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**Preliminary Final Report**
**Financial Year Ended 31 December 2003**


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***Results for announcement to the market***

	31 Dec 2003 \$'000	31 Dec 2002 \$'000	% Change
Revenue from ordinary activities	24,699	23,540	4.9%
Profit from ordinary activities after tax attributable to members	5,349	2,274	135.2%
Net Profit attributable to members	5,349	2,274	135.2%

The revenue for the first half of 2002 included an additional \$1.8 million as a result of a change in accounting policy for the recognition of revenue. A comparison of revenues after allowing for this show an increase of 13.6% in revenues over the corresponding period last year.

The effective life of the QuickPOS product has been extended by 2 years as from 1 January 2003. In addition, the goodwill relating to the Cashbook acquisition is being amortised over 5 years (as opposed to the previously adopted 3 years). The effect of the change in accounting estimate of the effective life of these products has increased profit before tax reported in the current period by \$621,969

The increase in profit over the last year of \$3.1 million or 135% is even more significant after allowing for the change in accounting policy for the recognition of revenue. The change increased the profit for 2002 by \$1.002 million meaning that we have moved from a comparative profit of \$1.272 million to a profit of \$5.349 million – an increase of 321%.

**Return of Capital:**

At the Annual General Meeting the Board of Directors will put to the shareholders a special resolution approving the payment of a return of capital of \$0.03 (three cents) per share, with all shares treated equally. The record date for determining

entitlements is proposed to be 2 June 04. The Annual General Meeting is proposed to be held on 25 May 2004.

**Dividends:**

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

**Audit:**

This report is based on accounts which are in the process of being audited. It is not considered likely that any audit qualification will arise.

**Other information:**

**Net Tangible Assets per Security**

The Net Tangible Assets per Security as at 31 December 2003 are 12.6 cents per share (2002 9.6 cents per share).

A handwritten signature in black ink, appearing to read 'Geoff Tomlinson', written in a cursive style.

Geoff Tomlinson  
Chairman  
Reckon Limited

4 March 2004

## Directors' Report

The directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2003.

### Board of Directors

#### **Geoff Tomlinson BEc**

*age 56, Non-Executive Chairman*

Geoff Tomlinson is Chairman of Programmed Maintenance Services Limited, Funtastic Limited and was Chairman of Neverfail Springwater Limited (resigned 1 September 2003). He is Deputy Chairman of Hansen Technologies Limited and is a director of Amcor Limited, Mirrabooka Investments Limited and National Australia Bank Limited.

#### **Greg Wilkinson**

*age 48, Chief Executive Officer*

Greg Wilkinson has 19 years experience in the computer software industry. Greg entered the industry in the early 1980s in London where he managed Caxton Software, which became one of the UK's leading software publishers. Greg co-founded Reckon in 1987, and since that time has been the Chief Executive Officer.

#### **Phil Hayman**

*age 45, Executive Director*

Phil Hayman co-founded Reckon in 1987 with Greg Wilkinson. Until November 2000, Phil had spent 12 years as the company's Finance Director during its start-up and growth phases. In February 2001, Phil rejoined the company as its Logistics Manager.

#### **John Thame AAIBF FCPA**

*age 62, Non-Executive Director*

John Thame has over 30 years' experience in the retail financial services industry. He was Managing Director of Advance Bank Limited from 1986 until it merged with St George Bank Limited in January 1997 and held a variety of senior positions in his career with Advance. John was Chairman of the Trust Company of Australia Limited (retired 17 July 2003), is Chairman of Abacus Property Trust Group Limited, Director of St George Bank Limited and AWB Limited. John is Chairman of the Board's Audit Committee.

#### **Fred Tinker**

*age 50, Non-Executive Director*

Fred Tinker has been with Intuit for 8 years and is currently the Director of Corporate Alliances. Intuit Inc has licensed to Reckon the rights to localise, manufacture and distribute the Quicken range of personal and financial management software and also the rights to the [www.quicken.com.au](http://www.quicken.com.au) website. Fred currently manages this relationship and has previously held several Financial positions, including Director of International Finance, Director of Financial Planning and Analysis and CFO of VFSC, an internal start up at Intuit. Fred spent the previous 12.5 years at Apple Computer in various financial management roles. The last 4 was spent at Claris, the software subsidiary of Apple Computer, where he last was the Vice President of Finance.

### Principal Activities

Reckon Limited's principal activity remains the developing, distributing and support of personal financial and accounting software. Specifically Reckon develops, markets and supports the Quicken range of software under licence from Intuit Inc, a leading US based software house. Intuit's annual development cost is approximately US\$200 million per year.

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## Review of Operations

Overview of financial performance:

	2003	2002
	\$'000	\$'000
Revenue	24,699	23,540
Net Profit (Loss)	5,349	2,274

Total revenues for the year represent a 5% improvement on 2002.

The net profit of \$5,349 million represents a 135% improvement on the net profit for 2002.

## The Future

In January 2004, Reckon acquired the Australian, New Zealand and United Kingdom operations of Advanced Professional Solutions ("APS"). While Reckon will continue to focus on its existing business, it is expected that the acquisition of the APS businesses will add significant commercial and competitive advantage by the addition of new revenue streams from the existing APS markets and by expanding Reckon's market into the to date unexploited lower end of the existing APS markets.

Market growth for 2004 is expected to continue on the same trend as for 2003. The company will continue to pursue improving recurring revenues from the Advantage programme and sales of subscription products.

Reckon will look to increase its market share in the small business space.

The relationship with Intuit remains well cemented with the more than satisfactory royalty returns it received.

We continue to enjoy the unprecedented benefit of its investment in development. Significantly Reckon can derive the benefit of an ever-increasing range of products developed by Intuit.

## Share Buy-Back Scheme

The share buy back scheme approved by the board in November 2002 lapsed on 31 December 2003. No shares were bought back.

## Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that outlined above or referred to in the Financial Statements or notes thereto. The agreement for the acquisition of APS was signed on 22 December 2003 with completion on 29 January 2004.

## Matters Subsequent to the End of the Financial Year

Subsequent to the end of the financial year:

- Conditions for the completion of the acquisition of the APS businesses were fulfilled on 29 January 2004.
- On 29 January 2004, the company issued the following shares as part consideration for the acquisition of the APS companies:
  - 6,896,552 shares issued unconditionally; 862,069 shares held in escrow subject to a holding lock to be released only upon attainment of performance goals to be met by 31 December 2004; and
  - 862,069 shares held in escrow subject to a holding lock to be released only upon attainment of performance goals to be met by 30 June 2005.
- 9,167 options in the Executive Share Option Plan No. 2 have lapsed and 40,500 options have been exercised with an average exercise price of \$0.1705.

No other matter or circumstance has arisen since 31 December 2003 that has significantly affected, or may significantly affect:

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

## Future Developments

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

## Dividends

No dividends have been paid or declared since the start of the financial year and the directors do not recommend the payment of a dividend in respect of the financial year.

## Return of Capital

On 4 March 2004, the Board resolved to put to the shareholders a special resolution approving the payment of a return of capital of \$0.03 (three cents) per share, with all shares treated equally. The special resolution will be put to shareholders at the Annual General Meeting on 25 May 2004 for approval. Full details of the recommendation will be included in the notice to the AGM.

## Directors' Shareholdings

As at the date of this report, the directors held the following shares and options in Reckon Limited. All options were granted under the Executive Share Option Plan.

Name of Director	Shares	Options (i)
Greg Wilkinson	16,668,438	~
Phil Hayman	9,000,000	~
Geoff Tomlinson	400,000	~
John Thame	20,000	~
Fred Tinker	-	~

(i) Each option entitles the holder to purchase one ordinary share in Reckon Limited. Details of the terms and conditions of these options are disclosed in Note 17 to the financial statements.

## Directors' and Executives' Remuneration

The Constitution of the Company provides that the directors are entitled to such remuneration as the directors determine, but the remuneration of non-executive directors must not exceed in aggregate a maximum amount fixed by the Company in general meeting for that purpose.

Remuneration packages contain the following key elements:

- Salary and bonuses
- Benefits – including the provision of superannuation and health benefits
- Incentive schemes – share options issued under the Option Plans as disclosed in Note 17 to the financial statements.

The following table discloses the remuneration of the directors of the Company and the five highest remunerated executives of the Company.

Name	Office	Salary and			Total
		Bonus	Benefits	Options	
		\$	\$	\$	\$
Greg Wilkinson	Executive Director	430,802	31,701	-	462,503
Phillip Hayman	Executive Director	113,400	13,926	-	127,326
Geoff Tomlinson	Non-Executive Director	56,063	5,046	-	61,109
John Thame	Non-Executive Director	37,382	3,364	-	40,746
Fred Tinker	Non-Executive Director	-	-	-	-
Myron Zlotnick	Legal Counsel & Company Secretary	128,066	10,626	-	138,692
Clive Rabie	Chief Operating Officer	367,200	25,200	-	392,400
John Gleeson	Call Centre Manager	149,996	12,600	-	162,596
Glenn Roberts	National Sales Manager	125,769	10,082	-	135,851
Phillip Henry	Marketing Manager	118,751	9,788	-	128,539
Steve Batten	Product Manager	107,498	8,775	-	116,273

### Indemnification of Officers and Auditors

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

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

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

### Directors' Meetings

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

Reckon Limited - Attendance tables				
Directors	Meetings			
	Board		Audit Committee	
	A	B	A	B
GA Tomlinson	10	9	2	2
GJ Wilkinson	10	10	-	-
PR Hayman	10	9	-	-
JM Thame	10	10	2	2
F Tinker	10	10	-	-
<b>Key:</b> A – number of meetings eligible to attend B - number of meetings attended				

## Rounding of Amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, and in accordance with that Class Order, amounts in the directors' report and the financial statements have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to Section 298 of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to be 'G Tomlinson', written in a cursive style.

Mr G Tomlinson  
Chairman

Sydney, 4 March 2004

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# Reckon Limited

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## Directors' Declaration

The directors declare that the financial statements and notes set out on pages 7 to 29:

- comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

This declaration is made in accordance with a resolution of the directors.

On behalf of the Directors



Mr G Tomlinson  
Chairman

Sydney, 4 March 2004

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**Statement of Financial Performance  
for the Financial Year Ended 31 December 2003**

	Note	Consolidated		Parent	
		2003	2002	2003	2002
		\$'000	\$'000	\$'000	\$'000
Revenue from ordinary activities	2	24,699	23,540	24,552	23,408
Product costs		(1,838)	(2,858)	(1,838)	(2,857)
Royalties		(2,911)	(3,046)	(2,911)	(3,046)
Employee benefits expense		(7,305)	(7,587)	(7,305)	(7,587)
Employee related expenses		(401)	(363)	(401)	(363)
Marketing expenses		(2,690)	(2,169)	(2,690)	(2,169)
Premises and Establishment expenses		(1,209)	(636)	(1,209)	(636)
Depreciation and amortisation		(898)	(1,669)	(670)	(1,565)
Telecommunications		(465)	(489)	(465)	(489)
Legal and Professional expenses		(505)	(643)	(505)	(643)
Other expenses from ordinary activities		(1,129)	(1,808)	(1,139)	(1,781)
<b>Profit from ordinary activities before income tax expense</b>		<b>5,348</b>	<b>2,272</b>	<b>5,419</b>	<b>2,272</b>
Income tax relating to ordinary activities	3	-	-	-	-
<b>Net profit</b>		<b>5,348</b>	<b>2,272</b>	<b>5,419</b>	<b>2,272</b>
<b>Net loss attributable to outside equity interest</b>		<b>1</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Net profit attributable to members of the parent entity</b>	19	<b>5,349</b>	<b>2,274</b>	<b>5,419</b>	<b>2,272</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>5,349</b>	<b>2,274</b>	<b>5,419</b>	<b>2,272</b>
<b>Basic Earnings per Share</b>	20	Cents 4.2	Cents 1.8		
<b>Diluted Earnings per Share</b>	20	4.1	1.8		

Notes to the financial statements are included on pages 10 to 29.

**Statement of Financial Position**  
**as at 31 December 2003**

	Note	Consolidated		Parent	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Current Assets</b>					
Cash assets	25	15,372	12,074	15,372	11,851
Receivables	8	2,092	1,278	2,098	1,293
Inventories	7	277	207	277	207
Other	9	295	175	295	174
<b>Total Current Assets</b>		<b>18,036</b>	<b>13,734</b>	<b>18,042</b>	<b>13,525</b>
<b>Non-Current Assets</b>					
Receivables	8	139	-	139	-
Other financial assets	10	271	414	1,239	693
Property, plant and equipment	11	408	819	408	813
Other	12	1,337	-	1,337	-
Intangible assets	13	1,335	698	669	500
<b>Total Non-Current Assets</b>		<b>3,490</b>	<b>1,931</b>	<b>3,792</b>	<b>2,006</b>
<b>Total Assets</b>		<b>21,526</b>	<b>15,665</b>	<b>21,834</b>	<b>15,531</b>
<b>Current Liabilities</b>					
Payables	14	2,336	1,760	2,336	1,749
Provisions	15	468	199	468	200
Other	16	1,082	1,012	1,082	1,012
<b>Total Current Liabilities</b>		<b>3,886</b>	<b>2,971</b>	<b>3,886</b>	<b>2,961</b>
<b>Non-Current Liabilities</b>					
Payables	14	-	-	814	453
Provisions	15	33	44	33	44
<b>Total Non-Current Liabilities</b>		<b>33</b>	<b>44</b>	<b>847</b>	<b>497</b>
<b>Total Liabilities</b>		<b>3,919</b>	<b>3,015</b>	<b>4,733</b>	<b>3,458</b>
<b>Net Assets</b>		<b>17,607</b>	<b>12,650</b>	<b>17,101</b>	<b>12,073</b>
<b>Equity</b>					
Contributed equity	18	50,020	50,411	50,020	50,411
Accumulated losses	19	(32,410)	(37,759)	(32,919)	(38,338)
Total parent entity interest		17,610	12,652	17,101	12,073
Outside equity interest in controlled entities	26	(3)	(2)	-	-
<b>Total Equity</b>		<b>17,607</b>	<b>12,650</b>	<b>17,101</b>	<b>12,073</b>

Notes to the financial statements are included on pages 10 to 29.

**Statement of Cash Flows**  
**for the Financial Year ended**  
**31 December 2003**

	Note	Consolidated		Parent	
		Inflows/(Outflows)		Inflows/(Outflows)	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Cash Flows From Operating Activities</b>					
Receipts from customers		25,717	22,867	25,576	22,711
Payments to suppliers and employees		(20,718)	(20,882)	(20,718)	(20,861)
Interest received		685	472	682	469
Net cash provided by operating activities	25(d)	5,684	2,457	5,540	2,319
<b>Cash Flows From Investing Activities</b>					
Payment for purchase of controlled entity, net of cash acquired	25(b)	-	-	-	(3)
Payments for purchase of intellectual property		(323)	(3)	(323)	-
Payment for property, plant and equipment		(110)	(219)	(110)	(219)
Decrease of loans to related parties		-	-	367	(12)
Proceeds from disposal of other financial assets		128	-	128	-
Deposit for acquisition of controlled entity		(1,000)	-	(1,000)	-
Security deposits released		-	34	-	34
Net cash used in investing activities		(1,305)	(188)	(938)	(200)
<b>Cash Flows From Financing Activities</b>					
Proceeds from issues of equity securities		198	-	198	-
Return of capital to shareholders		(1,279)	-	(1,279)	-
Net cash used in financing activities		(1,081)	-	(1,081)	-
<i>Net Increase In Cash Held</i>		3,298	2,269	3,521	2,119
<i>Cash At The Beginning Of The Financial Year</i>		12,074	9,805	11,851	9,732
<i>Cash At The End Of The Financial Year</i>	25(a)	15,372	12,074	15,372	11,851

Notes to the financial statements are included on pages 10 to 29.

## Notes to the Financial Statements for the Financial Year Ended 31 December 2003

### 1. Summary of Accounting Policies

#### *Financial Reporting Framework*

The general purpose financial report has been prepared in accordance with the *Corporations Act 2001*, applicable Accounting Standards and Urgent Issues Group Consensus Views.

The financial report has been prepared in accordance with the historical cost convention and except where noted, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

#### *Significant Accounting Policies*

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) *Trade Payables*

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

(b) *Acquisition of Assets*

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

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

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

(c) *Capital Gains Tax*

No provision has been made for capital gains tax which may arise in the event of sale of revalued assets as no decision has been made to sell any of those assets.

(d) *Depreciation and Amortisation*

Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis. Leasehold improvements are amortised over 5 years or the estimated useful life, whichever is the shorter, using the straight-line method. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	3 - 5 years
Leasehold improvements	5 years

(e) *Employee Benefits*

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

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

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

(f) *Financial Instruments Issued by the Consolidated Entity*

Transaction Costs on the Issue of Equity Instruments

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

Interest and Dividends

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

(g) *Foreign Currency*

All foreign currency transactions during the financial year have been brought to account 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 statement of financial performance in the period in which they arise.

(h) *Goods and Services Tax*

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

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

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

(i) *Intangible assets and expenditure carried forward*

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is amortised on a straight line basis over the period during which the benefits are expected to arise

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

Change in accounting estimate for the amortisation of intellectual property

In the current period the consolidated entity reassessed the expected life of two of its intangible assets. The effective life of QPOS has been extended by 5 years effective 1 January 2003. The effective life of Cashbook has been extended by 2 years effective 1 January 2003. The effect of the change in accounting estimate of the effective life of these products has increased profit before tax reported in the current period by \$621,969

(j) *Income Tax*

Tax-effect accounting principles have been adopted whereby income tax expense or benefit has been calculated on pre-tax accounting profits or losses after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The future tax benefits related to tax losses and timing differences are not carried forward as an asset (refer note 3).

(k) *Inventories*

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

(l) *Investments*

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

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

(m) *Leased Assets*

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

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

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

Surplus Leased Space

In the event that premises leased by the consolidated entity pursuant to a non-cancellable operating lease are identified as surplus to the needs of the consolidated entity, a liability and expense are recognised equal to the present value of the total expected outlay relating to the surplus space as specified under the lease agreement net of any non-cancellable sub lease income relating to those premises.

(n) *Principles of Consolidation*

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in accounting standard AASB 1024 "Consolidated Accounts". A list of controlled entities appears in note 23 to the financial statements. Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

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

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

(o) *Receivables*

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

(p) *Recoverable Amount of Non-Current Assets*

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds its recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(q) *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.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest and Other Revenue

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

(r) *Research and Development Costs*

Research and development costs are recognised as an expense when incurred.

(s) *Comparative Figures*

Where necessary, prior year comparatives have been reclassified in order to facilitate more meaningful comparisons.

(t) *Deferred Revenue*

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

(u) *Earnings per share*

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

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

shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares

(v) *Equity – based compensation benefits*

Equity-based compensation benefits are provided to employees via the Employee Option Plan. Information relating to this scheme is set out in note 17.

No accounting entries are made in relation to the Employee Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of directors and executives in notes 4 and 5 include the assessed fair values of options at the date they were granted.

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>2. Profit from Ordinary Activities</b>				
Profit from ordinary activities before income tax includes the following items of revenue and expense:				
<b>Operating Revenue</b>				
Sales revenue:				
Sale of goods	23,371	22,583	23,371	22,583
<b>Non-Operating Revenue</b>				
Other income	556	485	411	356
Interest revenue – Other entities	644	472	642	469
Proceeds from sale of other financial assets	128	-	128	-
	<u>1,328</u>	<u>957</u>	<u>1,181</u>	<u>825</u>
	<u>24,699</u>	<u>23,540</u>	<u>24,552</u>	<u>23,408</u>
<b>Expenses</b>				
Cost of Sales	4,650	5,904	4,650	5,903
Net provision for doubtful debts in respect of amounts receivable from: Other Entities	31	(221)	31	(236)
Net transfers to/(from) provisions:				
Sales returns	194	11	194	11
Sales rebates	55	36	55	36
Surplus lease space	(23)	(867)	(23)	(867)
Employee entitlements	83	192	83	192
Depreciation of non-current assets:				
Property, plant and equipment	384	876	378	871
Amortisation of non-current assets:				
Leasehold improvements	137	194	137	194
Intellectual property	377	599	155	500
Inventory write-downs and other losses	25	(50)	25	(50)
Loss on disposal of fixed assets	-	472	-	472
Research and Development costs	2,048	2,396	2,048	2,396
Operating lease rental expenses:				
Minimum lease payments	952	950	952	950

Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

### 3. Income Tax

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

	5,348	2,272	5,419	2,272
<b>Profit from Ordinary Activities</b>				
Income tax expense calculated at 30% of profit from ordinary activities	1,604	682	1,626	682
<b>Tax Effect Of Permanent Differences:</b>				
Sundry non-deductible items	117	288	50	238
Income tax adjusted for permanent differences	1,721	970	1,676	920
Benefit of tax losses of prior years recouped	(1,721)	(970)	(1,676)	(920)
Timing differences and tax losses not brought to account as future tax benefits (note 3(b))	-	-	-	-
Income tax attributable to profit/(loss) from ordinary activities	-	-	-	-

- (b) Future income tax benefits not brought to account as an asset:

Tax losses:				
Revenue	5,117	6,711	2,816	4,364
Capital	2,447	2,575	2,447	2,575
Timing differences	488	327	488	316
	8,052	9,613	5,751	7,255

The future income tax benefits of tax losses and timing differences not brought to account will only be obtained if:

- assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Consolidated		Parent	
2003	2002	2003	2002
\$	\$	\$	\$

#### 4. Directors' Remuneration

The directors of Reckon Limited during the year were:

- G. Tomlinson
- G. Wilkinson
- P. Hayman
- J. Thame
- F. Tinker

Income paid or payable, or otherwise made available, to directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities.

691,684	573,887	691,684	573,887
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Directors' remuneration excludes insurance premiums paid by the parent entity in respect of directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individual directors and officers. The amount of the premiums has not been disclosed as in accordance with normal commercial terms, this is prohibited by the policy. Information relating to the insurance contracts is set out in the directors report.

The number of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

	No.	No.	No.	No.
\$ 0 - \$ 9,999	1	2	1	2
\$ 40,000 - \$ 49,999	1	1	1	1
\$ 60,000 - \$ 69,999	1	1	1	1
\$100,000 - \$109,999	-	1	-	1
\$120,000 - \$129,999	1	-	1	-
\$410,000 - \$419,999	-	1	-	1
\$460,000 - \$469,999	1	-	1	-

No options were issued to directors during the year

#### 5. Executives' Remuneration (including executive directors)

Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian-based executive officers (including directors) whose remuneration was at least \$ 100,000:

Executive officers of the parent entity:	1,766,033	1,586,966	1,766,033	1,586,966
Executive officers of other entities in the consolidated entity				
	<u>1,766,033</u>	<u>1,586,966</u>	<u>1,766,033</u>	<u>1,586,966</u>

The number of executives whose remuneration falls within each successive \$10,000 band of income (commencing at \$100,000).

	No.	No.	No.	No.
\$100,000 - \$109,999	-	3	-	3
\$110,000 - \$119,999	1	-	1	-
\$120,000 - \$129,999	2	2	2	2
\$130,000 - \$139,999	2	-	2	-
\$150,000 - \$159,999	-	1	-	1
\$160,000 - \$169,999	1	-	1	-
\$330,000 - \$339,999	-	1	-	1
\$360,000 - \$369,999	-	1	-	1
\$390,000 - \$399,999	1	-	1	-
\$460,000 - \$469,999	1	-	1	-
	Consolidated		Parent	
	2003	2002	2003	2002
	\$	\$	\$	\$

## 6. Remuneration of Auditors

During the year, the auditors of the parent entity and its related practices earned the following remuneration:

### (a) *Horwath Sydney Partnership*

Auditing and reviewing of financial reports	67,648	60,227	62,648	60,227
Advice in relation to acquisitions	47,486	-	47,486	-
Advice in relation to research and development tax concessions	-	54,030	-	53,730
Other non-audit advisory services	8,648	13,020	8,373	10,560
	<u>123,782</u>	<u>127,277</u>	<u>118,507</u>	<u>124,517</u>

### (b) *Deloitte Touche Tohmatsu*

Auditing and reviewing of financial reports	-	10,343	-	8,146
Other Services	-	1,100	-	1,100
	<u>-</u>	<u>11,443</u>	<u>-</u>	<u>9,246</u>

Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

## 7. Inventories

Finished goods:				
At net realisable value	<u>277</u>	<u>207</u>	<u>277</u>	<u>207</u>

Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

## 8. Receivables

Current:				
Trade receivables	2,142	1,291	2,132	1,264
Provision for doubtful debts	(86)	(54)	(86)	(26)
	<u>2,056</u>	<u>1,237</u>	<u>2,046</u>	<u>1,238</u>
Non-trade receivables due from wholly owned subsidiary	-	-	16	21
Other Receivables	36	41	36	34
	<u>2,092</u>	<u>1,278</u>	<u>2,098</u>	<u>1,293</u>
Non current:				
Trade receivables	139	-	139	-

## 9. Other Assets

Prepayments	151	175	151	174
Security deposits	144	-	144	-
	<u>295</u>	<u>175</u>	<u>295</u>	<u>174</u>

## 10. Other Financial Assets

Security deposits	271	414	252	394
Shares in controlled entities - at cost (note 23)	-	-	987	299
	<u>271</u>	<u>414</u>	<u>1,239</u>	<u>693</u>

## 11. Property, Plant And Equipment

### Leasehold Improvements

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
At cost	640	640	640	640
Less: Accumulated amortisation	482	345	482	345
Total leasehold improvements	158	295	158	295

### Plant and equipment

At cost	2,558	2,447	2,543	2,432
Less: Accumulated depreciation	2,308	1,923	2,293	1,914
Total plant & equipment	250	524	250	518
	408	819	408	813

### Reconciliations

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

	Leasehold Improvements	Plant and Equipment	Total
	\$'000	\$'000	\$'000
<b>Consolidated</b>			
Carrying amount at 31 December 2002	295	524	819
Additions	-	110	110
Disposals	-	-	-
Depreciation/amortisation expense	(137)	(384)	(521)
Balance at 31 December 2003	158	250	408
<b>Parent entity</b>			
Carrying amount at 31 December 2002	295	518	813
Additions	-	110	110
Disposals	-	-	-
Depreciation/amortisation expense	(137)	(378)	(515)
Balance at 31 December 2003	158	250	408

## 12. Non-Current Assets – Other

Deposits and other costs in relation to the acquisition of a subsidiary (refer note 30)

1,337	-	1,337	-
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## 13. Intangibles

Intellectual property – at cost	3,385	2,373	2,398	2,074
Accumulated amortisation	(2,050)	(1,675)	(1,729)	(1,574)
	1,335	698	669	500

Aggregate amortisation allocated during the year is recognised as an expense and disclosed in note 2 to the financial statements

**14. Payables**

Current:

Trade payables and sundry accruals

Employee benefits (Note 17)

Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000
1,778	1,254	1,778	1,253
558	506	558	496
<u>2,336</u>	<u>1,760</u>	<u>2,336</u>	<u>1,749</u>
Non-Current:		Unsecured loans from related parties	
-	-	814	453

Loans from related parties are non-interest bearing with no fixed terms of repayment

**15. Provisions**

Current:

Sales returns, volume rebates

Cost of surplus leased premises

Employee benefits (Note 17)

327	77	327	77
46	47	46	47
95	75	95	76
<u>468</u>	<u>199</u>	<u>468</u>	<u>200</u>

Non Current:

Cost of surplus leased premises

Employee benefits (Note 17)

-	22	-	22
33	22	33	22
<u>33</u>	<u>44</u>	<u>33</u>	<u>44</u>

**Movement in provisions**

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

	Sales returns, volume rebates	Cost of surplus leased premises	Total
	\$'000	\$'000	\$'000
Consolidated and parent – 2003			
Carrying amount at the start of the year	77	69	146
Additional provisions recognised	250	24	274
Released to statement of financial performance	-	(47)	(47)
Carrying amount at the end of the year	<u>327</u>	<u>46</u>	<u>373</u>

**16. Other Liabilities**

Current:

Deferred revenue

1,082	1,012	1,082	1,012
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Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

## 17. Employee Benefits

The aggregate employee benefit liability recognised and included in the financial statements is as follows:

	Consolidated		Parent	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Accrued annual leave:				
Current (Note 14)	558	506	558	496
Provision for long service leave:				
Current (Note 15)	95	75	95	76
Non-current (Note 15)	33	22	33	22
	<u>686</u>	<u>603</u>	<u>686</u>	<u>594</u>

### Employee Numbers

	Consolidated		Parent	
	2003	2002	2003	2002
Average number of employees during the financial year	118	130	118	130

### Reckon Limited Employee Option Plans

The company has two ownership-based remuneration schemes:

#### Executive share option plan

The Reckon Limited Executive Share Option Plan was established prior to the listing of the Company in July 1999 and was fully disclosed in the Company's prospectus. Under the provisions of the plan, the Directors may grant free options over unissued shares in the Company to executives and directors of the Company (or their associates) or subsidiaries of the Company selected by the Directors from time to time, subject to the ASX Listing Rules and the *Corporations Act 2001*. Options issued under this plan terminate five years from the date of issue. Each option entitles the holder to one ordinary share.

Options are granted for a five-year period and 33.33% of each new tranche becomes exercisable after each of the first three anniversaries of the grant date, subject to the achievement of predetermined performance criteria. The entitlements are vested as soon as they are exercisable (ie they are not conditional on future employment). Each option entitles the holder to one ordinary share.

Set out below are summaries of options granted under the Executive Share Option Plan.

Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options available at the end of the year	
				2003	2002	2003	2002	2003	2002
19/7/99	18/7/04	\$1.05	2,380,000	-	998,335	-	-	-	-
12/8/99	11/8/04	\$1.05	25,000	-	-	-	-	25,000	25,000
11/12/99	10/12/04	\$1.05	35,000	-	-	-	-	11,667	11,667
16/12/99	15/12/04	\$1.05	10,000	-	-	-	-	3,333	3,333
27/1/00	27/1/05	\$1.05	20,000	-	6,667	-	-	13,333	13,333
			<u>2,470,000</u>	-	<u>1,005,002</u>	-	-	<u>53,333</u>	<u>53,333</u>

Number of shares that can be issued for unexercised options								53,333	53,333
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## Executive share option plan No. 2

The Reckon Limited Executive Share Option Plan No. 2 was established on 19/7/2000. Under the provisions of the plan, the Directors may grant free options over unissued shares in the Company to executives and directors of the Company (or their associates) or subsidiaries of the Company selected by the Directors from time to time, subject to the ASX Listing Rules and the *Corporations Act 2001*.

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

Set out below are summaries of options granted under the Executive Share Option Plan No. 2.

Grant date	Expiry date	Exercise Price	Options Initially Granted	Options lapsed during the year		Options exercised and shares issued during the year		Options available at the end of the year		
				2003	2002	2003	2002	2003	2002	
19/7/00	18/7/05	\$0.672	3,487,381	-	106,554	-	-	631,345	631,345	
July 00	July 05	\$1.120	101,110	-	-	-	-	45,263	45,263	
Aug 00	Aug 05	\$1.125	129,466	-	11,584	-	-	52,219	52,219	
Sep 00	Sep 05	\$0.881	171,200	-	-	-	-	19,485	19,485	
Oct 00	Oct 05	\$0.492	127,667	-	20,000	-	-	64,167	64,167	
Nov 00	Nov 05	\$0.264	15,625	-	-	-	-	8,250	8,250	
Dec 00	Dec 05	\$0.222	68,000	-	-	-	-	45,000	45,000	
Jan 01	Jan 06	\$0.183	1,079,759	-	10,610	1,000,000	-	24,613	1,024,613	
Feb 01	Feb 06	\$0.198	1,146,667	4,917	187,645	208,219	-	455,590	668,726	
Mar 01	Mar 06	\$0.163	68,391	-	3,333	13,332	-	31,728	45,060	
Apr 01	Apr 06	\$0.160	12,547	-	-	6,250	-	-	6,250	
May 01	May 06	\$0.174	44,392	-	3,452	25,000	-	15,940	* 40,940	
Jun 01	Jun 06	\$0.147	63,579	-	24,585	7,293	-	10,415	17,708	
Jul 01	Jul 06	\$0.138	17,588	-	13,811	-	-	1,259	1,259	
Aug 01	Aug 06	\$0.107	13,536	-	6,704	-	-	6,832	6,832	
Sep 01	Sep 06	\$0.073	39,889	2,817	8,367	11,266	-	11,859	25,942	
Oct 01	Oct 06	\$0.079	50,826	-	20,000	-	-	30,826	30,826	
Dec 01	Dec 06	\$0.122	37,827	-	-	-	-	37,827	* 37,827	
Jan 02	Jan 07	\$0.146	103,553	3,611	25,000	16,499	-	58,443	78,553	
Feb 02	Feb 07	\$0.145	7,778	-	-	-	-	7,778	7,778	
Mar 02	Mar 07	\$0.145	41,666	-	7,222	6,944	-	27,500	34,444	
Jul 02	Jul 07	\$0.140	41,668	-	-	3,611	-	38,057	41,668	
Sep 02	Sep 07	\$0.142	16,111	-	-	-	-	16,111	16,111	
Dec 02	Dec 07	\$0.185	130,553	14,444	-	-	-	116,109	130,553	
Jan 03	Jan 08	\$0.190	26,676	-	-	-	-	26,676	-	
Jun 03	Jun 08	\$0.284	41,113	-	-	-	-	41,113	-	
Sep 03	Sep 08	\$0.532	115,002	-	-	-	-	115,002	-	
Dec 03	Dec 08	\$0.652	48,890	-	-	-	-	48,890	-	
				7,248,460	25,789	448,867	1,298,414	-	1,988,297	3,080,819

Number of shares that can be issued for unexercised options **1,988,297** **3,080,819**

\* Comparatives for Dec '02 have been adjusted to reflect omissions from the figures previously reported. An additional 12,500 May '01 options and 14,167 Dec '01 options have been added to the opening figures.

Amounts receivable on exercise of any options are recognised as share capital.

## 18. Contributed Equity

<i>Fully Paid Ordinary Share Capital</i>	2003		2002	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	124,842,816	50,411	122,842,816	50,117
Issue of shares	4,298,414	888	2,000,000	294
Return of capital	-	(1,279)	-	-
Balance at end of financial year	129,141,230	50,020	124,842,816	50,411

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

### **Shares And Options Issued During The Financial Year**

3,000,000 shares were issued during the year were in relation to the acquisition of a controlled entity. Full details relating to this are disclosed in note 23.

1,298,414 Options were exercised during the year with an average exercise price of \$0.152. Details of the options that were exercised and further details in respect of the share option plans are contained in note 17 to the financial statements.

During the year a Return of Capital was paid in the amount of 1¢ per share. This resulted in a reduction in Capital of \$1,278,686.

During the year the company issued 231,681 options under the Executive share option plan no. 2 at an average strike price of \$0.474.

Further details of the share option plans are contained in Note 17 to the financial statements.

## 19. Accumulated Losses

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Balance at beginning of financial year	(37,759)	(40,033)	(38,338)	(40,611)
Net profit	5,349	2,274	5,419	2,272
Balance at end of financial year	<u>(32,410)</u>	<u>(37,759)</u>	<u>(32,919)</u>	<u>(38,338)</u>

Refer note 3 in respect of the future tax benefits associated with these losses.

## 20. Earnings Per Share

	2003	2002
Basic earnings per share	¢	¢
Diluted earnings per share	4.2	1.8
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>127,993,192</u>	<u>124,793,501</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	<u>130,034,822</u>	<u>127,585,315</u>

## 21. Contingent Liabilities

The Parent Entity has been involved in a legal action with a former employee in respect of entitlements to shares prior to the listing of the company. The action was successfully defended in 2003 with the court ruling entirely in favour of Reckon Limited. The former employee has abandoned an appeal against the decision and no further contingent liability exists in relation to this matter.

There are no other contingent liabilities.

## 22. Commitments For Expenditure

### (a) Capital Expenditure Commitments

The consolidated entity has no capital expenditure commitments as at 31 December 2003 (2002: \$ nil)

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>(b) Lease Commitments</b>				
<b><u>Operating Leases</u></b>				
Within 1 year	766	1,000	766	1,000
Later than 1 year and not longer than 5 years	2,351	354	2,351	354
Later than 5 years	-	-	-	-
	<b>3,117</b>	<b>1,354</b>	<b>3,117</b>	<b>1,354</b>
Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases	83	228	83	228

Operating leases relate to office premises and warehouse facilities with lease terms of between 3 to 4 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.

## 23. Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2003 %	2002 %
<b>Parent Entity</b>			
Reckon Limited	Australia		
<b>Controlled Entities</b>			
Reckon.com.au Pty Limited	Australia	100	100
Reckon Australia Pty Limited	Australia	100	100
Reckon Development Unit Trust	Australia	100	100
Reckon Investment Centre Limited	Australia	100	100
Reckon Online NZ Limited	New Zealand	100	100
Reckon Online Holdings Pty Limited	Australia	100	100
Reckon Pacrim Pty Limited	Australia	100	100
Reckon Publishing Unit Trust	Australia	100	100
Electronic Business Management Software Pty Limited	Australia	100	100
Reckon Training Pty Limited	Australia	90	90
Zatso Pty Limited	Australia	-	50

### Acquisition of controlled entity

On 8 January 2002 the parent entity acquired 100% of the issued share capital of Electronic Business Management Software Pty Limited, ("EBMS") from DJZ Investments Pty Limited, a company controlled ultimately by Mr C Rabie.

EBMS provided Reckon limited with the rights to use proprietary software in products sold by Reckon. In return for this Reckon was required to make a royalty payment to EBMS. As a result of the acquisition of EBMS, royalty payments are no longer required.

The consideration payable for the purchase of EBMS consisted of 5,000,000 ordinary fully paid shares in Reckon Limited to be issued as follows, subject to certain pre-determined conditions being met.

- 2,000,000 fully paid ordinary shares issued on 8 January 2002
- 1,000,000 fully paid ordinary shares issued on 8 January 2003
- 1,000,000 fully paid ordinary shares issued on 8 January 2004
- 1,000,000 fully paid ordinary shares issued on 8 January 2005

On 12<sup>th</sup> March 2003 the company and DJZ Investments Pty Limited, agreed to vary the terms of the original share purchase agreement such that on that date the 1,000,000 shares due for issue on 8 January 2004 and 8 January 2005 were issued and placed in Escrow to be released subject to certain pre-determined conditions being met on 8 January 2004 and 8 January 2005 respectively.

The conditions in relation to the shares to be released from escrow on 8 January 2004 were met and the shares have been released.

The variation of the original share purchase agreement has enabled the company to establish certainty regarding the purchase price of EBMS.

### Disposal of controlled entity

In May 2003 the parent entity disposed of its 50% shareholding in Zatso Pty Limited.

## 24. Related Party Disclosures

### (a) Directors' Remuneration

Details of directors' remuneration are disclosed in note 4 to the financial statements.

Greg Wilkinson, Phil Hayman and Steve Rickwood (former Director) have entered into an escrow agreement with the company in respect of their shareholdings. The remaining shares that are subject to escrow – representing 26.66% of their respective shareholdings - will be released on 19 July 2004

### (b) Directors' Equity Holdings

Held as at the reporting date by directors and their director-related entities in Reckon Limited

Fully Paid Ordinary Shares	Executive Share Options
26,088,438	-

No ordinary shares were issued to the directors and no executive share options were issued to the directors during the financial year.

### (c) Other Transactions with Directors

There were no other transactions with Directors.

### (d) Transactions within the Wholly-Owned Group

During the financial year, Reckon Limited provided management, accounting and administration services, at no cost, to other entities in the wholly-owned group.

**(e) Related Party Transactions****Intuit Ventures Inc**

Intuit Ventures Inc, a significant shareholder (11.33% post the acquisition of APS Group, refer note 30) in Reckon Limited provides the rights for Reckon to market and distribute Intuit software throughout Australasia and parts of South-East Asia. In return for this, Intuit receives a royalty payment based on sales made throughout the territory. These royalties amounted to \$2,888,152 (2002 \$2,620,383) which is expensed in the month the associated product was sold.

Consolidated		Parent	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

**25. Notes To The Statement of Cash Flows****(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 balance sheet as follows:

Cash (i)	15,372	12,074	15,372	11,851
	<u>15,372</u>	<u>12,074</u>	<u>15,372</u>	<u>11,851</u>

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

**(b) Business Acquired – EBMS**

Consideration				
2,000,000 ordinary shares in Reckon Ltd			493	295
1,000,000 ordinary shares in Reckon Ltd			196	-
Cash			-	3
			<u>689</u>	<u>298</u>
Fair value of net assets of entity acquired				
Intellectual property			689	298
Outflow of cash to acquire EBMS, net of cash acquired:				
Cash consideration			-	3

Full details regarding this are included in note 23

**(c) Business disposed**

On 13/3/03 the consolidated entity disposed of an investment in an unlisted entity for consideration of \$128,232. The consolidated entity had fully written down the investment in prior years and therefore the profit on disposal was \$128,232

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>(d) Reconciliation Of Profit from Operating Activities After Income Tax To Net Cash Flows From Operating Activities</b>				
Profit from ordinary activities after income tax	5,348	2,272	5,419	2,272
(Profit)/loss on sale of non-current assets	(128)	472	(128)	472
Depreciation adjustment	-	-	-	-
Depreciation and amortisation of non-current assets	898	1,669	670	1,565
(Increase)/decrease in assets:				
Current receivables	(814)	(482)	(805)	(584)
Current inventories	(70)	61	(70)	61
Other current assets	24	(63)	23	(63)
Non-current receivables	(139)	-	(139)	-
Increase/(decrease) in liabilities:				
Current trade payables	185	(793)	520	(726)
Other current liabilities	400	(160)	70	(159)
Other non-current liabilities	(20)	(519)	(20)	(519)
Net cash inflow from operating activities	5,684	2,457	5,540	2,319

## 26. Outside Equity Interests in Controlled Entities

	Consolidated	
	2003 \$'000	2002 \$'000
Interest in:		
Share Capital	-	-
Accumulated Losses	(3)	(2)
	(3)	(2)

## 27. Non-cash financing and investing activities

	Consolidated		Parent	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Acquisition of controlled entity primarily via the issue of shares in the parent entity (note 23)	689	295	689	295

## 28. Financial Instruments

### (a) Significant Accounting Policies

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

### (b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk as at the reporting date was in respect of cash of \$15,372,173 (which attracts an average variable interest rate of 4.95%, (2002: 4.56%). All other financial assets and liabilities are non-interest bearing.

**(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 measures credit risk on a fair value basis.

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.

**(d) Net Fair Value**

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

**29. Segment Information**

The consolidated entity operates predominantly in Australia and in one industry.

**30. Economic Dependency**

Reckon Limited generates a significant volume of its revenue from products supplied by Intuit under the manufacturing and distribution agreement it has with Intuit Inc. The term of the agreement is 13 years and is subject to market growth objectives. If these objectives are met the agreement is automatically extended by one year for each calendar year in which Reckon meets or exceeds its market growth objective. To date Reckon Limited has exceeded these growth objectives.

**31. Subsequent Events**

Subsequent to the end of the financial year:

***Acquisition of controlled entity***

On 29 January 2004 the parent entity completed the acquisition of 100% of the issued share capital of each of

- Advanced Professional Solutions Pty Limited (ACN 082 521 917)
- Advanced Professional Solutions Limited (registered in New Zealand, 911150)
- Advanced Professional Solutions Limited (registered in the United Kingdom, 030 810 21).

The consideration payable for the purchase of the above entities consisted of:

- \$4 million cash paid on 29 January 2004 (of which a \$1 million deposit had been paid as at balance date).
- 6,896,555 fully paid ordinary shares in the parent entity issued on 29 January 2004

in addition, further consideration is payable to the vendors subject to attainment of performance goals. These amounts are held in escrow:

- \$500,000 cash subject to performance goals measured at 31 December 2004;
- \$500,000 cash subject to performance goals measured at 30 June 2005;
- 862,069 fully paid ordinary shares in the parent entity issued subject to performance goals measured at 31 December 2004; and

- 862,069 fully paid ordinary shares in the parent entity issued subject to performance goals measured at 30 June 2005.

\$1 million of the \$4 million cash component is disclosed in the financial statements as deposits (note 12). The additional \$337,000 included in deposits represents costs associated with the acquisition.

### ***Options***

9,167 options in the Executive Share Option Plan No. 2 have lapsed and 40,500 options have been exercised with an average exercise price of \$0.1705.

### ***Return of Capital***

On 4 March 2004, the Board resolved to put to shareholders a special resolution approving the payment of a return of capital of \$0.03 (three cents) per share, with all shares treated equally. The special resolution will be put to shareholders at the Annual General Meeting on 25 May 2004 for approval. Full details of the recommendation will be included in the notice to the AGM.

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