

Reckon Limited Preliminary Financial Report

ABN 14 003 348 730

Financial Year Ended 31 December 2017

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017

	Note	Consolidated	
		2017	2016
		\$'000	\$'000
			Restated ¹
Continuing operations			
Revenue	3	48,924	49,683
Product costs	3	(7,212)	(7,204)
Employee benefits expenses		(17,664)	(17,872)
Share-based payments expenses	3	(588)	(373)
Marketing expenses		(3,503)	(3,469)
Premises and establishment expenses		(1,363)	(1,214)
Depreciation and amortisation of other non-current assets	3	(12,302)	(10,340)
Telecommunications		(504)	(491)
Legal and professional expenses		(713)	(915)
Finance costs – bank loans and overdrafts		(853)	(1,049)
Other expenses		(1,442)	(1,213)
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Profit before income tax		2,780	5,543
Income tax expense	6	(569)	(1,085)
		<hr/>	<hr/>
Profit for the year from continuing operations		2,211	4,458
		<hr/>	<hr/>
Profit from discontinued operations – trading		6,541	6,534
Discontinued operations – sale costs expensed		(1,124)	-
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Profit from discontinued operations	4	5,417	6,534
		<hr/>	<hr/>
Profit for the year attributable to owners of the parent		7,628	10,992
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Earnings per share from continuing and discontinued operations			
Basic Earnings per Share	21	6.8	9.8
Diluted Earnings per Share	21	6.6	9.6
Earnings per share from continuing operations			
Basic Earnings per Share	21	2.0	4.0
Diluted Earnings per Share	21	1.9	3.9

1. Refer Note 4 in the accompanying notes.

The above consolidated income statement 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 2017

	Note	Consolidated	
		2017	2016
		\$'000	\$'000
Profit for the year		7,628	10,992
Other comprehensive income/(loss), net of income tax			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translation of foreign operations	20	(1,849)	(4,720)
Fair value movement on interest rate swap	20	3	309
Total other comprehensive income/(loss), net of income tax		(1,846)	(4,411)
Total comprehensive income for the year attributable to the owners of the parent		5,782	6,581

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 2017

	Note	Consolidated	
		2017	2016
		\$'000	\$'000
ASSETS			
Current Assets			
Cash and cash equivalents	25	1,958	1,715
Trade and other receivables	8	7,190	10,340
Financial assets	14	2,254	632
Inventories – finished goods		2,796	2,791
Current tax receivables		-	287
Other assets	9	1,124	2,602
		<hr/>	<hr/>
		15,322	18,367
Assets classified as held for sale	5	43,911	-
		<hr/>	<hr/>
Total Current Assets		59,233	18,367
Non-Current Assets			
Receivables	8	40	113
Financial assets	14	136	133
Property, plant and equipment	10	1,232	2,452
Deferred tax assets	11	410	948
Intangible assets	12	24,387	95,557
Other assets	9	133	2,154
		<hr/>	<hr/>
Total Non-Current Assets		26,338	101,357
		<hr/>	<hr/>
Total Assets		85,571	119,724
LIABILITIES			
Current Liabilities			
Trade and other payables		4,585	7,266
Borrowings	13	-	936
Provisions	15	1,789	3,215
Current tax payables		776	-
Deferred revenue		5,709	11,712
		<hr/>	<hr/>
		12,859	23,129
Liabilities directly associated with assets classified as held for sale	5	5,397	-
		<hr/>	<hr/>
Total Current Liabilities		18,256	23,129
Non-Current Liabilities			
Borrowings	13	50,606	51,618
Deferred tax liabilities	16	2,475	7,418
Provisions	15	1,135	841
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Total Non-Current Liabilities		54,216	59,877
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Total Liabilities		72,472	83,006
		<hr/>	<hr/>
Net Assets		13,099	36,718
Equity			
Issued capital	19	19,459	18,707
Reserves	20	(49,266)	(47,148)
Retained earnings		42,906	65,159
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Total Equity		13,099	36,718
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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 2017

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share-based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non-controlling interest reserve \$'000	Attributable to owners of the parent \$'000
Balance at 1 January 2017	18,707	(42,018)	221	668	133	65,159	(6,152)	36,718
Profit for the year	-	-	-	-	-	7,628	-	7,628
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(1,849)	-	-	-	-	(1,849)
Fair value movement on interest rate swap	-	-	-	-	3	-	-	3
Total comprehensive income	-	-	(1,849)	-	3	7,628	-	5,782
Share based payments expense	-	-	-	480	-	-	-	480
Dividends paid (note 26)	-	-	-	-	-	(29,881)	-	(29,881)
Treasury shares acquired	-	-	-	-	-	-	-	-
Treasury shares vested/lapsed	752	-	-	(752)	-	-	-	-
Balance at 31 December 2017	19,459	(42,018)	(1,628)	396	136	42,906	(6,152)	13,099

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

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2017

Consolidated	Issued capital \$'000	Share buyback reserve \$'000	Foreign currency translation reserve \$'000	Share- based payments reserve \$'000	Swap hedging reserve \$'000	Retained earnings \$'000	Acquisition of non- controlling interest reserve \$'000	Attributable to owners of the parent \$'000
Balance at 1 January 2016	16,929	(42,018)	4,941	638	(176)	59,754	(6,152)	33,916
Profit for the year	-	-	-	-	-	10,992	-	10,992
Other comprehensive income:								
Exchange differences on translation of foreign operations	-	-	(4,720)	-	-	-	-	(4,720)
Fair value movement on interest rate swap	-	-	-	-	309	-	-	309
Total comprehensive income	-	-	(4,720)	-	309	10,992	-	6,581
Share based payments expense	-	-	-	126	-	-	-	126
Dividends paid (note 26)	-	-	-	-	-	(5,587)	-	(5,587)
Dividend re-investment plan (note 19)	1,682	-	-	-	-	-	-	1,682
Treasury shares acquired	-	-	-	-	-	-	-	-
Treasury shares vested/lapsed	96	-	-	(96)	-	-	-	-
Balance at 31 December 2016	18,707	(42,018)	221	668	133	65,159	(6,152)	36,718

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 2017

	Note	Consolidated Inflows/(Outflows)	
		2017 \$'000	2016 \$'000
Cash Flows From Operating Activities			
Receipts from customers		98,156	105,963
Payments to suppliers and employees		(67,862)	(72,537)
Payment for capitalised development costs		(18,165)	(24,167)
Proceeds from New Zealand government development grant		1,003	1,384
Interest received		-	30
Interest paid		(1,706)	(2,068)
Income taxes paid		(1,775)	(1,058)
Net cash inflow from operating activities	25(b)	9,651	7,547
Cash Flows From Investing Activities			
Payment for purchase of business	25(c)	-	(5,785)
Proceeds on sale of business		-	1,250
Payment for investment in business		(196)	-
Net increase in loans receivable		(1,623)	(632)
Payment for property, plant and equipment		(686)	(942)
Net cash outflow from investing activities		(2,505)	(6,109)
Cash Flows From Financing Activities			
Proceeds from/(repayment of) borrowings		(992)	1,863
Payment for de-merger costs		(1,700)	-
Payment for treasury shares		-	-
Dividends paid to owners of the parent	26	(3,375)	(3,905)
Net cash outflow from financing activities		(6,067)	(2,042)
Net Increase/(Decrease) in cash and cash equivalents		1,079	(604)
Cash and cash equivalents at the beginning of the financial year		924	1,641
Effects of exchange rate changes on cash and cash equivalents		(45)	(113)
Cash and cash equivalents at the end of the financial year	25(a)	1,958	924

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

Notes to the Financial Statements

for the year ended 31 December 2017

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 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. The company is a company of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument, dated 24 March 2016*, and in accordance with that Corporations Instrument amounts in the financial report are rounded to the nearest thousand dollars, unless 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.

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 and share-based payment arrangements are recognised and measured in accordance with the relevant accounting standards.

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) **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:

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

(d) **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.

(e) **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.

(f) **Foreign Currency Translation**

Functional and presentation currency

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

Transactions and balances

All foreign currency transactions during the financial year have been brought to account 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.

(g) **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;
- 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.

(h) **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. The Group uses the standalone approach by reference to the carrying amounts in the separate financial statements of each entity in applying the accounting for tax consolidation.

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.

(i) **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.

(j) **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.

(k) **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.

(l) **Receivables**

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

(m) **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.

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.

(n) **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 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.

Subscription, 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.

(o) **Deferred Revenue**

Revenue earned from maintenance, hosting 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(n) for further detail.

(p) **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.

(q) **Cash and cash equivalents**

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

(r) **Borrowings**

Borrowings are initially measured at fair value, net of transaction costs and 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.

(s) **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.

(t) **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.

(u) **Government Grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should continue to develop its range of software products, are offset against development costs in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

(v) **Hedge Accounting**

The Group enters into derivative financial instruments to manage its exposure to interest rate risk, including interest rate swaps. Further details of derivative financial instruments are disclosed in note 14.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group designates certain hedging instruments, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 14 sets out details of the fair values of the derivative instruments used for hedging purposes.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of swap hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or nonfinancial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

(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 estimated and then recognised as revenue over the period during which the service is performed.

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 18.

Product life and amortisation – the Group amortises capitalised 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.

2 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 Group**
- Practice Management Group, Accountants**
- Practice Management Group, Legal**
- Document Management Group**

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 Group - development, distribution and support of business accounting and personal financial software, as well as related products and services. Products sold in this division include Reckon Accounts and Reckon One.
- Practice Management Group, Accountants - development, distribution and support of practice management, tax, client accounting and related software under the APS brand as well as the ReckonDocs and Reckon Elite products. Reckon has announced that it proposes to sell this division and thus it is included in discontinued operations.
- Practice Management Group, Legal - development, distribution and support of cost recovery, cost management, scan and related software under the nQueueBillback brand predominantly to the legal market.
- Document Management Group – development, distribution and support of document management and client portal products under the Virtual Cabinet and Smart Vault brands. This division was de-merged during 2017 and is thus included in discontinued operations.

Segment revenues and results

	2017 \$'000	2016 \$'000 Restated
Operating revenue		
Business Group	35,917	35,555
Practice Management Group, Legal	13,007	14,098
	<u>48,924</u>	<u>49,653</u>
Other revenue	-	30
Continuing operations	48,924	49,683
Discontinued operations	41,396	48,076
Total revenue	<u>90,320</u>	<u>97,759</u>

	2017 \$'000	2017 \$'000	2017 \$'000	2016 \$'000	2016 \$'000	2016 \$'000
	Continuing business	Discontinued Business	Total	Continuing business Restated	Discontinued Business Restated	Total Restated
EBITDA:						
Business Group	17,242			17,034		
Practice Management Group, Legal	3,424			4,544		
Central administration costs	(4,731)			(4,676)		
	<u>15,935</u>	<u>15,637</u>	<u>31,572</u>	<u>16,902</u>	<u>18,359</u>	<u>35,261</u>
Depreciation and amortisation:						
Business Group	(9,429)			(7,670)		
Practice Management Group, Legal	(2,873)			(2,670)		
	<u>(12,302)</u>	<u>(7,973)</u>	<u>(20,275)</u>	<u>(10,340)</u>	<u>(9,217)</u>	<u>(19,557)</u>
Other revenue	-	-	-	15	15	30
Finance costs	(853)	(853)	(1,706)	(1,034)	(1,034)	(2,068)
	<u>(853)</u>	<u>(853)</u>	<u>(1,706)</u>	<u>(1,034)</u>	<u>(1,034)</u>	<u>(2,068)</u>
Profit before income tax	2,780	6,811	9,591	5,543	8,123	13,666
Income tax expense	(569)	(1,394)	(1,963)	(1,085)	(1,589)	(2,674)
Profit for the year	<u>2,211</u>	<u>5,417</u>	<u>7,628</u>	<u>4,458</u>	<u>6,534</u>	<u>10,992</u>

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, new market expenditure, 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 customer contributed 10% or more of Group revenue for either 2017 or 2016.

EBITDA above means earnings before interest, depreciation and amortisation.

In the prior year the Practice Management Group included both the Accountants and Legal Divisions. These have now been separated due to the proposed sale of the Accountant Division and the prior year results have been restated. In addition expenses classified as “new market net costs” in the prior year segment note, have been absorbed into the respective divisional results above.

Segment assets and liabilities

	Assets		Liabilities		Additions to non-current assets	
	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Group	20,055	21,760	7,791	8,290	6,150	8,890
Practice Management Group, Legal	17,209	17,462	5,427	3,337	2,673	2,220
Practice Management Group, Accountants	-	42,753	-	4,839	7,310	6,900
Document Management Group	-	32,917	-	6,567	2,013	12,218
Corporate Division	4,396	4,832	53,857	59,973	-	1,297
	41,660	119,724	67,075	83,006	18,146	31,525
Assets/Liabilities classified as held for sale	43,911	-	5,397	-		
Total of all segments	85,571	119,724	72,472	83,006		

(b) Geographical information

	Continuing business revenue from external customers		Non-current assets	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
		Restated		
Australia	34,633	34,425	16,239	59,213
United States of America	10,160	10,882	5,597	14,091
Other countries (i)	4,131	4,346	4,502	28,053
	48,924	49,653	26,338	101,357

(i) No other country outside is considered to generate revenues which are material to the group.

3 Profit for the year

Consolidated
2017
\$'000

2016
\$'000
Restated

Profit before income tax includes the following items of revenue and expense:

Revenue

Sales revenue

Subscription revenue	36,159	34,975
Other recurring revenue	4,143	5,367
Loan income	722	65
Other revenue	7,900	9,246
Sale of goods and rendering of services	48,924	49,653

Other Revenue

Interest revenue	-	30
	-	30
	48,924	49,683

Expenses

Product costs	7,212	7,204
Bad debt expense:		
Other Entities	69	29

Depreciation of non-current assets:

Property, plant and equipment	525	577
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Amortisation of non-current assets:

Leasehold improvements	73	76
Intellectual property	1,530	2,129
Development costs	10,174	7,558

Total depreciation and amortisation	12,302	10,340
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Foreign exchange losses/(gains)	120	92
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Employee benefits expense:

Post employment benefits – defined contribution plans	1,581	1,924
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Termination benefits	322	129
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Share based payments:

Equity-settled share-based payments	480	126
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Cash-settled share-based payments	108	247
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	588	373
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Operating lease rental expenses:

Minimum lease payments	1,110	1,435
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4 Discontinued operations

The Document Management Group was de-merged on 4 August 2017 into an independent company and the shares admitted to trading on the AIM market of the London Stock Exchange.

On 16 November 2017 Reckon Limited announced that it had reached agreement to sell its Accountant Practice Management Division to MYOB for \$180m subject only to receiving regulatory approval from both the ACCC and NZCC. The transaction is anticipated to complete in the second quarter of 2018.

	Consolidated	
	2017	2016
	\$'000	\$'000
Revenue	41,396	48,076
Expenses	(32,126)	(38,934)
Sale costs expensed	(1,606)	-
Attributable interest expense	(853)	(1,019)
Profit before tax	6,811	8,123
Attributable income tax expense	(1,394)	(1,589)
Profit from discontinued operations attributable to owners of the parent	5,417	6,534
Net cash inflows from operating activities	5,495	4,209
Net cash outflows from operating activities	(455)	(270)
	5,041	3,939

5 Assets classified as held for sale

Trade and other receivables	2,820	-
Inventories – finished goods	40	-
Other assets	2,041	-
Financial assets	196	-
Property, plant and equipment	262	-
Intangible assets	38,552	-
Assets classified as held for sale	43,911	-
Trade and other payables	640	-
Provisions	1,549	-
Deferred revenue	287	-
Deferred tax liabilities	2,921	-
Liabilities directly associated with assets classified as held for sale	5,397	-

As described in note 4, the Group plans to dispose of its Accountant Practice Management Division and anticipates that this disposal will be completed in the second quarter of 2018.

6 Income Tax

Consolidated
2017 **2016**
\$'000 **\$'000**
Restated

(a) Income tax expense recognised in profit and loss

Current tax	1,367	1,082
Deferred tax	(743)	(15)
Under /(over) provided in prior years	(55)	18
	569	1,085

(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

Profit before income tax	2,780	5,543
Income tax expense calculated at 30% of profit	834	1,663
Tax Effect of:		
Effect of lower tax rates on overseas income	(18)	(107)
Tax effect of non-deductible/non-taxable items:		
Research and development claims	(225)	(431)
Sundry items	33	(58)
	624	1,067
Under/(over) provision in prior years	(55)	18
Income tax expense attributable to profit	569	1,085

The tax rate used for the 2017 and 2016 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:

Tax losses:		
Revenue	-	-
Capital	1,770	2,098
	1,770	2,098

7 Remuneration of Auditors

Consolidated
2017 **2016**
\$ \$

(a) Deloitte Touche Tohmatsu

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

Auditing and reviewing of financial reports	235,424	233,427
Tax compliance and other consulting services	64,476	154,218
	299,900	387,645

(b) Other Auditors

Auditing and reviewing of financial reports	31,162	70,239
Tax compliance services	78,841	154,896
	110,003	225,135
	409,903	612,780

Consolidated
2017 **2016**
\$'000 **\$'000**

8 Trade and Other Receivables

Current:

Trade receivables (i)	5,990	8,934
Allowance for doubtful debts	(211)	(315)
	5,779	8,619
Other receivables	1,411	1,721
	7,190	10,340

Non current:

Trade receivables	-	53
Other receivables	40	60
	40	113

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

Past due 0-30 days	163	1,010
Past due 31-60 days	281	416
Past due 61+ days	1,196	1,124
	1,640	2,550

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

Balance at beginning of the year	315	311
Amounts written off during the year	(69)	(88)
Transferred to assets classified as held for sale	(112)	-
Increase/(reduction) in allowance recognised in the profit and loss	77	92
	211	315

9 Other Assets

	Consolidated	
	2017	2016
	\$'000	\$'000
Current:		
Prepayments	1,124	1,967
Other	-	635
	<u>1,124</u>	<u>2,602</u>
Non current:		
Prepayments	47	199
Other	86	1,955
	<u>133</u>	<u>2,154</u>

10 Property, Plant And Equipment

Leasehold Improvements

At cost	1,641	2,920
Less: Accumulated amortisation	(1,356)	(2,528)
Total leasehold improvements	<u>285</u>	<u>392</u>

Plant and equipment

At cost	6,159	10,685
Less: Accumulated depreciation	(5,212)	(8,625)
Total plant and equipment	<u>947</u>	<u>2,060</u>
	<u>1,232</u>	<u>2,452</u>

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Consolidated			
Carrying amount at 1 January 2017	392	2,060	2,452
Additions	129	557	686
Effect of foreign currency exchange differences	(21)	(75)	(96)
Transferred to assets classified as held for sale	(47)	(215)	(262)
De-merger of Document Management Group	(61)	(491)	(552)
Depreciation/amortisation expense	(107)	(889)	(996)
Balance at 31 December 2017	<u>285</u>	<u>947</u>	<u>1,232</u>

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Consolidated			
Carrying amount at 1 January 2016	292	2,193	2,485
Additions	251	1,062	1,313
Depreciation/amortisation expense	(151)	(1,195)	(1,346)
Balance at 31 December 2016	<u>392</u>	<u>2,060</u>	<u>2,452</u>

11 Deferred Tax Assets

Consolidated
2017 **2016**
\$'000 **\$'000**

The balance comprises temporary differences attributable to:

Recoverable losses	-	772
Doubtful debts	9	12
Employee benefits	58	99
Other provisions	343	65
	<u>410</u>	<u>948</u>

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

Reconciliation:

Opening balance at 1 January	948	193
De-merger of Document Management Group	(259)	-
Charged (credited) to profit or loss	(279)	755
Balance at 31 December	<u>410</u>	<u>948</u>

12 Intangibles

Intellectual property – at cost (i)	10,359	21,535
Accumulated amortisation	(9,923)	(15,438)
	<u>436</u>	<u>6,097</u>
Development costs – at cost	55,128	116,068
Accumulated amortisation	(33,745)	(76,225)
	<u>21,383</u>	<u>39,843</u>
Goodwill – at cost	<u>2,568</u>	<u>49,617</u>
	<u>24,387</u>	<u>95,557</u>

(i) The intellectual property carrying amount comprises of customer contracts of \$436 thousand (2016: \$1,876 thousand), brand names of \$nil (2016: \$562 thousand) and other intellectual property of \$nil (2016: \$3,659 thousand). The amounts amortised in the current year in respect of continuing operations for customer contracts was \$436 thousand, brand names \$nil and other intellectual property \$25 thousand.

Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified based on how the businesses are managed and reported on and taking into account the use of shared resources, as follows:

Accountants Group	-	25,765
Legal Group	2,568	2,738
Document Management Division	-	21,114
	<u>2,568</u>	<u>49,617</u>

The recoverable amount of a CGU is determined based on value-in-use calculations or fair value. Management has based the value in use calculations on the most recently completed board approved budget for the forthcoming one year (2018) period. Subsequent cash flows are projected using constant long term average growth rates of 3% per annum. An average post-tax discount rate of 9.4% (2016: 9.7%) (pre-tax rate: 13.9%) reflecting assessed risks associated with CGU's has been applied to determine the present value of future cash flow projections for all CGU's. No impairment write-offs have been recognised during the year (2016: nil). Sensitivity analysis performed indicates that if a change in EBITDA reflected in the models were to decrease by up to 15% for the respective CGU's, there would be no impairment.

Consolidated movements in intangibles

	Goodwill	Intellectual Property	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2017	49,617	6,097	39,843	95,557
Additions	-	-	17,264	17,264
Effect of foreign currency exchange differences	(1,923)	42	67	(1,814)
Transferred to assets classified as held for sale	(25,765)	(12)	(12,775)	(38,552)
De-merger of Document Management Group	(19,361)	(3,925)	(5,401)	(28,687)
Amortisation charge	-	(1,766)	(17,615)	(19,381)
At 31 December 2017	2,568	436	21,383	24,387
At 1 January 2016	51,157	4,128	34,018	89,303
Additions	-	-	22,961	22,961
Acquisitions	2,155	5,096	-	7,251
Effect of foreign currency exchange differences	(3,695)	(749)	(267)	(4,711)
Disposals	-	-	(858)	(858)
Amortisation charge	-	(2,378)	(16,011)	(18,389)
At 31 December 2016	49,617	6,097	39,843	95,557

Consolidated
2017 **2016**
\$'000 **\$'000**

13 Borrowings

Current:

Bank overdraft (i)	-	791
Hire purchase liabilities	-	145
	-	936

Non-current:

Bank borrowings (i)	50,606	51,506
Hire purchase liabilities	-	112
	50,606	51,618

(i) The consolidated entity has increased its bank facilities to \$73 million during the year. The facility comprises variable rate bank overdraft facilities, loan facilities, and bank guarantee and transactional facilities. The loan facilities and \$1m of the bank overdraft facility expires in August 2019 and the remaining facilities are subject to annual review expiring in April 2018. The facility is secured over the Australian, New Zealand and United Kingdom net assets. Reckon has partially hedged the bank borrowings – refer note 14.

2017

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

	Bank overdraft \$'000	Loan facility \$'000	Bank guarantee and transaction facility \$'000
Available	2,000	66,000	4,710
Used	-	50,606	3,121
Unused	2,000	15,394	1,589

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

0-12 months	-	-	3,121
2-5 years	-	50,606	-

Weighted average interest rate	5.1%	3.1%	-
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14 Other financial assets/(liabilities)

Consolidated
2017
\$'000

2016
\$'000

Current:

Loans receivable

2,254 632

Non-current:

Derivative that is designated and effective as a hedging instrument carried at fair value (i)

136 133

(i) This balance represents an interest rate swap. To reduce the fair value risk of changing interest rates, the Group has entered into a pay-floating receive-fixed interest rate swap. The swap's notional principal is \$25 million and represents 50% of the bank borrowings outstanding at 31 December 2017. The swap reduces to \$24m in August 2018 and then matures in July/August 2019. The fixed interest rate is 3.38%, and interest rate swaps are settled monthly or quarterly. Within the context of AASB 7, this is classified as a level 2 fair value measurement being derived from inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly.

15 Provisions

Current:

Employee benefits – annual leave

704 1,639

Employee benefits – long service leave

1,085 1,576

1,789 3,215

Non-current:

Employee benefits – long service leave

187 347

Employee benefits – long term incentive

948 494

1,135 841

16 Deferred Tax Liabilities

Consolidated
2017 **2016**
\$'000 **\$'000**

The temporary differences are attributable to:

Doubtful debts	(69)	(36)
Employee benefits	(1,676)	(1,590)
Sales returns and volume rebates	(9)	(10)
Deferred revenue	(480)	(568)
Difference between book and tax value of non-current assets	6,845	11,120
Other provisions	(2,136)	(1,498)
	<hr/>	<hr/>
	2,475	7,418

Details of unrecognised deferred tax assets can be found in Note 6(c)

Reconciliation:

Opening balance at 1 January	7,418	6,678
Transferred to liabilities directly associated with assets classified as held for sale	(2,921)	-
De-merger of Document Management Group	(1,000)	-
Charged (credited) to profit or loss	(1,022)	740
	<hr/>	<hr/>
Balance at 31 December	2,475	7,418

17 Parent Entity Disclosures

	Parent	
	2017	2016
	\$'000	\$'000
Financial position		
Assets		
Current assets	6,086	7,856
Assets classified as held for sale	42,626	-
Non-current assets	29,616	100,473
	<u>78,328</u>	<u>108,329</u>
Liabilities		
Current liabilities	6,470	9,148
Liabilities directly associated with assets classified as held for sale	5,024	-
Non-current liabilities	44,773	44,599
	<u>56,267</u>	<u>53,747</u>
Equity		
Share capital	19,459	18,707
Share buyback reserve	(42,018)	(42,018)
Swap hedging reserve	136	133
Share based payments reserve	396	668
Acquisition of non-controlling interest reserve	(1,657)	(1,657)
Foreign currency translation reserve	(438)	(277)
Retained earnings	46,183	79,026
	<u>22,061</u>	<u>54,582</u>
Financial performance		
Profit for the year from continuing operations	(1,411)	1,687
Profit for the year from discontinued operations	2,641	10,389
Other comprehensive income from continuing operations	(158)	(671)
Total comprehensive income	<u>1,072</u>	<u>11,405</u>
Capital commitments for the acquisition of property, plant and equipment		
Not longer than 1 year	<u>-</u>	<u>-</u>

Other

Reckon Limited assets have been used as security for the bank facilities set out in note 13.

The parent entity has no contingent liabilities.

18 Employee Benefits

Long-term incentive plan

The long-term incentive plan presently comprises two possible methods of participation: the grant of equity under a performance share plan; or cash payments under a share appreciation plan. The board has discretion to make offers to applicable employees to participate in these plans. Performance shares offered (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. 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.

From 2011 onwards performance shares may also be offered with longer term vesting periods. The single vesting condition is that participants must remain employed for the term required. To achieve 100% vesting employees must remain in employment for an effective 10 years from the date of the initial offer.

The share appreciation rights plan represents an alternative remuneration element (to offering 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 the share price at the end of the performance period is greater than at the beginning of the performance period. The performance criteria for the rights to vest are fixed by the board in the exercise of its discretion. At present these are the same as the TSR target set for performance shares to vest and the same sliding scale applies.

For the performance period 2015-2017 the remuneration committee changed the benchmark against which the TSR target is measured for both the performance share plan and the share appreciation rights plan. The comparator group of companies has been jettisoned and replaced by the company's TSR performance measured against the performance of the ASX 300 Index over the performance period. Shares or rights will vest at the end of the performance period depending on the company's average TSR over the period relative to the average TSR of the ASX 300 Index. The percentage of shares or rights vested is determined by the proportional difference in these two results.

From the performance period 2016-2018 onwards the benchmark was changed again. There are two performance criteria that must be met. The first is achievement of budgeted earnings per share growth (EPS) over the performance period. The second is a comparison of the company's total shareholder return over the performance period measured against the change in the S&P/ASX 300 Accumulation Index (iTSR) over the performance period. The criteria carry equal weighting, except for the first year in the performance period 2016-2018 of the performance period, where EPS is given 100% weighting to account for share price volatility attributable to speculation (in late 2015 and early 2016) rather than the fundamental behaviour of the company. Vesting against both criteria occurs on a sliding scale. In the case of EPS 75% of entitlements vest if the target EPS is achieved and 100% of entitlement will vest on achievement of 110% of target EPS, on a sliding scale capped at 100% of entitlement. In the case of iTSR 75% of entitlements vest if the target iTSR is achieved, 100% of entitlements will vest on achievement of 100% of target iTSR, and a prorata vesting occurs between 100% and 110% of target iTSR capped at 110%.

No options were issued during the year (2016: Nil).

1,135,000 (2016: 1,087,500) senior executive rights, nil (2016: nil) appreciation rights and nil (2016: nil) performance shares, were issued during the year. The fair value of senior executive rights issued in 2017 was \$1.30, using a model that adopts the Monte Carlo simulation approach. The assumptions used in this model are: grant date share price of \$1.59; expected volatility of 33.1%; dividend yield of 3.1%; and a risk free rate of 2.0%. The expense recognised in 2017 for the rights/performance shares was \$588 thousand (2016: \$373 thousand).

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	
			2017	2016	2017	2016	2017*	2016
Jan'14	Dec'16	101,696	-	47,521	-	44,909	-	-
Jan'15	Dec'17	121,239	921	11,047	4,603	-	95,554	99,145
Jan'11	Dec'17	112,500	268	-	8,982	-	69,250	76,250
Jan'12	Dec'18	127,500	1,590	3,750	7,660	-	81,625	87,500
Jan'13	Dec'19	296,250	23,679	8,750	44,821	-	182,500	242,500
Jan'14	Dec'20	101,250	21,179	12,500	21,571	-	38,875	78,750
Jan'15	Dec'21	37,500	6,429	10,000	3,571	-	8,250	17,500

*Shares/rights granted have been adjusted to compensate for the Document Management Group de-merger.

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	
			2017	2016	2017	2016	2017	2016
Jan'14	Dec'16	590,625	-	590,625	-	-	-	-
Jan'15	Dec'17	747,036	-	-	-	-	747,036	747,036

Senior Executive 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	
			2017	2016	2017	2016	2017*	2016
Jan'16	Dec'18	1,087,500	170,417	-	183,333	-	802,250	1,087,500
Jan'16	Dec'18	1,135,000	288,333	-	65,417	-	840,750	-

*Shares/rights granted have been adjusted to compensate for the Document Management Group de-merger.

Short-term incentive plan

Each annual budget fixes a pool of cash representing a total potential amount in which the relevant employees can share if short term performance conditions are met.

The performance period for the short term incentive plan is one year. However, approximately one third of the payment will only be made if the employee remains in employment for a further one year period after the performance period.

The performance conditions are budgeted targets set for revenue, EBITDA and earnings per share. Actual performance is measured on a sliding scale from 90% to 110% against the budgeted performance of the group to determine the extent to which incentives are paid. The incentive is paid on a sliding scale. Below 90% no incentive is paid. Between 90% and 110% a pro rata increase is paid, capped at 110%. There is an overlap of earnings per share as a performance condition for the long term incentive and the short term incentive.

19 Issued Capital

Fully Paid Ordinary Share Capital	2017		2016	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	113,294,832	20,524	112,084,762	18,842
Dividend re-investment plan	-	-	1,210,070	1,682
Balance at end of financial year	113,294,832	20,524	113,294,832	20,524
Less Treasury shares				
Balance at beginning of financial year	795,539	1,817	840,448	1,913
Shares purchased in current period	-	-	-	-
Lapsed shares utilised	3,327	-	-	-
Shares vested	(339,959)	(752)	(44,909)	(96)
Balance at end of financial year	458,907	1,065	795,539	1,817
Balance at end of financial year net of treasury shares	112,835,925	19,459	112,499,293	18,707

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 nil shares were bought back.

No options were exercised during the year.

The Group implemented a dividend re-investment plan in 2016. 1,210,070 shares were issued on 6 April 2016 under this plan.

20 Reserves

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(f).

(b) Swap hedging reserve

The swap hedging reserve represents the cumulative gains or losses arising on changes in the fair value of hedging instruments entered into. These gains or losses will be reclassified to profit or loss only when the hedged transaction affects profit or loss.

(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.

21 Earnings Per Share

	Consolidated	
	2017	2016
	cents	cents
Basic earnings per share – continuing and discontinued operations	6.8	9.8
Diluted earnings per share – continuing and discontinued operations	6.6	9.6
Basic earnings per share – continuing operations	2.0	4.0
Diluted earnings per share – continuing operations	1.9	3.9
Weighted average number of ordinary shares used in the calculation of basic earnings per share	112,835,924	112,217,898
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	114,937,832	114,064,937

Earnings used in the calculation of earnings per share for continuing and discontinued operations is \$7,628 thousand (2016: \$10,992 thousand). Earnings used in the calculation of earnings per share for continuing operations is \$2,211 thousand (2016: \$4,458 thousand).

22 Contingent Liabilities

There are no material contingent liabilities as at 31 December 2017 (2016: Nil).

23 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$nil as at 31 December 2017 (2016: \$nil).

(b) Lease Commitments

Operating Leases

	Consolidated	
	2017	2016
	\$'000	\$'000
Within 1 year	2,069	2,426
Later than 1 year and not longer than 5 years	9,286	3,491
Later than 5 years	2,082	269
	13,437	6,186

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.

Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2017 %	2016 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
Reckon Australia Pty Limited	Australia	100	100
Reckon Limited Performance Share Plan Trust	Australia	100	100
Reckon New Zealand Pty Limited	New Zealand	100	100
Reckon Accountants Group Pty Limited	Australia	100	100
Reckon Accountants Group Limited	New Zealand	100	100
Reckon One Limited	United Kingdom	100	100
Reckon Docs 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
Reckon Software Limited (formerly Linden House Software Limited)	United Kingdom	-	100
Smartvault Corporation	United States of America	-	100
Reckon Accounts Pte Limited	Singapore	100	100

All shares held are ordinary shares.

25 Notes to the Statement of Cash Flows

Consolidated
2017 **2016**
\$'000 **\$'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)	1,958	1,715
Bank overdraft	-	(791)
	<u>1,958</u>	<u>924</u>

(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	7,628	10,992
Depreciation and amortisation of non-current assets	20,275	19,557
Payment for capitalised development costs	(18,165)	(24,167)
Proceeds from New Zealand government development grant	1,003	1,384
Non-cash employee benefits expense – share based payment	480	126
Profit on sale of business	-	(392)
Increase/(decrease) in current tax liability/asset	931	1,631
Increase/(decrease) in deferred tax balances	(743)	(15)
Unrealised foreign currency translation amount	248	154
(Increase)/decrease in assets net of acquisitions:		
Current receivables	(1,269)	(330)
Current inventories	(44)	(320)
Other current assets	30	(699)
Non-current receivables	73	55
Non-current other	(66)	(787)
Increase/(decrease) in liabilities net of acquisitions:		
Current trade payables	(475)	613
Other current liabilities	(684)	(437)
Other non-current liabilities	429	182
	<u>9,651</u>	<u>7,547</u>
Net cash inflow from operating activities	9,651	7,547

	2017	2016
	\$'000	\$'000

(c) Business acquired

Smartvault Corporation

Reckon Limited acquired Smartvault Corporation effective 1 January 2016. Smart Vault is a cloud based document management business located in the USA.

Consideration:

Cash paid	-	5,628
Cash acquired	-	(211)
Debt acquired	-	368
	<hr/>	<hr/>
Cash	-	5,785
	<hr/> <hr/>	<hr/> <hr/>

Consideration:

Receivables	-	430
Intellectual property – development and software	-	5,096
Fixed assets	-	421
Trade payables	-	(654)
Deferred revenue	-	(1,663)
Goodwill	-	2,155
	<hr/>	<hr/>
	-	5,785
	<hr/> <hr/>	<hr/> <hr/>

Smartvault Corporation contributed \$4 million of revenue in 2016.

26 Dividends – ordinary shares

Final dividend for the year ended 31 December 2016 of 3 cents (2015: 3 cents) per share unfranked paid on 10 March 2017. \$1,682 thousand of the 2015 dividend was re-invested via the dividend re-investment plan.

3,375	3,338
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Dividend in specie arising from the de-merger of the Document Management Division effective 4 August 2017.

26,506	-
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No interim dividend for the year ended 31 December 2017 was paid (2016: 2 cents) paid.

-	2,249
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<hr/> 29,881	<hr/> 5,587
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Franking credits available for subsequent financial years based on a tax rate of 30% (2016: 30%)

<hr/> 614	<hr/> 11
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27 Financial Instruments

(a) 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, liquidity risk and cash flow interest rate risk.

(b) 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 \$1,958 thousand were held by the consolidated entity at the reporting date, attracting an average interest rate of 0.78% (2016: 0.77%). Interest bearing borrowings by the consolidated entity at the reporting date were \$50,606 thousand (2016: \$52,554 thousand). Interest rate risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of interest rate swap contracts. Variable rate borrowings during the year attracted an average interest rate of 5.1% (2016: 5.3%) on overdraft facilities and 3.1% on loan facilities (2016: 2.8%). 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 \$251 thousand (2016: \$253 thousand).

Hedging activities are evaluated to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The maturity profile for the consolidated entity's cash (\$1,958 thousand) that is exposed to interest rate risk is one year, and interest bearing borrowings (\$50,606 thousand) that are exposed to interest rate risk, and the interest rate swap is two years. On the assumption that interest bearing borrowings and variable interest rates remain at the current level, the annual interest costs are expected to be \$1.65 million.

Further details are set out in note 14.

(c) 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.

(d) Foreign Currency Risk

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 foreign currency exposures due to outstanding foreign currency denominated items. 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.

(e) Liquidity

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

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.

Further details are set out in notes 13 and 14.

(f) 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.

(g) Fair Value

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.