Directors' Report

The directors of Reckon Limited submit herewith the financial report of Reckon Limited and it's subsidiaries (the Group) for the half year ended 30 June 2021. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of the company's directors in office during or since the end of the half-year are as follows:

Greg Wilkinson
Clive Rabie
Phil Hayman
Sam Allert

Review of Operations

Overview of financial performance for the half-year:

Reckon Limited ("Reckon" or the "Company") (ASX: RKN) is pleased to report very strong financial and operational performance for the six-month period ended 30 June 2021 (H1 CY2021).

- Normalised revenue is up 2.4% on the previous corresponding period (PCP) to $37.5m[1] – 88% of revenue is recurring from subscriptions
- Normalised EBITDA is up 7.1% on the PCP to $16.7m[1]
- Normalised NPAT is up 18.6% on the PCP to $5.4m[1]
- Fully franked interim dividend of $0.03 per share
- Net debt is down to $13m following the sale of ReckonDocs and ongoing cost control measures ($17m reduction)
- $10m invested in cloud-based product development – multiple new products to launch in second half
- Accountants Group returned to revenue growth for the first time since 2016
- Business Group achieves fourth consecutive half year of revenue growth

Note 1: Non-IFRS - Growth has been normalised and is for continuing businesses and on a constant currency basis as set out in the Additional Information table. This applies to all results in this report.

Net Profit After TAX (NPAT) was $5.4m, an 18.6% uplift on the previous corresponding period (PCP). Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) was $16.7m, a 7.1% uplift on the PCP. This was driven by continuing uptake of the Company's cloud-based products, particularly through the Business Group, and shows the strong ongoing profitability of Reckon.

Revenue for the half year was $37.5m, this represents a 2.4% increase on the PCP, with subscription revenue accounting for 88% of total revenue. This further highlights Reckon's stable recurring revenue base, led by cloud-user growth across the group.

Reckon significantly strengthened its balance sheet in the half year, reducing debt by $17m to $13m through the sale of the ReckonDocs business and a continued focus on capital management. Given the ongoing growth in profitability and strengthened balance sheet, the Company has continued to reward shareholders with a fully franked dividend of $0.03 per share, payable on 22 September 2021 for shareholders on the register at 25 August 2021.

Investment in the development of new cloud-based products continued during the period, with the Company investing $10m in development during the half year. Many of these new products are expected to launch during the current period and support customer acquisition and retention across all business groups.

Segment performance:

Business Group
- Revenue increased by 5% to $21.3m in H1 CY2021
- Results highlight the fourth consecutive half year of growth
- EBITDA increased to $11.6m highlighting an 8% increase over PCP
- Cloud revenue up by 8% on PCP, representing 53% of the divisions HY revenue
- Cloud users reached 106,000 showing annualised user growth of 22%
- Continued growth across our cloud and mobile payroll solutions with new invoice and timesheet mobile apps expected to launch during H2 CY2021

Practice Management – Accountants Group

- Revenue increased by 1% to $11.34m in H1 CY2021
- EBITDA up 3% to 6.3m on H1 CY2020
- APS product suite remains entrenched across major accounting firms
- Cloud workflow product adoption commenced with 1,724 users onboarded
- Additional cloud modules scheduled for release in coming months with these new products expected to widen the addressable market for this group
- Sale of ReckonDocs business for $13m allowed the Company to reduce debt and continue cloud-based product transition

Practice Management – Legal Group

- Recovery from the effects of COVID-19 witnessed during second half of period
- Strong sales pipeline building for existing suite of products and new cloud modules
- Collection Q - First cloud practice management module launched
- Investment in development and sales capability continuing – allowing the Company to increase footprint in the US and underpin growing market share
- US subsidiary of group secured a $1.2m loan under CARES act, which may be forgivable if the use of funds meets certain criteria. Applications for forgiveness to be lodged shortly and is expected to be booked during H2 CY2021 if applicable

	HY21 ($m)	HY20 ($m)	Growth
Revenue			
Revenue from continuing operations at constant currency (Non-IFRS)	37.5	36.6	2.4%
Discontinued operations	0.8	2.3	
Currency impact[a]	-	0.9	
Reported revenue	38.3	39.8	
EBITDA			
EBITDA from continuing operations at constant currency (Non-IFRS)	16.7	15.6	7.1%
Discontinued operations	0.3	1.3	
Transaction costs and acquisition related non-cash treasury share expense[b]	(0.6)	-	
Currency impact[a]	-	0.2	
Reported EBITDA	16.4	17.1	
NPAT			
NPAT from continuing operations at constant currency (Non-IFRS)	5.4	4.6	18.6%
Transaction costs and acquisition related non-cash treasury share expense[b]	(0.4)	-	
Discontinued operations	0.1	0.7	
Currency impact[a]	-	0.1	
Reported NPAT	5.1	5.4	

Notes:

a. Currency impact represents the difference in translation of HY21 and HY20 for transactions denominated in foreign currency.

b. Comprises transaction costs for continuing operations as set out in note 2 and the treasury share expense as set out in note 12.

Rounding of amounts to the nearest thousand dollars

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports), Instrument 2016/191 dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Auditor's independence declaration

We have obtained an independence declaration from our auditors, Deloitte Touche Tohmatsu, which is attached to these financial statements.

Signed in accordance with a resolution of the directors, made pursuant to s.306(3) of the Corporations Act 2001.

On behalf of the directors

Greg Wilkinson
Chairman

Sydney, 10 August 2021

Condensed Consolidated Statement of Profit or Loss for the half-year ended 30 June 2021

	Note	Half-year 30 June 2021 $'000	30 June 2020 $'000
Continuing operations			
Revenue from sale of goods and rendering of services	**3**	**37,544**	**37,507**
Product costs		(3,679)	(3,562)
Employee benefits expenses		(12,800)	(12,536)
Share-based payments expenses		(626)	(122)
Marketing expenses		(1,471)	(1,865)
Premises and establishment expenses		(378)	(377)
Telecommunications		(206)	(261)
Other expenses		(2,111)	(3,023)
Transaction costs		(160)	-
Depreciation and amortisation		(9,042)	(9,107)
Finance costs		(485)	(676)
Profit before income tax		**6,586**	**5,978**
Income tax expense		(1,551)	(1,314)
Profit for the half-year from continuing operations		**5,035**	**4,664**
Profit from discontinued operations	2, 13	106	692
Profit for the half-year		**5,141**	**5,356**
Profit attributable to:			
Owners of the parent		5,368	5,356
Non-controlling interest		(227)	-
		5,141	**5,356**
Earnings per share		cents	cents
Basic earnings per share		4.7	4.7
Diluted earnings per share		4.6	4.6
Earnings per share from continuing operations		cents	cents
Basic earnings per share		4.6	4.1
Diluted earnings per share		4.5	4.0
Earnings per share from discontinued operations		cents	cents
Basic earnings per share		0.1	0.6
Diluted earnings per share		0.1	0.6

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

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income for the half-year ended 30 June 2021

	Half-year 30 June 2021 $'000	30 June 2020 $'000
Profit for the half-year	**5,141**	**5,356**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Fair value movement on interest rate swap	151	287
Exchange differences on translation of net asset values of foreign operations	156	(244)
	307	43
Total comprehensive income	**5,448**	**5,399**
Total comprehensive income attributable to:		
Owners of the parent	5,675	5,399
Non-controlling interest	(227)	-
	5,448	**5,399**

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

Condensed Consolidated Statement of Financial Position
as at 30 June 2021

	Note	June 2021 $'000	December 2020 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		1,801	1,134
Trade and other receivables	8	3,640	4,315
Inventories		827	1,075
Current tax receivables		858	865
Other financial assets		16	131
Other assets		1,605	1,629
Total Current Assets		8,747	9,149
Non-Current Assets			
Trade and other receivables	8	11	45
Property, plant and equipment		2,040	1,922
Deferred tax assets		51	50
Intangible assets	14	55,714	65,732
Other assets		156	186
Right of use assets		5,025	5,960
Total Non-Current Assets		62,997	73,895
Total Assets		71,744	83,044
LIABILITIES			
Current Liabilities			
Trade and other payables		4,862	4,213
USA Cares Act Loan	10	1,202	-
Provisions		3,200	2,902
Current tax payables		-	-
Contract liabilities		5,283	5,551
Lease liabilities		1,721	1,831
Total Current Liabilities		16,268	14,497
Non-Current Liabilities			
Trade and other payables		1,137	1,093
Borrowings	6	14,549	31,788
Deferred tax liabilities		5,421	4,963
Provisions		247	278
Other financial liabilities		106	257
Lease liabilities		3,969	4,789
Total Non-Current Liabilities		25,429	43,168
Total Liabilities		41,697	57,665
NET ASSETS		30,047	25,379
EQUITY			
Issued capital	4	20,524	20,524
Reserves		(49,174)	(49,653)
Retained earnings		57,632	54,508
Equity attributable to owners of the parent		28,982	25,379
Non-controlling interest		1,065	-
TOTAL EQUITY		30,047	25,379

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

Condensed Consolidated Statement of Changes in Equity for the half-year ended 30 June 2021

	Issued capital $'000	Share buy back reserve $'000	Foreign currency translation reserve $'000	Share-based payments reserve $'000	Acquisition of non-controlling interest reserve $'000	Swap hedging reserve $'000	Retained earnings $'000	Non-controlling interest $'000	Total $'000
Total equity at 1 January 2021	**20,524**	**(42,018)**	**(1,905)**	**679**	**(6,152)**	**(257)**	**54,508**	**-**	**25,379**
Profit for the half-year	-	-	-	-	-	-	5,368	(227)	5,141
Fair value movement on interest rate swap	-	-	-	-	-	151	-	-	151
Exchange differences on translation of net asset values of foreign operations	-	-	156	-	-	-	-	-	156
Total Comprehensive Income for the half year	-	-	156	-	-	151	5,368	(227)	5,448
Dividends paid	-	-	-	-	-	-	(2,266)	-	(2,266)
Non-controlling interest at date of acquisition (note 12)	-	-	-	-	-	-	-	853	853
Vested shares (note 4)	-	-	-	(43)	-	-	22	-	(21)
Share based payments expense	-	-	-	215	-	-	-	439	654
Total equity at 30 June 2021	**20,524**	**(42,018)**	**(1,749)**	**851**	**(6,152)**	**(106)**	**57,632**	**1,065**	**30,047**
Total equity at 1 January 2020	**20,524**	**(42,018)**	**(2,025)**	**545**	**(6,152)**	**24**	**50,172**	**-**	**21,070**
Profit for the half-year	-	-	-	-	-	-	5,356	-	5,356
Fair value movement on interest rate swap	-	-	-	-	-	287	-	-	287
Exchange differences on translation of net asset values of foreign operations	-	-	(244)	-	-	-	-	-	(244)
Total Comprehensive Income for the half year	-	-	(244)	-	-	287	5,356	-	5,399
Dividends paid	-	-	-	-	-	-	(2,266)	-	(2,266)
Vested shares released to retained earnings	-	-	-	(136)	-	-	136	-	-
Surplus treasury shares released to retained earnings	-	-	-	-	-	-	129	-	129
Share based payments expense	-	-	-	144	-	-	-	-	144
Total equity at 30 June 2020	**20,524**	**(42,018)**	**(2,269)**	**553**	**(6,152)**	**311**	**53,527**	**-**	**24,476**

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

Condensed Consolidated Statement of Cash Flows
for the half-year ended 30 June 2021

	Note	Half-year 30 June 2021 $'000	30 June 2020 $'000
Cash Flows From Operating Activities			
Receipts from customers		42,380	44,635
Payments to suppliers and employees		(24,152)	(25,219)
Payment for capitalised development costs		(9,800)	(9,763)
Interest paid		(369)	(534)
Income tax paid		(1,132)	(1,221)
Net cash inflow from operating activities		6,927	7,898
Cash Flows From Investing Activities			
Payment for property, plant and equipment		(520)	(245)
Net proceeds from sale of business	13	12,892	-
Cash balance on acquisition of subsidiary	12	613	-
Net decrease/(increase) in loans receivable		115	702
Net cash inflow from investing activities		13,100	457
Cash Flows From Financing Activities			
Dividends paid		(2,266)	(2,266)
Proceeds from/(payment) for treasury shares		(21)	129
Payments for lease liabilities capitalised under AASB16		(1,052)	(1,085)
Proceeds from USA Cares Act loan	10	1,202	1,219
Repayment of borrowings	6	(17,239)	(4,804)
Net cash outflow from financing activities		(19,376)	(6,807)
Net Increase in Cash and Cash Equivalents		**651**	**1,548**
Cash and cash equivalents at the beginning of the half-year		1,134	1,124
Effects of exchange rate changes on cash and cash equivalents		16	(8)
Cash and Cash Equivalents at the end of the half-year		1,801	2,664

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

Notes to the Condensed Consolidated Financial Statements for the half-year ended 30 June 2021

Note 1. Basis of preparation of half-year report

This general purpose financial report for the interim half year ended 30 June 2020 has been prepared in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

This interim financial report does not include all of the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2020 and any public announcements made by Reckon Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments. All amounts are presented in Australian dollars.

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the directors' report in the half year financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

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

Amendments to Accounting Standards and new Interpretations that are mandatory effective from the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period. There has been no impact on the Group results as a result of theses new Standards.

COVID-19 Impact

The Reckon Group has again displayed its resilience, by continuing to post growth in these extraordinary times. This is despite revenue growth being hampered by COVID-19 in the Legal Group in the first quarter in particular, where there is a reliance on on-site sales and installation activity.

No impairment of assets is considered necessary.

The impact of the COVID-19 pandemic is ongoing and it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions, lockdowns and any economic stimulus that may be provided.

Note 2: Segment information

Primary segments

	Business Group $'000	Practice Management Accountants Group $'000	Practice Management Legal Group $'000	Continuing operations Group $'000	Discontinued operations Group $'000	Consolidated Group $'000
Half-year 2021						
Segment revenue	**21,319**	**11,370**	**4,855**	**37,544**	**771**	**38,315**
Segment EBITDA	**11,582**	**6,280**	**(98)**	**17,764**	**369**	**18,133**
Depreciation and amortisation	(3,875)	(3,590)	(1,577)	(9,042)	(126)	(9,168)
Total segment profit before tax	**7,707**	**2,690**	**(1,675)**	**8,722**	**243**	**8,965**
Central administration costs				(1,491)	-	(1,491)
Transaction costs				(160)	(92)	(252)
Finance costs				(485)	-	(485)
Profit before tax				**6,586**	**151**	**6,737**
Income tax expense				(1,551)	(45)	(1,596)
Profit for the half-year				**5,035**	**106**	**5,141**
Half-year 2020						
Segment revenue	**20,356**	**11,310**	**5,841**	**37,507**	**2,276**	**39,783**
Segment EBITDA	**10,689**	**6,102**	**784**	**17,575**	**1,370**	**18,945**
Depreciation and amortisation	(4,154)	(3,135)	(1,818)	(9,107)	(382)	(9,489)
Total segment profit before tax	**6,535**	**2,967**	**(1,034)**	**8,468**	**988**	**9,456**
Central administration costs				(1,814)	-	(1,814)
Finance costs				(676)	-	(676)
Profit before tax				**5,978**	**988**	**6,966**
Income tax expense				(1,314)	(296)	(1,610)
Profit for the half-year				**4,664**	**692**	**5,356**

The revenue reported above represents revenue generated from external customers.

Segment profit represents the profit earned by each segment without allocation of central administration costs, finance costs and income tax expense, all of which are allocated to Corporate head office. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessing performance.

The 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 Accountants Group - development, distribution and support of practice management, tax, client accounting and related software and services under the APS and Elite brands, and up to 28 February 2021, the ReckonDocs brand.

Practice Management Legal Group - development, distribution and support of cost recovery, cost management, scan and cloud based integration platforms under the nQ Zebraworks brand predominantly to the legal market.

Discontinued operations relate to the ReckonDocs business sold during the half year. Details of the transaction are set out in note 13.

Note 3. Revenue

Reckon generates revenue from the following revenue streams:

Primary segments		Revenue recognition	Business Group $'000	Practice Management Accountant Group $'000	Practice Management Legal Group $'000	Consolidated Group $'000
Half-year 2021						
Segment operating revenue:						
Subscription revenue	Bundled license, support, hosting and implementation	Over time	-	11,140	-	11,140
	Licence, support and hosting	Over time	5,011	-	3,993	9,004
	Licence	Point in time	13,734	-	-	13,734
Other recurring revenue	Support	Over time	19	-	-	19
	Licence	Point in time	715	-	-	715
Loan income	Interest and commission	Over time	87	-	-	87
Other revenue	Membership support	Over time	326	-	-	326
	Membership fees - licence	Point in time	1,093	-	-	1,093
	Licence and implementation	Point in time	-	230	862	1,092
	Other	Point in time	334	-	-	334
Continuing operations			**21,319**	**11,370**	**4,855**	**37,544**
Discontinued operations	Subscription revenue	Over time	-	25	-	25
	Corporate services	Point in time	-	746	-	746
Total revenue			**21,319**	**12,141**	**4,855**	**38,315**
Half-year 2020						
Segment operating revenue:						
Subscription revenue	Bundled license, support Hosting and implementation	Over time	-	11,141	-	11,141
	Licence, support and hosting	Over time	4,629	-	4,698	9,327
	Licence	Point in time	12,975	-	-	12,975
Other recurring revenue	Support	Over time	26	-	-	26
	Licence	Point in time	913	-	-	913
Loan income	Interest and commission	Over time	163	-	-	163
Other revenue	Membership support	Over time	397	-	-	397
	Membership fees - licence	Point in time	1,093	-	-	1,093
	Licence and implementation	Point in time	-	169	1,143	1,312
	Other	Point in time	160	-	-	160
Continuing operations			**20,356**	**11,310**	**5,841**	**37,507**
Discontinued operations	Subscription revenue	Over time	-	106	-	106
	Corporate services	Point in time	-	2,170	-	2,170
Total revenue			**20,356**	**13,586**	**5,841**	**39,783**

Note 4. Issued capital

113,294,832 shares were in issue at 30 June 2021 and at 31 December 2020.

25,625 treasury shares (2020: 92,163) were purchased in the current period for $22 thousand.

25,625 treasury shares (2020: 228,036) vested in the current period valued at $43 thousand.

	Half-year 30 June 2021 $'000	30 June 2020 $'000

Note 5. Dividends

Ordinary shares

	30 June 2021 $'000	30 June 2020 $'000
Dividends paid during the half-year	2,266	2,267

Dividends not recognised at the end of the half-year

	30 June 2021 $'000	30 June 2020 $'000
In addition to the above dividends, since the end of the half-year the directors have recommended the payment of an interim dividend of 3 cents per fully paid ordinary share (2020: 3 cents). The dividend will be fully franked. The aggregate amount of the proposed dividend expected expected to be paid on 22 September 2021 out of the retained profits at 30 June 2021, but not recognised as a liability at the end of the half-year, is	3,399	3,399

Note 6. Borrowings

The Group has bank facilities in place to August 2022. The facility comprises variable rate bank overdraft facilities, loan facilities and bank guarantee and transactional facilities and totals $40million. The facility is secured over the Australian and New Zealand assets. Reckon has partially hedged the bank borrowings.

The proceeds from the sale of the ReckonDocs business were used to reduce borrowings, and as a result bank facilities were reduced from $50million to $40million during the half year.

Note 7. Fair value of financial instruments

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets, is determined with reference to quoted market prices. The fair value of other financial assets and liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable market transactions. The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives and option pricing models. The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised costs in the financial statements approximate their fair value.

Note 8. Trade and other receivables

	30 June 2021 $'000	December 2020 $'000
Current		
Trade receivables	3,471	4,213
Expected credit loss	(180)	(463)
Other receivables	349	565
	3,640	4,315
Non-Current		
Trade receivables	11	35
Other receivables	-	10
	11	45

Note 9. Working capital deficiency

The condensed consolidated statement of financial position indicates an excess of current liabilities over current assets of $7,521 thousand (December 2020: $5,348 thousand). This arose partly due to adoption of AASB 16, whereby right of use assets are treated as non-current assets, whereas a portion of lease liabilities are treated as current liabilities, and the receipt of a Cares Act loan in the USA of $1,202 thousand, which could be forgiven. Also, included in current liabilities are contract liabilities of $5,283 thousand, settlement of which will involve substantially lower cash outflows. Based on the forecast profitability and the positive operating cashflow of the Group, the directors are confident of the Group's ability to continue as a going concern.

	30 June 2021 $'000	December 2020 $'000
Note 10. USA Cares Act Loan	1,202	-

The Legal Group in the USA has received another loan under the "CARES" Act. This was received as part of the USA stimulus package to assist small businesses during the COVID-19 crisis. The loan maybe forgiven if the use of the loan meets certain criteria, which includes retaining our USA employees. Applications for forgiveness are expected to be lodged in the second half, and if successful, the forgiveness will be booked as grant income. The directors have assessed that at balance date, the group had not satisfied the recognition criteria of grant income under the Australian Accounting Standards and accordingly, the balance was classified as loans payable at balance date. The loan received in 2020 was forgiven in 2020.

Note 11. Key management personnel

Remuneration arrangements of key management personnel are disclosed in the annual financial report. STI and vested shares in respect of the 2020 year were paid/released in the half year. No STI has been paid or shares vested in respective of the 2021 year during the half year.

Surplus GetBusy shares arising from the de-merger of GetBusy in 2017 and valued at $194 thousand were sold to Mr Clive Rabie at market value during the prior year.

Note 12. Legal Group acquisition

The acquisition of Zebraworks Inc was concluded during the half year, and is effective from 1 February 2021. A new Legal Group USA holding company, nQueue Zebraworks Inc., was established and Zebraworks Inc. and the existing Legal Group were merged into this new structure.

Zebraworks is a SaaS start-up building an integration platform to move legal practices to the cloud. Reckon Limited owns 70% of the new venture, with Zebraworks shareholders (mainly management) owning 30%. Attaching to a portion of these shares are clawback provisions for certain members of management should they leave within three years. These shares are considered treasury shares of nQueue Zebraworks Inc. until such time as they vest. Vesting occurs in tranches over a three year period. Management have the opportunity to progressively increase their shareholding by 15% of total issued capital if certain KPI's are met by 2027. The KPI's include revenue targets and product release targets.

Trading results for the merged entity are as set out in note 2, and movements in the non-controlling interest are as set out in the condensed consolidated statement of changes in equity.

	30 June 2021 $'000	December 2020 $'000
Net assets acquired:		
Cash	613	-
Fixed assets	13	-
Other assets	2	
Goodwill	225	-
	853	-
Non-controlling interest at acquisition comprised:		
Non-cash consideration transferred	2,462	-
Treasury shares issued	(1,609)	-
	853	-

The initial accounting for the acquisition has only been provisionally determined at the half year. At the date of finalisation of this half year financial report, the necessary valuation of the fair value of the assets acquired and consideration paid had not yet been finalised, and hence the value of these assets has only been provisionally determined based on the best estimate of the likely fair value of these assets.

The value of the nQueue Zebraworks Inc. treasury shares issued has also been provisionally determined, for the same reasons. An expense of $439 thousand has been incurred in the half year in respect of these shares.

Had the acquisition been effected at 1 January 2021 there would have been no further impact on the results for the half year.

	30 June 2021 $'000	December 2020 $'000

Note 13. Disposal of ReckonDocs business

The ReckonDocs business was sold to Class Limited effective 1 March 2021.

To-date the funds have been used to reduce debt.

The trading results for this business for the half year are as set out in note 2. The business contributed revenue of $4,713 thousand and EBITDA of $2,900 thousand for the full year in 2020.

	30 June 2021 $'000	December 2020 $'000
Net assets sold:		
Goodwill	11,124	-
Development costs	1,540	-
Trade debtors	476	-
Inventory	8	-
Provisions	(107)	-
	13,041	-
Proceeds on sale comprise:		
Cash settlement from Class Limited	12,473	-
Collection of trade receivables	509	-
	12,982	-

Note 14. Intangible assets

	30 June 2021 $'000	December 2020 $'000
Goodwill		
Balance at the beginning of the period	29,107	29,347
Additions (note 12)	225	-
Disposals (note 13)	(11,124)	-
Effect of foreign currency exchange differences	66	(240)
	18,274	29,107
Intellectual property	27	39
Development costs	37,413	36,586
Total intangible assets	55,714	65,732

Note 15. Subsequent events

There are no subsequent events.

Note 16. Contingent liability

Reckon received notification from Microsoft relating to Reckon customers' use of certain limited functionality of Reckon Accounts Hosted, and assertions of indirect usage of Microsoft Office within Reckon Accounts Hosted. The notification is at a preliminary stage and Microsoft has not yet provided sufficient detail or explained the legal basis for the issues raised. Based on the information received to date, Reckon considers it is in compliance with its licensing arrangements with Microsoft. This matter is disclosed as a contingent liability and given the status of it, it is not possible to provide a range of possible outcomes or a reliable estimate of potential future exposures for Reckon at this time.

Directors' Declaration

The directors declare that:

in the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 30 June 2021 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) complying with accounting standards

(b) there are reasonable grounds to believe that Reckon Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the Directors

Greg Wilkinson
Chairman

Sydney, 10 August 2021

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

The Board of Directors
Reckon Limited
Level 2, 100 Pacific Highway
North Sydney NSW 2060

10 August 2021

Dear Board Members

Independence Declaration Reckon Limited

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

As lead audit partner for the review of the half year financial report of Reckon Limited for the half year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely,

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

Tara Hill
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

Phone: +61 2 9322 7000
www.deloitte.com.au

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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Reckon Limited (the "Company"), and its subsidiaries (the "Group"), which comprises the condensed consolidated statement of financial position as at 30 June 2021, and the condensed consolidated statement of profit or loss, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 1 to 2.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001.*

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 Review of a *Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Group in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's review report.

Directors' Responsibilities for the Half-year Financial Report

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

Deloitte.

Auditor's Responsibilities for the Review of the Half-year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 30 June 2021 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tara Hill
Partner
Chartered Accountants

Sydney, 10 August 2021