

Directors' Report

Your directors present their report for the half-year ended 30 June 2014.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as follows:

John Thame
Greg Wilkinson
Ian Ferrier
Clive Rabie

Review of Operations

Overview of financial performance for the half-year:

	30 June 2014 \$'000	% growth	30 June 2013 \$'000
Operating revenue	\$ 51,100	3%	\$ 49,479
EBITDA excluding profit on sale of investment in joint venture(non IFRS)	\$ 19,267	11%	\$ 17,375
EBITDA	\$ 19,267	3%	\$ 18,715 *
Net profit after tax excl. profit on sale of investment in joint venture(non IFRS)	\$ 9,463	7%	\$ 8,884
Net profit after tax	\$ 9,463	-7%	\$ 10,224 *
Earnings per share excl. profit on sale of investment in joint venture(non IFRS)	7.3 cents	7%	6.8 cents
Earnings per share	7.3 cents	-7%	7.9 cents *

* 2013 statutory results included the profit on sale on the investment in Connect2Field Holdings Pty Ltd of \$1,340 thousand.

This represents a strong result with revenue impacted by a concerted drive towards converting as much revenue as possible to a subscription model, thereby building a more sustainable business for the future at the expense of short-term revenue growth. While revenue overall grew at what appears to be a modest 3%, subscription revenue grew 12% in the half year.

Profit was also impacted by a considerable investment in online capability both in the development of the products and building infrastructure and sales capability to support this new business opportunity.

Reckon already has the advantage of a substantial recurring revenue base and not being exposed to the risk of a single product strategy. In addition to this, the expansion of the product range into online offerings is expected to provide future incremental revenue opportunities.

Business Group

The Business Group subscription revenue has grown by 12%, with the Reckon Accounts Hosted product again being the stellar performer. We expect that the recently launched next generation Hosted product, will provide further opportunities in a market space for businesses requiring online capability but with substantially richer functionality than traditional low end cloud products.

New desktop sales of the higher end products have reduced as clients opt for our Hosted product, however volume growth is still being generated in the smaller desktop products. The retail channel continues to decline.

Reckon's cloud product targeted at the smaller business market, Reckon One, was launched earlier this year. The product is gaining traction albeit that it is still early days as we continue to build market awareness of the product and enhance functionality.

The relationship with Intuit Inc ended in February 2014, with the result that this division enjoyed a royalty saving of \$2.5m for the period, some of which has been re-invested into online capability, however most of the royalty saving has dropped through to the bottom line.

Accountants Group

The Accountants Group subscription revenue has grown by 9%, reflecting an aggressive move away from the previous upfront sales model in previous periods. As expected the upfront component of revenue has fallen significantly in the half year, and in dollar terms this offsets the subscription growth referred to above. There are already signs of an expansion of the addressable market of customers that were previously averse to large upfront commitments.

The ReckonDocs content business has again performed strongly with revenue growth of 6% and has benefitted from its inclusion in the Accountants Group this year.

International Group

In the International Group, subscription revenue growth has also been very strong at 18%, reflecting the continuing impressive growth trends in the Virtual Cabinet business and benefitting from exchange gains. In July 2014 we increased our ownership of the Virtual Cabinet business by a further 20% to a shareholding of 70% for \$2.4m.

Offsetting the strength of Virtual Cabinet was weakness in the nQueue business as a number of large orders were delayed.

As with the other divisions, the focus here is also on the move to a subscription model and hence upfront revenue has fallen by 14%, but despite this overall revenue growth has still been maintained.

The Board has declared an interim dividend of 4.25 cents (2013: 4 cents), and this dividend will again be franked to 90%.

On 22 July 2014 shareholders approved the selective buyback of the shareholding of Intuit Inc. of 14,828,304 shares at \$1.85 per share. The shares were acquired at a substantial discount to the share price at the time. This transaction not only removes an overhang on the Reckon share price but is also EPS accretive. The funds have been remitted to Intuit and the shares have been cancelled.

Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order, 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, Deloitte Touche Tohmatsu, 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



John Thame
Chairman

Sydney, 12 August 2014

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2014

		30 June 2014 \$'000	Half-year 30 June 2013 \$'000
	Note		
Continuing operations			
Revenue from sale of goods and rendering of services	2	51,110	49,479
Product and selling costs		(10,023)	(9,033)
Royalties		(148)	(2,667)
Employee benefits expenses		(15,626)	(14,757)
Marketing expenses		(1,162)	(1,436)
Premises and establishment expenses		(1,212)	(1,121)
Telecommunications		(467)	(404)
Depreciation and amortisation of other non-current assets		(6,314)	(5,163)
Finance costs		(447)	(365)
Other expenses		(3,025)	(2,463)
Profit on sale of investment in joint venture entity		-	1,340
Net costs associated with premises relocation		(180)	(222)
Profit before income tax		12,506	13,188
Income tax expense		(3,043)	(2,964)
Profit for the half-year		9,463	10,224
Profit attributable to:			
Owners of the parent		9,240	10,131
Non-controlling interest		223	93
		9,463	10,224
Earnings per share		cents	cents
Basic earnings per share		7.3	7.9
Diluted earnings per share		7.3	7.8
Alternative earnings per share (excluding profit on sale of investment in joint venture)		cents	cents
Basic earnings per share		7.3	6.8
Diluted earnings per share		7.3	6.8

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 2014

	30 June 2014 \$'000	Half-year 30 June 2013 \$'000
Profit for the half-year	<u>9,463</u>	<u>10,224</u>
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>(693)</u>	<u>1,356</u>
Total comprehensive income	<u>8,770</u>	<u>11,580</u>
Profit and comprehensive income is attributable to:		
Owners of the parent	8,547	11,487
Non-controlling interest	<u>223</u>	<u>93</u>
	<u>8,770</u>	<u>11,580</u>

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 2014

	Note	June 2014 \$'000	December 2013 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		4,787	2,573
Trade and other receivables		10,162	10,998
Inventories		2,068	1,746
Other assets		2,392	2,291
Total Current Assets		<u>19,409</u>	<u>17,608</u>
Non-Current Assets			
Receivables		1,039	1,194
Other financial assets		60	56
Property, plant and equipment		2,903	3,279
Deferred tax assets		114	127
Intangible assets		78,932	77,848
Other assets		800	599
Total Non-Current Assets		<u>83,848</u>	<u>83,103</u>
Total Assets		<u>103,257</u>	<u>100,711</u>
LIABILITIES			
Current Liabilities			
Trade and other payables		5,335	4,731
Borrowings	5	89	58
Other financial liabilities		3,459	-
Current tax payables		1,109	1,131
Provisions		3,508	3,471
Deferred revenue		9,597	9,285
Total Current Liabilities		<u>23,097</u>	<u>18,676</u>
Non-Current Liabilities			
Borrowings	5	15,600	17,433
Other financial liabilities		5,802	11,658
Deferred tax liabilities		4,943	4,107
Provisions		693	722
Total Non-Current Liabilities		<u>27,038</u>	<u>33,920</u>
Total Liabilities		<u>50,135</u>	<u>52,596</u>
NET ASSETS		<u>53,122</u>	<u>48,115</u>
EQUITY			
Issued capital	3	16,818	16,818
Reserves		(15,886)	(17,641)
Retained earnings		52,190	48,938
TOTAL EQUITY		<u>53,122</u>	<u>48,115</u>

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 2014

	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	Retained earnings \$'000	Non- controlling interest \$'000	Total \$'000
Total equity at 1 January 2014	16,818	(14,506)	2,500	484	(6,119)	48,938	-	48,115
Profit for the half-year						9,240	223	9,463
Exchange differences on translation of foreign operations			(693)					(693)
Total Comprehensive Income	-	-	(693)	-	-	9,240	223	8,770
Dividends paid						(5,988)		(5,988)
Share based payments expense				158				158
Transfer to acquisition of non- controlling interest reserve					223		(223)	-
Remeasurement of Linden House option liability					2,067			2,067
Treasury shares acquired	-							-
Total equity at 30 June 2014	16,818	(14,506)	1,807	642	(3,829)	52,190	-	53,122
Total equity at 1 January 2013	16,878	(8,978)	(1,383)	503	(4,981)	42,379	-	44,418
Profit for the half-year						10,131	93	10,224
Exchange differences on translation of foreign operations			1,356					1,356
Total Comprehensive Income	-	-	1,356	-	-	10,131	93	11,580
Dividends paid						(6,111)		(6,111)
Share based payments expense				105				105
Transfer to acquisition of non- controlling interest reserve					93		(93)	-
Remeasurement of Linden House option liability					(1,321)			(1,321)
Treasury shares acquired	(320)							(320)
Total equity at 30 June 2013	16,558	(8,978)	(27)	608	(6,209)	46,399	-	48,351

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 2014

	30 June 2014 \$'000	Half-year 30 June 2013 \$'000
Cash Flows From Operating Activities		
Receipts from customers	57,202	52,659
Payments to suppliers and employees	(36,442)	(36,301)
Interest received/(paid)	(447)	(365)
Income tax paid	<u>(2,216)</u>	<u>(2,642)</u>
Net cash inflow from operating activities	<u>18,097</u>	<u>13,351</u>
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(323)	(752)
Payment for purchase of business	(330)	(160)
Payment for purchase of intellectual property	(206)	-
Payment for capitalised development costs	(7,795)	(6,080)
Proceeds from government grant (development costs)	<u>607</u>	<u>-</u>
Net cash inflow/(outflow) from investing activities	<u>(8,047)</u>	<u>(6,992)</u>
Cash Flows From Financing Activities		
Dividends paid	(5,988)	(6,111)
Payment for treasury shares	-	(320)
Proceeds from/(repayment of) borrowings	<u>(1,783)</u>	<u>571</u>
Net cash (outflow) from financing activities	<u>(7,771)</u>	<u>(5,860)</u>
Net Increase/(Decrease) In Cash and Cash Equivalents	2,279	499
Cash and cash equivalents at the beginning of the half-year	2,554	1,432
Effects of exchange rate changes on cash and cash equivalents	<u>(46)</u>	<u>13</u>
Cash and Cash Equivalents at the end of the half-year	<u><u>4,787</u></u>	<u><u>1,944</u></u>

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 2014

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2014 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 2013 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. All amounts are presented in Australian dollars.

The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the interim financial report have been rounded off to the nearest thousand dollars.

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.

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

Note 2: Segment information

Primary segments

Half-year 2014

Segment operating revenue

Other revenue

Total revenue

Segment EBITDA

Depreciation and amortisation

Total segment profit before tax

Central administration costs

Finance costs

Profit before tax

Income tax expense

Profit for the half-year

Business Group \$'000	Accountants Group \$'000	International Group \$'000	Consolidated \$'000
19,608	22,852	8,650	51,110
			-
			51,110
10,732	8,358	2,529	21,619
(1,350)	(3,429)	(1,534)	(6,313)
9,382	4,929	995	15,306
			(2,352)
			(448)
			12,506
			(3,043)
			9,463

Half-year 2013

Segment operating revenue

Other revenue

Total revenue

Segment EBITDA

Depreciation and amortisation

Total segment profit before tax

Central administration costs

Profit on sale of investment in joint venture

Finance costs

Profit before tax

Income tax expense

Profit for the half-year

19,330	22,309	7,840	49,479
			-
			49,479
8,473	8,379	2,324	19,176
(669)	(3,191)	(1,303)	(5,163)
7,804	5,188	1,021	14,013
			(1,800)
			1,340
			(365)
			13,188
			(2,964)
			10,224

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 Business Group in the 2013 Interim Financial Report included the ReckonDocs and Elite businesses. These businesses are now included in the Professional Group and the 2013 results have been restated to reflect this change. The nQueueBillback and Virtual Cabinet Divisions have also been combined to form the International Group in 2013.

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 as related products and services. Products sold in this division include Reckon Accounts (formerly QuickBooks and Quicken) and Reckon One.

Professional Group - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as wells as the ReckonDocs and Elite products.

International Group - distribution and support of cost recovery, cost management and related software under the nQueueBillback brand predominantly to the legal market, and development, distribution and support of document management and document portal products under the Virtual Cabinet brand.

Note 3. Issued capital

Issued capital at 30 June 2014 amounted to \$16,818 thousand (126,913,066 shares)

Nil treasury shares (2013: 134,279) were purchased in the current period.

	Half-year	
30 June 2014 \$'000		30 June 2013 \$'000

Note 4. Dividends

Ordinary shares

Dividends paid during the half-year	<u>5,988</u>	<u>6,111</u>
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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 4.25 cents per fully paid ordinary share (2013: 4 cents). The dividend will be 90% franked. The aggregate amount of the proposed dividend expected to be paid on 10 September 2014 out of retained profits at 30 June 2014, but not recognised as a liability at the end of the half-year, is

<u>4,727</u>	<u>5,142</u>
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Note 5. Borrowings

The Group has existing bank facilities totalling \$33.9 million. These facilities have been increased by \$20 million after the half year to accommodate the buy back of Intuit's shares in July 2014. The maturity periods remain unchanged.

Note 6. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of \$3,688 thousand (December 2013: \$1,068 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Unused bank facilities at balance date total \$16.4 million. Furthermore, included in current liabilities is deferred revenue of \$9,597 thousand (December 2013: \$9,285 thousand), settlement of which will involve substantially lower cash flows.

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. Subsequent events

On 22 July 2014 shareholders approved the selective buy back of the shareholding of Intuit Inc. of 14,828,304 shares at \$1.85 per share. The funds have been remitted to Intuit and the shares have been cancelled. The shares were bought back at a 13% discount to the VWAP on the date of the agreement with Intuit, is EPS accretive, removes a competitor from the company's share register and removes an overhang.

A further 20% of Linden House Software Limited was acquired effective 2 July 2014 for \$2.4 million following the retirement of one of the original owners of the business. This transaction will have no impact on the results of the Reckon Group apart from bringing forward part of the expected final payment to one of the vendors at a price reduced to reflect the early exit from the business. The remainder of the vendors will remain with the business and the final payment is due to be made after completion of the June 2015 results.

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 2014 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



John Thame
Chairman

Sydney, 12 August 2014

Independent Auditor's Review Report to the Members of Reckon Limited

We have reviewed the accompanying half-year financial report of Reckon Limited, which comprises the condensed consolidated statement of financial position as at 30 June 2014, 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 cash flows and the condensed consolidated 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 3 to 12.

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 gives a true and fair view and 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 30 June 2014 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 Reckon 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.



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 Reckon Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Reckon 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 30 June 2014 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

Alfred Nehama
Partner
Chartered Accountants
Sydney, 12 August 2014

The Board of Directors
Reckon Limited
Level 12
65 Berry Street
North Sydney NSW 2060

12 August 2014

Dear Board Members

RECKON 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 Reckon Limited.

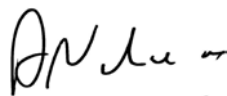
As lead audit partner for the review of the financial statements of Reckon Limited for the half-year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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



Alfred Nehama
Partner
Chartered Accountants