

Directors' Report

Your directors present their report for the half-year ended 30 June 2012.

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 2012		30 June 2011
	\$'000	% growth	\$'000
Operating revenue	48,182	3%	46,654
EBITDA	17,080	8%	15,747
Net profit after tax	9,257	11%	8,341
Earnings per share	7.1 cents	17%	6.1 cents

The performance for the half year has been driven by revenue growth in the following key areas:

Reckon Accounts

Direct and recommender channel revenue in the SME accounting products market has increased by 7% as the company continues to build on its strengths in the enterprise market and cloud market.

A difficult retail environment has resulted in a significant reduction of revenue of 37% from this channel, both as a result of lower sell through and continued destocking by retailers.

The recommender channel continues to grow with a 12% increase in accredited partners.

ReckonElite has added smaller accountant/bookkeeper clients at a rate of 12%.

ReckonDocs

Corporate Services revenue growth is 19% following market share growth and penetration into the accountant client base.

The newly launched APS module, ACR, has started to contribute to growth in this division.

ReckonAPS

APS revenue in the accountant channel has increased by 6% with new client acquisition and product rollout to existing clients continuing.

The APS Private Cloud solution has begun to gain traction with 14 clients already using the service by the end of the period reported.

The Private Cloud solution has proved to be an excellent offer to existing mid sized clients, as well as attracting new clients of all sizes.

Reckon nQueue Billback

nQueue Billback UK has again shown strong growth in the first half. In the USA the rate of new client acquisition has been maintained, although the size of the clients was on average smaller compared to the prior year.

Effective cost management has again ensured that the revenue growth achieved is reflected in the profit performance. The prior period profits were adversely impacted by the net of the property relocation costs and the litigation settlement.

Earnings per share growth of 17% reflects the strong performance in the first half of the year which was further underpinned by the 3.4 million shares bought back during the period.

The group acquired an initial interest in Linden House Software Ltd on 3 July 2012, for an upfront payment of GBP6 million, with an expected further payment of up GBP8 million, dependent upon the performance of the business over the next 3 years. Linden House develops and distributes a document management solution and a client portal solution under the brand name Virtual Cabinet, and these products are expected to be relevant to customers of all parts of the Reckon business.

Reckon has also announced that it expects to acquire the minority interests in the nQueue Billback Division subsidiaries in the UK and USA within the next few weeks, for approximately \$5 million. This will allow the group to harness the industry knowledge held by the nQueue Billback Division management team for the Australian legal business, and smooth the path for global rollout of the Virtual Cabinet product range.

During the period Reckon has sold its shareholding in Melbourne IT, but continues to proceed with commercial negotiations relating to the distribution of each others' products.

The board has declared an interim dividend of 3.75 cents (3.5 cents in 2011). The dividend will be 90% franked.

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, 7 August 2012

Condensed Consolidated Income Statement for the half-year ended 30 June 2012

		30 June 2012 \$'000	Half-year 30 June 2011 \$'000
Continuing operations	Note		
Revenue from sale of goods and rendering of services		48,182	46,654
Product and selling costs		(8,138)	(7,158)
Royalties		(3,034)	(3,022)
Employee benefits expenses		(14,405)	(14,228)
Marketing expenses		(1,212)	(1,335)
Premises and establishment expenses		(1,252)	(1,342)
Telecommunications		(427)	(490)
Depreciation and amortisation of other non-current assets		(4,579)	(4,190)
Finance costs		(24)	(32)
Other expenses		(2,634)	(2,520)
Net costs associated with premises relocation and litigation settlement (including leasehold amortisation of \$526 thousand in 2011)		-	(1,338)
Profit before income tax		12,477	10,999
Income tax expense		(3,220)	(2,658)
Profit for the half-year		9,257	8,341
Profit attributable to:			
Owners of the parent		8,955	8,035
Non-controlling interest		302	306
		9,257	8,341
Earnings per share		cents	cents
Basic earnings per share		7.1	6.1
Diluted earnings per share		7.1	6.0

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

Condensed Consolidated Statement of Comprehensive Income for the half-year ended 30 June 2012

	30 June 2012 \$'000	Half-year	30 June 2011 \$'000
Profit for the half-year	<u>9,257</u>		<u>8,341</u>
Other comprehensive income			
Exchange differences on translation of foreign operations	33		(64)
Fair value adjustment of equity instruments	<u>247</u>		<u>(267)</u>
	9,537		8,010
Prior year exchange differences on translation of foreign operations (relating to goodwill)	<u>-</u>		<u>(863)</u>
Total comprehensive income	<u>9,537</u>		<u>7,147</u>
Profit and comprehensive income is attributable to:			
Owners of the parent	9,235		6,841
Non-controlling interest	<u>302</u>		<u>306</u>
	<u>9,537</u>		<u>7,147</u>

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

Condensed Consolidated Statement of Financial Position as at 30 June 2012

	30 June 2012 \$'000	31 December 2011 \$'000
ASSETS		
Current Assets		
Cash and cash equivalents	2,887	4,703
Trade and other receivables	9,459	6,730
Inventories	1,230	1,181
Other assets	2,077	1,763
Total Current Assets	15,653	14,377
Non-Current Assets		
Receivables	626	777
Investment in joint venture	660	-
Other financial assets	56	6,257
Property, plant and equipment	2,929	3,401
Deferred tax assets	80	86
Intangible assets	46,263	45,966
Total Non-Current Assets	50,614	56,487
Total Assets	66,267	70,864
LIABILITIES		
Current Liabilities		
Trade and other payables	6,902	5,470
Current tax payables	1,559	2,365
Provisions	2,187	3,510
Deferred revenue	6,849	6,287
Total Current Liabilities	17,497	17,632
Non-Current Liabilities		
Deferred tax liabilities	1,588	1,089
Provisions	1,212	1,647
Total Non-Current Liabilities	2,800	2,736
Total Liabilities	20,297	20,368
NET ASSETS	45,970	50,496
EQUITY		
Issued capital	16,577	15,752
Reserves	(9,779)	(2,080)
Retained earnings	38,811	36,621
Equity attributable to owners of the parent	45,609	50,293
Non-controlling interest	361	203
TOTAL EQUITY	45,970	50,496

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 2012

	Issued capital \$'000	Share buy back reserve \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	AFS Asset Revaluation reserve \$'000	Retained earnings \$'000	Non-controlling interest \$'000	Total \$'000
Total equity at 1 January 2012	15,752	-	(1,569)	556	(1,067)	36,621	203	50,496
Profit for the half-year						8,955	302	9,257
Exchange differences on translation of foreign operations			33					33
Fair value adjustment of financial assets					247			247
Total Comprehensive Income	-	-	33	-	247	8,955	302	9,537
Dividends paid						(5,945)	(144)	(6,089)
Share based payments expense				179				179
Share buyback		(7,612)						(7,612)
Transfer prior year share buyback to share buyback reserve	1,366	(1,366)						-
Transfer of revaluation reserve to retained earnings					820	(820)		-
Treasury shares acquired	(541)							(541)
Total equity at 30 June 2012	16,577	(8,978)	(1,536)	735	-	38,811	361	45,970
Total equity at 1 January 2011	18,048	-	(694)	631	-	31,156	-	49,141
Profit for the half-year						8,035	306	8,341
Exchange differences on translation of foreign operations			(64)					(64)
Fair value adjustment of financial assets					(267)			(267)
	-	-	(64)	-	(267)	8,035	306	8,010
Prior year exchange differences on translation of foreign operations			(863)					(863)
Total Comprehensive Income	-	-	(927)	-	(267)	8,035	306	7,147
Dividends paid						(5,968)	(259)	(6,227)
Share based payments expense				187				187
Treasury shares acquired	(1,389)							(1,389)
Total equity at 30 June 2011	16,659	-	(1,621)	818	(267)	33,223	47	48,859

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 2012**

	30 June 2012 \$'000	Half-year 30 June 2011 \$'000
Cash Flows From Operating Activities		
Receipts from customers	50,430	50,064
Payments to suppliers and employees	(35,859)	(32,830)
Interest received/(paid)	(24)	(32)
Income tax paid	<u>(3,521)</u>	<u>(2,203)</u>
Net cash inflow from operating activities	<u>11,026</u>	<u>14,999</u>
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(293)	(1,344)
Payment for intellectual property	-	(34)
Payment for investment in joint venture	(660)	-
Payment for investment	-	(7,269)
Proceeds from sale of investment	6,448	-
Payment for capitalised development costs	<u>(4,105)</u>	<u>(3,548)</u>
Net cash inflow/(outflow) from investing activities	<u>1,390</u>	<u>(12,195)</u>
Cash Flows From Financing Activities		
Dividends paid	(5,945)	(5,968)
Dividends paid to non-controlling interests	(144)	(259)
Payment for share buyback	(7,612)	-
Payment for treasury shares	(541)	(1,389)
Repayment of borrowings	<u>-</u>	<u>(2)</u>
Net cash (outflow) from financing activities	<u>(14,242)</u>	<u>(7,618)</u>
Net Increase/(Decrease) In Cash and Cash Equivalents	(1,826)	(4,814)
Cash and cash equivalents at the beginning of the half-year	4,703	8,095
Effects of exchange rate changes on cash and cash equivalents	<u>10</u>	<u>(10)</u>
Cash and Cash Equivalents at the end of the half-year	<u><u>2,887</u></u>	<u><u>3,271</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 2012

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2012 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 2011 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.

With the exception noted below, 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.

The Company has elected to early adopt Accounting Standard AASB 9 Financial Instruments from 1 January 2012. Investments in equity instruments, which were previously classified as available for sale financial assets, are from 1 January 2012 irrevocably classified as equity instruments revalued through other comprehensive income. They continue to be valued at fair value with changes in value being recognised in the asset revaluation reserve (previously available for sale asset revaluation reserve). Realised gains/losses are not recycled to net profits as was previously required under AASB 139. The adoption of AASB 9 has no effect on the comparative Statement of Financial Position, Statement of Comprehensive Income or Income Statement.

Note 2: Segment information

Primary segments	Business Division \$'000	Professional Division \$'000	NQBB Division \$'000	Consolidated \$'000
Half-year 2012				
Segment operating revenue	30,412	13,251	4,419	48,082
Other revenue				100
Total revenue				48,182
Segment EBITDA	10,973	6,308	1,767	19,048
Depreciation and amortisation	(1,156)	(2,946)	(477)	(4,579)
Total segment profit before tax	9,817	3,362	1,290	14,469
Central administration costs				(1,968)
Finance costs				(24)
Profit before tax				12,477
Income tax expense				(3,220)
Profit for the half-year				9,257
Half-year 2011				
Segment operating revenue	29,504	12,825	4,325	46,654
Segment EBITDA	11,063	6,012	1,655	18,730
Depreciation and amortisation	(1,031)	(2,729)	(430)	(4,190)
Total segment profit before tax	10,032	3,283	1,225	14,540
Central administration costs				(2,171)
Finance costs				(32)
Net costs associated with premises relocation and litigation settlement				(1,338)
Profit before tax				10,999
Income tax expense				(2,658)
Profit for the half-year				8,341

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.

There have been no material changes to segment assets.

The principal activities of these divisions are as follows:

Business Division - development, distribution and support of personal financial and accounting software, as well as related products and services to professional partners. Products sold in this division include QuickBooks, Quicken, ReckonTools, ReckonDocs and ReckonElite.

Professional Division - development, distribution and support of practice management, tax, client accounting, cost management and related software under the APS and Billback brands.

nQueue Billback Division - distribution and support of cost recovery, cost management and related software predominantly to the USA and UK legal market.

Note 3. Issued capital

Issued capital at 30 June 2012 amounted to \$16,577 thousand
(129,488,015 shares)

3,351,657 shares (2011: nil) were bought back in the current period.
Shares bought back were cancelled immediately. The cash cost of
shares bought back is allocated to the Share buy back reserve.
Shares bought back in 2011 have also been transferred to this reserve.

235,127 treasury shares (2011: 559,926) were purchased in the
current period.

	Half-year	
30 June 2012 \$'000		30 June 2011 \$'000

Note 4. Dividends

Ordinary shares

Dividends paid during the half-year

5,945

5,968

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
3.75 cents per fully paid ordinary share (2011: 3.5 cents). The dividend
will be 90% franked. The aggregate amount of the proposed dividend
expected to be paid on 7 September 2012 out of retained profits at
30 June 2012, but not recognised as a liability at the end of the
half-year, is

4,819

4,629

Note 5. Borrowings

The Group increased its bank facilities in the half year to the value
of \$23.7 million. All facilities are available until 31 December 2013.
The facilities, apart from \$1.8 million related to bank guarantees,
are undrawn at balance date.

Note 6. Working capital deficiency

The condensed consolidated statement of financial position indicates
an excess of current liabilities over current assets of \$1,844 thousand
(December 2011: excess of current liabilities over current assets of
\$3,255 thousand). This arises due to the cash management structure
adopted by management, whereby surplus funds are used to repay
debt and make investments. Available bank facilities at balance date
total \$21.9 million. Furthermore, included in current liabilities is deferred
revenue of \$6,849 thousand (December 2011: \$6,287 thousand),
for which cash has been received in advance, and will be recognised
as income as the services are rendered.

Note 7. Investment in Joint Venture arrangement

On 11 April 2012 the group acquired a 30% interest in Connect2Field Holdings Pty Ltd, a company incorporated in Australia and engaged in the development and distribution of a cloud based job management and scheduling application, for consideration of \$660 thousand. All key decisions relating to the company require unanimous agreement of the controlling shareholders, including Reckon Limited. The investment is accounted for using equity accounting principles.

Note 8. Subsequent events

On 3 July 2012 Reckon Limited acquired an initial interest in Linden House Software Limited together with options to take its total holding to 100%. The purchase consideration is made up of an initial payment of GBP6 million, with expected additional payments of GBP8 million. The additional payments are based on the performance of the business over the next 3 years. The total consideration of GBP14 million would equate to an approximate 5x multiple of 2015 EBITDA. The acquisition was funded from existing cash reserves and debt. Linden House develops and distributes a document management and portal solution under the brand name Virtual Cabinet. Linden House Software Limited is incorporated in the United Kingdom.

On 7 August 2012 Reckon Limited announced that it expects to acquire the minority interests in the nQueue Billback Division subsidiaries in the UK and the USA for approximately \$5 million. The acquisition is conditional on the minority shareholders approval. This will facilitate moving the Australian legal business under the management control of the nQueue Billback team, as well as allow seamless distribution of the Virtual Cabinet product range into the global nQueue Billback client base.

A share buy back of up to 10% of the company's share capital, was announced on 7 August 2012, as part of the company's strategy to manage its capital base.

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 2012 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, 7 August 2012

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

7 August 2012

Dear Board Members

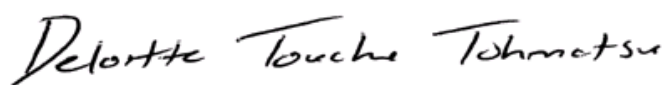
Reckon Limited

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 2012, 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



Michael Kaplan
Partner
Chartered Accountants

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 2012, and the condensed consolidated income statement, the condensed consolidated statement of 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.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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 2012 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

DELOITTE TOUCHE TOHMATSU



Michael Kaplan
Partner
Chartered Accountants
Sydney, 7 August 2012