



**Notification to the ASX**

**22 August 2005**

**Reckon Limited (RKN)**

# **HALF YEAR RESULTS**

## **Announcement to the market**

Please see the attached Highlights, Appendix 4D, half year financial report, and analysts presentation for the period ending 30 June 2005.

The information should be read in conjunction with the most recent annual financial report.

For further information, please contact:

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Reckon Limited  
(02) 9577 5946

## Reckon Limited Highlights – Half Year Ending 30 June 2005

Reckon is pleased to announce details of the company's results to 30 June this year.

	<b>6 months to June 2005</b> (‘000)	<b>6 months to June 2004</b> (‘000)	<b>% Growth</b>
<b>Revenue</b>	<b>\$22.2 million</b>	<b>\$18.8 million</b>	<b>Up 18%</b>
<b>EBITDA</b>	<b>\$5.5 million</b>	<b>\$4.3 million</b>	<b>Up 30%</b>
<b>NPBT</b>	<b>\$5.2 million</b>	<b>\$4.1 million</b>	<b>Up 27%</b>
<b>Income Tax Expense</b>	<b>\$1.8 million</b>	<b>\$0.1 million</b>	<b>-</b>
<b>NPAT</b>	<b>\$3.4 million</b>	<b>\$4.0 million</b>	<b>Down 14%</b>

Results for 30 June 2004 have been restated to reflect AIFRS requirements. This has resulted in an increase in net profit before tax of \$0.3 million over previously reported results.

Key drivers for growth so far this year have been:

- A successful year for the APS businesses with further growth in top accounting firms using APS technology
- QuickBooks continuing to grow market share through retail sales;
- QuickBooks sales also continuing to grow through recommendations from accounting firms to their clients; and
- Developing strong recurring revenue streams across the group.

Trading for the first month of the second half of the year is in line with expectations.

Net profit after tax is negatively impacted by a tax expense being booked for the first time in Australia. Notwithstanding the tax expense for the period being \$1.8 million, the cash flow impact of tax is only \$0.6 million.

The cash balance at 30 June 2005 was \$18.3 million. On 4 July 2005 a total of \$4.9 million was paid to shareholders as a return of capital.

# Appendix 4D

## Half year report

### 1. Company details

Name of entity

RECKON LIMITED

ABN or equivalent company reference

14 003 348 730

Half year ended ('current period')

30 JUNE 2005

Half year ended ('previous period')

30 JUNE 2004

### 2. Results for announcement to the market

\$A'000's

2.1	Revenues from ordinary activities	up	18.2 %	to	22,171
2.2	Profit (loss) from ordinary activities after tax attributable to members	down	14.0 %	to	3,408
2.3	Net profit (loss) for the period attributable to members	down	14.0 %	to	3,408
2.4	<b>Dividends</b>		Amount per security		Franked amount per security
	Interim dividend declared		NIL ¢		NIL ¢
2.5	+Record date for determining entitlements to the dividend.	N/A			
2.6	Brief explanation of any of the figures in 2.1 to 2.4 above necessary to enable the figures to be understood.				
	The increase in revenue and net profit before tax predominantly reflect growth experienced in both the Quicken and APS businesses. Net profit after tax is negatively impacted by a tax expense being booked for the first time in Australia. The cash flow impact of tax is \$561,000.				

### 3. NTA backing

	Current period	Previous corresponding period
Net tangible asset backing per <sup>+</sup> ordinary security	\$0.12	\$0.12

**4.1 Control gained over entities**

Name of entity (or group of entities)	N/A
Date control gained	
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	\$
Profit(loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period.	\$

**4.2 Loss of control over entities**

Name of entity (or group of entities)	N/A
Date control lost	
Contribution of such entities to the reporting entity's profit/ (loss) from ordinary activities during the period (where material).	\$
Consolidated profit/(loss) from ordinary activities of the controlled entity (or group of entities) whilst controlled during the whole of the previous corresponding period (where material).	\$

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## 5 Dividends

### Individual dividends per security

		Date dividend is payable	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
	<b>Interim dividend:</b> Current year	N/A	¢	¢	¢
	Previous year	N/A	¢	¢	¢

## 6 Dividend Reinvestment Plans

The <sup>†</sup>dividend or distribution plans shown below are in operation.

N/A
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The last date(s) for receipt of election notices for the <sup>†</sup>dividend or distribution plans

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## 7 Details of associates and joint venture entities

Name of associate/joint venture	Reporting entity's percentage holding		Contribution to Net profit/(loss) (where material)	
	Current Period	Previous corresponding period	Current Period	Previous corresponding period
N/A				

<b>Group's aggregate share of associates' and joint venture entities' profits/(losses) (where material):</b>	Current period \$A'000	Previous corresponding period \$A'000
Profit/(loss) from ordinary activities before tax		
Income tax on ordinary activities		
<b>Profit/(loss) from ordinary activities after tax</b>		
Extraordinary items net of tax		
<b>Net profit/(loss)</b>		
Adjustments		
<b>Share of net profit/(loss) of associates and joint venture entities</b>		

## 8 Foreign entities

For foreign entities, details of origin of accounting standards used in compiling the report (e.g. International etc.)
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N/A
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9. If the accounts are subject to audit dispute or qualification, details are described below

NIL

Sign here:



Date: 22 August 2005

(Director)

Print name: Greg Wilkinson

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# Directors' Report

Your directors present their report for the half-year ended 30 June 2005.

## Directors

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

John Thame  
Greg Wilkinson  
Phil Hayman (resigned 24 May 2005)  
Ian Ferrier  
Clive Rabie (appointed 24 May 2005)  
Fred Tinker

## Review of Operations

Overview of financial performance for the half-year:

	30 June 2005 \$'000	30 June 2004 \$'000
Revenue	\$ 22,171	\$ 18,753
Net Profit before tax	\$ 5,239	\$ 4,112
Income tax expense	\$ 1,831	\$ 150
Net Profit after tax	\$ 3,408	\$ 3,962

The increase in revenue and net profit before tax predominately reflect the growth experienced in both the Quicken and APS businesses. Net profit after tax is negatively impacted by a tax expense being booked for the first time in Australia. The cash flow impact of tax is \$561,000.

The company does not propose to declare a dividend at this time.

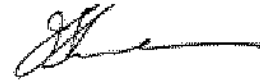
## Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Class Order 98/0100, 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.

## Auditor's independence declaration

We have obtained an independence declaration from our auditors, Horwath Sydney Partnership, which is attached to this report.

Signed in accordance with a resolution of the directors.



John Thame  
Chairman

Sydney, 22 August 2005

## Consolidated Income Statement For the half-year ended 30 June 2005

	30 June 2005 \$'000	Half-year	30 June 2004 \$'000
<b>Revenue from continuing operations</b>	22,171		18,753
Product and selling costs	(1,538)		(1,362)
Royalties	(2,260)		(1,811)
Employee benefits expense	(7,234)		(5,992)
Employee related expense	(328)		(279)
Expense of share-based payments	(157)		(148)
Marketing expense	(2,079)		(2,523)
Premises and establishment expenses	(842)		(759)
Depreciation and amortisation of other non-current assets	(735)		(497)
Telecommunications	(298)		(267)
Other expenses	<u>(1,461)</u>		<u>(1,003)</u>
<b>Profit before income tax</b>	5,239		4,112
<b>Income tax expense</b>	<u>(1,831)</u>		<u>(150)</u>
<b>Profit for the half-year</b>	3,408		3,962
Profit attributable to minority interest	<u>-</u>		<u>-</u>
<b>Profit attributable to members of RECKON LIMITED</b>	<u><u>3,408</u></u>		<u><u>3,962</u></u>
 <b>Earnings per share</b>			
	cents		cents
Basic earnings per share	2.5		2.9
Diluted earnings per share	2.4		2.8

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

## Consolidated Balance Sheet As at 30 June 2005

	30 June 2005 \$'000	31 December 2004 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	18,291	13,302
Receivables	5,911	4,399
Inventories	180	180
Other	438	338
<b>Total Current Assets</b>	<b>24,820</b>	<b>18,219</b>
<b>Non-Current Assets</b>		
Receivables	139	139
Other financial assets	316	316
Property, plant and equipment	643	613
Deferred tax assets	2,192	3,452
Intangible assets	15,731	14,901
Other	-	-
<b>Total Non-Current Assets</b>	<b>19,021</b>	<b>19,421</b>
<b>Total Assets</b>	<b>43,841</b>	<b>37,640</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Payables	5,453	3,170
Tax liabilities	519	509
Provisions	662	509
Other	1,720	1,647
<b>Total Current Liabilities</b>	<b>8,354</b>	<b>5,835</b>
<b>Non-Current Liabilities</b>		
Deferred tax liabilities	430	430
Provisions	156	113
<b>Total Non-Current Liabilities</b>	<b>586</b>	<b>543</b>
<b>Total Liabilities</b>	<b>8,940</b>	<b>6,378</b>
<b>NET ASSETS</b>	<b>34,901</b>	<b>31,262</b>
<b>EQUITY</b>		
Contributed equity	28,065	53,048
Reserves	668	488
Retained earnings/(accumulated losses)	6,170	(22,272)
Parent entity interest	34,903	31,264
Minority interest	(2)	(2)
<b>TOTAL EQUITY</b>	<b>34,901</b>	<b>31,262</b>

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity For the half-year ended 30 June 2005

	30 June 2005 \$'000	Half-year 30 June 2004 \$'000
<b>Total equity at the beginning of the half-year</b>	31,262	17,607
Employee share options	157	148
Exchange differences on translation of foreign operations	26	79
<b>Net income recognised directly into equity</b>	183	227
<b>Profit for the half-year</b>	3,408	3,962
<b>Total recognised income and expense for the half-year</b>	3,591	4,189
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	48	7,116
<b>Total equity at the end of the half-year</b>	34,901	28,912
Total recognised income and expense for the half-year attributable to:		
Members of Reckon Limited	3,591	4,189
Minority interest	-	-
	3,591	4,189

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

## Consolidated Cash Flow Statement For the half-year ended 30 June 2005

	30 June 2005 \$'000	Half-year 30 June 2004 \$'000
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	22,398	17,718
Payments to suppliers and employees	(\$16,288)	(14,363)
Interest received	435	301
	6,545	3,656
<b>Net cash inflow from operating activities</b>		
<b>Cash Flows From Investing Activities</b>		
Payment for property, plant and equipment	(192)	(200)
Payment for other assets	-	(43)
Payment for purchase of controlled entities, net of cash acquired	-	(3,365)
Payment for capitalised development costs	(1,403)	(838)
Security deposits released	-	101
	(1,595)	(4,345)
<b>Net cash (outflow) from investing activities</b>		
<b>Cash Flows From Financing Activities</b>		
Proceeds from issues of equity securities	48	58
	48	58
<b>Net cash inflow from financing activities</b>		
<b>Net Increase/(Decrease) In Cash and Cash Equivalents</b>	4,998	(631)
Cash and cash equivalents at the beginning of the half-year	13,302	15,372
Effects of exchange rate changes on cash and cash equivalents	(9)	10
	18,291	14,751
<b>Cash and Cash Equivalents at the end of the half-year</b>	18,291	14,751

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

# Notes to the Financial Statements

## For the half-year ended 30 June 2005

### Note 1. Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 30 June 2005 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001.

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 2004 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.

#### Basis of preparation of half-yearly report

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The financial report has been prepared in accordance with the historical cost convention.

This half-year financial report complies with the Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 30 June 2004 and full-year ended 31 December 2004 have been restated accordingly. Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 5.

#### Significant Accounting Policies

##### (a) Trade Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of the month of recognition.

##### (b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

Where equity instruments are issued in an acquisition, the value of the instruments is the weighted average of their closing market price for the total of the five business days either side of the acquisition date.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is not taken into account as consideration until the relevant criteria are met.

##### (c) Depreciation and Amortisation

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis. Leasehold improvements are amortised over the period of the lease or the estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	3 - 5 years
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An assets carrying amount is written down immediately to its recoverable amount if the assets carrying amount is greater than its estimated recoverable amount.

##### (d) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and other employee entitlements expected to be settled within 12 months are measured at the amounts expected to be paid when the liabilities are settled.

Provisions made in respect of long service leave which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity 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.

## **(e) Financial Instruments Issued by the Consolidated Entity**

### ***Transaction Costs on the Issue of Equity Instruments***

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

### ***Interest and Dividends***

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

## **(f) Foreign Currency Translation**

### ***Functional and presentation currency***

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Reckon Limited's functional and presentation currency.

### ***Transactions and balances***

All foreign currency transactions during the financial year have been brought to account at the functional currency using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the income statement in the period in which they arise.

### ***Group companies***

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet; Income and expenses for each income statement are translated at average rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholder's equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity at the closing rate.

## **(g) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

## **(h) Intangible assets and expenditure carried forward**

### ***Goodwill***

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. Goodwill represents the excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is not amortised, instead goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

#### ***Intellectual Property***

Acquired Intellectual Property is amortised on a straight line basis between 3-5 years.

#### ***Development costs***

Development costs are recognised as an expense when incurred, except in the undernoted instances.

Development costs on the existing APS suite of software applications are capitalised and written off over a 4 year period commencing the following month after the costs are incurred.

Development costs on new APS products are capitalised and written off on a straight line basis over a period of 4 years commencing at the time of commercial release of the new product.

At balance date, a review of the carrying value of the capitalised development costs being carried forward is undertaken to ensure the carrying value is recoverable from future revenue generated by the sale of that software.

#### **(i) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Reckon Limited, and its wholly owned controlled entities have elected to implement the tax consolidation regime. The Australian Taxation Office has not yet been notified of the election.

As a consequence Reckon Limited as the head entity in the tax consolidated group has recognised current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax balances in relation to its own transactions, events and balances.

All the wholly-owned Australian controlled entities in the group have entered into a tax funding agreement, the significant terms of which are that tax expenses/credits which arise under the Legislation are allocated to each entity within the group, on the basis of the expense which the entity would have incurred in its own right had the group not elected to be taxed as a consolidated entity. Furthermore, in the event that the head entity defaults in its obligations under the tax consolidation system, each entity in the group is limited in its obligation to fund the income tax obligation of the head entity to the proportion that the tax liability to which the entity would have been liable had the group not elected to become a tax consolidated entity bears to the total taxation liability of the head entity.

#### **(j) Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to inventory on hand on a weighted average cost basis.

#### **(k) Investments in controlled entities**

Investments in controlled entities are recorded at cost. Other investments are recorded at cost.

Dividend revenue is taken to income on a receivable basis. Interest revenue is taken to income on an accrual basis.

**(l) Leased Assets**

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased assets, and operating leases under which the lessor effectively retains substantially all the risks and benefits.

The consolidated entity does not have any finance leases in force.

Operating lease payments are charged as an expense in the period in which they are incurred. This basis is representative of the pattern of benefits derived from the leased asset.

**(m) Principles of Consolidation**

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising from transactions within the consolidated entity are eliminated in full.

**(n) Receivables**

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

**(o) Impairment of assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation 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 purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

**(p) Revenue Recognition*****Sale of Goods and Disposal of Assets***

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer. APS software licence fee revenue is recognised at the point when the customer is in agreement for a "live operation" (i.e. when all users can use the system on a fully functional basis).

***Rendering of Services***

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract or on a time and materials basis depending upon the nature of the contract. Support and maintenance revenue is recognised on a straight-line basis over the period of the contract.

***Interest and Other Revenue***

Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets. Other revenue is recognised when the right to receive the revenue has been established.

**(r) Deferred Revenue**

Revenue earned from maintenance and support services provided on sales of certain products by the consolidated entity are deferred and then released to the income statement over the contract period, normally 12 months.

**(s) Earnings per share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the

weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(t) Equity – based compensation benefits**

Equity-based compensation benefits are provided to employees via the Employee Option Plan.

***Options granted before 7 November 2002 and/or vested before 1 January 2004***

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital.

***Options granted after 7 November 2002 and vested after 1 January 2004***

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to be come exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

**(u) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts.

**(v) Other financial assets**

Other financial assets represent security deposits held as rental guarantees. They are valued at cost.

## Note 2: Segment Information

### Primary reporting - business segments

	Quicken	APS	Other	Inter-segment Eliminations/ Unallocated	Consolidated
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Half-year 2005</b>					
Total segment revenue	14,560	7,176	435	-	22,171
Segment result*	3,727	1,077	435	-	5,239
<b>Half-year 2004</b>					
Total segment revenue	13,262	5,122	369	-	18,753
Segment result*	2,779	997	336	-	4,112

\* The Quicken result includes royalty income from APS, net of APS development costs and IP amortisation.

## Note 3. Equity securities issued

Issues of ordinary shares during the half-year:

	Half-year 2005		Half-year 2004	
	No.	\$'000	No.	\$'000
Exercise of employee share scheme options	100,289	51	225,791	63
Consideration for acquisition of controlled entities	-	-	9,295,175	7,059
	100,289	51	9,520,966	7,121

A special resolution, put to the Annual General Meeting on 24 May 2005, seeking approval for the reallocation of \$25,034,000 from accumulated losses to contributed equity, was approved, and the adjustment has accordingly been made.

## Note 4. Events occurring after balance sheet date

### Return of capital

On 28 February 2005, the Board resolved to put to the shareholders a special resolution approving the payment of a return of capital of \$0.035 (three and one half cents) per share, with all shares treated equally. The special resolution was put to shareholders and subsequently approved at the Annual General Meeting held on 24 May 2005.

In July 2005, Reckon Limited distributed \$4,861,763 to shareholders as payment of the return of capital.

### Share buy back

On 8 February 2005, the board resolved to approve an on-market buy back of up to 10% of the issued ordinary shares during the period 23 February 2005 to 31 December 2005. At the date of this report no shares have been purchased.

## Note 5. Explanation of transition to Australian equivalents to IFRSs

### (a) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	31 Dec 2004 \$'000	30 Jun 2004 \$'000	1 Jan 2004 \$'000
Total equity under AGAAP	29,642	28,459	17,607
Adjustments to equity:			
Write-back of goodwill amortisation (A)	997	453	-
Reassessment of available tax losses	623	-	-
Tax effect of above adjustments	-	-	-
Total equity under AIFRS	<u>31,262</u>	<u>28,912</u>	<u>17,607</u>

(A) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP.

### (b) Reconciliation of profit after tax under AGAAP to that under AIFRS

	Year ended 31 Dec 2004 \$'000	Half-year ended 30 Jun 2004 \$'000
Profit after tax as previously reported	8,869	3,657
Adjustments:		
Write-back of goodwill amortisation (A)	997	453
Recognition of share-based payment expense (B)	(338)	(148)
Reassessment of available tax losses	623	-
Tax effect of above adjustments	-	-
Profit after tax under AIFRS	<u>10,151</u>	<u>3,962</u>

(A) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP.

(B) Options issued to employees after 7 November 2002 but that had not vested by 1 January 2004 are charged to the income statement under AASB 2 "Share-based Payment", but not under AGAAP.

### (c) Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

## Note 6. Contingent liabilities

There are no contingent liabilities.

## Note 7. Business combinations

On 29 January 2004 the parent entity acquired from APS Group Limited (New Zealand) 100% of the issued share capital of the following entities comprising the APS group:

Advanced Professional Solutions Pty Limited  
Advanced Professional Solutions Limited (registered in New Zealand)  
Advanced Professional Solutions Limited (registered in the United Kingdom).

The consideration paid for the purchase of APS consisted of 9,295,175 ordinary fully paid shares in Reckon Limited (1,724,138 of which were issued subject to a trading lock to be released in two equal tranches on 31 December 2004 and 30 June 2005) and cash of \$4.7million (\$1.3million of which was paid in 2003 and \$1million of which was placed in escrow to be released in two equal tranches on the same dates as the shares), net of cash acquired.

The shares and cash due for release from escrow on 31 December 2004 and 30 June 2005, have been released.

	Half-year	
	30 June 2005 \$'000	30 June 2004 \$'000
Consideration:		
9,295,175 ordinary shares	-	7,059
Cash	-	5,392
Deposit paid in cash in 2003	-	1,337
	<u>-</u>	<u>13,788</u>
Fair value of net assets of entity acquired:		
Cash	-	2,027
Receivables	-	1,914
Other current assets	-	138
Deferred tax assets	-	212
Fixed assets	-	272
Trade payables	-	(426)
Current tax liabilities	-	(173)
Provisions	-	(147)
Other current liabilities	-	(901)
Deferred tax liabilities	-	(434)
	<u>-</u>	<u>2,482</u>
Goodwill	-	11,306
	<u>-</u>	<u>13,788</u>

The goodwill is attributable to the high profitability of the acquired businesses. The fair value of assets and liabilities acquired equate to the acquiree's carrying amount. No acquisition provisions were created. There were no acquisitions in the half-year ended 30 June 2005.

## Directors' Declaration

In accordance with a resolution of the directors of Reckon Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
  - (i) give a true and fair view of the financial position as at 30 June 2005 and the performance for the half-year on that date of the consolidated entity; and
  - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (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.

On behalf of the Board



John Thame  
Chairman

Sydney, 22 August 2005



22 August 2005

Horwath Sydney Partnership  
ABN 30 856 062 171  
Chartered Accountants  
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GPO Box 1455 Sydney NSW 2001  
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(02) 9372 0606 Fax  
sydney@horwath.com.au

The Board of Directors  
Reckon Limited  
Ground Floor, Citywest Office Park  
35 Saunders Street  
Pyrmont NSW 2009

### AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with our half-year review of the financial report of Reckon Limited for the period ended 30 June 2005 and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this review;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this review.

Yours faithfully  
**HORWATH**  
SYDNEY PARTNERSHIP

A handwritten signature in black ink, appearing to read "Michael P Stibbard".

MICHAEL P STIBBARD  
Partner

**HORWATH SYDNEY PARTNERSHIP***Chartered Accountants*

A member of Horwath International

1 Market Street Sydney NSW 2000

GPO Box 1455 Sydney NSW 1041

**Independent review report to the members of Reckon Limited****Scope***The financial report and directors' responsibility*

The financial report comprises the consolidated statement of financial performance, statement of financial position, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Reckon Limited (the consolidated entity), for the half-year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

*Review approach*

We conducted an independent review in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and the Corporations Act 2001, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the company's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Independence**

We are independent of the company and group, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Statement**

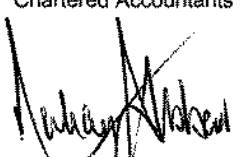
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Reckon Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Dated the 22<sup>nd</sup> day of August 2005.



**HORWATH SYDNEY PARTNERSHIP**  
Chartered Accountants



**MICHAEL P. STIBBARD**  
Partner

# Results

## 6 month to June 2005

Greg Wilkinson - CEO

Clive Rabie – COO

Chris Hagglund - CFO

**Reckon**

AP<sup>S</sup> | *Quicken*

# 1<sup>st</sup> Half 2005 Highlights

- ↗ Revenue \$22.2m – up 18% on prior year 1<sup>st</sup> half
- ↗ NPBT \$ 5.2m – up 38% on the previously reported prior year 1<sup>st</sup> half (and 27% up on restated prior year numbers)
- ↗ EBITDA margin (before royalties and development costs) grew from 37% to 40%

# 1<sup>st</sup> Half 2005 Highlights

- ↗ Revenue growth in both companies
  - Quicken ... 10%
  - APS ... 40%
- ↗ Increased margins (next slide)
- ↗ Cash Balance ..... \$18.3m
- ↗ Cash Flow from Operations .. \$6.5m
- ↗ Return of Capital .. 3.5 cents per share (paid July 05)

# 6 months June 05

	2003	2004	2005
<b>Revenue</b>	12.7m	18.8m	22.2m
- Growth YTD		48.0%	18.2%
<b>EBITDA</b> (before royalties and development costs)	5.5m	7.0m	8.9m
- margin	43.3%	37.2%	40.1%
<b>NPBT</b>	2.6m	4.1m	5.2m
- margin	20.5%	21.8%	23.4%

**Reckon**  
APs | *Quicken*

# 6 months June 05

We account for tax – **Minimal cash flow**

	2003	2004	2005
<b>Tax Effect:</b>			
<b>Tax Expense</b>	\$0	\$0.1m	\$1.8m
<b>NPAT</b>	\$2.6m	\$4.0m	\$3.4m

# 6 months June 05

	2003	2004	2005
<b>EPS</b>			
EPS (NPBT)	2.0c	3.0c	3.7c
EPS Growth		46%	25%
EPS (NPAT)	2.0c	2.9c	2.5c
EPS Growth		43%	-16%

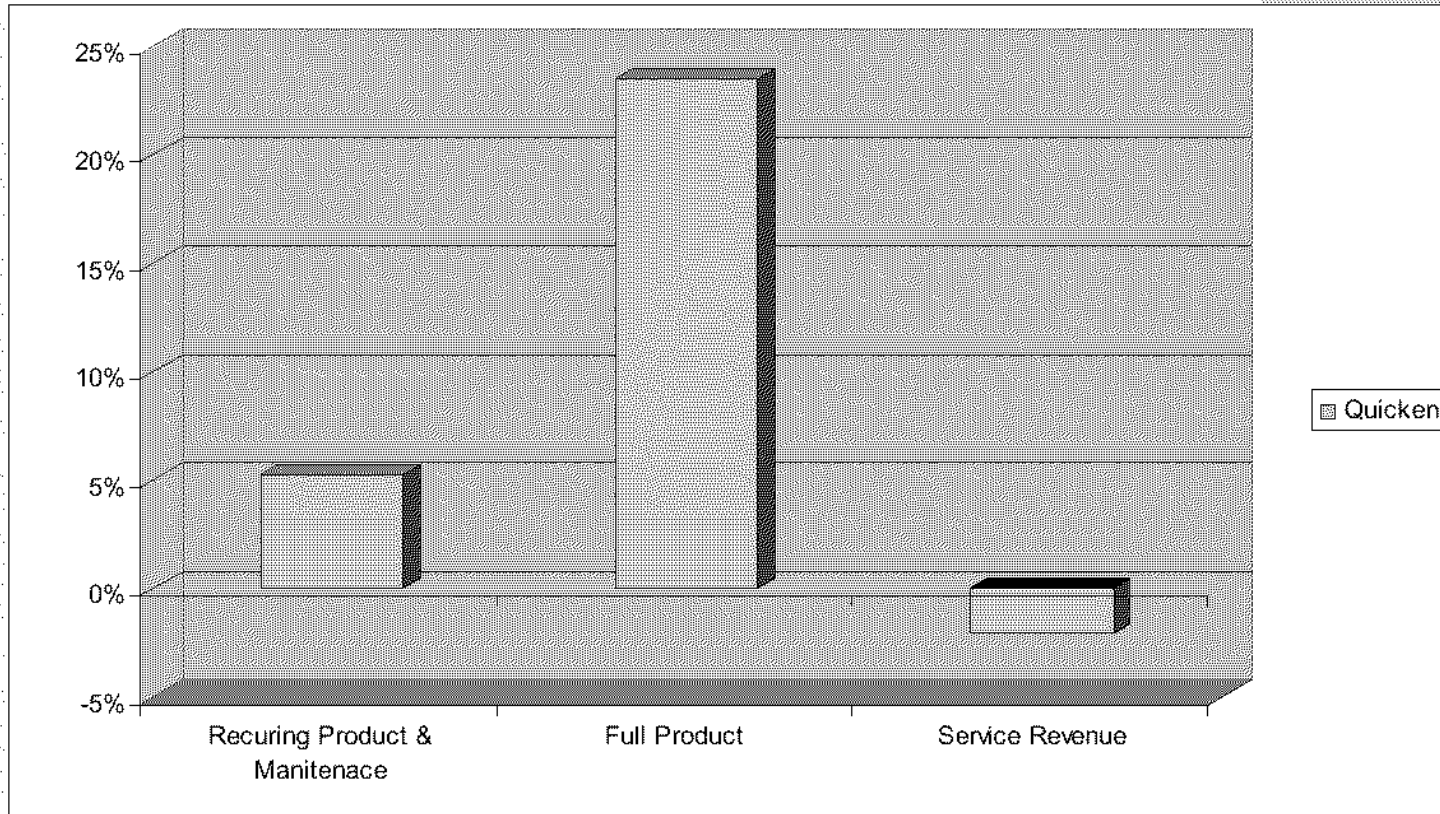
**Reckon**  
APR | Quicken

# Quicken Highlights

- ↗ Sustained growth of new products in market
- ↗ Over 90,000 customers dealt regularly with the company
- ↗ Release of QuickBooks 2005/2006
- ↗ National road show – winning the rural business
- ↗ Over 500 enterprise customers
- ↗ Release of EasyStart and already top selling product after very successful launch internationally
- ↗ Successful release of connected services and online banking

**Reckon**  
APS | Quicken

## % Growth in Quicken over 2004 - by product category



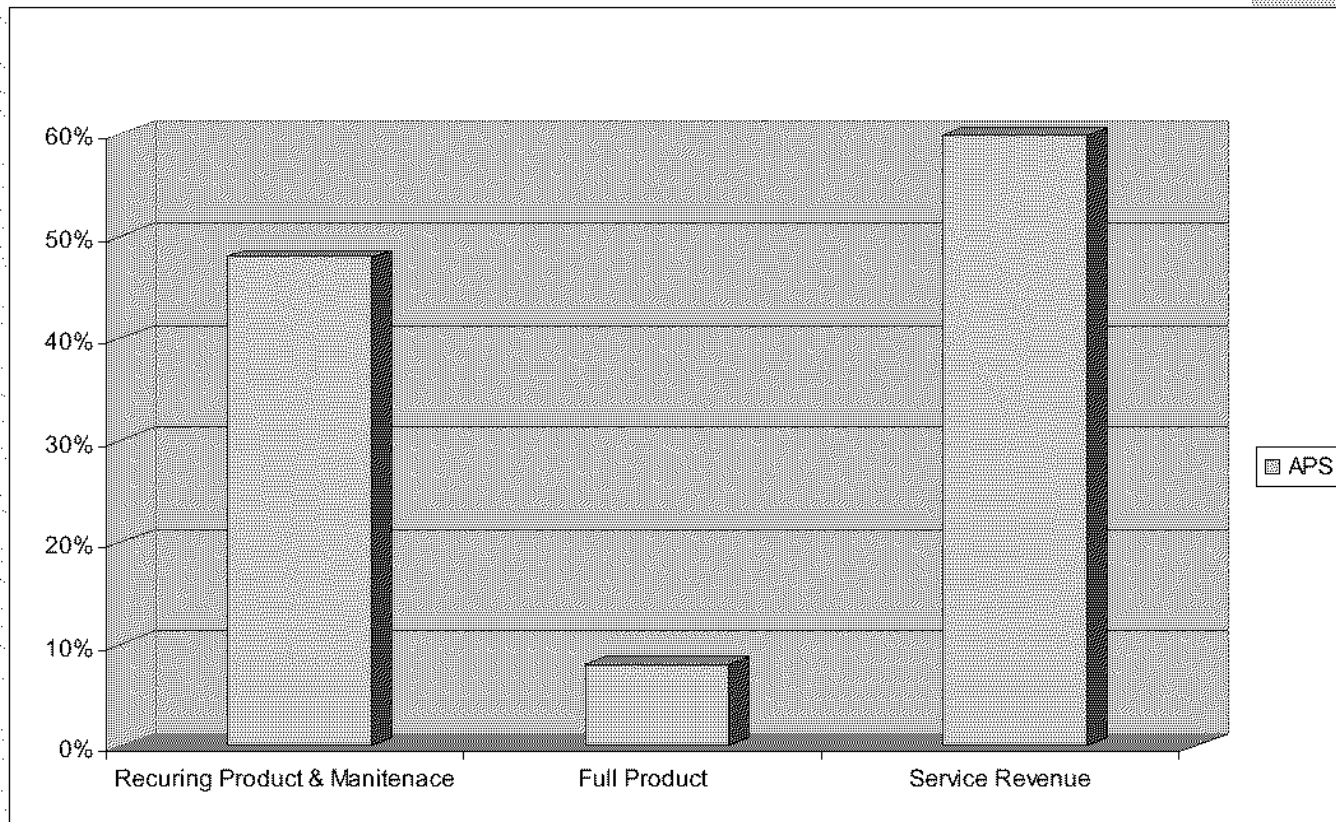
**Reckon**  
APS | Quicken

# APS - Highlights

- ↗ 65 of top 100 firms – Australia
- ↗ 20 of top 30 firms - NZ
- ↗ 68 firms switched to APS notwithstanding stiff competition and price discounting – Australia
- ↗ APS tax users up 160%
- ↗ Client survey – 90% will recommend APS
- ↗ Focused roll out of tax modules – June / July 05
- ↗ Beta new APS tax form product
- ↗ 60 Firms now on foundation – still improving product strategy in this space
- ↗ Solid pipeline of new sales and sites being rolled out.

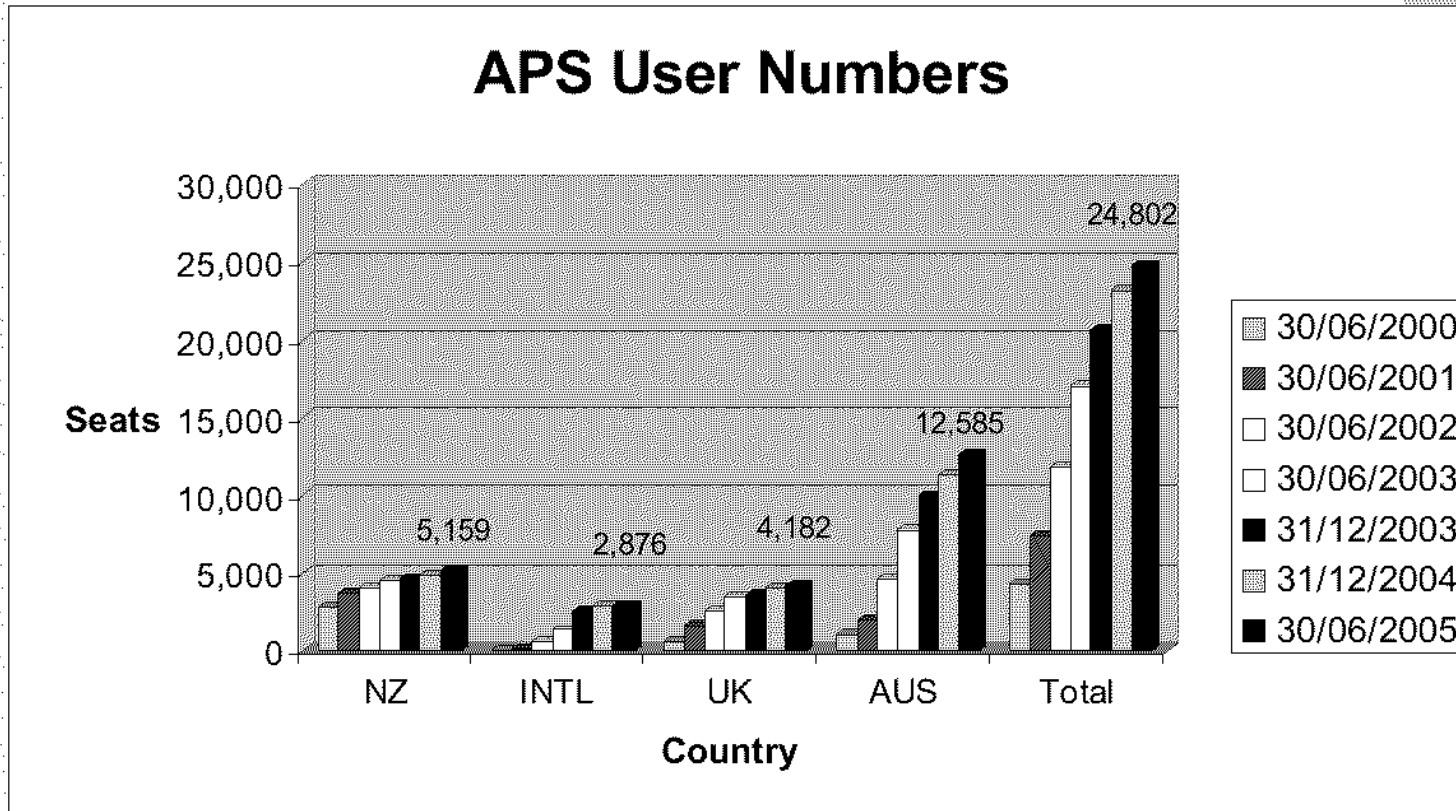
**Reckon**  
APS | Quicken

## % Growth in APS over 2004 - by product categories



**Reckon**  
APS | *Quicken*

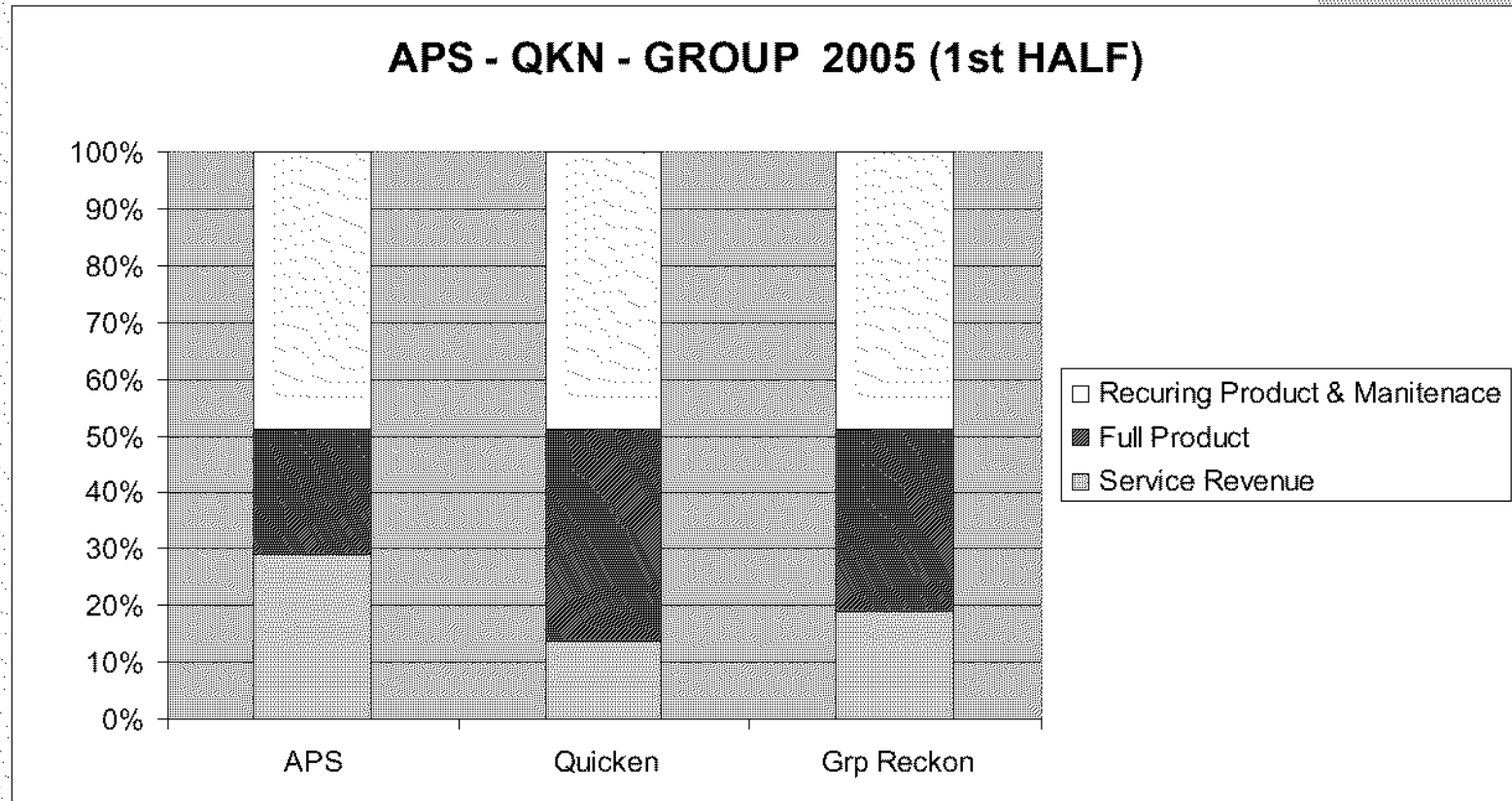
## APS User Numbers




# Revenue

- Almost 50% of revenue recurring
- 32% of revenue coming from new product sales representing strong organic growth still in the business
- APS revenue 33 % of group
- Quicken revenue 67% of group

# % Sales by Product Category



**Reckon**  
APS | Quicken

 Thank you

**Reckon**  
APS | *Quicken*