



**Reckon™**

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2013 | Annual Report



# Reckon Limited Annual Report

ABN 14 003 348 730

for the Financial Year Ended 31 December 2013

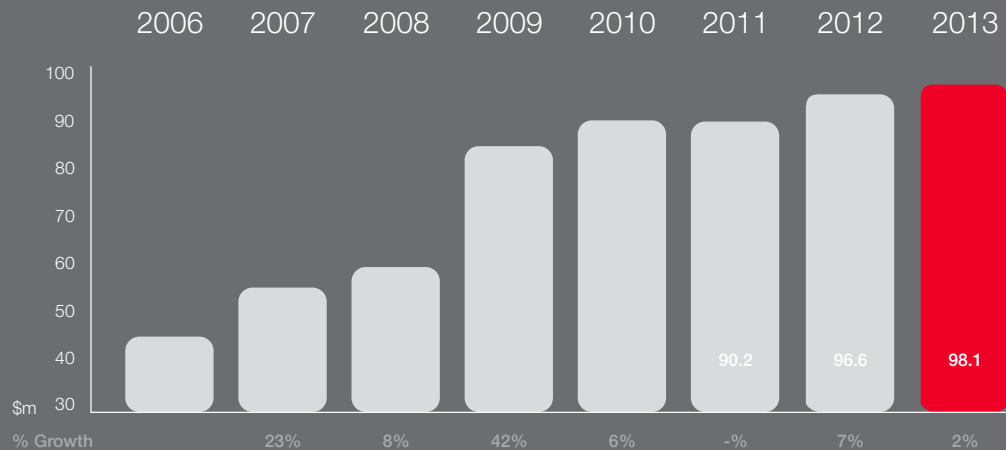
## Contents

|    |                                                                         |
|----|-------------------------------------------------------------------------|
| 4  | Our results at a glance                                                 |
| 5  | Message to shareholders from the Chairman and Group CEO                 |
| 7  | Directors' Report                                                       |
| 14 | Remuneration Report                                                     |
| 24 | Corporate Governance Report                                             |
| 30 | Auditor's Independence Declaration                                      |
| 31 | Independent Auditor's Report                                            |
| 33 | Financial Report                                                        |
| 33 | Directors' Declaration                                                  |
| 34 | Consolidated Statement of Profit or Loss                                |
| 35 | Consolidated Statement of Profit or Loss and Other Comprehensive Income |
| 36 | Consolidated Statement of Financial Position                            |
| 37 | Consolidated Statement of Changes in Equity                             |
| 39 | Consolidated Statement of Cash Flows                                    |
| 40 | Notes to the Financial Statements                                       |
| 88 | Additional Information as at 6 March 2014                               |

# Our Results at a Glance

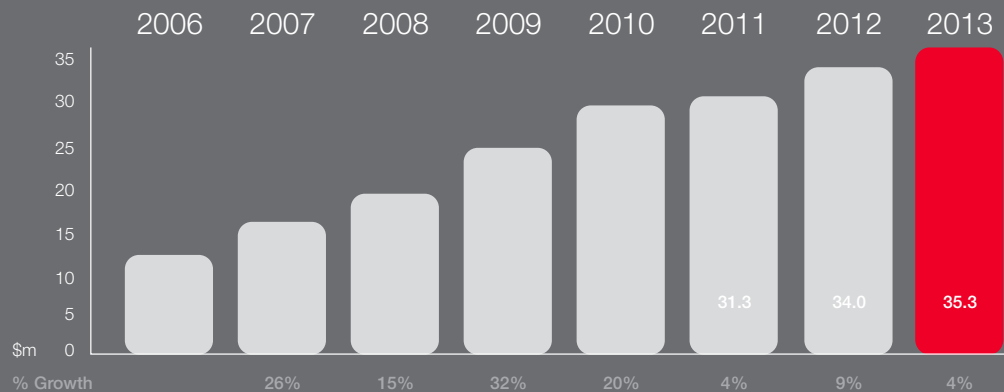
## Operating Revenue

Operating revenue was up 2% to \$98.1 million from \$96.6 million.



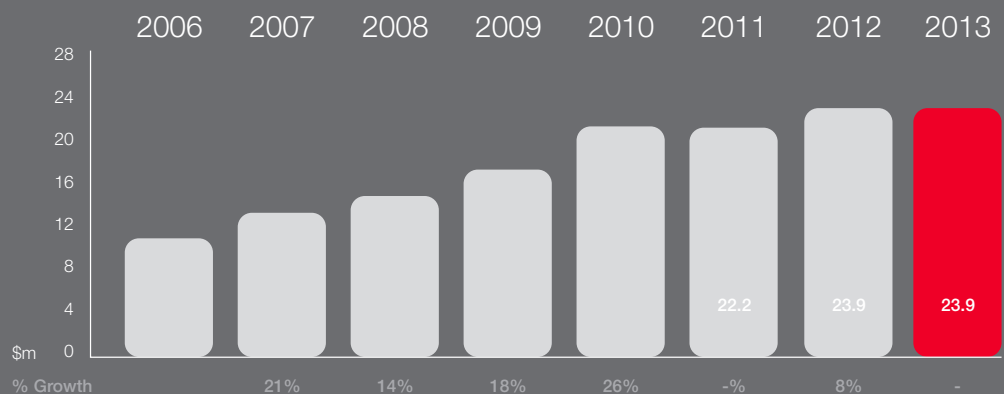
## EBITDA

Group EBITDA was up 4% to \$35.3 million from \$34.0 million.



## NPBT

Group NPBT remained unchanged at \$23.9 million.



# Message to shareholders from the Chairman and Group CEO

## Overview

In 2013 Reckon Limited underwent a great deal of change as the company transitioned away from the US software company, Intuit Inc; moved closer towards achieving its cloud accounting ambitions; and restructured its business internally.

A lot of careful planning had been put into the structure and management of the business to position us to achieve our goals in the immediate future and in the years to come.

We have continued to build upon the integration of the development platforms in the business first implemented in 2012. We've also installed a driven and talented management team that have the energy and collaborative focus to drive new ideas forward.

In 2013 the impact of our management changes was quickly evident as the culture of the company shifted to a start-up mentality, for the development of new cloud solutions. This remains supported by successful and sustainable products and revenue in our traditional markets.

2013 proved that Reckon is a strong independent brand recognised as a trusted guardian for accounting and practice management technology. In 2014 and beyond we will capitalise on our strong position in the market and on our performance pedigree of consistent profits, and convert it into building success across our key technology platforms: traditional desktop, hosted, and cloud.

Some of the highlights of 2013 include completing the Reckon re-branding; unveiling Reckon One, our new cloud accounting solution; finalising the development of a new version of Reckon Accounts Hosted; and releasing APS Private Cloud, a secure hosted version of our renowned Reckon APS practice management suite. All of these achievements highlight our commitment to cloud development. We have also introduced a scan solution into the nQueue Billback business and at the same time have started moving customers onto a subscription based pricing model. In addition we sold our investment in Connect2Field Holdings Pty Ltd at a profit of \$1.4 million.

We also remain committed to developing and supporting products across desktop, hosted and cloud platforms which uniquely positions Reckon to serve a whole range of customer needs.

Other organisational changes will be effective from 2014. The Professional Division has been re-named the Accountants Group. The Accountants Group is now responsible for the Reckon Docs and Reckon Elite products, as well as the Reckon APS product range.

The Business Division has been re-named the Business Group. The Business Group is responsible for the new Reckon One products as well as the Reckon Accounts product range.

The Reckon Virtual Cabinet and Reckon nQueue Billback Divisions will fall under the newly named International Group.

These changes are the logical outcome of the development of the company as a whole. Products have been aligned with the group that can derive maximum benefit from product development and sales opportunities.

Against the background of our new start up culture, blended with our traditional businesses, and organisational re-structuring, the financial performance for the company in 2013 was solid.

The financial reporting for 2013 still reflects the old structure, hence we refer below to: the Business Division, the Professional Division, the nQueue Billback Division, and the Virtual Cabinet Division.

# Message to shareholders from the Chairman and Group CEO (continued)

## Key performance metrics

| Group   | 2013                 | 2012                 | % Change | Amount Change |
|---------|----------------------|----------------------|----------|---------------|
| Revenue | \$98.1 million       | \$96.8 million       | 1%       | \$1.3 million |
| EBITDA  | \$35.3 million       | \$34.0 million       | 4%       | \$1.3 million |
| NPAT    | \$18.2 million       | \$17.8 million       | 2%       | \$0.4 million |
| EPS     | 13.9 cents per share | 13.4 cents per share | 4%       | 0.5 cents     |

## Dividend

On 11 February 2013, the board declared a final dividend of 4.75 cents per share. The dividend was 90% franked. The interim dividend announced on 13 August 2013 was 4 cents per share, also franked to 90%.

## Divisional Performance

|                          | 2013 Operating Revenue | 2012 Operating Revenue | 2013 EBITDA    | 2012 EBITDA    |
|--------------------------|------------------------|------------------------|----------------|----------------|
| Business division        | \$57.9 million         | \$58.3 million         | \$20.2 million | \$21.3 million |
| Professional division    | \$24.0 million         | \$25.1 million         | \$11.6 million | \$12.4 million |
| nQueue Billback division | \$10.7 million         | \$10.8 million         | \$4.0 million  | \$4.6 million  |
| Virtual Cabinet Division | \$5.5 million          | \$2.4 million          | \$1.7 million  | \$0.5 million  |

## Conclusion

There was a lot of change, but with the launch of Reckon One, the completion of the rebranding exercise, new modules in APS and nQueue Billback, ongoing growth in Virtual Cabinet and growth in the Corporate Services business, coupled with the end of royalty payments to Intuit, we are confident that 2014 promises to be a strong year.

We also look forward to unveiling Reckon Pay, our new mobile smart phone cloud based payment solution that integrates with Reckon Accounts.

As always we extend our thanks and appreciation to our customers, network of partners and employees for the contributions to our on-going success.



**John Thame**  
Chairman



**Clive Rabie**  
Group CEO

# Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2013

## John Thame AAIBF FCPA

Non-Executive Chairman

John Thame has a lifetime of experience in the retail financial services industry. He was Managing director of Advance Bank Limited from 1986 until it merged with St George Bank Limited in January 1997 and held a variety of senior positions in his career with Advance. John was Chairman of St George Bank Limited from 2005 to 2008 and a member of the St George Bank Limited board until 1 July 2008. He is also Chairman of Abacus Property Trust Group Limited, where he has been a director since 2002. John was appointed to the board on 19 July 1999.

## Ian Ferrier AM FCA

Non-Executive Director

Ian Ferrier is a Fellow of the Institute of Chartered Accountants in Australia. He has extensive experience in company corporate recovery and turn around practice. He is also a director of a number of private and public companies. Ian is also Chairman of Australian Vintage Limited having been a Director since 1991 and Chairman of Goodman Group Limited since 2003 and a director of Energy One Limited. He has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries. Ian joined the board on 17 August 2004.

## Greg Wilkinson

Founder, Deputy Non-Executive Chairman

Greg Wilkinson has over 30 years experience in the computer software industry. Greg entered the industry in the early 1980s in London where he managed Caxton Software, which became one of the UK's leading software publishers. Greg co-founded Reckon in 1987 and was the Chief Executive Officer until February 2006. He was appointed to the position of Deputy Chairman in February 2006 and became a member of the board of the listed entity on 19 July 1999. He was appointed to the Audit & Risk Committee in February 2010 and Remuneration Committee in December 2011.

## Clive Rabie

Group Chief Executive Officer

Clive was Chief Operating Officer of Reckon from 2001 until February 2006 and in that time played a pivotal role in its turn-around. In February 2006 Clive was appointed to the position of Group Chief Executive Officer. He has extensive management and operational experience in the IT and retail sectors as both an owner and director of companies.

## Myron Zlotnick LLM, GCertAppFin

General Counsel and Company Secretary

Myron Zlotnick has over 20 years experience as a legal practitioner, general and corporate counsel, and as a director of companies in the information, communications and technology sector. He is a member of ASIC's Registry and Licensing Business Advisory Committee.

## Marianne Kopeinig LLM, GDipApplCorpGov

Legal Counsel and Assistant Company Secretary

Marianne has over 15 years experience as a private practitioner and corporate counsel for private and ASX listed companies and broad industry experience in commercial, risk management and compliance functions.

# Directors' Report (continued)

## Operations and Activities

In 2013 Reckon Limited conducted business across these areas:

- (1) the sales and support of small to larger sized business accounting software and personal wealth management software under the Reckon Accounts business range and Reckon Accounts personal range brands; the sales and support of company secretarial services such as company incorporations, SMSF documentation and ASIC compliance management under the Reckon Docs brand;
- (2) the sales and support of accounting practice management and allied software under the APS brand to larger professional accounting firms, and to smaller professional accounting firms under the Elite brand;
- (3) supplying software solutions to legal firms and corporations in the main areas of revenue management, expense management, print solutions, business process automation, business intelligence, document service automation, scan and document management under the nQueue Billback brand; and
- (4) sales and support of document management and document portal products to a wide variety of clients under the Virtual Cabinet brand.

Through strategic development and acquisition of businesses and technology, Reckon aspires to broaden its scope of operations to provide complementary products and services across these business areas. The main products and services are principally organised into four operating units: the Business division, the Professional division, the nQueue Billback division and the Virtual Cabinet division.

Reckon has re-organised the business to have three distinct operational groups that are supported by our shared services teams, effective from 1 January 2014. This re-organisation was implemented as part of an on-going process to more efficiently utilise resources and maximise sales opportunities.

The Business Division is renamed as the Business Group which is operationally responsible for Reckon Accounts, Reckon Accounts Hosted, and Reckon One products.

The Professional Division is renamed the Accountants Group which is now operationally responsible for the Reckon APS range of products, as well as Reckon Elite and Reckon Docs.

The new International Group is operationally responsible for Reckon nQueue Billback and Reckon Virtual Cabinet businesses.

Underpinning these three new groups are our shared services teams which include IT, development, finance, marketing and HR.

### Business Division 2013

Reckon develops, distributes and supports a range of programs under the Reckon Accounts brand. These programs are generally used by small to large businesses in Australia and New Zealand. Alongside desktop and hosted accounting software the range includes a payroll and point of sale solution, as well as personal finance software.

The fastest growing product in the Reckon Accounts suite is Reckon Accounts Hosted, a convenient secure online accounting software product that very closely mimics the Reckon Accounts business range desktop package.

Reckon Accounts products include: (1) Reckon BankData, a bank feed solution which allows connections with banks and other financial institutions to download bank transaction information directly into accounting software; and (2) Reckon GovConnect, an SBR-enabled solution for lodging reports to government agencies such as the ATO.

Reckon's newest product is Reckon One, a flexible cloud accounting solution for small businesses. The program was released in February 2014. Reckon One is based on a "designed by you" concept that allows users to tailor the solution to their needs by choosing modules their business will use. The current modules available are: Core (which includes payments and receipts, budgets and reporting); Invoices; BankData (automatic bank statement import into accounts and reconciliation); and Projects (manage revenue and costs, forecasts). The development roadmap

includes Time & Billing (timesheets and expenses); GovConnect (BAS lodgement); Inventory and Payroll and an open API for third party applications.

Users can switch modules on or off as required making Reckon One a very cost-effective solution for small businesses.

The Reckon Elite product suite includes tax return preparation tools, practice management tools and related solutions mostly used by accountants and tax agents. Reckon Elite is predominantly used in small to medium sized accounting firms compared to Reckon APS which is used by larger firms.

Reckon Docs corporate services business comprises technology for the registration and compliance management of companies and other business structures through an easy to use web based ordering system. This business provides clients with an online company registration service available 24/7; documentation and services for the establishment of a range of entities, especially trusts for self managed superannuation funds; constitution updates and domain name registrations; and other documentation for human resources needs.

The Reckon Docs data business provides comprehensive accredited business name and ASIC information electronically combined with a highly personalised client relationship. A full range of sophisticated information services to assist customers with the provision of financial, corporate and statutory information is also offered.

Reckon Docs also offers a desktop utility called Reckon Docs Desktop (RDD) that is a simple and convenient desktop application for company registration, searches, and ASIC compliance management. This product is also integrated into the Practice Management suite of APS, known as Advance Corporate Registers (ACR).

## Professional Division 2013

Reckon develops, distributes and supports the Reckon APS suite of solutions for professional service firms in Australia, New Zealand and, via a reseller arrangement, in the United Kingdom. For professional accountants these solutions also include tax and accounts production. Reckon also delivers a wide range of complementary applications for practice management.

The Reckon APS product suite continues to be considered market leading for its sophistication and depth of offering to professional accounting firms. This is reflected in the market share that Reckon APS enjoys in Australia and New Zealand.

Reckon has committed several years of research and development to delivering unique integrated practice software to work off a single platform, offering all its solutions under the collective "Advance" suite. The Advance suite comprises several integrated modules for several business critical functions in professional firms: Practice Management (PM); Business Intelligence and Reporting (PIQ); Document and E-mail Management (DM); Taxation (Tax); Client Accounting (XPA); Client Relationship Management (CRM); Resource Planning (RP); Superannuation (DS); Corporate Secretarial (ACR); Workpaper Management (WM); SyncDirect and others.

Reckon has also made all of the above modules available in a hosted version called APS Private Cloud.

In late 2013 the company acquired the technology called Sync Direct. The cloud based system allows accountants to upload financial transaction data from virtually any source and automatically enter it into their practice management system for accounts and tax return preparation purposes.

Together Reckon's Professional and Business divisions co-ordinate development to meet the overall strategic goal of delivering integrated solutions, on the desktop, in a hosted environment, and in the cloud, to businesses and accountants professionals.

## nQueue Billback Division 2013

The nQueue Billback division provides software and support services in the revenue management, expense management, print solutions, document service automation, and document management markets. The division has recently introduced a new scan module.

# Directors' Report (continued)

The division currently operates in Australia, the United Kingdom and the USA, and has reseller arrangements in other parts of the world.

The division assists law firms and commercial and government clients by enhancing the automation and processing of any operational and administrative expenses, including print, copy, scan, telephone, online searches, emails, court fees, car services, credit card charges, courier costs and more. nQueue Billback's software offerings can be embedded directly into multi-function devices or reside on tablet computers or terminals to provide clients with the knowledge required to run their businesses more profitably.

## Virtual Cabinet Division 2013

The Virtual Cabinet division enables companies to control all documents in a secure document management system. Virtual Cabinet document management fully integrates with back office systems and has the ability to link all forms of electronic files back to client records. Linked with the document portal it also provides a secure and audit trailed method to send documents to selected recipients, and provides an efficient method for professionals to collaborate with their clients.

## Development

Reckon has co-ordinated product development efforts to meet the growing demand for remote and mobile access to a range of solutions and applications, including cloud based products. This includes co-ordination across both the Business and Professional divisions to meet a longer term goal of integrated and collaborative solutions for accountants, bookkeepers and small to larger sized enterprises.

Overall Reckon is now developing a whole range of desktop, hosted, and cloud products in a single environment where they integrate to improve collaboration between businesses, accountants, banks, government agencies and other stakeholders.

## Results of Operations

- Revenue was up 1% to \$98.1 million from \$96.8 million.
- EBITDA was up 4% to \$35.3 million from \$34 million.
- NPAT was up 2% to \$18.2 million from \$17.8 million.
- EPS was up 4% to 13.9 cents per share from 13.4 cents per share.
- A total dividend of 8.75 cents per share for the 2013 year (final dividend of 4.75 cents per share and an interim dividend of 4 cents per share) up 3% from 8.5 cents per share.

The above results include the profit on sale of our investment in Connect2Field Holdings Pty Ltd.

## Business Division

Despite replacing the brand under which these products have traded for more than 20 years, Reckon Accounts direct unit sales grew by 4%. The revenue growth was hampered by modest price increases in 2013 due to the rebranding exercise, as well as the ongoing move towards a subscription model.

The retail channel continued to decline, although retail now only represents 3% of Business Division revenue.

Reckon One, has been launched, but does not begin generating revenue until 2014. Substantial costs have been incurred and expensed in 2013 in pre launch marketing and infrastructure set up costs.

Reckon Docs revenue grew by 5%.

The changing nature of the business means that more development costs were capitalised in 2013 than in 2012.

Overheads were higher due to the Reckon One investment noted above, as well as marketing costs on the rebranding exercise and building our IT Infrastructure to support an online business.

### **Professional Division**

Revenue growth for the APS Australia and New Zealand businesses was 2%. The transition towards a subscription model has seen the recurring revenue component increase by 11%, offsetting a 21% reduction in upfront revenue.

Albeit that there is a short term impact on revenue, the move towards a subscription model, will put this division in a much more sustainable position in future.

It is also expected to reduce the purchasing barriers for potential customers, as they will no longer be required to make a substantial investment upfront to implement APS in future.

The United Kingdom business was sold in 2012, and has generated a royalty stream of \$0.5m in 2013.

### **Virtual Cabinet Division**

This division was acquired effective 1 July 2012, and so was only included in the consolidated results for the second half of 2012. The results in the second half of 2013 compared to comparative period in 2012, has shown revenue growth of 34% and EBITDA growth of 113%.

### **nQueue Billback Division**

The nQueue Billback division finished the year with the strongest 4th quarter in its history, offsetting some of the impact of a weak first half of 2013.

The development team has focussed on developing a scan solution for the legal market to complement the existing cost recovery offering; this product is market ready and early indications are promising.

### **Buyback 2013**

Pursuant to the announcement of a share buy-back on 13 August 2013, 2.6 million shares were purchased at an average price of \$2.15 per share during 2013.

### **Dividends**

On 11 February 2014, the board declared a final dividend of 4.75 cents per share (90% franked) payable to shareholders recorded on the company's register as at the record date of 21 February 2014. Reckon does not have a dividend re-investment plan currently in operation. On 13 August 2013, the board declared an interim dividend of 4 cents per share (90% franked) payable to shareholders recorded on the company's register at record date of 28 August 2013.

# Directors' Report (continued)

## Future Developments, Business Strategies and Prospects for Future Financial Years

Reckon will continue to pursue expanding its product suite across a choice of platforms: desktop, hosted or cloud; pursue recurring revenue and expand the subscription model across all businesses; selling across divisions; maintaining and enhancing relationships with its network of partners, including retailers and professional partners; and striving for operational efficiency.

The group will continue to pursue its cloud strategy focusing on developing integrated products to provide solutions for small to larger businesses, accountants and lawyers that allow for collaboration, and are connected to financial institutions and government agencies.

We implemented a number of structural or organisational changes, as mentioned above:

The Business Division has been re-named the Business Group. The Business Group is responsible for the new Reckon One product, as well as the Reckon Accounts product range. The Professional Division has been re-named the Accountants Group. The Accountants Group is now responsible for the Reckon Docs and Reckon Elite products, as well as the Reckon APS product range. The Reckon Virtual Cabinet and Reckon nQueue Billback businesses will fall under a newly named International Group.

These changes are the logical outcome of the development of the company as a whole. Products have been aligned with the group that can derive maximum benefit from product development and sales opportunities.

### In the Business Group...

At the beginning of 2014 the company released the new cloud accounting product, Reckon One. As stated above, Reckon One has been launched with a Core module, BankData and Projects. The development roadmap includes Time & Billing; GovConnect; Inventory; Payroll and an open API for third party applications.

The company is also intending to establish small low cost offices in new territories such as the United Kingdom to localise and promote Reckon One.

During 2014 a substantially upgraded Reckon Accounts will be released, this included improvements to speed and reliability.

Reckon Accounts Hosted and Enterprise, in particular, are expected to continue to be the main drivers for growth in the Reckon Accounts suite.

The company will also benefit from a savings on royalty expenses of about \$5 million as a result of the end of the Intuit Inc relationship.

### In the Accountants Group...

It is intended to increase the addressable market by a move towards a subscription business model, by reducing the upfront investment required of customers to adopt APS products.

There will also be focus on increasing market share and rolling out modules to existing customers.

In parallel with that, product development will continue to focus on maintaining and improving the existing Advance suite of products. In addition, sales of APS Private Cloud, a Workpaper Management module and Virtual Cabinet are expected to gain momentum.

This group will also continue to cross sell Reckon Docs products to its customer base.

The addition of the Reckon Elite small practice management solution is also a likely contributor to growth.

## In the International Group...

Opportunities for growth for Virtual Cabinet are expected to be seen in the United Kingdom, in the accountants and financial planners markets, in particular. It is also anticipated that the International Group will take advantage of channels into Australia and New Zealand through the other Groups.

For nQueue Billback, a product update was completed in the second half of 2013. This together with a newly developed scan solution is expected to contribute to growth. In addition the business has also started moving towards a subscription business model.

## Significant Changes in State of Affairs

Other than as outlined above there were no significant changes in state of affairs.

## Matters Subsequent to the End of the Financial Year

On 11 February 2014 Reckon announced an extension to its buy-back of shares which permits the company to buy back up to 10% of its shares on the open market within a 12 month period. For the 12 months to 31 December 2013, 2.6 million shares were bought back. It is anticipated to keep the buy back in place until 25 February 2015 subject to the normal ASIC requirements.

On 10 February 2014 Reckon's relationship with Intuit Inc formally ended. Reckon is no longer required to pay a royalty to Intuit Inc on sales of Reckon Accounts business and personal product ranges. Reckon continues to localise and develop the source code for these products having been granted a 100 year royalty fee licence to the then latest version of the source code.

Since year end the group has increased its bank bill facility by \$10 million.

## Other Matters

Other than as disclosed in this Directors' Report no other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect:

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

Other than as outlined above, disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

## Directors' Shareholdings

As at the date of this report, the Directors held shares and options in Reckon as set out in note 28 to the financial statements.

# Directors' Report (continued)

## Remuneration Report - Audited

### Key Management

The key management personnel include the directors and those people who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity. Key management personnel details are set out on page 18.

### Policy for Determining Remuneration of Key Management Personnel

The policy for determining remuneration of key management personnel, including the directors, the deputy Chairman, Group CEO, Group CFO, MDs and other company officers is the ultimate responsibility of a remuneration committee comprising the Chairman of the board and the other independent non-executive directors. The Chairman of the remuneration committee is Ian Ferrier. There is no formal charter for the remuneration committee. Policy is set with due consideration for the need to motivate directors and management to pursue the long-term growth and success of the company as well as to tie remuneration in with performance as contemplated in the ASX Corporate Governance Principles and Recommendations ("ASX Guidelines"). It is the view of the board that the company complies with the substance of the aims and aspirations of the ASX Guidelines in the context of the size of the company, the size of the board, the size of the senior management team and the size of the business.

The Policy for determining remuneration of other management personnel has been delegated to the Group CEO, Group CFO and MDs by the board to be exercised in accordance with the same broad principles as apply for the Group CEO, Group CFO, other company officers and MDs.

The board reviews all remuneration in its consideration of the company's annual budget process. The board, through the remuneration committee will consider for approval the levels of remuneration set in the annual budget, taking into account the relevant performance budgeted as well as compared with historical performance, and market conditions.

The policy is to pay the relevant officers and employees remuneration consistent with applicable market comparisons suited to the unique features of the company, the competitive landscape, the scale of the business, the responsibilities of the individual directors and employees, internal relativities and performance.

The board is conscious of the need to attract and retain talent. The remuneration policy takes account of striking the right balance between short term benefits and long term incentives. All remuneration is reviewed annually. Generally increases, if justified, will not exceed comparable market increases.

### Terms of Employment for Key Management Personnel

Executive directors and Group executives are all appointed on standard employment terms that are not fixed term contracts. These contracts include a notice period of between 1-3 months to be provided by either the executive or the company. No contract provides for termination payments except where the employee is to receive payment in lieu of notice.

For 2013, remuneration for key management personnel including the Group CEO, Group CFO, other company officers, MDs, and other senior executives, comprises a fixed element, a short-term incentive element and a long-term incentive element.

### Fixed Component

The fixed component of remuneration is determined in preparing the annual budget for the year and then subjected to the approval of the board through the remuneration committee.

## Short-Term Incentive Payments

The short-term incentive component of remuneration is dependent on satisfaction of performance conditions. Each annual budget fixes a pool representing the total potential amount in which the relevant employees can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz: a revenue target, an earnings before interest, tax, depreciation and amortisation (EBITDA) target, and earnings per share (EPS) target measured against the budgeted performance of the company.

The board retains a discretion regarding the allocation of the pool between employees as well as regarding weightings.

Short term incentives are paid in cash as bonuses usually in about February or March of the following year.

The amounts payable include a portion effectively requiring the employee to remain employed for a further one year period before being paid the remaining short term bonus for performance in that year.

## Long-Term Incentive Payments

The long-term incentive component is the last of the mix of the components comprising remuneration packages. It is aimed at retaining the long term services of the key management personnel to whom it applies and to align their remuneration with the longer term performance of the company. The substance of the long-term incentive component for key management was approved by Special General Meeting on 20 December 2005.

In general terms, the long-term incentive component comprises several possible methods of participation: an option plan, a performance share plan (which includes a long term retention incentive) and a share appreciation plan. The board has discretion to approve the making of offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date or at least seven years in the case of the long term retention incentive. Vesting is also conditional upon the company achieving defined performance criteria. The performance criteria for all plans except for the long term retention incentive are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, based upon the growth in the company's share price plus dividends or returns of capital for that period. The company's initial TSR target will be the company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The mechanism and detailed criteria to achieve the board's objectives was designed by an independent consultant and offers were made under the rules of the company's original performance share plan approved by shareholders at the Special General Meeting on 20 December 2005.

Some of the entities comprising the comparator group have been delisted either as part of merger and acquisition activity or for other reasons. This was factored into the calculation of the company's performance by the independent valuers who undertook the exercise on behalf of the company. Where companies were de-listed or suspended, for example, it was assumed that the company out-performed that company. The comparator group of companies used in the performance period for assessment included (1) Adacel Technologies Limited, (2) Firstfolio Limited (previously listed as AFS), (3) Altium Limited, (4) Amcom Telecommunications Limited, (5) ASG Group Limited, (6) CPT Global Limited, (7) Eftel Limited (no longer listed), (8) Eservglobal Limited, (9) Hansen Technologies Limited, (10) Infomedia Ltd, (11) Integrated Research Limited, (12) Melbourne IT Limited, (13) Lifestyle Communities Limited (previously listed as NMB), (14) MYOB Limited (no longer listed), (15) Newsat Limited (suspended from trading), (16) Objective Corporation Limited, (17) Oakton Limited, (18) Powerlan Limited (now listed as CYo), (19) Queste Communications Limited, (20) Rea Group Ltd, (21) Sirius Corporation Limited (suspended from trading), (22) Sonnet Corporation Limited (no longer listed), (23) Asian Pacific Limited (previously listed as TMO, no longer listed), (24) Technology One Limited, (25) Talent2 International Limited (no longer listed), (26) Chariot Limited (no longer listed), (27) Citect Corporation Limited (no longer listed).

# Directors' Report (continued)

## Remuneration Report - Audited (continued)

Only 50 percent of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the company exceeds a median ranking against the TSR position of the comparator group of companies).

The share appreciation right plan represents an alternative remuneration component (to offering options or performance shares) under which the board can invite relevant employees to apply for a right to receive a cash payment from the company equal to the amount (if any) by which the market price of the company's shares at the date of exercise of the right exceeds the market price of the company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the board in the exercise of its discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

In 2014, the board will undertake a review of the suitability of the current comparator group as several of the entities may no longer be appropriate points of comparison. As part of this process the board will also review the suitability of TSR generally as a relevant and topical measure of performance. If any changes are implemented these will apply to 2014 and onwards.

On 24 May 2011 the remuneration committee approved and recommended to the board an extension to the long term incentive plan by adding the long term incentive.

The genesis of the idea to extend the plan and offer additional performance shares was to provide a reward and an incentive for senior level employees who have a long employment history and good performance record.

It was also intended that these performance shares could be used to provide an incentive for employees with potential for a longer term contribution to the success of the company to participate in the growth of equity value of the company.

Part of the company's success as an organisation is premised on human domain expertise and the consistency and longevity of service of key management.

The offer of these additional performance shares is designed to encourage and reward employees to commit to longevity as well as to complement other traditional forms of executive remuneration.

By rewarding those executives who commit to the company over a very long period and thereby providing management stability as the business grows and matures, the board believes long term shareholder benefits will result.

Other aspects of the remuneration strategy deal with fixed remuneration, short term and long term incentives and are measured against customary key indicators such as revenue growth, EBITDA, EPS and TSR. This strategy has now been enhanced to provide a measure of equity rewards for very long and consistent performance by executives considered key.

The independent consultant did not make any remuneration recommendation in relation to the key management personnel for the company.

These performance shares are offered to selected employees with the principal vesting condition that participants must remain employed for the term specified. The shares offered remain at risk of forfeiture until the relevant period of service has been satisfied. There is no entitlement to dividends during the relevant period of service.

Offers made are staggered in such a way that for 100% of the shares to vest, the employee must remain in employment for 10 years from the date of the initial offer, with a minimum of 7 years. In the context of the overall remuneration strategy of the company, the history of the performance of the company, and the relative value of the shares offered, the remuneration committee is of the view that the addition of this retention incentive to remuneration offered is appropriate and 'fair and reasonable', a view supported by the independent consultant.

It is the remuneration committee's belief that the addition of these performance shares has added to the balance and overall mix of remuneration to the applicable employees in a positive way. If the exacting service requirements are not satisfied then any costs incurred under AASB 2 will be recouped and any forfeited shares will be available for reallocation or to fund other employee equity entitlements.

## Balance Between Salary, Short-Term and Long-Term Incentives

It is the board's opinion that an adequate balance is struck between the three components comprising the relevant remuneration. For short term incentives, the performance targets reflect, in part, the key factors that the company pursues in measuring its performance: volume of sales; earnings generated; and value returned to shareholders in terms of EPS. The targets also represent a measure of an incentive to encourage commitment to the business and to its growth. The audited financial results for the year are used to assess whether the performance conditions are satisfied. Audited results represent an independent accurate method of determining the attainment of the conditions. For long-term incentives, the additional targets comprising TSR reflect a further assessment of value to shareholders before the remuneration is earned. As stated above the comparator group will be subject to review as may be TSR as a suitable measure of performance.

The remuneration committee is satisfied that the remuneration of the relevant employees accords with the performance indicators of the company as set out in the table below; takes into account the imperative to retain their services to avoid the business and opportunity costs associated with replacing them; is reflective of the need to be commensurate with market rates; and takes into account other relevant idiosyncrasies of the company's performance.

|      | NPAT   | EPS             | Dividend | Change in share price between beginning and end of year |          |
|------|--------|-----------------|----------|---------------------------------------------------------|----------|
|      |        |                 |          | January                                                 | December |
|      | \$'000 | Cents per share |          | Cents                                                   |          |
| 2009 | 13,602 | 9.9             | 7.0      | 105                                                     | 184      |
| 2010 | 17,248 | 12.4            | 8.0      | 184                                                     | 234      |
| 2011 | 16,693 | 12.1            | 8.0      | 234                                                     | 234      |
| 2012 | 17,767 | 13.4            | 8.5      | 234                                                     | 236      |
| 2013 | 18,161 | 13.9            | 8.75     | 236                                                     | 217      |

Total shareholder return for the period 2011 to 2013 was 1%. The board was of the opinion, however, that it would exercise a discretion, under the rules of the plan, to pay a discretionary bonus by releasing performance share plan shares and share appreciation rights to relevant employees set out in the table on page 19. As set out above the board is calling into question the relevance and appropriateness of TSR (and a comparator group) as a suitable and topical yardstick for measuring performance. While any changes to the yardstick implemented will take place from 2014 onwards, there were certain significant factors in the company, especially over the period 2012 – 2013, that in the board's opinion justified the payment of a discretionary bonus. These factors include: the company separating from Intuit Inc, the implementation of brand name changes, assuming the risk of independent development and the development of cloud products for the first time. Notwithstanding these changes being reflected in a stagnant or declining share price (possibly a result of uncertainty in the market relating to these changes) management still managed to: successfully re-brand products and grow revenue, develop Reckon One independently within 2 years of announcing the split from Intuit Inc, maintain development costs, maintain profitability (in an extremely competitive market), increase earnings per shares (even taking account of a share buyback), and continue to pay a dividend. All of which place the company in a position to properly compete in its markets, especially in the cloud accounting sector and hopefully deliver appropriate returns to shareholders in the long term.

The Company's Trading Policy prohibits directors, key management personnel and employees from entering into a transaction with securities which limit the economic risk of any unvested entitlements awarded under any Reckon equity-based remuneration scheme. Prior to presenting full-year results equity plan participants are required to confirm that they have not entered into any transactions which would contravene the company's Trading Policy.

# Directors' Report (continued)

## Remuneration Report - Audited (continued)

|                            |                                             | Fixed component | Short term incentive component |                           | Other compensation | Long term incentive component                                         |                                                                      |                    |
|----------------------------|---------------------------------------------|-----------------|--------------------------------|---------------------------|--------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------|--------------------|
| Remuneration 2013          | Office                                      | Salary          | Bonus <sup>1</sup>             | Other short term benefits | Super-annuation    | Equity settled share based payments – Performance shares <sup>2</sup> | Cash settled share based payments – Appreciation rights <sup>3</sup> | Total remuneration |
| Directors <sup>5</sup>     |                                             |                 |                                |                           |                    |                                                                       |                                                                      |                    |
| John Thame                 | Chairman, Non-executive Director            | \$110,000       | \$0                            | \$0                       | \$10,038           | \$0                                                                   | \$0                                                                  | \$120,038          |
| Greg Wilkinson             | Deputy Chairman, Executive Director         | \$95,000        | \$0                            | \$0                       | \$8,669            | \$0                                                                   | \$0                                                                  | \$103,669          |
| Clive Rabie                | Group CEO, Executive Director               | \$683,500       | \$266,165                      | \$0                       | \$25,000           | \$0                                                                   | \$164,329                                                            | \$1,138,994        |
| Ian Ferrier                | Non-executive Director                      | \$95,000        | \$0                            | \$0                       | \$8,669            | \$0                                                                   | \$0                                                                  | \$103,669          |
| Executives <sup>5</sup>    |                                             |                 |                                |                           |                    |                                                                       |                                                                      |                    |
| Sam Allert                 | MD, Accountants Group                       | \$345,600       | \$86,435                       | \$10,115                  | \$25,000           | \$32,370                                                              | \$0                                                                  | \$499,520          |
| Chris Hagglund             | CFO                                         | \$405,550       | \$123,965                      | \$0                       | \$25,000           | \$70,608                                                              | \$0                                                                  | \$625,123          |
| Myron Zlotnick             | General Counsel & Company Secretary         | \$325,980       | \$82,163                       | \$0                       | \$25,000           | \$54,513                                                              | \$0                                                                  | \$487,656          |
| Peter Sanders <sup>4</sup> | MD, Business Group                          | \$220,000       | \$30,000                       | \$0                       | \$20,075           | \$1,499                                                               | \$0                                                                  | \$271,574          |
| Richard Hellers            | President and CEO, nQueue Billback Division | \$309,917       | \$51,653                       | \$7,060                   | \$14,875           | \$7,494                                                               | \$0                                                                  | \$390,999          |
| TOTAL                      |                                             | \$2,590,547     | \$640,381                      | \$17,175                  | \$162,326          | \$166,484                                                             | \$164,329                                                            | \$3,741,242        |

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The amounts paid include a portion for 2012 effectively requiring the employee to remain employed for a further one year period to 31 December 2013 before being paid the remaining short term bonus for performance in 2012. The short term bonus for Mr Hellers is based on specific performance targets for the nQueue Billback division.

2. The dollar values of the long term incentive and retention component is the fair value using a model that adapts the Monte Carlo simulation approach: (1) allocated over each year of the 3 year performance period for 2011 to 2013 and (2) allocated over the 7 year period from 2013 to 2019 for shares offered as a long term retention incentive. The fair value of the performance shares offered in 2013 for the performance period 2013 to 2015 at grant date was \$1.848 per share valued according to the Monte Carlo simulation approach. The fair value of the shares offered in 2013 for the long term retention incentive for the period 2013 to 2019 at 1 January 2013 was \$1.869 per share valued according to the Monte Carlo simulation approach. For the performance period 2013 to 2015 performance shares were offered as follows: Mr Hagglund (34,410 shares), Mr Zlotnick (22,377 shares) and Mr Allert (14,777 shares). The date of grant for each of these participants was 1 January 2013. If the performance criteria are met, then the shares are released at no consideration on 31 December 2015. For the long term retention incentive period 2013 to 2019 performance shares were offered as follows: Mr Hagglund (50,000 shares), Mr Zlotnick (50,000 shares) and Mr Allert

(25,000 shares), Mr Sanders (5,000 shares) and Mr Hellers (25,000 shares). These shares vest on 31 December 2019 at zero cents subject to the employees remaining in employment for the period. The fair value of performance shares which vested or were forfeited during the 2013 financial year is set out in the table below. No options were granted to any person during the year as part of their remuneration. No options vested during the financial year. All options issued in previous years were fully vested in prior years. No options were exercised during 2013.

3. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation approach allocated over each year of the 3 year performance period for 2011 to 2013. The fair value of the rights offered for the performance period 2013 to 2015 was \$0.344 valued according to the Monte Carlo simulation approach. 549,419 rights were issued under the plan on 1 January 2013 for the performance period 2013 to 2015. The fair value of appreciation rights which vested or were forfeited during the 2013 financial year is set out in the table below. For the share appreciation plan, the amount ultimately paid to the employee is calculated based on the difference between the company share price at vesting and the share price at date of issue spread over the three year performance period, multiplied by the number of rights granted.

4. Appointed in 1 January 2013.

5. To the extent that any of the above are directors of any wholly owned subsidiaries of the company no additional remuneration is paid.

| Remuneration 2013 continued | Percentage of total remuneration that is performance related | Percentage of available bonus which vested in the year | Percentage of available bonus which was forfeited during the year | No of performance shares vested in 2013 <sup>6</sup> | Value of Performance shares vested in 2013 <sup>6</sup> | Value of Performance shares forfeited in 2013 | Value of Appreciation rights vested in 2013 <sup>6</sup> | Value of Appreciation rights forfeited in 2013 |
|-----------------------------|--------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------|------------------------------------------------------|---------------------------------------------------------|-----------------------------------------------|----------------------------------------------------------|------------------------------------------------|
| <b>Directors</b>            |                                                              |                                                        |                                                                   |                                                      |                                                         |                                               |                                                          |                                                |
| <b>John Thame</b>           | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                                  | n/a                                                     | n/a                                           | n/a                                                      | n/a                                            |
| <b>Greg Wilkinson</b>       | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                                  | n/a                                                     | n/a                                           | n/a                                                      | n/a                                            |
| <b>Clive Rabie</b>          | 38%                                                          | 87%                                                    | 13%                                                               | n/a                                                  | n/a                                                     | n/a                                           | \$175,000                                                | \$0                                            |
| <b>Ian Ferrier</b>          | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                                  | n/a                                                     | n/a                                           | n/a                                                      | n/a                                            |
| <b>Executives</b>           |                                                              |                                                        |                                                                   |                                                      |                                                         |                                               |                                                          |                                                |
| <b>Sam Allert</b>           | 26%                                                          | 87%                                                    | 13%                                                               | 8,464                                                | \$20,092                                                | 0                                             | n/a                                                      | n/a                                            |
| <b>Chris Hagglund</b>       | 31%                                                          | 87%                                                    | 13%                                                               | 32,268                                               | \$76,598                                                | 0                                             | n/a                                                      | n/a                                            |
| <b>Myron Zlotnick</b>       | 28%                                                          | 87%                                                    | 13%                                                               | 21,160                                               | \$50,230                                                | 0                                             | n/a                                                      | n/a                                            |
| <b>Peter Sanders</b>        | 12%                                                          | 60%                                                    | 40%                                                               | 0                                                    | 0                                                       | 0                                             | n/a                                                      | n/a                                            |
| <b>Richard Hellers</b>      | 17%                                                          | 50%                                                    | 50%                                                               | 0                                                    | 0                                                       | 0                                             | n/a                                                      | n/a                                            |
| <b>TOTAL</b>                |                                                              |                                                        |                                                                   | <b>61,892</b>                                        | <b>\$146,920</b>                                        | <b>\$0</b>                                    | <b>\$175,000</b>                                         | <b>\$0</b>                                     |

6. These amounts reflect the discretionary amounts referred to on page 17.

# Directors' Report (continued)

## Remuneration Report - Audited (continued)

|                             |                                             | Fixed component | Short term incentive component |                           | Other compensation | Long term incentive component                                         |                                                                      |                    |
|-----------------------------|---------------------------------------------|-----------------|--------------------------------|---------------------------|--------------------|-----------------------------------------------------------------------|----------------------------------------------------------------------|--------------------|
| Remuneration 2012           | Office                                      | Salary          | Bonus <sup>1</sup>             | Other short term benefits | Super-annuation    | Equity settled share based payments – Performance shares <sup>2</sup> | Cash settled share based payments – Appreciation rights <sup>3</sup> | Total remuneration |
| Directors <sup>5</sup>      |                                             |                 |                                |                           |                    |                                                                       |                                                                      |                    |
| John Thame                  | Chairman, Non-executive Director            | \$105,000       | \$0                            | \$0                       | \$9,450            | \$0                                                                   | \$0                                                                  | \$114,450          |
| Greg Wilkinson              | Deputy Chairman, Non-executive Director     | \$90,000        | \$0                            | \$0                       | \$8,100            | \$0                                                                   | \$0                                                                  | \$98,100           |
| Clive Rabie                 | Group CEO, Executive Director               | \$614,500       | \$241,137                      | \$0                       | \$39,500           | \$0                                                                   | \$105,560                                                            | \$1,000,697        |
| Ian Ferrier                 | Non-executive Director                      | \$90,000        | \$0                            | \$0                       | \$8,100            | \$0                                                                   | \$0                                                                  | \$98,100           |
| Executives <sup>5</sup>     |                                             |                 |                                |                           |                    |                                                                       |                                                                      |                    |
| Sam Allert <sup>6</sup>     | CEO, Professional Division                  | \$313,540       | \$74,723                       | \$13,243                  | \$26,540           | \$23,551                                                              | \$0                                                                  | \$451,597          |
| Chris Hagglund              | CFO                                         | \$371,537       | \$111,176                      | \$0                       | \$29,037           | \$73,854                                                              | \$0                                                                  | \$585,604          |
| Myron Zlotnick              | General Counsel & company Secretary         | \$303,090       | \$74,145                       | \$0                       | \$26,090           | \$52,968                                                              | \$0                                                                  | \$456,293          |
| Brian Coventry <sup>4</sup> | CEO, Professional Division                  | \$332,368       | \$74,723                       | \$0                       | \$29,487           | \$0                                                                   | \$0                                                                  | \$436,578          |
| Gavin Dixon <sup>7</sup>    | CEO, Business Division                      | \$413,860       | \$116,204                      | \$0                       | \$30,860           | \$19,739                                                              | \$0                                                                  | \$580,663          |
| Richard Hellers             | President and CEO, nQueue Billback division | \$253,378       | \$48,263                       | \$12,844                  | \$13,328           | \$0                                                                   | \$0                                                                  | \$327,813          |
| TOTAL                       |                                             | \$2,887,273     | \$740,371                      | \$26,087                  | \$220,492          | \$170,112                                                             | \$105,560                                                            | \$4,149,895        |

1. The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year. The amounts paid include a portion for 2011 effectively requiring the employee to remain employed for a further one year period to 31 December 2012 before being paid the remaining short term bonus for performance in 2011. The short term bonus for Mr Hellers is based on specific performance targets for the nQueue Billback division.

2. The dollar values of the long term incentive and retention component is the fair value using a model that adapts the Monte Carlo simulation approach: (1) allocated over each year of the 3 year performance period for 2010 to 2012 and (2) allocated over the 7 year period from 2012 to 2018 for shares offered as a long term retention incentive. The fair value of the performance shares offered in 2012 for the performance period 2012 to 2014 at grant date was \$1.785 per share valued according to the Monte Carlo simulation approach. The fair value of the shares offered in 2012 for the long term retention incentive for the period 2012 to 2018 at 1 January 2012 was \$1.772 per share valued according to the Monte Carlo simulation approach. For the performance period 2012 to 2014 performance shares were offered as follows: Mr Hagglund (33,226 shares), Mr Zlotnick (21,787 shares), Mr Allert (10,894 shares), Mr Coventry, (10,894 shares) and Mr Dixon (37,039 shares). The date of grant for each of these participants was 1 January 2012. If the performance criteria are met, then the shares are released at no consideration on 31 December 2014. For the long term retention incentive period 2012 to 2018 performance shares were offered as follows: Mr Hagglund (25,000 shares), Mr Zlotnick (25,000 shares), Mr Allert (12,500 shares) and Mr Coventry (12,500 shares).

These shares vest on 31 December 2018 at zero cents subject to the employees remaining in employment for the period. The fair value of performance shares which vested or were forfeited during the 2012 financial year is set out in the table below. No options were granted to any person during the year as part of their remuneration. No options vested during the financial year. All options issued in previous years were fully vested in prior years. No options were exercised during 2012.

3. The dollar value of the share appreciation incentive in the above table is determined using a model that adapts the Monte Carlo simulation approach allocated over each year of the 3 year performance period for 2010 to 2012. The fair value of the rights offered for the performance period 2012 to 2014 was \$0.441 valued according to the Monte Carlo simulation approach. 396,825 rights were issued under the plan on 1 January 2012 for the performance period 2012 to 2014. The fair value of appreciation rights which vested or were forfeited during the 2012 financial year is set out in the table below. For the share appreciation plan, the amount ultimately paid to the employee is calculated based on the difference between the company share price at vesting and the share price at date of issue spread over the three year performance period, multiplied by the number of rights granted.

4. Employment ended on 31 December 2012. No termination benefit paid.

5. To the extent that any of the above are directors of any wholly owned subsidiaries of the company no additional remuneration is paid.

6. Promoted to the position on 1 October 2012. This represents remuneration for 12 months.

7. Resigned effective from 31 March 2013.

| Remuneration 2012 continued | Percentage of total remuneration that is performance related | Percentage of available bonus which vested in the year | Percentage of available bonus which was forfeited during the year | No of performance shares vested in 2012 | Value of Performance shares vested in 2012 | Value of Performance shares forfeited in 2012 | Value of Appreciation rights vested in 2012 | Value of Appreciation rights forfeited in 2012 |
|-----------------------------|--------------------------------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------|--------------------------------------------|-----------------------------------------------|---------------------------------------------|------------------------------------------------|
| <b>Directors</b>            |                                                              |                                                        |                                                                   |                                         |                                            |                                               |                                             |                                                |
| <b>John Thame</b>           | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                     | n/a                                        | n/a                                           | n/a                                         | n/a                                            |
| <b>Greg Wilkinson</b>       | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                     | n/a                                        | n/a                                           | n/a                                         | n/a                                            |
| <b>Clive Rabie</b>          | 35%                                                          | 88%                                                    | 12%                                                               | n/a                                     | n/a                                        | n/a                                           | \$185,557                                   | \$0                                            |
| <b>Ian Ferrier</b>          | 0%                                                           | n/a                                                    | n/a                                                               | n/a                                     | n/a                                        | n/a                                           | n/a                                         | n/a                                            |
| <b>Executives</b>           |                                                              |                                                        |                                                                   |                                         |                                            |                                               |                                             |                                                |
| <b>Sam Allert</b>           | 25%                                                          | 88%                                                    | 12%                                                               | 7,568                                   | \$13,086                                   | \$0                                           | n/a                                         | n/a                                            |
| <b>Chris Hagglund</b>       | 32%                                                          | 88%                                                    | 12%                                                               | 41,216                                  | \$71,266                                   | \$0                                           | n/a                                         | n/a                                            |
| <b>Myron Zlotnick</b>       | 28%                                                          | 88%                                                    | 12%                                                               | 27,027                                  | \$46,732                                   | \$0                                           | n/a                                         | n/a                                            |
| <b>Brian Coventry</b>       | 17%                                                          | 88%                                                    | 12%                                                               | 12,573                                  | \$38,482                                   | \$72,224                                      | n/a                                         | n/a                                            |
| <b>Gavin Dixon</b>          | 23%                                                          | 88%                                                    | 12%                                                               | 39,514                                  | \$68,323                                   | \$89,039                                      | n/a                                         | n/a                                            |
| <b>Richard Hellers</b>      | 15%                                                          | 60%                                                    | 40%                                                               | n/a                                     | n/a                                        | \$0                                           | n/a                                         | n/a                                            |
| <b>TOTAL</b>                |                                                              |                                                        |                                                                   | <b>127,898</b>                          | <b>\$237,889</b>                           | <b>\$161,263</b>                              | <b>\$185,557</b>                            | <b>\$0</b>                                     |

# Directors' Report continued

## Indemnification of Directors and Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company Secretary and all executive officers of the company, and of any related body corporate, against a liability incurred as a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

In addition, Rule 12 of the company's constitution obliges the company to indemnify on a full indemnity basis and to the full extent permitted by law, every director, officer or former officer for all losses or liabilities incurred by the person as an officer. This obligation continues after the person has ceased to be a director or an officer of the company or a related body corporate, but operates only to the extent that the loss or liability is not covered by insurance.

The company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the company, or any related body corporate, against a liability incurred as an officer or auditor.

## Directors' Meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director.

| Reckon Limited – Attendance Tables |         |    |                        |     |                        |     |
|------------------------------------|---------|----|------------------------|-----|------------------------|-----|
| Directors                          | Meeting |    |                        |     |                        |     |
|                                    | Board   |    | Audit & Risk Committee |     | Remuneration Committee |     |
|                                    | A       | B  | A                      | B   | A                      | B   |
| JM Thame                           | 10      | 10 | 2                      | 2   | 2                      | 2   |
| I Ferrier                          | 10      | 10 | 2                      | 2   | 2                      | 2   |
| GJ Wilkinson                       | 10      | 9  | 2                      | 2   | 2                      | 2   |
| C Rabie                            | 10      | 10 | n/a                    | n/a | n/a                    | n/a |

Key:

A - number of meetings eligible to attend

B - number of meetings attended

## Non-Audit fees

Details of the non-audit services can be found in note 4 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 4 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit & Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

On behalf of the directors



Mr J Thame  
Chairman  
Sydney 13 March 2014

# Corporate Governance Report

The company is committed to a system of relationships, policies and processes which align with the ASX Corporate Governance Principles and Recommendations, 2nd Edition (“the ASX Governance Principles”) and the 2010 Amendments. It is a priority of the board to ensure the company’s governance framework and support processes uphold these principles.

The board is of the opinion that the company’s existing policies and processes effectively achieve the objectives of the relevant Recommendations. The few departures from the Recommendations in the ASX Governance Principles are generally justified on the basis that the formal requirements of the Recommendations are not applicable to the size of the company and the resources available. Where appropriate, the board seeks opportunities to adopt these Recommendations to suit the circumstances of the company and continue to improve the company’s governance policies and processes.

The board’s Corporate Governance policies can be viewed by visiting the “Shareholder Centre” from the company’s website [www.reckon.com](http://www.reckon.com) under “About Us”.

## 1. Management and Oversight

The company is governed on behalf of the shareholders by its board of Directors who in turn oversee the company’s management team. The responsibilities and duties of the board are set out in the Constitution. The board is responsible for ensuring appropriate risk management, accountability and control mechanisms. The board also provides advice and input into development of the businesses generally, overall corporate strategy, performance objectives, and appointment of senior executives. The board monitors and reviews the performance of the company, financial reporting and implementation of strategy. The board approves the annual budget, material capital expenditure and large acquisitions.

The company has adopted each of the Recommendations relating to Principle 1 of the ASX Governance Principles, except for the requirement in Recommendation 1.1, only to the extent that there is no formal charter. The board is of the opinion, given the relatively small size of the composition of the board, the relatively flat structure of management, the size of the management team and open and frequent channels of communication between management and the board, that there is adequate definition and understanding of the functions and responsibilities of the board and management. The board maintains sufficiently close oversight of operations and has close input to material decisions to ensure compliance with principles of good corporate governance. The board recognises that with the growth and evolution of the company, it is important to review the division of matters and responsibilities reserved to the board.

The board is able to efficiently deal with issues which, in other larger enterprises, may normally be delegated to committees because of the size of the company and the management team. The Audit & Risk Committee and Remuneration Committee are the only committees of the board.

The company undertakes an annual performance evaluation of key management personnel, heads of divisions and head office management (CFO, General Counsel and company Secretary), this generally involves a review and assessment of the performance of relevant executives and managers against key performance indicators. This process may also include feedback from peers where relevant and the Division CEOs and the relevant executive or manager. Where applicable, remedial steps and coaching are implemented. There may be further additional reviews undertaken through the year if necessary.

In addition, a portion of remuneration for key management personnel is tied into the financial performance of the company as set out in more detail in the Remuneration Report. Performance evaluation for key management personnel was undertaken in 2013 and it was in accordance with the processes disclosed in this report.

The independent non-executive directors also generally informally monitor and review the ongoing performance of senior executives.

The Group Human Resources Manager is also responsible for managing and administering an induction process for newly appointed senior executives. In addition the Group CEO and divisional CEOs are also involved in the briefing of new senior executives.

## 2. The Board

At present, the board comprises four members: John Thame, Ian Ferrier, Greg Wilkinson and Clive Rabie. Mr Thame is Chairman of the board and he, together with Mr Ferrier, are independent non-executive directors. Further details of the directors, including a summary of their skills, experience and period of office, are set out in the Directors' Report.

The company has adopted each of the Recommendations relating to Principle 2 of the ASX Governance Principles, except for the requirement in Recommendation 2.1 and 2.4 due to the size and circumstances of the board. However in the opinion of the board, the existing structure and processes are appropriate for the company and still meet the objectives of the Recommendations and Principle 2. While there is not strictly an independent majority in the sense described in Recommendation 2.1, as there are only four directors, the non-executive directors ensure that all issues that come before the board are considered in an impartial manner and from a variety of perspectives and meet the objectives of Recommendation 2.1. Mr Wilkinson, although still a substantial shareholder, has occupied a non-executive position for more than three years since he resigned from the management of the company. The Chairman, who is independent, has a casting vote where necessary. The independent non-executive directors oversee the nomination of any potential directors.

The criteria for directorship and the election process are set out in the company's constitution. The size of the board dictates that there is no efficiency obtained in establishing a formal nomination committee. Accordingly, the company departs from this requirement in Recommendation 2.4.

The directors periodically review the composition of the board to ensure that members have the desired breadth of experience, skills and expertise to govern the company effectively. When considering nominees for any future candidates for the board, the directors will take appropriate steps to ensure that it considers a broad range of candidates to ensure that the company has the benefit of the appropriate mix of experience, skills and diversity in its decision making for the best interests of the company as a whole.

Directors are entitled to seek independent professional advice at the company's expense to assist them in fulfilling their duties in order to comply with all applicable laws and regulations. There is no formal procedure for the board to agree when to take independent advice at the expense of the company, but given the size of the board there is no efficiency to be obtained in formalising this process. The independent non-executive directors exercise their judgment to call for such advice when they deem appropriate. The Chairman also has frequent contact with internal legal counsel to assess the need for external advice.

# Corporate Governance Report (continued)

The board met ten times during 2013. The details of attendance at these meetings are set out in the Directors' Report. The independent non-executive directors monitor and review the ongoing performance of the executive directors and key executives. The independent non-executive directors occasionally meet informally without management being present to generally discuss the affairs of the company and the overall performance of key executives.

The independent non-executive directors are subject to the company's constitution and their continuity of tenure is dependent on re-election by shareholders in accordance with the constitution. Any decision regarding the appointment of new directors is taken cognisant of the need to appoint someone who, taking into account the mix of skills, experience and perspective of the other directors, is appropriately qualified and as far as possible familiar with the company's market sector.

While there is no formal induction process in place, the Chairman, Deputy Chairman and Group CEO under take a rigorous process of briefing new board members.

Given the size of the company there is also direct informal communication on a regular basis between the Chairman and the company Secretary on governance matters.

## 3. Ethical and Responsible Decision Making

The company's governance policies and processes incorporate all the Recommendations relating to Principle 3 of the ASX Governance Principles.

The board's policy is that the company, the directors and employees in addition to their legal obligations must maintain high ethical standards in their dealings with the public and other members of the industry.

The company's Human Resources Policy and Procedures, binding on all employees, also collectively embraces the substance of the ASX Governance Principles in a Code of Conduct, including expectations regarding behaviour in the workplace, disciplinary processes, grievance processes, discrimination and harassment, occupational health and safety, ethical business practices, conflict of interest and corporate opportunity. The company is committed to training employees and maintaining employees' relevant technical expertise and understanding of their ethical and legal obligations, for example by way of trade practices training from time to time for relevant staff.

The company recognises that diversity and inclusiveness is a critical aspect of effective management of its people and their contributions to the success of the company. This diversity is reflected in the differences in gender, race, age, culture, education, family or carer status, religion and disability which is found across the company, its employees, consultants and contractors.

Based on the company's profile of executive, management and employees in 2011 in Australia, which is used to benchmark the current status of diversity as to gender, women represented: 36% of the employees in 2013; 1% held senior executive roles and 3% hold senior manager roles. Other than the 1% increase in the senior manager roles, there was no significant increase in roles held by women employees. There are no female members of the board.

As reported in 2011, the board set key measurable objectives and KPIs, to promote diversity in the company, particularly as to gender. The company continues to be committed to those objectives, which are:

- a. To achieve greater representation of females in the Reckon Group, particularly in technical and supervisor / manager roles.
- b. To review policies and internal procedures to ensure they provide equitable, fair and flexible work practices, including consistency with the company's commitment to diversity, particularly gender diversity, in the organisation.
- c. To implement training (in-house or external where relevant) to support a culture of diversity, for example: appropriate behaviour, harassment etc.
- d. Development of a mentoring/succession program for all employees to encourage females to remain in the business.

The company has measured its performance against these objectives in 2013. There has been a marginal increase of 1% in the representation of women in the technical roles and senior management roles. This is consistent with the company's overall recruiting needs for technical roles in 2013. The company will again continue to seek a 5% increase on the 2011 numbers by December 2014.

In compliance with Workplace Gender Equality Act 2012 ("WGEA"), the company lodged its first report under the new Act relating to Reckon employees in Australia for the period 1 April 2012 to 31 March 2013. For consistency, the criteria used to determine the workplace profile of Reckon employees for the WGEA report has also been applied for this report in relation to Principle 3 of the ASX Governance Principles. The WGEA report is published on the company's intranet and can also be viewed on its website [www.reckon.com](http://www.reckon.com)

The company's Diversity & Inclusion Policy Statement as approved by the board on 15 December 2011 is published in the company's website.

## 4. Integrity in Financial Reporting

The board assumes the responsibility to ensure the integrity of the company's financial reporting and has established the Audit & Risk Committee to focus on the issues relating to the integrity of the financial reporting of the company and oversight and review of the company's risk management. The terms of reference for the Audit & Risk Committee, to review and monitor all financial, risk management and compliance policies, were formalised in a Charter in 2003 to meet the requirements of the ASX Governance Principles. The Audit & Risk Committee consists of John Thame and Ian Ferrier, independent, non-executive directors, as well as the non-executive director Greg Wilkinson. The board is of the opinion that the composition of the Audit & Risk Committee ensure independent review of the company's financial reporting over and above formal audit processes. Details of their Experience and qualifications are set out in the Directors' Report.

The Audit & Risk Committee also meets informally to discuss matters including risk management and reporting. With the appointment of Greg Wilkinson to the Audit & Risk Committee in February 2010, the board is of the opinion that the structure of the Committee, together with its considerable technical expertise in the market sector of the company and financial literacy, enables it to discharge its functions effectively and meet the objectives of Principle 4 and as such, that the company has fully adopted Recommendation 4.2.

Deloitte Touche Tohmatsu, the company's auditors, report directly to the Audit & Risk Committee on the appropriateness of the company's internal accounting policies and practices. The board reviews the adequacy of existing external audit arrangements each year, with particular emphasis on the scope and quality of the audit. The Audit & Risk Committee provides written advice to the board on the standard of independence of the auditors in light of any non-audit services during 2013 and which is reported in the Directors' Report.

At each Audit & Risk Committee meeting, the independent non-executive directors meet separately with the auditors without management being present to review any concerns that the auditors may have regarding the financial management of the company.

The Audit & Risk Committee met twice during 2013. The Audit & Risk Committee reports back to the board after each Audit & Risk Committee meeting. The details of attendance at these meetings are set out in the Directors' Report. The board is aware of its obligations to ensure the appropriate selection and rotation of external auditors and the external audit engagement partners and closely monitors and reviews the engagement of the company's external auditors.

# Corporate Governance Report (continued)

## 5. Timely and Balanced Disclosure

The company has adopted each of the Recommendations relating to Principle 5 of the ASX Governance Principles. The board remains conscious of the company's disclosure obligations under the Corporations Act, the ASX listing rules and the ASIC guidance principles. These obligations are reflected in the Continuous Disclosure Policy. All required disclosures are also made in accordance with the Continuous Disclosure policy which is accessible to the public at the company website. A review of operations and commentary on the financial results is provided in the Directors' Report and the Financial Report.

## 6. Rights of Shareholders

The board is conscious of the requirements of Principle 6 of the ASX Governance Principles and takes into account the rights and needs of shareholders to receive balanced and understandable information about the company and acts in accordance with this Principle. The company communicates with shareholders through its ASX disclosures to the market.

The company also communicates with shareholders through the posting of statutory notices to shareholders and at the general and special meetings of the company. The company keeps recent announcements and general company information on its website with a dedicated investor relations section which is accessible to the public. The website contains a link to the ASX website for older announcements. Given the size and circumstances of the company, there is no formally documented communications strategy, and in this respect the company has not adopted Recommendation 6.1.

The company's auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report at the meeting.

## 7. Recognise and Manage Risk

As stated above in paragraph 1, the board is responsible for ensuring appropriate risk management, accountability, and control mechanisms. It constantly monitors the operational and financial aspects and material risks of the company's activities and, through the Audit & Risk Committee, considers the recommendations and advice of the auditors and other external advisers on the operational and financial risks that face the company. The Group CEO and Group CFO monitor and review the financial performance of the company and monitor any potential risk virtually on a daily basis. The board has received assurance from the CEO and the CFO that the s295A Declaration provided in the Financial Report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. The board is of the opinion that there is substantial compliance with the ASX Governance Principle 7 although Recommendations 7.1 and 7.2 have not yet been fully adopted.

As described above, the size of the company and the management team enables the board to have effective oversight of the overall risk management of the company. In the board's opinion, especially with the existence of an Audit & Risk Committee, there is no efficiency for the company to establish a separate risk management committee.

The board is provided with a declaration from the Group CEO and the Group CFO under section 295A of the Corporations Act, that due consideration is given to budgets, cashflows, realisation of current assets, continuity of terms of trade, and consideration of contingencies in the day to day operations of the company and in the monthly management financial reporting and statutory reporting of the company.

At present the nature of operations and scope of the business is reasonably well established and understood by management and the board. The decision making and reporting processes in the company incorporate an assessment of the relevant material risks, for example in the planning, budget, HR, product development, R&D, legal and compliance activities and, where relevant, any material risk issues are reported to and considered by the board. The planning and budget process involves both the executive and senior management, which means all of these employees have a more than adequate understanding of the issues, activities and opportunities across the company. In turn this enables them to manage operational, planning, strategic and risk issues in the company. In addition, the company regularly conducts reviews of the material risks in the context of the annual insurance renewals and, in relation to acquisitions through due diligence. Relevant risk factors are included in the various management and financial reports to the board and are then considered by the board.

Due to the effectiveness of the existing processes and the size of the business, business risk management systems, policies and procedures have not been comprehensively formalised. With a view to fully adopting Recommendations 7.1 and 7.2, the company's risk management systems, policies and processes are under consideration to be formalised and documented, if necessary.

## 8. Remunerate Fairly and Responsibly

The company remunerates directors and key executives in accordance with the aspirations set out in ASX Governance Principle 8. Accordingly, the board has adopted a remuneration policy designed to attract and maintain talented and motivated directors and senior employees so as to encourage enhanced performance of the company.

There is a clear relationship between performance and remuneration and a desire to strike the correct balance between the various components making up remuneration. The Remuneration Committee consists of the independent, non-executive directors, John Thame and Ian Ferrier and non-executive director Greg Wilkinson. Details of their experience and qualification are set out in the Directors' Report. The Remuneration Committee ensures independent review of financial reporting over and above formal audit processes. The Remuneration Committee supervises the development and implementation of the company's remuneration policy including the operation of option plans, and reviews the performance of the executive directors and senior executives. There is no formal charter for the Remuneration Committee, but it does fix policy and reward in accordance with ASX Governance Principle 8. The full detail of the policy and remuneration is contained in the Remuneration Report. The Remuneration Committee met twice during 2013. The details of attendance at these meetings are set out in the Directors' Report.

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

13 March 2014

Dear Board Members

RECKON LIMITED

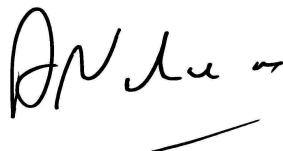
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Reckon Limited.

As lead audit partner for the audit of the financial statements of Reckon Limited for the financial year ended 31 December 2013, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

  
DELOITTE TOUCHE TOHMATSU



**Alfie Nehama**  
Partner  
Chartered Accountants

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

### Report on the Financial Report

We have audited the accompanying financial report of Reckon Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 33 to 87.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Auditor's Report

## *Auditor's Independence Declaration*

In conducting our audit, 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 report.

## *Opinion*

In our opinion:

- (a) the financial report of Reckon Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

## **Report on the Remuneration Report**

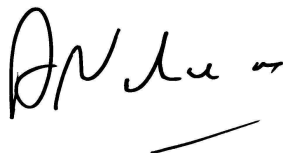
We have audited the Remuneration Report included in pages 14 to 21 of the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Opinion*

In our opinion, the Remuneration Report of Reckon Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.



**DELOITTE TOUCHE TOHMATSU**



**Alfie Nehama**

Partner

Chartered Accountants

Sydney, 13 March 2014

# Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes as set out on pages 34 to 87, are in accordance with the Corporations Act 2001, and:
  - comply with Accounting Standards; and
  - comply with International Financial Reporting Standards, as stated in note 1 to the financial statements; and
  - give a true and fair view of the financial position as at 31 December 2013 and of the performance for the year ended on that date of the consolidated group;
2. the Chief Executive Officer and the Chief Finance Officer have each declared that:
  - the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the Corporations Act 2001;
  - the financial statements and notes for the financial year comply with the Accounting Standards, and
  - the financial statements and notes for the financial year give a true and fair view;
3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to Section 295(5) of the Corporations Act 2001.

On behalf of the directors



Mr J Thame  
Chairman  
Sydney, 13 March 2014

# Consolidated Statement of Profit or Loss

for the year ended 31 December 2013

|                                                                                      | Note | Consolidated   |                |
|--------------------------------------------------------------------------------------|------|----------------|----------------|
|                                                                                      |      | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>Continuing operations</b>                                                         |      |                |                |
| <b>Revenue</b>                                                                       | 2    | <b>98,125</b>  | <b>96,765</b>  |
| Product and selling costs                                                            |      | (17,992)       | (17,109)       |
| Royalties                                                                            |      | (5,202)        | (5,322)        |
| Employee benefits expenses                                                           |      | (29,037)       | (28,520)       |
| Share-based payments expenses                                                        | 2    | (405)          | (304)          |
| Marketing expenses                                                                   |      | (2,695)        | (2,175)        |
| Premises and establishment expenses                                                  |      | (2,365)        | (2,146)        |
| Depreciation and amortisation of other non-current assets                            |      | (10,729)       | (9,824)        |
| Telecommunications                                                                   |      | (839)          | (907)          |
| Legal and professional expenses                                                      |      | (694)          | (798)          |
| Finance costs                                                                        |      | (705)          | (311)          |
| Other expenses                                                                       |      | (4,549)        | (4,745)        |
| Profit on sale of investment in joint venture entity                                 | 9    | 1,414          | –              |
| Business acquisition costs                                                           |      | –              | (173)          |
| Net costs associated with premises relocation:<br>Estimated sub-lease rent shortfall |      | (438)          | (492)          |
| <b>Profit before income tax</b>                                                      |      | <b>23,889</b>  | <b>23,939</b>  |
| Income tax expense                                                                   | 3    | (5,728)        | (6,172)        |
| <b>Profit for the year</b>                                                           |      | <b>18,161</b>  | <b>17,767</b>  |
| Profit attributable to:                                                              |      |                |                |
| Owners of the parent                                                                 | 23   | 17,812         | 17,342         |
| Non-controlling interest                                                             |      | 349            | 425            |
|                                                                                      |      | <b>18,161</b>  | <b>17,767</b>  |
| <b>Earnings per share</b>                                                            |      |                |                |
|                                                                                      |      | Cents          | Cents          |
| Basic Earnings per Share                                                             | 24   | 13.9           | 13.4           |
| Diluted Earnings per Share                                                           | 24   | 13.8           | 13.3           |

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

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2013

|                                                                       | Note | Consolidated   |                |
|-----------------------------------------------------------------------|------|----------------|----------------|
|                                                                       |      | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>Profit for the year</b>                                            |      | <b>18,161</b>  | <b>17,767</b>  |
| <b>Other comprehensive income, net of income tax</b>                  |      |                |                |
| <i>Items that may be reclassified subsequently to profit or loss:</i> |      |                |                |
| Fair value adjustment of equity instruments                           | 22   | -              | 247            |
| Exchange difference on translation of foreign operations              | 22   | 3,883          | 186            |
| <b>Total other comprehensive income, net of income tax</b>            |      | <b>3,883</b>   | <b>433</b>     |
| <b>Total comprehensive income for the year</b>                        |      | <b>22,044</b>  | <b>18,200</b>  |
| Total comprehensive income attributable to:                           |      |                |                |
| Owners of the parent                                                  |      | 21,695         | 17,775         |
| Non-controlling interest                                              |      | 349            | 425            |
|                                                                       |      | <b>22,044</b>  | <b>18,200</b>  |

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

# Consolidated Statement of Financial Position

as at 31 December 2013

|                                      | Note | Consolidated   |                |
|--------------------------------------|------|----------------|----------------|
|                                      |      | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>ASSETS</b>                        |      |                |                |
| <b>Current Assets</b>                |      |                |                |
| Cash and cash equivalents            | 29   | 2,573          | 1,926          |
| Trade and other receivables          | 6    | 10,998         | 8,795          |
| Inventories                          | 5    | 1,746          | 1,244          |
| Other assets                         | 7    | 2,291          | 2,695          |
| <b>Total Current Assets</b>          |      | <b>17,608</b>  | <b>14,660</b>  |
| <b>Non-Current Assets</b>            |      |                |                |
| Receivables                          | 6    | 1,194          | 1,391          |
| Financial assets                     | 8    | 56             | 56             |
| Investment in joint venture entity   | 9    | -              | 660            |
| Property, plant and equipment        | 10   | 3,279          | 3,415          |
| Deferred tax assets                  | 11   | 127            | 141            |
| Intangible assets                    | 12   | 77,848         | 68,032         |
| Other assets                         | 7    | 599            | -              |
| <b>Total Non-Current Assets</b>      |      | <b>83,103</b>  | <b>73,695</b>  |
| <b>Total Assets</b>                  |      | <b>100,711</b> | <b>88,355</b>  |
| <b>LIABILITIES</b>                   |      |                |                |
| <b>Current Liabilities</b>           |      |                |                |
| Trade and other payables             | 13   | 4,731          | 4,922          |
| Borrowings                           | 14   | 58             | 10,994         |
| Current tax payables                 |      | 1,131          | 1,119          |
| Provisions                           | 16   | 3,471          | 3,341          |
| Deferred revenue                     |      | 9,285          | 8,674          |
| <b>Total Current Liabilities</b>     |      | <b>18,676</b>  | <b>29,050</b>  |
| <b>Non-Current Liabilities</b>       |      |                |                |
| Borrowings                           | 14   | 17,433         | 136            |
| Other financial liabilities          | 15   | 11,658         | 10,608         |
| Deferred tax liabilities             | 18   | 4,107          | 2,949          |
| Provisions                           | 16   | 722            | 1,194          |
| <b>Total Non-Current Liabilities</b> |      | <b>33,920</b>  | <b>14,887</b>  |
| <b>Total Liabilities</b>             |      | <b>52,596</b>  | <b>43,937</b>  |
| <b>Net Assets</b>                    |      | <b>48,115</b>  | <b>44,418</b>  |
| <b>Equity</b>                        |      |                |                |
| Issued capital                       | 21   | 16,818         | 16,878         |
| Reserves                             | 22   | (17,641)       | (14,839)       |
| Retained earnings                    | 23   | 48,938         | 42,379         |
| <b>Total Equity</b>                  |      | <b>48,115</b>  | <b>44,418</b>  |

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

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

| Consolidated                                                | Issued capital<br>\$'000 | Share buyback reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Share-based payments reserve<br>\$'000 | Retained earnings<br>\$'000 | Acquisition of non-controlling interest reserve<br>\$'000 | Attributable to owners of the parent<br>\$'000 | Non-controlling interest<br>\$'000 | Total<br>\$'000 |
|-------------------------------------------------------------|--------------------------|---------------------------------|------------------------------------------------|----------------------------------------|-----------------------------|-----------------------------------------------------------|------------------------------------------------|------------------------------------|-----------------|
| <b>Balance at 1 January 2013</b>                            | <b>16,878</b>            | <b>(8,978)</b>                  | <b>(1,383)</b>                                 | <b>503</b>                             | <b>42,379</b>               | <b>(4,981)</b>                                            | <b>44,418</b>                                  | <b>–</b>                           | <b>44,418</b>   |
| Profit for the year                                         | –                        | –                               | –                                              | –                                      | 17,812                      | –                                                         | 17,812                                         | 349                                | 18,161          |
| Other comprehensive income:                                 |                          |                                 |                                                |                                        |                             |                                                           |                                                |                                    |                 |
| Exchange differences on translation of foreign operations   | –                        | –                               | 3,883                                          | –                                      | –                           | –                                                         | 3,883                                          | –                                  | 3,883           |
| Total comprehensive income                                  | –                        | –                               | 3,883                                          | –                                      | 17,812                      | –                                                         | 21,695                                         | 349                                | 22,044          |
| Share based payments expense                                | –                        | –                               | –                                              | 241                                    | –                           | –                                                         | 241                                            | –                                  | 241             |
| Share buyback (note 21)                                     | –                        | (5,528)                         | –                                              | –                                      | –                           | –                                                         | (5,528)                                        | –                                  | (5,528)         |
| Dividends paid (note 30)                                    | –                        | –                               | –                                              | –                                      | (11,253)                    | –                                                         | (11,253)                                       | –                                  | (11,253)        |
| Treasury shares vested/lapsed                               | 260                      | –                               | –                                              | (260)                                  | –                           | –                                                         | –                                              | –                                  | –               |
| Treasury shares acquired                                    | (320)                    | –                               | –                                              | –                                      | –                           | –                                                         | (320)                                          | –                                  | (320)           |
| Transfer to acquisition of non-controlling interest reserve | –                        | –                               | –                                              | –                                      | –                           | 349                                                       | 349                                            | (349)                              | –               |
| Remeasurement of Linden House option liability (note 15)    | –                        | –                               | –                                              | –                                      | –                           | (1,487)                                                   | (1,487)                                        | –                                  | (1,487)         |
| <b>Balance at 31 December 2013</b>                          | <b>16,818</b>            | <b>(14,506)</b>                 | <b>2,500</b>                                   | <b>484</b>                             | <b>48,938</b>               | <b>(6,119)</b>                                            | <b>48,115</b>                                  | <b>–</b>                           | <b>48,115</b>   |

# Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2013

| Consolidated                                                                      | Issued capital<br>\$'000 | Share buyback reserve<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Share-based payments reserve<br>\$'000 | Asset revaluation reserve<br>\$'000 | Retained earnings<br>\$'000 | Acquisition of non-controlling interest reserve<br>\$'000 | Attributable to owners of the parent<br>\$'000 | Non-controlling interest<br>\$'000 | Total<br>\$'000 |
|-----------------------------------------------------------------------------------|--------------------------|---------------------------------|------------------------------------------------|----------------------------------------|-------------------------------------|-----------------------------|-----------------------------------------------------------|------------------------------------------------|------------------------------------|-----------------|
| <b>Balance at 1 January 2012</b>                                                  | <b>15,752</b>            | <b>–</b>                        | <b>(1,569)</b>                                 | <b>556</b>                             | <b>(1,067)</b>                      | <b>36,621</b>               | <b>–</b>                                                  | <b>50,293</b>                                  | <b>203</b>                         | <b>50,496</b>   |
| Profit for the year                                                               | –                        | –                               | –                                              | –                                      | –                                   | 17,342                      | –                                                         | 17,342                                         | 425                                | 17,767          |
| Other comprehensive income:                                                       |                          |                                 |                                                |                                        |                                     |                             |                                                           |                                                |                                    |                 |
| Fair value adjustment of financial assets                                         | –                        | –                               | –                                              | –                                      | 247                                 | –                           | –                                                         | 247                                            | –                                  | 247             |
| Exchange differences on translation of foreign operations                         | –                        | –                               | 186                                            | –                                      | –                                   | –                           | –                                                         | 186                                            | –                                  | 186             |
| Total comprehensive income                                                        | –                        | –                               | 186                                            | –                                      | 247                                 | 17,342                      | –                                                         | 17,775                                         | 425                                | 18,200          |
| Share based payments expense                                                      | –                        | –                               | –                                              | 248                                    | –                                   | –                           | –                                                         | 248                                            | –                                  | 248             |
| Share buyback (note 21)                                                           | –                        | (7,612)                         | –                                              | –                                      | –                                   | –                           | –                                                         | (7,612)                                        | –                                  | (7,612)         |
| Dividends paid (note 30)                                                          | –                        | –                               | –                                              | –                                      | –                                   | (10,764)                    | –                                                         | (10,764)                                       | (549)                              | (11,313)        |
| Treasury shares vested/lapsed                                                     | 301                      | –                               | –                                              | (301)                                  | –                                   | –                           | –                                                         | –                                              | –                                  | –               |
| Treasury shares acquired                                                          | (541)                    | –                               | –                                              | –                                      | –                                   | –                           | –                                                         | (541)                                          | –                                  | (541)           |
| Transfer to retained earnings                                                     | –                        | –                               | –                                              | –                                      | 820                                 | (820)                       | –                                                         | –                                              | –                                  | –               |
| Transfer to acquisition of non-controlling interest reserve                       | –                        | –                               | –                                              | –                                      | –                                   | –                           | 79                                                        | 79                                             | (79)                               | –               |
| Payment for non-controlling interest in nQueue Billback subsidiaries (note 26(d)) | –                        | –                               | –                                              | –                                      | –                                   | –                           | (4,496)                                                   | (4,496)                                        | –                                  | (4,496)         |
| Remeasurement of Linden House option liability (note 15)                          | –                        | –                               | –                                              | –                                      | –                                   | –                           | (564)                                                     | (564)                                          | –                                  | (564)           |
| Transfer of prior year buyback                                                    | 1,366                    | (1,366)                         | –                                              | –                                      | –                                   | –                           | –                                                         | –                                              | –                                  | –               |
| <b>Balance at 31 December 2012</b>                                                | <b>16,878</b>            | <b>(8,978)</b>                  | <b>(1,383)</b>                                 | <b>503</b>                             | <b>–</b>                            | <b>42,379</b>               | <b>(4,981)</b>                                            | <b>44,418</b>                                  | <b>–</b>                           | <b>44,418</b>   |

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

# Consolidated Statement of Cash Flows

for the year ended 31 December 2013

|                                                                   | Note  | Consolidated<br>Inflows/(Outflows) |                 |
|-------------------------------------------------------------------|-------|------------------------------------|-----------------|
|                                                                   |       | 2013<br>\$'000                     | 2012<br>\$'000  |
| <b>Cash Flows From Operating Activities</b>                       |       |                                    |                 |
| Receipts from customers                                           |       | 105,886                            | 104,956         |
| Payments to suppliers and employees                               |       | (74,145)                           | (74,288)        |
| Dividends received                                                |       | -                                  | 100             |
| Interest received                                                 |       | 32                                 | 59              |
| Interest paid                                                     |       | (705)                              | (311)           |
| Income taxes paid                                                 |       | (4,543)                            | (6,488)         |
| <b>Net cash inflow from operating activities</b>                  | 29(b) | <b>26,525</b>                      | <b>24,028</b>   |
| <b>Cash Flows From Investing Activities</b>                       |       |                                    |                 |
| Payment for purchase of business, net of cash acquired            | 29(c) | (1,750)                            | (8,511)         |
| Payment for non-controlling interest (net)                        | 29(d) | -                                  | (4,496)         |
| Payment for investment in joint venture entity                    | 9     | -                                  | (660)           |
| Proceeds from sale of investment in joint venture entity          | 9     | 1,736                              | -               |
| Payments for purchase of intellectual property                    |       | (311)                              | -               |
| Payment for capitalised development costs                         |       | (13,126)                           | (9,616)         |
| Payment for property, plant and equipment                         |       | (1,520)                            | (1,371)         |
| Proceeds from sale of investment                                  |       | -                                  | 6,448           |
| <b>Net cash outflow from investing activities</b>                 |       | <b>(14,971)</b>                    | <b>(18,206)</b> |
| <b>Cash Flows From Financing Activities</b>                       |       |                                    |                 |
| Proceeds from/(repayment of) borrowings                           |       | 6,836                              | 10,484          |
| Payment for other financial liabilities                           |       | (438)                              | (124)           |
| Payment for share buyback                                         | 22    | (5,528)                            | (7,612)         |
| Payment for treasury shares                                       | 21    | (320)                              | (541)           |
| Dividends paid to owners of the parent                            | 30    | (11,253)                           | (10,764)        |
| Non-controlling interest dividends paid                           |       | -                                  | (549)           |
| <b>Net cash outflow from financing activities</b>                 |       | <b>(10,703)</b>                    | <b>(9,106)</b>  |
| <b>Net Increase/(Decrease) in cash and cash equivalents</b>       |       | <b>851</b>                         | <b>(3,284)</b>  |
| Cash and cash equivalents at the beginning of the financial year  |       | 1,432                              | 4,703           |
| Effects of exchange rate changes on cash and cash equivalents     |       | 271                                | 13              |
| <b>Cash and cash equivalents at the end of the financial year</b> | 29(a) | <b>2,554</b>                       | <b>1,432</b>    |

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

# Notes to the Financial Statements

for the year ended 31 December 2013

## 1 Summary of Significant Accounting Policies

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 includes the consolidated entity consisting of Reckon Limited and its subsidiaries. For the purposes of preparing the consolidated financial statements, the company is a for-profit entity.

### Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and the Corporations Act 2001, and complies with the other requirements of the law.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Reckon Limited, comply with International Financial Reporting Standards (IFRSs).

The financial statements were authorised for issue by the directors on 13 March 2014.

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments. Historical cost is generally based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars unless otherwise noted. The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars, except where otherwise indicated.

### Adoption of new and revised Accounting Standards

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

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

- AASB 2011-9 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income'
- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'

# 1 Summary of Significant Accounting Policies **continued**

- AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'
- AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle'
- AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments'

## Impact of Amendments to AASB 101 'Presentation of Financial Statements':

The amendment (part of AASB 2011-9) 'Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income' introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to AASB 101, the statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and the income statement is renamed as a statement of profit or loss. The amendments to AASB 101 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to AASB 101 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section:

- (a) items that will not be reclassified subsequently to profit or loss, and
- (b) items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Other than the above mentioned presentation changes, the application of the amendments to AASB 101 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

## Impact of the application of AASB 10

AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements and Interpretation 112 'Consolidation – Special Purpose Entities'. AASB 10 changes the definition of control such that an investor controls an investee when a) it has power over an investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee, and c) has the ability to use its power to affect its returns.

All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in AASB 10 to explain when an investor has control over an investee. Some guidance included in AASB 10 that deals with whether or not an investor that owns less than 50 per cent of the voting rights in an investee has control over the investee is relevant to the Group.

The directors of the company made an assessment as the date of the initial application of AASB 10 as to whether or not the Group has control of Linden House Software Limited in accordance with the new definition of control and the related guidance set out in AASB 10. The directors concluded that, consistent with the accounting treatment in the comparative year, it has had control over Linden House Software Limited since acquisition on the basis of the existence of a substantive call option (refer note 1(w)).

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies **continued**

### Impact of the application of AASB 11

AASB 11 replaces AASB 131 'Interests in Joint Ventures' and the guidance contained in a related interpretation, Interpretation 113 'Jointly Controlled Entities – Non-Monetary Contributions by Venturers', has been incorporated in AASB 128 (as revised in 2011). AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for.

Under AASB 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under AASB 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement.

Previously, AASB 131 'Interests in Joint Ventures' contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under AASB 131 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expense incurred jointly). Each joint operation accounts for the assets and, liabilities, as well as revenue and expenses, relating to its interest in the joint operation in accordance with the applicable Standards.

The directors of the company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirements of AASB 11. The directors concluded that the application of the amendments has no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

### Impact of the application of AASB 12

AASB 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of AASB 12 has resulted in more extensive disclosures in the consolidated financial statements. However this did not result in any changes to the financial statements.

### Impact of the application of AASB 13

The Group has applied AASB 13 for the first time in the current year. AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of AASB 13 is broad; the fair value measurement requirements of AASB 13 apply to both financial instrument items and non-financial instrument items for which other AASBs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of AASB 2 'Share-based Payment', leasing transactions that are within the scope of AASB 117 'Leases', and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

## 1 Summary of Significant Accounting Policies **continued**

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under AASB 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, AASB 13 includes extensive disclosure requirements.

AASB 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by AASB 13 for the 2012 comparative period. The application of AASB 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

### **Impact of the application of AASB 119**

In the current year, the Group has applied AASB 119 (as revised in 2011) 'Employee Benefits' and the related consequential amendments for the first time.

AASB 119 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of AASB 119 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of AASB 119 are replaced with a 'net interest' amount under AASB 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The amendments also changed the definition of short term employee benefits from 'due to be settled within 12 months' to a revised definition as those employee benefits that are 'expected to be settled wholly within 12 months'. The new requirements may lead to annual leave being measured on a discounted basis. The directors have assessed that the new requirements do not have a material effect on the consolidated financial statements.

The amendments have been applied retrospectively. As the Group does not have any defined benefit plans, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

### **Impact of the application of AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'**

The Group has applied the amendments to AASB 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" for the first time in the current year. The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

### Early adoption of Accounting Standards

In the prior year the directors elected under s.334(5) of the Corporations Act 2001 to apply Accounting Standard AASB 9 'Financial Instruments' for the 2012 financial year, even though the Standard is not required to be applied until annual reporting periods beginning on or after 1 January 2015. Investments in equity instruments are irrevocably classified as equity instruments revalued through other comprehensive income. They continue to be valued at fair value with changes to value being recognised in asset revaluation reserve. Realised gains/losses are not recycled to net profits as was previously required under AASB 139.

### Significant Accounting Policies

#### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and entities (including special purpose entities) controlled by the company (its subsidiaries). Control is achieved when the company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the company.

#### (b) Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with AASB 112 'Income Taxes'; and
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with AASB 2 'Share-based Payment' at the

## 1 Summary of Significant Accounting Policies *continued*

acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Where the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Where a business combination involves the issuance of a put option granted to the vendor in respect of an equity interest not owned by the parent, the present value of the put exercise price is recognised as a financial liability in the consolidated accounts of the parent entity. The recognition of this liability effectively treats the option as if it has been exercised, constituting a transaction between owners as owners which is recorded in equity. Any subsequent re-measurement is considered to be part of the equity transaction and is recorded in equity via an "acquisition of non-controlling interest reserve.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

### (c) Investments in Joint Ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with AASB 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 139 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with AASB 9. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

### (d) 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 and amortisation:

## 1 Summary of Significant Accounting Policies *continued*

|                        |             |
|------------------------|-------------|
| Plant and equipment    | 3 - 5 years |
| Leasehold improvements | 3 - 7 years |

### (e) 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.

### (f) Contributed Equity

#### *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.

### (g) 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 in 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 profit or loss 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 of the consolidated entity as follows:

- Assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- Income and expenses 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 monetary items forming part of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to reserves. When a foreign operation is sold, a proportionate share of such exchange differences are recognised in profit or loss 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.

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

### (h) Goods and Services Tax

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

- 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
- 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.

### (i) Intangible assets

#### *Goodwill*

Goodwill arising on an acquisition of a business is carried at cost as established at the date of the acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### *Intellectual Property*

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Customer contracts are amortised on a straight line basis over their useful life to the Group of ten years.

Brand names are not amortised but are subject to annual impairment testing. The Group has committed to continually use, invest in and promote acquired brands, therefore brands have been assessed to have an indefinite life.

#### *Research and development costs*

Research expenditure is recognised as an expense when incurred.

An internally-generated intangible asset arising from development is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;

## 1 Summary of Significant Accounting Policies *continued*

- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Development costs in respect of enhancements on existing suites of software applications are capitalised and written off over a 3 to 4 year period. Development costs on technically and commercially feasible new products are capitalised and written off on a straight line basis over a period of 3 to 4 years commencing at the time of commercial release of the new product.

Development costs include cost of materials, direct labour and appropriate overheads.

At each 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.

### (j) 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. All deferred tax liabilities are recognised.

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

The company and its wholly-owned Australian resident entities have formed a tax-consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Reckon Limited. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group). Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement.

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax consolidated group is limited to the amount payable to the head entity under the tax funding arrangement.

### (k) 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.

### (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.

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred. Lease incentives are initially recognised as a liability and are amortised over the term of the lease on a straight line basis.

### (m) Employee Benefits

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

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

The Group recognises a liability and an expense for the long-term incentive plan for selected executives based on a formula that takes into consideration the ranking of total shareholder return measured against a comparator group of companies.

Contributions are made by the Group to defined contribution employee superannuation funds and are charged as expenses when incurred.

### (n) Receivables

Trade receivables and other receivables are recorded at amortised cost, less impairment.

### (o) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 1 Summary of Significant Accounting Policies *continued*

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (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, the fee is fixed or determinable and collectability is probable.

Software licence fee revenue is recognised at the point of “go live” (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.

In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services component is recognised as revenue over the period during which the service is performed.

#### *Interest and Other Revenue*

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

### (q) Deferred Revenue

Revenue earned from maintenance and support services provided on sales of certain products by the consolidated entity are deferred and then recognised in profit or loss over the contract period as the services are performed, normally 12 months. Refer note 1(p) for further detail.

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

### (r) 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 dilutive potential ordinary shares.

### (s) Cash and cash equivalents

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

### (t) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets are classified into the following specified categories: financial assets at amortised cost (including loans and receivables), financial assets 'at fair value through profit or loss' (FVTPL), and financial assets at 'fair value through other comprehensive income'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the statement of comprehensive income/income statement.

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

## 1 Summary of Significant Accounting Policies *continued*

income. Quoted shares held by the Group that are traded in an active market are classified as fair value through other comprehensive income and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the asset revaluation reserve. They continue to be valued at fair value with changes to 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.

A financial asset is measured at amortised cost if both the business model test and cash flow characteristics test conditions are met i.e. the asset is held with in a business model whose objective is to hold assets in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the in the statement of comprehensive income/ income statement.

Other financial liabilities, including borrowings and trade and other payables, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

### (u) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that the outflow can be reliably measured.

### (v) Fair Value estimation

The fair value of financial instruments and share based payments that are not traded in an active market is determined using appropriate valuation techniques. The Group uses a variety of methods and assumptions that are based on existing market conditions. The fair value of financial instruments traded on active markets (quoted shares), are based on balance date bid prices.

The directors consider that the nominal value less estimated credit adjustments of trade receivables and payables approximate their fair values.

# Notes to the Financial Statements

(continued)

## 1 Summary of Significant Accounting Policies *continued*

### (w) Significant accounting judgments, estimates and assumptions

#### *Significant accounting judgments*

In applying the Group's accounting policies, management has made the following judgments which have the most significant effect on the financial statements:

Capitalisation of development costs – the Group has adopted a policy of capitalising development costs only for products for which an assessment is made that the product is technically feasible and will generate definite economic benefits for the Group going forward. The capitalised costs are subsequently amortised over the expected useful life of the product.

Revenue recognition - in multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services component is recognised as revenue over the period during which the service is performed.

Consolidation of Linden House - Linden House has been consolidated on the basis of the existence of a substantive call option, which is exercisable at acquisition date, and which enables Reckon Limited to acquire the remaining interest in the company.

#### *Significant accounting estimates and assumptions*

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

Impairment of goodwill – the Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation, and the effect if these assumptions change, are disclosed in note 12.

Share based payments – the Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using a model that adopts Monte Carlo simulation approach, and the assumptions related to this can be found in note 20.

Product life and amortisation – the Group amortises capitalized development costs based on a straight line basis over a period of 3-4 years commencing at the time of commercial release of the new product. This is the assessed useful life.

Surplus lease space – The Group provides for surplus lease space based on an estimate of the income expected to be generated taking into consideration market conditions relating to rental yields and vacancy periods. Further details are set out in note 16.

Other financial liabilities – The Group has recognised as a liability the fair value of an option instrument arising in connection with a business acquisition. Fair value determination is based on assumptions relating to future profitability of the acquired business and market discount rates. The chosen valuation techniques and assumptions used are believed to be appropriate in determining the fair value of financial instruments. Further details are set out in note 15.

# 1 Summary of Significant Accounting Policies continued

## (x) New accounting standards not yet effective

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards will not affect any of the amounts recognised in the financial report, but may change the disclosures presently made in relation to the financial report.

| Standard/Interpretation                                                                                                                                                                      | Effective for annual reporting periods beginning on or after | Expected to be initially applied in the financial year ending |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|---------------------------------------------------------------|
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'                                                            | 1 July 2013                                                  | 31 December 2014                                              |
| AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities'                                                            | 1 January 2014                                               | 31 December 2014                                              |
| AASB 2013-3 'Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets'                                                                                               | 1 January 2014                                               | 31 December 2014                                              |
| AASB 2013-4 'Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting'                                                                   | 1 January 2014                                               | 31 December 2014                                              |
| AASB 2013-5 'Amendments to Australian Accounting Standards – 'Investment Entities'                                                                                                           | 1 January 2014                                               | 31 December 2014                                              |
| AASB 2013-7 'Amendments to AASB 1038 arising from AASB 10 in relation to consolidation and interests of policyholders'                                                                       | 1 January 2014                                               | 31 December 2014                                              |
| AASB 2013-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities [AASB 10, AASB 12 & AASB 1049] | 1 January 2014                                               | 31 December 2014                                              |
| Interpretation 21 'Levies'                                                                                                                                                                   | 1 January 2014                                               | 31 December 2014                                              |

# Notes to the Financial Statements

(continued)

## 2 Profit for the year

|                                                                               | Consolidated   |                |
|-------------------------------------------------------------------------------|----------------|----------------|
|                                                                               | 2013<br>\$'000 | 2012<br>\$'000 |
| Profit before income tax includes the following items of revenue and expense: |                |                |
| <b>Revenue</b>                                                                |                |                |
| <b>Sales revenue</b>                                                          |                |                |
| Sale of goods and rendering of services                                       | 98,093         | 96,606         |
| <b>Other Revenue</b>                                                          |                |                |
| Dividend income                                                               | –              | 100            |
| Interest revenue – Bank deposits                                              | 32             | 59             |
|                                                                               | 32             | 159            |
|                                                                               | 98,125         | 96,765         |
| <b>Expenses</b>                                                               |                |                |
| Cost of Sales                                                                 | 23,194         | 22,431         |
| Bad debt expense:                                                             |                |                |
| Other Entities                                                                | 80             | 48             |
| Finance costs expensed:                                                       |                |                |
| Bank loans and overdraft                                                      | 705            | 311            |
| Net transfers to/(from) provisions:                                           |                |                |
| Sales returns and rebates                                                     | 41             | (121)          |
| Employee benefits                                                             | 94             | (917)          |
| Allowance for doubtful debts                                                  | 167            | 23             |
| Depreciation of non-current assets:                                           |                |                |
| Property, plant and equipment                                                 | 1,119          | 996            |
| Amortisation of non-current assets:                                           |                |                |
| Leasehold improvements                                                        | 481            | 527            |
| Intellectual property                                                         | 752            | 1,018          |
| Development costs                                                             | 8,377          | 7,282          |
| Foreign exchange losses/(gains)                                               | (672)          | 69             |
| Employee benefits expense:                                                    |                |                |
| Post employment benefits – defined contribution plans                         | 2,424          | 2,283          |
| Termination benefits                                                          | 223            | 25             |
| Share based payments:                                                         |                |                |
| Equity-settled share-based payments                                           | 241            | 248            |
| Cash-settled share-based payments                                             | 164            | 56             |
|                                                                               | 405            | 304            |
| Research and development costs written off                                    | –              | 987            |
| Operating lease rental expenses:                                              |                |                |
| Minimum lease payments                                                        | 2,077          | 1,906          |

### 3 Income Tax

|                                                                                                                                                                              | Consolidated   |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                                                              | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>(a) Income tax expense recognised in profit and loss</b>                                                                                                                  |                |                |
| Current tax                                                                                                                                                                  | 4,813          | 5,470          |
| Deferred tax                                                                                                                                                                 | 1,172          | 930            |
| Under /(over) provided in prior years                                                                                                                                        | (257)          | (228)          |
|                                                                                                                                                                              | 5,728          | 6,172          |
| <b>(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:</b> |                |                |
| <b>Profit before income tax</b>                                                                                                                                              | 23,889         | 23,939         |
| Income tax expense calculated at 30% of profit                                                                                                                               | 7,167          | 7,182          |
| <b>Tax Effect of:</b>                                                                                                                                                        |                |                |
| Effect of higher tax rates on overseas income                                                                                                                                | (23)           | 25             |
| Tax effect of non-deductible/non-taxable items:                                                                                                                              |                |                |
| Non-controlling interest component                                                                                                                                           | –              | (81)           |
| Research and development claims                                                                                                                                              | (600)          | (595)          |
| Utilisation of capital losses on profit on sale of investment in joint venture entity                                                                                        | (424)          | –              |
| Sundry items                                                                                                                                                                 | (135)          | (131)          |
|                                                                                                                                                                              | 5,985          | 6,400          |
| Under/(over) provision in prior years                                                                                                                                        | (257)          | (228)          |
| Income tax expense attributable to profit                                                                                                                                    | 5,728          | 6,172          |

The tax rate used for the 2013 and 2012 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

(c) Future income tax benefits not brought to account as an asset: not probable of recovery

Tax losses:

|         |       |       |
|---------|-------|-------|
| Revenue | –     | –     |
| Capital | 2,098 | 2,507 |
|         | 2,098 | 2,507 |

# Notes to the Financial Statements

(continued)

## 4 Remuneration of Auditors

|  | Consolidated |            |
|--|--------------|------------|
|  | 2013<br>\$   | 2012<br>\$ |

### (a) Deloitte Touche Tohmatsu

During the year, the auditors of the parent entity earned the following remuneration:

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Auditing and reviewing of financial reports | 218,268        | 211,624        |
| Tax compliance and consulting services      | 78,958         | 75,126         |
|                                             | <u>297,226</u> | <u>286,750</u> |

### (b) Other Auditors

|                                             |                |                |
|---------------------------------------------|----------------|----------------|
| Auditing and reviewing of financial reports | 51,092         | 53,126         |
| Tax compliance services                     | 38,702         | 25,136         |
|                                             | <u>89,794</u>  | <u>78,262</u>  |
|                                             | <u>387,020</u> | <u>365,012</u> |

## 5 Inventories

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### Finished goods:

|                                           |       |       |
|-------------------------------------------|-------|-------|
| At lower of cost and net realisable value | 1,746 | 1,244 |
|-------------------------------------------|-------|-------|

## 6 Trade and Other Receivables

|                              | Consolidated   |                |
|------------------------------|----------------|----------------|
|                              | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>Current:</b>              |                |                |
| Trade receivables (i)        | 10,373         | 8,270          |
| Allowance for doubtful debts | (517)          | (430)          |
|                              | 9,856          | 7,840          |
| Other receivables            | 1,142          | 955            |
|                              | 10,998         | 8,795          |
| <b>Non current:</b>          |                |                |
| Trade receivables            | 1,114          | 1,301          |
| Other receivables            | 80             | 90             |
|                              | 1,194          | 1,391          |

(i) The ageing of past due receivables at year end is detailed as follows:

|                     |       |       |
|---------------------|-------|-------|
| Past due 0-30 days  | 1,388 | 1,652 |
| Past due 31-60 days | 983   | 962   |
| Past due 61+ days   | 1,556 | 798   |
| Total               | 3,927 | 3,412 |

The movement in the allowance for doubtful accounts in respect of trade receivables is detailed below:

|                                                                     |            |            |
|---------------------------------------------------------------------|------------|------------|
| Balance at beginning of the year                                    | 430        | 455        |
| Amounts written off during the year                                 | (80)       | (48)       |
| Increase/(reduction) in allowance recognised in the profit and loss | 167        | 23         |
| <b>Balance at end of year</b>                                       | <b>517</b> | <b>430</b> |

# Notes to the Financial Statements

(continued)

## 7 Other Assets

|                     | Consolidated   |                |
|---------------------|----------------|----------------|
|                     | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>Current:</b>     |                |                |
| Prepayments         | 1,197          | 1,104          |
| Other               | 1,094          | 1,591          |
|                     | <u>2,291</u>   | <u>2,695</u>   |
| <b>Non current:</b> |                |                |
| Prepayments         | <u>599</u>     | <u>–</u>       |

## 8 Other Financial Assets

|                   |           |           |
|-------------------|-----------|-----------|
| Security deposits | <u>56</u> | <u>56</u> |
|-------------------|-----------|-----------|

## 9 Investment in Joint Venture Entity

|                                              |          |            |
|----------------------------------------------|----------|------------|
| Investment in Connect2Field Holdings Pty Ltd | <u>–</u> | <u>660</u> |
|----------------------------------------------|----------|------------|

The investment in Connect2Field Holdings Pty Ltd was sold during the year for \$2.1million, resulting in a profit on sale of \$1.4million. \$0.3million of the proceeds are held in escrow and will be released in October 2014. A current tax expense of \$0.4million arose on the gain realised in the current year, resulting in a utilisation of \$0.4million of unrecognised capital tax losses.

## 10 Property, Plant And Equipment

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### Leasehold Improvements

|                                |         |         |
|--------------------------------|---------|---------|
| At cost                        | 3,539   | 3,388   |
| Less: Accumulated amortisation | (3,104) | (2,692) |
| Total leasehold improvements   | 435     | 696     |

### Plant and equipment

|                                |         |         |
|--------------------------------|---------|---------|
| At cost                        | 7,973   | 6,816   |
| Less: Accumulated depreciation | (5,129) | (4,097) |
| Total plant and equipment      | 2,844   | 2,719   |
|                                | 3,279   | 3,415   |

### Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the financial year are set out below.

|  | Leasehold<br>Improvements<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|--|-------------------------------------|----------------------------------|-----------------|
|--|-------------------------------------|----------------------------------|-----------------|

### Consolidated

|                                   |       |         |         |
|-----------------------------------|-------|---------|---------|
| Carrying amount at 1 January 2013 | 696   | 2,719   | 3,415   |
| Additions                         | 220   | 1,300   | 1,520   |
| Depreciation/amortisation expense | (481) | (1,175) | (1,656) |
| Balance at 31 December 2013       | 435   | 2,844   | 3,279   |

### Consolidated

|                                                      |       |         |         |
|------------------------------------------------------|-------|---------|---------|
| Carrying amount at 1 January 2012                    | 1,223 | 2,178   | 3,401   |
| Additions                                            | –     | 1,371   | 1,371   |
| Acquisitions through business combinations (note 29) | –     | 208     | 208     |
| Depreciation/amortisation expense                    | (527) | (1,038) | (1,565) |
| Balance at 31 December 2012                          | 696   | 2,719   | 3,415   |

# Notes to the Financial Statements

(continued)

## 11 Deferred Tax Assets

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

The balance comprises temporary differences attributable to:

|                   |     |     |
|-------------------|-----|-----|
| Doubtful debts    | 9   | 7   |
| Employee benefits | 70  | 55  |
| Other provisions  | 48  | 79  |
|                   | 127 | 141 |

Details of unrecognised deferred tax assets can be found in note 3(c)

Reconciliation:

|                                      |      |     |
|--------------------------------------|------|-----|
| Opening balance at 1 January         | 141  | 86  |
| Credited/(charged) to profit or loss | (14) | 55  |
| Balance at 31 December               | 127  | 141 |

## 12 Intangibles

|                                     |          |          |
|-------------------------------------|----------|----------|
| Intellectual property – at cost (i) | 17,045   | 14,984   |
| Accumulated amortisation            | (10,757) | (10,005) |
|                                     | 6,288    | 4,979    |
| Development costs – at cost         | 62,456   | 49,119   |
| Accumulated amortisation            | (39,706) | (31,174) |
|                                     | 22,750   | 17,945   |
| Goodwill – at cost                  | 48,810   | 45,108   |
|                                     | 77,848   | 68,032   |

(i) The intellectual property carrying amount comprises of customer contracts of \$3,748 thousand (2012: \$4,417 thousand), brand names of \$562 thousand (2012: \$562 thousand) and other intellectual property of \$1,978 thousand (2012: nil).

## 12 Intangibles continued

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to the business entities acquired, as follows:

|                                   |        |        |
|-----------------------------------|--------|--------|
| Professional Division Australia   | 10,361 | 10,361 |
| Professional Division New Zealand | 1,742  | 1,742  |
| nQueue Billback                   | 2,330  | 1,965  |
| Elite                             | 2,536  | 2,536  |
| Reckon Docs                       | 11,125 | 11,125 |
| Virtual Cabinet                   | 20,716 | 17,379 |
|                                   | 48,810 | 45,108 |

The recoverable amount of a CGU is determined based on value-in-use calculations. Management has based the value in use calculations on the most recently completed board approved budget for the forthcoming one year (2014) period. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum for all CGU's apart from Virtual Cabinet. Constant growth rates of 6% have been used for Virtual Cabinet to reflect the early stage of the evolution of this CGU, which is expected to experience high growth over the next few years. An average post-tax discount rate of 11.0% (2012: 12.2%) (pre-tax rate: 15%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's apart from Virtual Cabinet, for which a discount rate of 11.5% has been applied. No impairment write-offs have been recognized during the year (2012: nil). With the exception of Virtual Cabinet, should the projected growth rates reduce to 0%, no material impairment would arise. In the case of Virtual Cabinet, for an impairment to arise the following would need to occur: the 2014 budget not be met, and the projected growth rates reduced to below 5%.

| Consolidated movements in intangibles                | Goodwill<br>\$'000 | Intellectual<br>Property<br>\$'000 | Develop-<br>ment<br>Costs<br>\$'000 | Total<br>\$'000 |
|------------------------------------------------------|--------------------|------------------------------------|-------------------------------------|-----------------|
| At 1 January 2013                                    | 45,108             | 4,979                              | 17,945                              | 68,032          |
| Additions                                            | –                  | 311                                | 13,182                              | 13,493          |
| Acquisitions through business combinations (note 29) | –                  | 1,750                              | –                                   | 1,750           |
| Effect of foreign currency exchange differences      | 3,702              | –                                  | –                                   | 3,702           |
| Amortisation charge                                  | –                  | (752)                              | (8,377)                             | (9,129)         |
| At 31 December 2013                                  | 48,810             | 6,288                              | 22,750                              | 77,848          |
| At 1 January 2012                                    | 27,775             | 3,609                              | 14,582                              | 45,966          |
| Additions                                            | –                  | –                                  | 9,658                               | 9,658           |
| Acquisitions through business combinations (note 29) | 17,204             | 2,388                              | 987                                 | 20,579          |
| Effect of foreign currency exchange differences      | 129                | –                                  | –                                   | 129             |
| Amortisation charge                                  | –                  | (1,018)                            | (7,282)                             | (8,300)         |
| At 31 December 2012                                  | 45,108             | 4,979                              | 17,945                              | 68,032          |

# Notes to the Financial Statements

(continued)

## 13 Trade and Other Payables

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### Current:

|                                        |       |       |
|----------------------------------------|-------|-------|
| Trade payables and sundry accruals (i) | 4,731 | 4,922 |
|----------------------------------------|-------|-------|

(i) The credit period for the majority of goods purchased is 30 days. No interest is charged. The Group has policies in place to ensure payables are paid within the credit periods.

## 14 Borrowings

### Current:

|                           |    |        |
|---------------------------|----|--------|
| Bank borrowings (i)       | 19 | 10,994 |
| Hire purchase liabilities | 39 | -      |
|                           | 58 | 10,994 |

### Non-current

|                           |        |     |
|---------------------------|--------|-----|
| Bank borrowings (i)       | 17,350 | -   |
| Hire purchase liabilities | 83     | 136 |
|                           | 17,433 | 136 |

(i) The consolidated entity has bank facilities totalling \$23.95 million as at 31 December 2013. The facility comprises a variable rate bank overdraft facility, and a multi option facility (which includes a bill facility and bank guarantee/transactional facility). The facility has been renegotiated to commence on 31 December 2013, and covers a 3 year term expiring on 31 December 2016 in respect of the bill facility and expiring on 31 December 2014 for the remaining facilities. The facility is secured over the Australian net assets of the Group (\$44.8 million at 31 December 2013).

|  | Bank<br>overdraft<br>\$'000 | Bill facility<br>\$'000 | Bank<br>guarantee<br>facility<br>\$'000 |
|--|-----------------------------|-------------------------|-----------------------------------------|
|--|-----------------------------|-------------------------|-----------------------------------------|

### 2013

The available, used and unused components of the facility at year end is as follows:

|           |       |        |       |
|-----------|-------|--------|-------|
| Available | 1,000 | 20,000 | 2,950 |
| Used      | 19    | 17,350 | 1,834 |
| Unused    | 981   | 2,650  | 1,116 |

The remaining contractual maturity for the facility (including both interest and principal) is as follows:

|                                |      |        |       |
|--------------------------------|------|--------|-------|
| 0-12 months                    | 19   | -      | 1,834 |
| 2-5 years                      | -    | 17,350 | -     |
| Weighted average interest rate | 6.7% | 4.6%   | -     |

## 15 Other financial liabilities

|                                   | Consolidated   |                |
|-----------------------------------|----------------|----------------|
|                                   | 2013<br>\$'000 | 2012<br>\$'000 |
| Linden House option liability (i) | 11,658         | 10,608         |

(i) This balance represents the present value of future payments arising in connection with the acquisition of the non-controlling interest in Linden House Software Limited (refer note 29(c)), including future profit entitlements over the next 18 months and the redemption price of put option instruments issued in respect of their remaining equity interest in the company. A discount rate of 12.4% has been applied to future cash flow estimates to derive the outstanding liability. Recognising the present value of the redemption price effectively treats the option as if it has been exercised, which is an equity transaction. Any re-measurement of this liability is therefore treated as an equity transaction processed through an "acquisition of non-controlling interest reserve". Within the context of AASB 7, this is classified as a level 3 fair value measurement, being derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). The gross amount of \$13.8 million (2012: \$13.2million) is payable between one and three years after balance date.

## 16 Provisions

|                                   |       |       |
|-----------------------------------|-------|-------|
| <b>Current:</b>                   |       |       |
| Sales returns, volume rebates     | 102   | 61    |
| Employee benefits                 | 2,505 | 2,425 |
| Surplus premises                  | 498   | 516   |
| Commissions and sundry provisions | 366   | 339   |
|                                   | 3,471 | 3,341 |
| <b>Non-current:</b>               |       |       |
| Employee benefits                 | 639   | 625   |
| Surplus premises                  | 83    | 569   |
|                                   | 722   | 1,194 |

# Notes to the Financial Statements

(continued)

## 16 Provisions *continued*

### Movement in provisions

Movements in each class of provision during the financial year, excluding employee benefits, are set out below:

| 2013 Consolidated                           | Surplus<br>premises<br>\$'000 | Sales<br>returns,<br>volume<br>rebates<br>\$'000 | Commiss-<br>ions and<br>sundry<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------|-------------------------------|--------------------------------------------------|------------------------------------------|-----------------|
| Carrying amount at the start of the year    | 1,085                         | 61                                               | 339                                      | 1,485           |
| Amounts paid                                | (942)                         | –                                                | –                                        | (942)           |
| Additional provisions recognised/(utilised) | 438                           | 41                                               | 27                                       | 506             |
| Carrying amount at the end of the year      | 581                           | 102                                              | 366                                      | 1,049           |

The provision for surplus premises represents the present value of the future lease payments on the Pymont premises that the Group is presently obligated to make under the operating lease contract, less revenue expected to be earned on the lease, including estimated future sub-lease revenue, where applicable. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. The lease expires in February 2015.

## 17 Working capital deficiency

The consolidated statement of financial position indicates an excess of current liabilities over current assets of \$1,068 thousand (December 2012: \$14,390 thousand). This arises due to the cash management structure adopted by management, whereby surplus funds are used to repay debt and make investments. Net cash inflows from operations for the year were \$26,525 thousand (2012: \$24,028 thousand). Unused bank overdraft and bill facilities at balance date total \$3,631 thousand. Also, included in current liabilities is deferred revenue of \$9,285 thousand (December 2012: \$8,674 thousand), settlement of which will involve substantially lower cash flows.

## 18 Deferred Tax Liabilities

|                                                             | Consolidated   |                |
|-------------------------------------------------------------|----------------|----------------|
|                                                             | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>The temporary differences are attributable to:</b>       |                |                |
| Doubtful debts                                              | (96)           | (102)          |
| Employee benefits                                           | (1,284)        | (1,109)        |
| Sales returns and volume rebates                            | (32)           | (18)           |
| Deferred revenue                                            | (605)          | (598)          |
| Difference between book and tax value of non-current assets | 6,729          | 5,802          |
| Other provisions                                            | (605)          | (1,026)        |
|                                                             | 4,107          | 2,949          |

Details of unrecognised deferred tax assets can be found in note 3(c)

|                                      |       |       |
|--------------------------------------|-------|-------|
| Reconciliation:                      |       |       |
| Opening balance at 1 January         | 2,949 | 1,089 |
| Acquisition of business (note 29)    | -     | 875   |
| Charged (credited) to profit or loss | 1,158 | 985   |
| Balance at 31 December               | 4,107 | 2,949 |

# Notes to the Financial Statements

(continued)

## 19 Parent Entity Disclosures

|                                                                                 | Consolidated   |                |
|---------------------------------------------------------------------------------|----------------|----------------|
|                                                                                 | 2013<br>\$'000 | 2012<br>\$'000 |
| <b>Financial position</b>                                                       |                |                |
| Assets                                                                          |                |                |
| Current assets                                                                  | 3,001          | 2,756          |
| Non-current assets                                                              | 85,828         | 76,551         |
|                                                                                 | 88,829         | 79,307         |
| Liabilities                                                                     |                |                |
| Current liabilities                                                             | 24,278         | 18,384         |
| Non-current liabilities                                                         | 15,387         | 14,138         |
|                                                                                 | 39,665         | 32,522         |
| Equity                                                                          |                |                |
| Share capital                                                                   | 16,818         | 16,878         |
| Share buyback reserve                                                           | (14,506)       | (8,978)        |
| Available-for-sale revaluation reserve                                          | –              | –              |
| Share based payments reserve                                                    | 484            | 503            |
| Acquisition of non-controlling interest reserve                                 | (1,624)        | (485)          |
| Retained earnings                                                               | 47,992         | 38,867         |
|                                                                                 | 49,164         | 46,785         |
| <b>Financial performance</b>                                                    |                |                |
| Profit for the year                                                             | 20,288         | 15,752         |
| Other comprehensive income                                                      | –              | 247            |
| Total comprehensive income                                                      | 20,288         | 15,999         |
| <b>Capital commitments for the acquisition of property, plant and equipment</b> |                |                |
| Not longer than 1 year                                                          | –              | –              |
| <b>Other</b>                                                                    |                |                |

Reckon Limited assets have been used as security for the bank facilities set out in note 14.

The parent entity has no contingent liabilities.

## 20 Employee Benefits

|                                                                                                             | Consolidated   |                |
|-------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                             | 2013<br>\$'000 | 2012<br>\$'000 |
| The aggregate employee benefit liability recognised and included in the financial statements is as follows: |                |                |
| Accrued annual leave:                                                                                       |                |                |
| Current (note 16)                                                                                           | 1,296          | 1,272          |
| Long term incentive:                                                                                        |                |                |
| Current (note 16)                                                                                           | 185            | 196            |
| Non-current (note 16)                                                                                       | 80             | 91             |
| Provision for long service leave:                                                                           |                |                |
| Current (note 16)                                                                                           | 1,024          | 957            |
| Non-current (note 16)                                                                                       | 559            | 534            |
|                                                                                                             | 3,144          | 3,050          |

### Long-term incentive plan

The long-term incentive plan was approved at the Special General Meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The board has discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date and are conditional on the participant remaining employed at vesting date, subject to board discretion. Vesting is also conditional upon the company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, being the growth in the company's share price plus dividends or returns of capital for that period. The company's initial TSR target will be the company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator Group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the Special General Meeting on 20 December 2005. The board reviews the suitability of the comparator group on an ongoing basis. Only 50% of options or performance shares become exercisable or vest if the initial performance criterion is satisfied. The extent to which the balance of options or performance shares become exercisable or vest will depend on the extent to which the initial performance criterion is exceeded (i.e. the extent to which the company exceeds a median ranking against the TSR position of the comparator group of companies).

From 2011 performance shares were also awarded with longer term vesting periods. The principal vesting condition is that participants must remain employed for the term, in this case, to achieve 100% vesting employees must remain in employment for 10 years from the date of initial offer.

The share appreciation rights plan represents an alternative remuneration element (to offering options or performance shares) under which the board can invite relevant employees to apply for a right to receive a cash payment from the company equal to the amount (if any) by which the market price of the company's shares at the date of exercise of the right exceeds the market price of the company's shares at the date of grant of the right. The right may only be exercised if performance criteria are met. The performance criteria are fixed by the board in the exercise of its

# Notes to the Financial Statements

(continued)

## 20 Employee Benefits *continued*

discretion. At present these are the same as the TSR target set for the right to exercise options or for performance shares to vest.

No options were issued during the year (2012: Nil).

549,419 (2012: 396,825) appreciation rights and 387,990 (2012: 277,940) performance shares, were issued during the year. The fair value of these rights was 34.4 cents (2012: 44 cents) and the shares were \$1.864 (2012: \$1.785), using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$2.36; expected volatility of 21.5%; dividend yield of 3.4%; and a risk free rate of 2.9%. The expense recognised in 2013 for appreciation rights/performance shares was \$404,966 (2012: \$304,092).

Set out below are summaries of performance shares and appreciation rights granted under the long-term incentive plan:

| Performance Shares |              |                |                               |        |                               |         |                                         |         |
|--------------------|--------------|----------------|-------------------------------|--------|-------------------------------|---------|-----------------------------------------|---------|
| Grant Date         | Vesting Date | Shares Granted | Shares lapsed during the year |        | Shares vested during the year |         | Shares available at the end of the year |         |
|                    |              |                | 2013                          | 2012   | 2013                          | 2012    | 2013                                    | 2012    |
| Jan'10             | Dec'12       | 214,190        | –                             | 7,568  | –                             | 155,271 | –                                       | –       |
| Jan'11             | Dec'13       | 156,704        | 23,981                        | 23,981 | 101,689                       | 7,053   | –                                       | 125,670 |
| Jan'12             | Dec'14       | 150,440        | 1,453                         | 54,033 | 2,904                         | –       | 92,050                                  | 96,407  |
| Jan'13             | Dec'15       | 91,740         | 4,222                         | –      | –                             | –       | 87,518                                  | –       |
| Jan'11             | Dec'17       | 112,500        | 10,000                        | 16,250 | –                             | –       | 86,250                                  | 96,250  |
| Jan'12             | Dec'18       | 127,500        | 10,000                        | 16,250 | –                             | –       | 101,250                                 | 111,250 |
| Jan'13             | Dec'19       | 296,250        | 20,000                        | –      | –                             | –       | 276,250                                 | –       |

206,925 additional shares have been acquired for future grants.

| Appreciation Rights |             |                |                               |      |                               |         |                                         |         |
|---------------------|-------------|----------------|-------------------------------|------|-------------------------------|---------|-----------------------------------------|---------|
| Grant Date          | Expiry Date | Rights Granted | Rights lapsed during the year |      | Rights vested during the year |         | Rights available at the end of the year |         |
|                     |             |                | 2013                          | 2012 | 2013                          | 2012    | 2013                                    | 2012    |
| Jan'10              | Dec'12      | 357,873        | –                             | –    | –                             | 357,873 | –                                       | –       |
| Jan'11              | Dec'13      | 282,258        | –                             | –    | 282,258                       | –       | –                                       | 282,258 |
| Jan'12              | Dec'14      | 396,825        | –                             | –    | –                             | –       | 396,825                                 | 396,825 |
| Jan'13              | Dec'15      | 549,419        | –                             | –    | –                             | –       | 549,419                                 | –       |

### Reckon Limited Employee Option Plans

The company has previously had two ownership-based remuneration schemes:

#### Executive share option plan

The executive share option plan has been terminated.

#### Executive share option plan No. 2

The Reckon Limited Executive Share Option Plan No. 2 was established on 19 July 2000. Under the provisions of the plan, the directors may grant options over unissued shares in the company to executives and directors of the

## 20 Employee Benefits *continued*

company (or their associates) or subsidiaries of the company selected by the directors from time to time, subject to the ASX Listing Rules and the Corporations Act 2001.

Options are granted for a five-year period and 50% of each new tranche becomes exercisable after each of the first two anniversaries of the grant date. The entitlements are vested as soon as they are exercisable (i.e. they are not conditional on future employment). Each option entitles the holder to one ordinary share.

Amounts receivable on exercise of any options are recognised as share capital. No options were exercised during the year (2012: nil).

### Short-term incentive plan

The short-term incentive component of remuneration is dependent on satisfaction of performance conditions. Each annual budget fixes a pool representing the total potential amount in which the relevant employees can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz. a revenue target, an EBITDA target, and an earnings per share target measured against the budgeted performance of the group. The amounts payable include a portion effectively requiring the employee to remain employed for a further one year before being paid.

# Notes to the Financial Statements

(continued)

## 21 Issued Capital

|                                                                                  | 2013        |        | 2012        |        |
|----------------------------------------------------------------------------------|-------------|--------|-------------|--------|
|                                                                                  | No.         | \$'000 | No.         | \$'000 |
| <b>Fully Paid Ordinary Share Capital</b>                                         |             |        |             |        |
| Balance at beginning of financial year                                           | 129,488,015 | 18,842 | 132,839,672 | 17,476 |
| Transfer from share-based payments reserve for options exercised during the year |             |        |             |        |
| Share buyback                                                                    | (2,574,949) | –      | (3,351,657) | –      |
| Prior year share buyback transferred to reserves                                 | –           | –      | –           | 1,366  |
| Balance at end of financial year                                                 | 126,913,066 | 18,842 | 129,488,015 | 18,842 |
| <b>Less Treasury shares</b>                                                      |             |        |             |        |
| Balance at beginning of financial year                                           | 812,077     | 1,964  | 744,858     | 1,724  |
| Shares purchased in current period                                               | 134,279     | 320    | 235,127     | 541    |
| Shares lapsed                                                                    | –           | –      | (5,584)     | –      |
| Lapsed shares utilised                                                           | 8,480       | –      | –           | –      |
| Shares vested                                                                    | (104,593)   | (260)  | (162,324)   | (301)  |
| Balance at end of financial year                                                 | 850,243     | 2,024  | 812,077     | 1,964  |
| Balance at end of financial year net of treasury shares                          | 126,062,823 | 16,818 | 128,675,938 | 16,878 |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

During the year 2,574,949 (2012: 3,351,657) shares were bought back at an average price of \$2.15 (2012: \$2.27). The shares bought back in the current year were cancelled immediately.

No options were exercised during the year.

## 22 Reserves

|                                                                   | Consolidated   |                |
|-------------------------------------------------------------------|----------------|----------------|
|                                                                   | 2013<br>\$'000 | 2012<br>\$'000 |
| Foreign currency translation reserve                              |                |                |
| Balance at beginning of financial year                            | (1,383)        | (1,569)        |
| Translation of foreign operations                                 | 3,883          | 186            |
| Balance at end of financial year                                  | 2,500          | (1,383)        |
| Asset revaluation reserve                                         |                |                |
| Balance at beginning of financial year                            | –              | (1,067)        |
| Transfer to retained earnings                                     | –              | 820            |
| Fair value adjustment of financial assets                         | –              | 247            |
| Balance at end of financial year                                  | –              | –              |
| Share buyback reserve                                             |                |                |
| Balance at beginning of financial year                            | (8,978)        | –              |
| Share buyback                                                     | (5,528)        | (7,612)        |
| Prior year share buyback                                          | –              | (1,366)        |
| Balance at end of financial year                                  | (14,506)       | (8,978)        |
| Acquisition of non-controlling interest reserve                   |                |                |
| Balance at beginning of financial year                            | (4,981)        | –              |
| Transfer from non-controlling interest                            | 349            | 79             |
| Increase in interest in nQueue Billback subsidiaries (note 29(d)) | –              | (4,496)        |
| Fair value adjustment of Linden House option liability (note 15)  | (1,487)        | (564)          |
| Balance at end of financial year                                  | (6,119)        | (4,981)        |
| Share-based payments reserve                                      |                |                |
| Balance at beginning of financial year                            | 503            | 556            |
| Share based payment expense                                       | 241            | 248            |
| Treasury shares vested/lapsed                                     | (260)          | (301)          |
| Balance at end of financial year                                  | 484            | 503            |
|                                                                   | (17,641)       | (14,839)       |

# Notes to the Financial Statements

(continued)

## 22 Reserves continued

### Nature and purpose of reserves

(a) Foreign currency translation reserve

Exchange differences arising on translation of the financial reports of foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(g).

(b) Asset revaluation reserve

Fair value adjustments of financial assets are taken to the asset revaluation reserve.

(c) Share buyback reserve

The value of shares bought back are allocated to this reserve.

(d) Share-based payments reserve

The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised, and treasury shares purchased and recognised to date which have not yet vested.

(e) Acquisition of non-controlling interest reserve

The acquisition of non-controlling interest reserve represents an equity account to record transactions between equity holders.

## 23 Retained Earnings

|                                             | Consolidated   |                |
|---------------------------------------------|----------------|----------------|
|                                             | 2013<br>\$'000 | 2012<br>\$'000 |
| Balance at beginning of financial year      | 42,379         | 36,621         |
| Net profit                                  | 17,812         | 17,342         |
| Transfer from the asset revaluation reserve | –              | (820)          |
| Dividends (note 30)                         | (11,253)       | (10,764)       |
| Balance at end of financial year            | 48,938         | 42,379         |

## 24 Earnings Per Share

|                                                                                                                                                                             | Consolidated  |               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
|                                                                                                                                                                             | 2013<br>cents | 2012<br>cents |
| Basic earnings per share                                                                                                                                                    | 13.9          | 13.4          |
| Diluted earnings per share                                                                                                                                                  | 13.8          | 13.3          |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share                                                                              | 127,924,992   | 129,533,443   |
| Weighted average number of ordinary shares and potential ordinary shares (in relation to employee performance shares) used in the calculation of diluted earnings per share | 128,775,235   | 130,345,520   |

Earnings used in the calculation of basic and diluted earnings per share is \$17,812 thousand (2012: \$17,342 thousand)

## 25 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2013 (2012: Nil).

## 26 Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2013 (2012: \$nil).

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### (b) Lease Commitments

#### Operating Leases

|                                               |       |        |
|-----------------------------------------------|-------|--------|
| Within 1 year                                 | 2,784 | 2,697  |
| Later than 1 year and not longer than 5 years | 5,964 | 7,274  |
| Later than 5 years                            | –     | 342    |
|                                               | 8,748 | 10,313 |

Operating leases relate to office and warehouse premises with lease terms of between 1 to 7 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

# Notes to the Financial Statements

(continued)

## 27 Subsidiaries

| Name of Entity                              | Country of Incorporation | Ownership Interest |        |
|---------------------------------------------|--------------------------|--------------------|--------|
|                                             |                          | 2013 %             | 2012 % |
| Parent Entity                               |                          |                    |        |
| Reckon Limited                              | Australia                |                    |        |
| Subsidiaries                                |                          |                    |        |
| Reckon.com.au Pty Limited                   | Australia                | 100                | 100    |
| Reckon Australia Pty Limited                | Australia                | 100                | 100    |
| Reckon Investment Centre Limited            | Australia                | 100                | 100    |
| Reckon Online Holdings Pty Limited          | Australia                | 100                | 100    |
| Reckon Limited Performance Share Plan Trust | Australia                | 100                | 100    |
| Reckon New Zealand Pty Limited              | New Zealand              | 100                | 100    |
| Advanced Professional Solutions Pty Limited | Australia                | 100                | 100    |
| Advanced Professional Solutions Limited     | New Zealand              | 100                | 100    |
| Reckon Accountable Technology Limited       | United Kingdom           | 100                | 100    |
| Reckon Docs Pty Limited                     | Australia                | 100                | 100    |
| Quickdocs.com.au Pty Limited                | Australia                | 100                | 100    |
| Reckon Billback Pty Limited                 | Australia                | 100                | 100    |
| nQueue Billback Limited                     | United Kingdom           | 100                | 100    |
| Billback LLC                                | United States of America | 100                | 100    |
| nQueue Billback LLC                         | United States of America | 100                | 100    |
| Linden House Software Limited               | United Kingdom           | 50                 | 50     |
| Reckon Accounts Pte Limited                 | Singapore                | 100                | 100    |
| Reckon Sync Technology Pty Ltd *            | Australia                | 100                | –      |

\* Previously Business Driven Systems (Australia) Pty Ltd

All shares held are ordinary shares.

## 28 Related Party Disclosures

|                                                  | Consolidated     |                  |
|--------------------------------------------------|------------------|------------------|
|                                                  | 2013<br>\$       | 2012<br>\$       |
| <b>(a) Key Management Personnel Remuneration</b> |                  |                  |
| Short term benefits                              | 3,248,103        | 3,653,731        |
| Post-employment benefits                         | 162,326          | 220,492          |
| Share based payments                             | 330,813          | 275,672          |
|                                                  | <u>3,741,242</u> | <u>4,149,895</u> |

The names of and positions held by the key management are set out in note 28(d). Further details of the remuneration of key management are disclosed in the Directors' Report.

### **(b) Other Transactions with Key Management Personnel**

There were no transactions with directors and other key management personnel apart from those disclosed in this note and in note 29(e).

### **(c) Other Related Party Transactions**

Intuit Ventures Inc

Intuit Ventures Inc, a significant shareholder (11.7%) in Reckon Limited provides the rights for Reckon to market and distribute Intuit software throughout Australia and New Zealand. In return for this, Intuit receives a royalty payment based on sales made throughout the territory. These royalties amounted to \$5,202,276 (2012: \$5,322,372) which is expensed in the month that the associated product was sold. The balance due at 31 December 2013 is \$217,537 (2012: \$196,835).

On 10 February 2014, Reckon's licencing agreement with Intuit Inc was formally terminated. Announced on 22 March 2012, this was as a consequence of the gradual divergence of the respective online ambitions of Reckon Limited and Intuit Inc.

# Notes to the Financial Statements

(continued)

## 28 Related Party Disclosures *continued*

### (d) Directors' and Key Management Equity Holdings

| Options and Shareholding 2013   |                                          |                                |                              |                                     |                                   |                                   |                                        |
|---------------------------------|------------------------------------------|--------------------------------|------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|
| 2013 <sup>1</sup>               | Office                                   | Share holding at start of 2013 | Share holding at end of 2013 | Performance shares at start of 2013 | Performance shares vested in 2013 | Performance shares issued in 2013 | Performance shares held at end of 2013 |
| <b>Greg Wilkinson</b>           | Deputy Chairman, Non-Executive Director  | 7,450,000                      | 7,450,000                    | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Clive Rabie<sup>2</sup></b>  | CEO, Group Executive Director            | 10,508,000                     | 10,508,000                   | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>John Thame</b>               | Chairman, Non-Executive Director         | 19,000                         | 19,000                       | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Myron Zlotnick</b>           | General Counsel & Co Secretary           | 123,001                        | 133,761                      | 125,385                             | 21,160                            | 72,377                            | 176,602                                |
| <b>Ian Ferrier<sup>2</sup></b>  | Non-Executive Director                   | 0                              | 0                            | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Chris Hagglund</b>           | Chief Financial Officer                  | 296,289                        | 370,471                      | 157,408                             | 74,182                            | 84,410                            | 167,636                                |
| <b>Pete Sanders<sup>3</sup></b> | MD Business Group                        | 0                              | 0                            | 0                                   | 0                                 | 5,000                             | 5,000                                  |
| <b>Sam Allert</b>               | MD Accountants Group                     | 7,568                          | 16,032                       | 46,474                              | 8,464                             | 39,777                            | 75,671                                 |
| <b>Richard Hellers</b>          | President & CEO nQueue Billback Division | 0                              | 0                            | 0                                   | 0                                 | 25,000                            | 25,000                                 |

1 No options were issued in 2013.

2 Since 1 January 2014 Mr Rabie has purchased 250,000 shares and Mr Ferrier has purchased 100,000 shares.

Apart from this, at the date of the Directors Report the above shareholdings remain unchanged.

3 Mr Sanders commenced as MD Business Group effective from 1 January 2013.

## 28 Related Party Disclosures *continued*

| Options and Shareholding 2012     |                                          |                                |                              |                                     |                                   |                                   |                                        |
|-----------------------------------|------------------------------------------|--------------------------------|------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|----------------------------------------|
| 2012 <sup>1</sup>                 | Office                                   | Share holding at start of 2012 | Share holding at end of 2012 | Performance shares at start of 2012 | Performance shares vested in 2012 | Performance shares issued in 2012 | Performance shares held at end of 2012 |
| <b>Greg Wilkinson</b>             | Deputy Chairman, Non-Executive Director  | 7,450,000                      | 7,450,000                    | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Clive Rabie</b>                | CEO, Executive Director                  | 10,508,000                     | 10,508,000                   | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Brian Coventry<sup>3</sup></b> | CEO, Professional Division               | 50,000                         | 12,573                       | 30,648                              | 12,573                            | 23,394                            | 0                                      |
| <b>John Thame</b>                 | Chairman, Non-Executive Director         | 19,000                         | 19,000                       | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Myron Zlotnick</b>             | General Counsel & Co Secretary           | 95,974                         | 123,001                      | 105,625                             | 27,027                            | 46,787                            | 125,385                                |
| <b>Ian Ferrier</b>                | Non-Executive Director                   | 0                              | 0                            | 0                                   | 0                                 | 0                                 | 0                                      |
| <b>Chris Hagglund</b>             | Chief Financial Officer                  | 255,073                        | 296,289                      | 140,398                             | 41,216                            | 58,226                            | 157,408                                |
| <b>Gavin Dixon<sup>5</sup></b>    | CEO Business Division                    | 290,284                        | 264,724                      | 81,917                              | 39,514                            | 37,039                            | 0                                      |
| <b>Sam Allert<sup>4</sup></b>     | CEO, Professional Division               | 11,429                         | 7,568                        | 30,648                              | 7,568                             | 23,394                            | 46,474                                 |
| <b>Richard Hellers</b>            | President & CEO nQueue Billback Division | 0                              | 0                            | 0                                   | 0                                 | 0                                 | 0                                      |

1 No options were issued in 2012.

2 Shareholdings at the date of the previous years Directors' Report remain unchanged.

3 Mr Coventry's employment terminated on 31 December 2012 (41,469 performance shares lapsed).

4 Mr Allert commenced as CEO Professional Division effective from 1 October 2012 (previously MD APS Australia).

5 Mr Dixon's employment terminated on 31 March 2013 (79,442 performance shares lapsed).

# Notes to the Financial Statements

(continued)

## 29 Notes to the Statement of Cash Flows

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### (a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

|                |       |       |
|----------------|-------|-------|
| Cash (i)       | 2,573 | 1,926 |
| Bank overdraft | (19)  | (494) |
|                | 2,554 | 1,432 |

(i) Cash balance is predominantly in the form of short-term money market deposits, which can be accessed at call.

### (b) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities

|                                                          |         |         |
|----------------------------------------------------------|---------|---------|
| Profit after income tax                                  | 18,161  | 17,767  |
| Depreciation and amortisation of non-current assets      | 10,729  | 9,823   |
| Profit on sale of investment in joint venture entity     | (1,414) | –       |
| Non-cash employee benefits expense – share based payment | 241     | 248     |
| Increase/(decrease) in current tax liability/asset       | 13      | (1,246) |
| Increase/(decrease) in deferred tax balances             | 1,172   | 930     |
| Unrealised foreign currency translation amount           | (90)    | 44      |

(Increase)/decrease in assets net of acquisitions:

|                         |         |       |
|-------------------------|---------|-------|
| Current receivables     | (1,865) | (400) |
| Current inventories     | (502)   | (63)  |
| Other current assets    | 404     | (932) |
| Non-current receivables | 197     | (614) |
| Non-current other       | (599)   | –     |

Increase/(decrease) in liabilities net of acquisitions:

|                               |       |         |
|-------------------------------|-------|---------|
| Current trade payables        | (191) | 153     |
| Other current liabilities     | 741   | (1,229) |
| Other non-current liabilities | (472) | (453)   |

### Net cash inflow from operating activities

26,525 24,028

## 29 Notes to the Statement of Cash Flows continued

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2013<br>\$'000 | 2012<br>\$'000 |

### (c) Business acquired

#### Business Driven Systems

Effective from 1 October 2013, 100% of the ordinary shares of Business Driven Systems (Australia) Pty Ltd was acquired for \$1,750 thousand. The purchase price represented the IP for a product known as SyncDirect, which allows the transfer of data from a multitude of accounting systems (including cloud products) to enable accountants to seamlessly access client data via their practice management solution.

#### Linden House

|                                |   |        |
|--------------------------------|---|--------|
| Cash consideration             | – | 9,168  |
| Less net cash acquired         | – | (657)  |
|                                | – | 8,511  |
| Fair value of option liability | – | 10,262 |
|                                | – | 18,773 |

#### Fair value of assets acquired:

|                                                 |   |         |
|-------------------------------------------------|---|---------|
| Receivables                                     | – | 1,665   |
| Intellectual property – customer contracts      | – | 1,826   |
| Intellectual property – development of solution | – | 987     |
| Intellectual property – brand                   | – | 562     |
| Fixed assets                                    | – | 208     |
| Payables                                        | – | (492)   |
| Hire purchase liabilities                       | – | (151)   |
| Deferred tax liabilities                        | – | (875)   |
| Deferred revenue                                | – | (2,161) |
|                                                 | – | 1,569   |
| Goodwill                                        | – | 17,204  |
|                                                 | – | 18,773  |

On 3 July 2012 Reckon Limited acquired an initial 50% interest in Linden House Software Limited together with options to take its total holding to 100%.

# Notes to the Financial Statements

(continued)

## 29 Notes to the Statement of Cash Flows *continued*

### (d) nQueue Billback Division minority interest acquired

Effective from 31 July 2012 Reckon Limited acquired the 26% remaining interest in the nQueue Billback Division in the USA and the remaining 25% interest in nQueue Billback UK that it did not previously hold for cash consideration of \$4,496 thousand.

### (e) APS UK Division sold

Effective from 31 December 2012 the APS UK business has been sold to the previous managing director, Brian Coventry. Reckon will receive an ongoing revenue stream from royalties on sales under a licensing agreement.

## 30 Dividends – ordinary shares

|                                                                                                                                       | Consolidated   |                |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                       | 2013<br>\$'000 | 2012<br>\$'000 |
| Final dividend for the year ended 31 December 2012 of 4.75 cents (2011: 4.5 cents) per share franked to 90% paid on 1 March 2013      | 6,111          | 5,945          |
| Interim dividend for the year ended 31 December 2013 of 4 cents per share franked to 90% (2012: 3.75 cents) paid on 11 September 2013 | 5,142          | 4,819          |
|                                                                                                                                       | 11,253         | 10,764         |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2012: 30%)                                      | 699            | 1,697          |

Refer to note 33 for details of dividends declared post year end.

## 31 Financial Instruments

### (a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

### (b) Financial Risk Management Objectives

The Board of Directors has overall responsibility for the establishment and oversight of the company and Group's financial management framework.

The Board of Directors oversees how Management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks. The main risk arising from the company and Group's financial instruments are currency risk, credit risk, equity price risk, liquidity risk and cash flow interest rate risk.

### (c) Interest Rate Risk

The Group is exposed to interest rate risk on the cash held in bank deposits and on bank borrowings. Cash deposits of \$2,573 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.6% (2012: 0.8%). Interest bearing borrowings by the consolidated entity at the reporting date were \$17,369 thousand (2012:\$10,994 thousand). These variable rate borrowings during the year attracted an average interest rate of 6.7%

## 31 Financial Instruments *continued*

(2012: 7.50%) on overdraft facilities and 4.6% on bank bill facilities (2012: 5.1%). If interest rates had been 50 basis points higher or lower (being the relevant volatility considered relevant by management) and all other variables were held constant, the Group's net profit would increase/decrease by \$88 thousand (2012: \$45 thousand).

The Board of Directors monitors these exposures and does not presently hedge against these risks.

The maturity profile for the consolidated entity's cash and over draft (\$2,554 thousand) that is exposed to interest rate risk is less than one year, and interest bearing borrowings (\$17,350 thousand) that are exposed to interest rate risk is 2 to 5 years.

### (d) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

The average credit period on sale of goods is 45 days. Interest is generally not charged. The Group recognises an allowance for doubtful debts comprising a specific component for expected irrecoverable amounts, and a general provision calculated as a % of outstanding balances based upon the historical experience.

### (e) Foreign Currency Risk

The consolidated entity and company undertakes certain transactions denominated in foreign currencies that are different to the functional currencies of the entities undertaking the transactions, hence exposures to exchange rate fluctuations arise. The Board of Directors monitors these exposures and does not presently hedge against this risk.

The carrying amount of the consolidated entity's foreign currency denominated monetary assets and liabilities at the reporting date that are denominated in a currency that is different to the functional currency of respective entities undertaking the transactions is as follows:

|      | Consolidated   |                |                |                |
|------|----------------|----------------|----------------|----------------|
|      | Liabilities    |                | Assets         |                |
|      | 2013<br>\$'000 | 2012<br>\$'000 | 2013<br>\$'000 | 2012<br>\$'000 |
| Euro | –              | –              | 136            | 60             |

At 31 December 2013, if the Euro weakened against the UK Pound by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$14 thousand (2012: \$6 thousand). At 31 December 2013, if the New Zealand Dollar, US Dollar and UK Sterling weakened against the Australian Dollar by 10% (being the relevant volatility considered relevant by Management), with all other variables held constant the net profit of the consolidated entity would increase by \$564 thousand (2012: \$271 thousand). This latter sensitivity relates to inter-group loan balances denominated in Australian Dollars, which are eliminated on consolidation.

In Management's opinion, the sensitivity analysis is not fully representative of the inherent foreign exchange risk as the year-end exposure does not necessarily reflect the exposure during the course of the year. The consolidated entity includes certain subsidiaries whose functional currencies are different to the consolidated entity presentation currency. The main operating entities outside of Australia are based in New Zealand, United States of America and the United Kingdom. These entities transact primarily in their functional currency and, aside from inter-group loan balances, do not have significant

# Notes to the Financial Statements

(continued)

## 31 Financial Instruments *continued*

foreign currency exposures due to outstanding foreign currency denominated items. As stated in the consolidated entity's accounting policies per note 1, on consolidation the assets and liabilities of these entities are translated into Australian Dollars at exchange rates prevailing at year end. The income and expenses of these entities is translated at the average exchange rates for the year. Exchange differences arising are classified as equity and are transferred to a foreign exchange translation reserve. The consolidated entity's future reported profits could therefore be impacted by changes in rates of exchange between the Australian Dollar and the New Zealand Dollar, and the Australian Dollar and the US Dollar and the Australian Dollar and the UK Sterling.

### (f) Liquidity

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows.

### (g) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of cash, other financial assets, debt and equity attributable to equity holders of the parent. The board reviews the capital structure on a regular basis. Based upon this review, the Group balances its overall capital structure through borrowings, the payment of dividends, issues of shares, share buy-backs and returns of capital. This strategy remains unchanged since the prior year.

### (h) Fair Value

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 carrying amount of financial assets and financial liabilities recorded in the financial report approximates their respective fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

## 32 Segment Information

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

### (a) Business segment information

The consolidated entity is organised into four operating divisions:

#### **Business Division**

#### **Professional Division**

#### **nQueue Billback Division**

#### **Virtual Cabinet Division**

These divisions are the basis upon which the consolidated entity reports its financial information to the chief operating decision maker, being the Board of Directors.

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 Reckon Accounts, QuickBooks, Quicken, Reckon Docs and Reckon Elite.
- Professional Division - development, distribution and support of practice management, tax, client accounting and related software under the APS brand.
- nQueue Billback Division – distribution and support of cost recovery, cost management and related software.
- Virtual Cabinet Division - development, distribution and support of document management and client portal products.

## 32 Segment Information *continued*

| Segment revenues and results | 2013<br>\$'000 | 2012<br>\$'000 |
|------------------------------|----------------|----------------|
| <b>Operating revenue</b>     |                |                |
| Business Division            | 57,912         | 58,280         |
| Professional Division        | 23,964         | 25,095         |
| nQueue Billback Division     | 10,655         | 10,855         |
| Virtual Cabinet Division     | 5,562          | 2,376          |
|                              | 98,093         | 96,606         |
| Other revenue                | 32             | 159            |
| <b>Total revenue</b>         | <b>98,125</b>  | <b>96,765</b>  |

|                                                         | 2013<br>\$'000<br>EBITDA | 2013<br>\$'000<br>D&A | 2013<br>\$'000<br>NPBT | 2012<br>\$'000<br>EBITDA | 2012<br>\$'000<br>D&A | 2012<br>\$'000<br>NPBT |
|---------------------------------------------------------|--------------------------|-----------------------|------------------------|--------------------------|-----------------------|------------------------|
| Business Division                                       | 20,256                   | (2,662)               | 17,594                 | 21,337                   | (2,478)               | 18,859                 |
| Professional Division                                   | 11,552                   | (5,345)               | 6,207                  | 12,361                   | (5,347)               | 7,014                  |
| nQueue Billback Division                                | 4,032                    | (1,906)               | 2,126                  | 4,596                    | (1,698)               | 2,898                  |
| Virtual Cabinet Division                                | 1,668                    | (816)                 | 852                    | 499                      | (301)                 | 198                    |
|                                                         | <b>37,508</b>            | <b>(10,729)</b>       | <b>26,779</b>          | <b>38,793</b>            | <b>(9,824)</b>        | <b>28,969</b>          |
| Central administration costs                            |                          |                       | (3,193)                |                          |                       | (4,213)                |
| Premises relocation costs                               |                          |                       | (438)                  |                          |                       | (492)                  |
| Acquisition costs                                       |                          |                       | -                      |                          |                       | (173)                  |
| Profit on sale of investment in<br>joint venture entity |                          |                       | 1,414                  |                          |                       | -                      |
| Other revenue                                           |                          |                       | 32                     |                          |                       | 159                    |
| Finance costs                                           |                          |                       | (705)                  |                          |                       | (311)                  |
| <b>Profit before income tax</b>                         |                          |                       | <b>23,889</b>          |                          |                       | <b>23,939</b>          |
| Income tax expense                                      |                          |                       | (5,728)                |                          |                       | (6,172)                |
| <b>Profit for the year</b>                              |                          |                       | <b>18,161</b>          |                          |                       | <b>17,767</b>          |

# Notes to the Financial Statements

(continued)

## 32 Segment Information *continued*

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.

No single country outside of Australia contributed more than 10% of Group revenue for either 2013 or 2012. No single customer contributed 10% or more of Group revenue for either 2013 or 2012.

EBITDA above means earnings before interest, depreciation and amortisation, D&A means depreciation and amortisation, and NPBT means net profit before tax.

| Segment assets and liabilities | Assets         |                | Liabilities    |                | Additions to non-current assets |                |
|--------------------------------|----------------|----------------|----------------|----------------|---------------------------------|----------------|
|                                | 2013<br>\$'000 | 2012<br>\$'000 | 2013<br>\$'000 | 2012<br>\$'000 | 2013<br>\$'000                  | 2012<br>\$'000 |
| Business Division              | 34,357         | 25,511         | 27,953         | 20,724         | 6,846                           | 3,713          |
| Professional Division          | 28,250         | 27,554         | 4,378          | 4,908          | 6,649                           | 5,015          |
| nQueue Billback Division       | 17,338         | 15,291         | 11,152         | 7,019          | 2,130                           | 1,566          |
| Virtual Cabinet Division       | 27,403         | 23,341         | 15,750         | 14,628         | 1,138                           | 21,522         |
| Total of all segments          | 107,348        | 91,967         | 59,233         | 47,279         | 16,763                          | 31,816         |
| Eliminations                   | (6,637)        | (3,342)        | (6,637)        | (3,342)        | -                               | -              |
| Consolidated                   | 100,711        | 88,355         | 52,596         | 43,937         | 16,763                          | 31,816         |

### (b) Geographical information

|                     | Revenues from external customers |                | Non-current assets |                |
|---------------------|----------------------------------|----------------|--------------------|----------------|
|                     | 2013<br>\$'000                   | 2012<br>\$'000 | 2013<br>\$'000     | 2012<br>\$'000 |
| Australia           | 76,931                           | 77,223         | 44,805             | 38,826         |
| Other countries (i) | 21,162                           | 19,383         | 38,298             | 34,869         |
|                     | 98,093                           | 96,606         | 83,103             | 73,695         |

(i) No single country outside of Australia is considered to generate revenues which are material to the Group.

## 32 Segment Information *continued*

### (c) Segment revenues

|                                                      | External sales |                |
|------------------------------------------------------|----------------|----------------|
|                                                      | 2013<br>\$'000 | 2012<br>\$'000 |
| Business and wealth management products and services | 51,739         | 52,152         |
| Accounting industry products and services            | 35,699         | 33,599         |
| Legal industry products and services                 | 10,655         | 10,855         |
|                                                      | 98,093         | 96,606         |

## 33 Subsequent Events

Subsequent to the end of the financial year:

### Share buy back

On 11 February 2014 the Board of Directors recommended to continue the on-market share buyback of not more than 10% of the shares in the company.

### Dividend

The board has declared a dividend of 4.75 cents per share to shareholders on 11 February 2014. The dividend will be 90% franked. The record date for the dividend is 21 February 2014. The aggregate amount of the proposed dividend expected to be paid on 6 March 2014 out of retained profits at 31 December 2013, but not recognised as a liability at the end of the year is \$5,988 thousand. The impact on the franking account balance of unrecognised dividends is \$2,310 thousand.

### Bank facilities

Since year end the Group has increased its bank bill facility by \$10 million. The maturity profile has not changed.

### Intuit Inc

On 10 February 2014 Reckon's relationship with Intuit Inc formally ended. Reckon is no longer required to pay a royalty to Intuit Inc on sales of Reckon Accounts business and personal product ranges. Reckon continues to localise and develop the source code for these products having been granted a 100 year royalty fee licence to the then latest version of the source code.

## 34 Company information

Reckon Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 12, 65 Berry Street  
North Sydney  
Sydney NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' Report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 13 March 2014.

# Additional Information as at 6 March 2014 (unaudited)

## Twenty Largest Holders of Quoted Equity Securities

| Ordinary Shareholder                                 | Number     | Percentage |
|------------------------------------------------------|------------|------------|
| RBC Investor Services Australia Pty Limited          | 15,757,667 | 12.42      |
| Intuit Ventures Inc                                  | 14,828,304 | 11.68      |
| HSBC Custody Nominees (Australia) Limited            | 12,875,821 | 10.15      |
| National Nominees Limited                            | 12,865,571 | 10.14      |
| G J Wilkinson                                        | 6,147,800  | 4.84       |
| Aust Executor Trustees SA Ltd                        | 5,040,418  | 3.97       |
| Mr C Rabie & Mrs K R Rabie                           | 4,735,611  | 3.73       |
| DJZ Investments Pty Limited                          | 4,690,000  | 3.70       |
| JP Morgan Nominees Australia Limited                 | 3,062,585  | 2.41       |
| Citicorp Nominees Pty Ltd                            | 2,546,488  | 2.01       |
| BNP Paribas Noms Pty Ltd                             | 2,528,848  | 1.99       |
| Citicorp Nominees Pty Ltd                            | 2,181,004  | 1.72       |
| Mr S J Rickwood                                      | 1,601,062  | 1.26       |
| Mr C A Rabie                                         | 1,332,389  | 1.05       |
| Rawform Pty Ltd                                      | 1,302,200  | 1.03       |
| Mr P R Hayman                                        | 1,053,636  | 0.83       |
| RBC Investor Services Australia Nominees Pty Limited | 975,324    | 0.77       |
| HSBC Custody Nominees (Australia) Limited            | 932,090    | 0.73       |
| QIC Limited                                          | 866,557    | 0.68       |
| Reckon Australia Pty Ltd                             | 857,764    | 0.68       |
|                                                      | 96,181,139 | 75.79      |

## Number of Holders of Equity Securities

### Ordinary Share Capital

126,913,066 fully paid ordinary shares are held by 4,139 individual shareholders as at 6 March 2014.  
All issued ordinary shares carry one vote per share.

### Shareholdings less than marketable parcels

The number of shareholdings held in less than marketable parcels is 115.

## Distribution of Holders of Equity Securities

As at 6 March 2014

| Number of Ordinary Shares | Number of Shareholders |
|---------------------------|------------------------|
| 1 – 1,000                 | 949                    |
| 1,001 – 5,000             | 2,019                  |
| 5,001 – 10,000            | 588                    |
| 10,001 – 100,000          | 535                    |
| 100,001 and over          | 48                     |
| Total                     | 4,139                  |

## Substantial Shareholders

As at 6 March 2014

(a) From Twenty Largest holders of Quoted Equity Securities

|                                             | Ordinary Shares<br>(Number) | Ordinary Shares<br>(Percentage) |
|---------------------------------------------|-----------------------------|---------------------------------|
| RBC Investor Services Australia Pty Limited | 15,757,667                  | 12.42                           |
| Intuit Ventures Inc                         | 14,828,304                  | 11.68                           |
| HSBC Custody Nominees (Australia) Limited   | 12,875,821                  | 10.15                           |
| National Nominees Limited                   | 12,865,571                  | 10.14                           |
| Mr C Rabie                                  | 10,758,000                  | 8.48                            |
| Mr G Wilkinson                              | 7,450,000                   | 5.87                            |

(b) As disclosed to ASX

|                                  | Ordinary Shares<br>(Number) | Ordinary Shares<br>(Percentage) |
|----------------------------------|-----------------------------|---------------------------------|
| Perpetual Limited & Subsidiaries | 18,228,593                  | 14.08                           |
| Acorn Capital Limited            | 8,513,194                   | 6.71                            |

# Additional Information as at 6 March 2014 (unaudited)

## Principal Registered Office

Level 12, 65 Berry Street  
North Sydney NSW 2060  
Tel: (02) 9577 5000  
[www.reckon.com](http://www.reckon.com)

## Auditors

Deloitte Touche Tohmatsu  
225 George Street  
Sydney NSW 2000

## Principal Administration Office

Level 12, 65 Berry Street  
North Sydney NSW 2060  
Tel: (02) 9577 5000

## Stock Exchange Listings

Reckon Limited's ordinary shares are listed on the Australian Securities Exchange Limited under the symbol 'RKN'.

## Company Secretary

Mr Myron Zlotnick

## Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on Wednesday 21 May 2014 at 10:00am at level 12, 65 Berry Street, North Sydney, NSW. If you are unable to attend, you are invited to complete the Proxy Form included with your Notice of Meeting. The completed Proxy Form must be received no later than 48 hours before the Annual General Meeting.

## Important Information – Corporate Notices

Securityholders will be aware that legislative changes have had the effect of giving them options as to how they receive statutory corporate notices and reports. In the interest of cost saving and the environment (every little bit helps), we encourage you to opt in to receive all notices and reports electronically.

Please go to: [www.computershare.com.au](http://www.computershare.com.au) and follow the prompts to register your request to opt in to receive ALL NOTICES AND REPORTS IN ELECTRONIC FORMAT.

To register to be notified by email when the Annual Report and other Announcements are available online:

- Visit the share registry at [www.computershare.com](http://www.computershare.com)
- Click on “Investor Centre”
- Follow the prompts to update your “Communications Options”
- After you have updated your email address and selected the publications you wish to receive, a confirmation email will be sent to you

Should you have any further enquiries, contact the Registry on 1300 855 080 or +61 3 9415 4000 (if outside Australia).

Alternatively, email your full name and address of the securityholder to [shareholders@reckon.com](mailto:shareholders@reckon.com) to receive the Annual Report, corporate and statutory notices electronically.



Reckon™