation of net asset values of foreign operations	-	-	397	3	-	-	-	-	400
Total Comprehensive Income for the half year	-	-	397	3	-	58	5,316	(425)	5,349
Dividends paid	-	-	-	-	-	-	(2,266)	-	(2,266)
Vested shares (note 4)	-	-	-	(444)	-	-	(364)	-	(808)
Share based payments expense	-	-	-	347	-	-	-	281	628
Total equity at 30 June 2022	**20,524**	**(42,018)**	**(1,292)**	**1,197**	**(6,152)**	**0**	**61,317**	**1,150**	**34,726**
Total equity at 1 January 2021	**20,524**	**(42,018)**	**(1,905)**	**679**	**(6,152)**	**(257)**	**54,508**	**-**	**25,379**
Profit for the half-year	-	-	-	-	-	-	5,368	(227)	5,141
Fair value movement on interest rate swap	-	-	-	-	-	151	-	-	151
Exchange differences on translation of net asset values of foreign operations	-	-	156	-	-	-	-	-	156
Total Comprehensive Income for the half year	-	-	156	-	-	151	5,368	(227)	5,448
Dividends paid	-	-	-	-	-	-	(2,266)	-	(2,266)
Non-controlling interest at date of acquisition (note 12)	-	-	-	-	-	-	-	853	853
Vested shares (note 4)	-	-	-	(43)	-	-	22	-	(21)
Share based payments expense	-	-	-	215	-	-	-	439	654
Total equity at 30 June 2021	**20,524**	**(42,018)**	**(1,749)**	**851**	**(6,152)**	**(106)**	**57,632**	**1,065**	**30,047**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows for the half-year ended 30 June 2022

	Note	Half-year 30 June 2022 $'000	30 June 2021 $'000
Cash Flows From Operating Activities			
Receipts from customers		42,568	42,380
Payments to suppliers and employees		(24,583)	(24,152)
Payment for capitalised development costs		(11,019)	(9,800)
Interest paid		(193)	(369)
Income tax paid		(1,256)	(1,132)
Net cash inflow from operating activities		5,517	6,927
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(125)	(520)
Net proceeds from sale of business	13	-	12,892
Cash balance on acquisition of subsidiary	12	-	613
Net decrease/(increase) in loans receivable		-	115
Net cash inflow/(outflow) from investing activities		(125)	13,100
Cash Flows From Financing Activities			
Dividends paid		(2,266)	(2,266)
Payment for treasury shares		(808)	(21)
Payments for lease liabilities capitalised under AASB16		(984)	(1,052)
Proceeds from USA Cares Act loan		-	1,202
Repayment of borrowings	6	(1,871)	(17,239)
Net cash outflow from financing activities		(5,929)	(19,376)
Net Increase/(decrease) in Cash and Cash Equivalents		**(537)**	**651**
Cash and cash equivalents at the beginning of the half-year		1,394	1,134
Effects of exchange rate changes on cash and cash equivalents		(9)	16
Cash and Cash Equivalents at the end of the half-year		848	1,801

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Condensed Consolidated Financial Statements
for the half-year ended 30 June 2022

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2022 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This interim financial report does not include all of the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2021 and any public announcements made by Reckon Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. All amounts are presented in Australian dollars.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report in the half year financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except as noted below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Amendments to Accounting Standards and new Interpretations that are mandatory effective from the current reporting period

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 its operations and effective for the current reporting period. There has been no impact on the Group results as a result of these new Standards.

COVID-19 Impact

The Reckon Group has again displayed its resilience, by continuing to post growth in these extraordinary times. This is despite revenue growth being hampered by COVID-19 in the Legal Group, where there is a reliance on on-site sales and installation activity.

No impairment of assets is considered necessary.

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions, lockdowns and any economic stimulus that may be provided.

Note 2: Segment information

Primary segments

	Business Group $'000	Practice Management Legal Group $'000	Continuing operations Group $'000	Discontinued operations Group $'000	Consolidated Group $'000
Half-year 2022					
Segment revenue	**21,904**	**5,096**	**27,000**	**11,623**	**38,623**
Segment EBITDA	**12,331**	**(108)**	**12,223**	**6,679**	**18,902**
Depreciation and amortisation	(4,196)	(2,057)	(6,253)	(3,930)	(10,183)
Total segment profit before tax	**8,135**	**(2,165)**	**5,970**	**2,749**	**8,719**
Central administration costs			(1,423)	-	(1,423)
Transaction costs			(59)	(600)	(659)
Finance costs			(89)	-	(89)
Profit before tax			**4,399**	**2,149**	**6,548**
Income tax expense			(1,113)	(544)	(1,657)
Profit for the half-year			**3,286**	**1,605**	**4,891**
Half-year 2021 (Restated)					
Segment revenue	**21,319**	**4,855**	**26,174**	**12,141**	**38,315**
Segment EBITDA	**11,582**	**(98)**	**11,484**	**6,649**	**18,133**
Depreciation and amortisation	(3,875)	(1,577)	(5,452)	(3,716)	(9,168)
Total segment profit before tax	**7,707**	**(1,675)**	**6,032**	**2,933**	**8,965**
Central administration costs			(1,491)	-	(1,491)
Transaction costs			(160)	(92)	(252)
Finance costs			(485)	-	(485)
Profit before tax			**3,896**	**2,841**	**6,737**
Income tax expense			(913)	(683)	(1,596)
Profit for the half-year			**2,983**	**2,158**	**5,141**

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

The principal activities of these divisions are as follows:

Business Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.

Practice Management Accountants Group - development, distribution and support of practice management, tax, client accounting and related software and services under the APS and Elite brands, and up to 28 February 2021, the ReckonDocs brand. This division has been sold effective 1 August 2022.

Practice Management Legal Group - development, distribution and support of cost recovery, cost management, scan and cloud based integration platforms under the nQ Zebraworks brand predominantly to the legal market.

Discontinued operations relate to the Practice Management, Accountants Group sold during the half year and ReckonDocs business sold in 2021.
Details of the transactions are set out in notes 11 and 13.

Note 3. Revenue

Reckon generates revenue from the following revenue streams:

Primary segments		Revenue recognition	Business Group $'000	Practice Management Accountant Group $'000	Practice Management Legal Group $'000	Consolidated Group $'000
Half-year 2022						
Segment operating revenue:						
Subscription revenue	Licence, support and hosting	Over time	5,686	-	4,408	10,094
	Licence	Point in time	14,263	-	-	14,263
Other recurring revenue	Support	Over time	3	-	-	3
	Licence	Point in time	128	-	-	128
Loan income	Interest and commission	Over time	0	-	-	0
Other revenue	Membership support	Over time	106	-	-	106
	Membership fees - licence	Point in time	351	-	-	351
	Licence and implementation	Point in time	988	-	688	1,676
	Other	Point in time	379	-	-	379
Continuing operations			**21,904**	**0**	**5,096**	**27,000**
Discontinued operations	Bundled license, support					
	Hosting and implementation	Over time	-	11,256	-	11,256
	Licence and implementation	Point in time	-	367	-	367
	Corporate services	Point in time	-	-	-	0
Total revenue			**21,904**	**11,623**	**5,096**	**38,623**
Half-year 2021 (Restated)						
Segment operating revenue:						
Subscription revenue	Licence, support and hosting	Over time	5,011	-	3,993	9,004
	Licence	Point in time	13,734	-	-	13,734
Other recurring revenue	Support	Over time	19	-	-	19
	Licence	Point in time	715	-	-	715
Loan income	Interest and commission	Over time	87	-	-	87
Other revenue	Membership support	Over time	326	-	-	326
	Membership fees - licence	Point in time	1,093	-	-	1,093
	Licence and implementation	Point in time	-	-	862	862
	Other	Point in time	334	-	-	334
Continuing operations			**21,319**	**0**	**4,855**	**26,174**
Discontinued operations	Bundled license, support					
	Hosting and implementation	Over time	-	11,165	-	11,165
	Licence and implementation	Point in time	-	230	-	230
	Corporate services	Point in time	-	746	-	746
Total revenue			**21,319**	**12,141**	**4,855**	**38,315**

Note 4. Issued capital

113,294,832 shares were in issue at 30 June 2022 and at 31 December 2021.

796,479 treasury shares (2021: 25,625) were purchased in the current period for $808 thousand.

796,479 treasury shares (2021: 25,625) vested in the current period valued at $444 thousand.

	Half-year	
	30 June 2022 $'000	30 June 2021 $'000

Note 5. Dividends

Ordinary shares

Dividends paid during the half-year	2,266	2,266

Dividends not recognised at the end of the half-year

In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 3 cents per fully paid ordinary share (2021: 3 cents). The dividend will be fully franked. The aggregate amount of the proposed dividend expected to be paid on 23 September 2022 out of the retained profits at 30 June 2022, but not recognised as a liability at the end of the half-year, is	3,399	3,399

Note 6. Borrowings

The Group has bank facilities in place to March 2025. The facility comprises variable rate bank overdraft facilities, loan facilities, bank guarantee and transactional facilities that totalled $40million during the period. The facility is secured over the Australian and New Zealand assets. Reckon has partially hedged the bank borrowings to August 2022.

A portion of the proceeds from the sale of the Practice Management Accounts Group business will be used to reduce borrowings, and as a result bank facilities were reduced from $40 million to $25 million effective 1 August 2022.

Note 7. Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models. The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate their fair value.

Note 8. Trade and other receivables

	30 June 2022 $'000	December 2021 $'000
Current		
Trade receivables	1,474	2,739
Expected credit loss	(60)	(149)
Other receivables	180	379
	1,594	2,969
Non-Current		
Other receivables	141	-

Note 9. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of $7,990 thousand for continuing operations (December 2021: $7,911 thousand). This arose partly due to adoption of AASB 16, whereby right of use assets are treated as non-current assets, whereas a portion of lease liabilities are treated as current liabilities. Also, included in current liabilities are contract liabilities of $5,720 thousand, settlement of which will involve substantially lower cash outflows. Net cash inflows from operating activities for the half year were $5,517 thousand (2021: $6,927 thousand). Unused bank facilities at reporting date was $24,275 thousand. Based on the above, the Directors believe that preparation of the financial report on a going concern basis is appropriate.

	30 June 2022 $'000	30 June 2021 $'000

Note 10. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. STI and vested shares in respect of the 2021 year were paid/released in the half year. No STI has been paid or shares vested in respective of the 2022 year during the half year.

Note 11. Disposal of Practice Management Accountant Group

The Practice Management Accountant Group was sold to the Access Group for $100 million during the half year. The transaction completed on 1 August 2022 (refer note 15). Final completion accounts are currently being prepared, at which time the profit on sale will be determined.

Discontinued operations trading results

	30 June 2022 $'000	30 June 2021 $'000
Revenue	11,623	12,141
Expenses	(8,874)	(9,208)
Sale costs expensed	(600)	(92)
Profit before tax	2,149	2,841
Attributable income tax expense	(544)	(683)
Profit from discontinued operations attributable to owners of the parent	1,605	2,158

The 2021 results includes the results for ReckonDocs business for the period to 1 March 2021 (effective sale date), previously included in the Practice Management Accountant Group.

	30 June 2022 $'000	30 June 2021 $'000
Exchange differences on translation of net asset values of foreign operations (discontinued operations)	(41)	(4)

Assets classified as held for sale

	30 June 2022 $'000	30 June 2021 $'000
Trade and other receivables	1,151	-
Other assets	267	-
Intangible assets - goodwill	14,641	-
Intangible assets - development costs	16,591	-
Property, plant and equipment	472	-
Right of use assets	1,060	-
Assets classified as held for resale	34,182	-

Liabilities directly associated with assets classified as held for sale

	30 June 2022 $'000	30 June 2021 $'000
Trade and other payables	908	-
Provisions	1,430	-
Contract liabilities	76	-
Lease liabilities	1,241	-
Liabilities directly associated with assets classified as held for resale	3,655	-

Cashflows from discontinued operations

	30 June 2022 $'000	30 June 2021 $'000
Net cashflow from operating activities	1,800	-
Net cashflow from investing activities	(11)	-
Net cashflow from financing activities	(334)	-
	1,455	-

Note 12. Legal Group acquisition

The acquisition of Zebraworks Inc was concluded during the prior half year, and was effective from 1 February 2021. A new Legal Group USA holding company, nQueue Zebraworks Inc., was established and Zebraworks Inc. and the existing Legal Group were merged into this new structure.

Zebraworks is a SaaS start-up building an integration platform to move legal practices to the cloud. Reckon Limited owns 70% of the new venture, with Zebraworks shareholders (mainly management) owning 30%. Attaching to a portion of these shares are clawback provisions for certain members of management should they leave within three years. These shares are considered treasury shares of nQueue Zebraworks Inc. until such time as they vest. Vesting occurs in tranches over a three year period. Management have the opportunity to progressively increase their shareholding by 15% of total issued capital if certain KPI's are met by 2027. The KPI's include revenue targets and product release targets.

Trading results for the merged entity are as set out in note 2, and movements in the non-controlling interest are as set out in the condensed consolidated statement of changes in equity.

	30 June 2022 $'000	30 June 2021 $'000
Net assets acquired:		
Cash	-	613
Fixed assets	-	13
Other assets	-	2
Goodwill	-	221
	-	849
Non-controlling interest at acquisition comprised:		
Non-cash consideration transferred	-	2,449
Treasury shares issued	-	(1,600)
	-	849

	Half-year 30 June 2022 $'000	30 June 2021 $'000

Note 13. Disposal of ReckonDocs business

The ReckonDocs business was sold to Class Limited effective 1 March 2021.

	30 June 2022 $'000	30 June 2021 $'000
Net assets sold:		
Goodwill	-	11,124
Development costs	-	1,540
Trade debtors	-	476
Inventory	-	8
Provisions	-	(107)
	-	13,041
Proceeds on sale comprise:		
Cash settlement from Class Limited	-	12,473
Collection of trade receivables	-	509
Transaction costs	-	(90)
	-	12,892
Loss on disposal before income tax	-	149

Note 14. Intangible assets

	30 June 2022 $'000	December 2021 $'000
Goodwill		
Balance at the beginning of the period	18,349	29,107
Additions (note 12)	-	221
Disposals (note 13)	-	(11,124)
Discontinued operations (note 11)	(14,641)	-
Impairment to goodwill	(603)	-
Effect of foreign currency exchange differences	103	145
	3,208	18,349
Intellectual property	2	14
Development costs	25,973	39,839
Total intangible assets	29,183	58,202

Within the Business Group Segment, an impairment charge of $603 thousand has been incurred against the goodwill recorded on a Cash Generating Unit. Management re assessed the free cashflows and an extension of the timeline for achievement of the agreed earn out targets. The extension of the expected timeline for achievement of the earn out targets has resulted in a decrease in the value of the goodwill from $730 thousand (31 December 2021) to $127 thousand and a corresponding decrease in the associated deferred consideration, and as a result there is no impact in the statement of profit or loss. Management assessed the carrying value using a value in use discounted cash flow model with a discount rate of 10.8%.

Note 15. Subsequent events

The sale of the Practice Management, Account Group completed on 1 August 2022. Net after tax proceeds are expected to be used to repay some borrowings and pay a special dividend to shareholders.

Directors' Declaration

The directors declare that:

in the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 30 June 2022 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with accounting standards

(b) there are reasonable grounds to believe that Reckon Limited will be able to pay its debts as and when they become due and payable.

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

Greg Wilkinson
Chairman
Sydney, 9 August 2022

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Level 11, 1 Margaret Street
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Australia

DECLARATION OF INDEPENDENCE BY GARETH FEW TO THE DIRECTORS OF RECKON LIMITED

As lead auditor for the review of Reckon Limited for the half-year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

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

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

Gareth Few

Gareth Few
Director

BDO Audit Pty Ltd

Sydney, 9 August 2022

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Reckon Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Reckon Limited (the Company) and its subsidiaries (the Group), which comprises the condensed consolidated statement of financial position as at 30 June 2022, the condensed consolidated statement of profit or loss , the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) Giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the half-year ended on that date; and

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001* which has been given to the directors of the Company, would be the same terms if given to the directors as at the time of this auditor's review report.

Responsibility of the directors for the 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 June 2022 and its financial performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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.

BDO Audit Pty Ltd

BDO

Gareth Few

Gareth Few
Director

Sydney, 9 August 2022