

*Preliminary Final Report**Financial Year Ended 31 December 2004***Results for announcement to the market**

|   | 31 Dec 2004<br>\$'000 | 31 Dec 2003<br>\$'000 | % Change |
|---|-----------------------|-----------------------|----------|
| Revenue from ordinary activities                                  | 36,580                | 24,699                | +48%     |
| Profit from ordinary activities before income tax                 | 6,702                 | 5,348                 | +25%     |
| Profit from ordinary activities after tax attributable to members | 8,869                 | 5,348                 | +66%     |
| Net Profit attributable to members                                | 8,870                 | 5,349                 | +66%     |
| Earnings per share  | 6.4 cents             | 4.2cents              | +54%     |

The business during the year benefited from the acquisition of the APS group of companies. The APS business was a major driver in the NPAT surge of 66%. The NPAT surge was also enhanced by recognition of tax revenue of \$2.2 million mainly relating to tax losses and timing differences of prior years brought to account for the first time; partially offset by amortisation of APS goodwill of \$1million. This amortisation will be replaced by an impairment test in 2005 following the adoption of international accounting standards.

To clarify the normalised position:

|  | 31 Dec 2004<br>\$'000 | 31 Dec 2003<br>\$'000 | % Change |
|--|-----------------------|-----------------------|----------|
| Normalised profit from ordinary activities after tax attributable to members | 7,699                 | 5,348                 | +44%     |

With normalised trading, the principal drivers of the business are QuickBooks and Quicken, and APS.

Against the background of competitive pressure in the QuickBooks market, revenue grew by 5.3% which was below expectations. Profit from ordinary activities from this market was impacted by increased costs in marketing. In 2004 there was a particular focus on branding to grow market unit share which is expected to reap benefits in 2005. This has proved evident in trading for January 2005.

There were several objectives in acquiring APS, including:

- to maintain the growth of APS in the top 200 accounting firms;
- to develop a suite of products from the existing APS range more appropriate to smaller practices;
- to develop an infrastructure to market, distribute, implement and support that new suite, and
- to improve the bottom line.

All these objectives have largely been met and provide a solid platform for the company in 2005.

The results confirm the strategic and commercial value of acquiring the APS business which has brought a measure of balance to the company's results.

CEO, Greg Wilkinson said: "Early indications for 2005 show that our strategy is bearing fruit, with the trading result from the small business accounting software business for January 2005 showing growth of over 20% on 2004 for the same period. The health of the business is also reflected in an increase in operating cash flow of 53% on 2003."

#### **Net Tangible Assets per Security**

The net tangible assets per security as at 31 December 2004 are 9.3 cents per share (2003: 12.6 cents per share).

#### **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 was approved by shareholders at the Annual General Meeting on 25 May 2004. A total amount of \$4.2 million was paid.

It is proposed to put to shareholders at the Annual General Meeting scheduled for late May 2005, a special resolution for approval of the payment of a further return of capital of \$0.035 (three and one half cents) per share, with all shares treated equally. Full details of this proposed resolution will be included when the Notice of Meeting is distributed to shareholders.

#### **Share Buy Back**

On 8 February 2005 the Company announced an on market buy back scheme effective 23 February 2005 in accordance with Chapter 2J of the Corporations Act 2001. As at the date of this report the company has placed no bids.

#### **Audit**

This report is based on accounts which have been audited.

For further information, please contact:

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**Statement of Financial Performance  
for the Financial Year Ended 31 December 2004**

|  | Note | Consolidated   |                |
|--|------|----------------|----------------|
|  |      | 2004<br>\$'000 | 2003<br>\$'000 |
| Revenue from ordinary activities   | 2    | 36,580         | 24,699         |
| Product costs  |      | (2,922)        | (1,838)        |
| Royalties  |      | (3,286)        | (2,911)        |
| Employee benefits expense  |      | (11,628)       | (7,305)        |
| Employee related expenses  |      | (590)          | (401)          |
| Marketing expenses   |      | (4,268)        | (2,690)        |
| Premises and Establishment expenses  |      | (1,531)        | (1,209)        |
| Depreciation and amortisation  |      | (1,120)        | (898)          |
| Goodwill amortisation  |      | (997)          | -              |
| Telecommunications   |      | (685)          | (465)          |
| Legal and Professional expenses  |      | (483)          | (505)          |
| Other expenses from ordinary activities  |      | (2,368)        | (1,129)        |
| <b>Profit from ordinary activities before<br/>income tax expense</b>   |      | <b>6,702</b>   | <b>5,348</b>   |
| Income tax (expense)/revenue relating to<br>ordinary activities  | 3    | 2,167          | -              |
| <b>Net profit</b>  |      | <b>8,869</b>   | <b>5,348</b>   |
| <b>Net loss attributable to outside equity<br/>interest</b>  |      | <b>1</b>       | <b>1</b>       |
| <b>Net profit attributable to members of the<br/>parent entity</b>   | 17   | <b>8,870</b>   | <b>5,349</b>   |
| Increase/decrease in foreign currency<br>translation reserve arising on translation of<br>self-sustaining foreign operations |      | 141            | -              |
| <b>Total changes in equity other than those<br/>resulting from transactions with owners<br/>as owners</b>                    |      | <b>9,011</b>   | <b>5,349</b>   |
| <b>Basic Earnings per Share</b>  | 18   | Cents<br>6.4   | Cents<br>4.2   |
| <b>Diluted Earnings per Share</b>  | 18   | 6.3            | 4.1            |

Notes to the financial statements are included on pages 6 to 23.

**Statement of Financial Position**  
**as at 31 December 2004**

|  | Note | Consolidated   |                |
|--|------|----------------|----------------|
|  |      | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>Current Assets</b>                          |      |                |                |
| Cash assets                                    | 20   | 13,302         | 15,372         |
| Receivables                                    | 5    | 4,399          | 2,092          |
| Inventories                                    | 4    | 180            | 277            |
| Other  | 6    | 338            | 295            |
| <b>Total Current Assets</b>                    |      | <b>18,219</b>  | <b>18,036</b>  |
| <b>Non-Current Assets</b>                      |      |                |                |
| Receivables                                    | 5    | 139            | 139            |
| Other financial assets                         | 7    | 316            | 271            |
| Property, plant and equipment                  | 8    | 613            | 408            |
| Deferred tax assets                            | 10   | 2,829          | -              |
| Intangible assets                              | 11   | 13,904         | 1,335          |
| Other  | 9    | -              | 1,337          |
| <b>Total Non-Current Assets</b>                |      | <b>17,801</b>  | <b>3,490</b>   |
| <b>Total Assets</b>                            |      | <b>36,020</b>  | <b>21,526</b>  |
| <b>Current Liabilities</b>                     |      |                |                |
| Payables                                       | 12   | 3,170          | 2,336          |
| Current tax liabilities                        |      | 509            | -              |
| Provisions                                     | 13   | 509            | 468            |
| Other  | 14   | 1,647          | 1,082          |
| <b>Total Current Liabilities</b>               |      | <b>5,835</b>   | <b>3,886</b>   |
| <b>Non-Current Liabilities</b>                 |      |                |                |
| Deferred tax liabilities                       |      | 430            | -              |
| Provisions                                     | 13   | 113            | 33             |
| <b>Total Non-Current Liabilities</b>           |      | <b>543</b>     | <b>33</b>      |
| <b>Total Liabilities</b>                       |      | <b>6,378</b>   | <b>3,919</b>   |
| <b>Net Assets</b>                              |      | <b>29,642</b>  | <b>17,607</b>  |
| <b>Equity</b>                                  |      |                |                |
| Contributed equity                             | 15   | 53,043         | 50,020         |
| Reserves                                       | 16   | 141            | -              |
| Accumulated losses                             | 17   | (23,540)       | (32,410)       |
| Total parent entity interest                   |      | 29,644         | 17,610         |
| Outside equity interest in controlled entities | 21   | (2)            | (3)            |
| <b>Total Equity</b>                            |      | <b>29,642</b>  | <b>17,607</b>  |

Notes to the financial statements are included on pages 6 to 23.

**Statement of Cash Flows**  
**for the Financial Year ended**  
**31 December 2004**

|   | Note  | Consolidated       |          |
|---|-------|--------------------|----------|
|   |       | Inflows/(Outflows) |          |
|   |       | 2004               | 2003     |
|   |       | \$'000             | \$'000   |
| <b>Cash Flows From Operating Activities</b>                     |       |                    |          |
| Receipts from customers   |       | 39,037             | 25,717   |
| Payments to suppliers and employees                             |       | (31,017)           | (20,718) |
| Interest received   |       | 669                | 685      |
| Net cash provided by operating activities                       | 20(d) | 8,689              | 5,684    |
| <b>Cash Flows From Investing Activities</b>                     |       |                    |          |
| Payment for purchase of controlled entity, net of cash acquired | 20(b) | (3,365)            | -        |
| Payments for purchase of intellectual property                  |       | (690)              | (323)    |
| Payment for capitalised development costs                       |       | (2,289)            | -        |
| Payment for property, plant and equipment                       |       | (334)              | (110)    |
| Proceeds from disposal of other financial assets                |       | -                  | 128      |
| Deposit for acquisition of controlled entity                    |       | -                  | (1,000)  |
| Payments for security deposits                                  |       | (45)               | -        |
| Net cash used in investing activities                           |       | (6,723)            | (1,305)  |
| <b>Cash Flows From Financing Activities</b>                     |       |                    |          |
| Proceeds from issues of equity securities                       |       | 122                | 198      |
| Return of capital to shareholders                               |       | (4,158)            | (1,279)  |
| Net cash used in financing activities                           |       | (4,036)            | (1,081)  |
| <i>Net Increase/(Decrease) In Cash Held</i>                     |       | (2,070)            | 3,298    |
| <i>Cash At The Beginning Of The Financial Year</i>              |       | 15,372             | 12,074   |
| <i>Cash At The End Of The Financial Year</i>                    | 20(a) | 13,302             | 15,372   |

Notes to the financial statements are included on pages 6 to 23.

# Notes to the Financial Statements for the Financial Year Ended 31 December 2004

## 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) *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     |

*(d) 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.

*(e) 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.

*(f) Foreign Currency Translation*

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.

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are transferred on consolidation to the foreign currency translation reserve.

Assets and liabilities of self-sustaining foreign controlled entities are translated at reporting date using the current rate method and exchange differences are taken directly to the foreign currency translation reserve. Revenue and expenses are translated at the average of rates during the period.

*(g) 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.

*(h) Intangible assets and expenditure carried forward*Goodwill

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 10 years, being the period during which the benefits are expected to arise.

Intellectual Property

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

Development costs

Development costs are recognised as an expense when incurred, except in the undernoted instances.

Development costs on the existing APS suite of software applications are capitalised and written off over a 4 year period commencing the following month after the costs are incurred.

Development costs on new APS products are capitalised and written off on a straight line basis over a period of 4 years commencing at the time of commercial release of the new product.

At balance date, a review of the carrying value of the capitalised development costs being carried forward is undertaken to ensure the carrying value is recoverable from future revenue generated by the sale of that software.

*(i) 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. In the prior year the future income tax benefits relating to tax losses and timing differences were not carried forward as an asset.

Reckon Limited, and its wholly owned controlled entities have elected to implement the tax consolidation regime. The Australian Taxation Office has not yet been notified of the election.

As a consequence Reckon Limited as the head entity in the tax consolidated group has recognised current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax balances in relation to its own transactions, events and balances.

All the wholly-owned Australian controlled entities in the group have entered into a tax funding agreement, the significant terms of which are that tax expenses/credits which arise under the Legislation are allocated to each entity within the group, on the basis of the expense which the entity would have incurred in its own right had the group not elected to be taxed as a consolidated entity. Furthermore, in the event that the head entity defaults in its obligations under the tax consolidation system, each entity in the group is limited in its obligation to fund the income tax obligation of the head entity to the proportion that the tax liability to which the entity would have been liable had the group not elected to become a tax consolidated entity bears to the total taxation liability of the head entity.

*(j) 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.

*(k) 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.

*(l) Leased Assets*

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

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.

*(m) 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 19 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.

*(n) Receivables*

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

*(o) 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.

*(p) Revenue Recognition*Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer. APS software licence fee revenue is recognised at the point when the customer is in agreement for a "live operation" (i.e. when all users can use the system on a fully functional basis).

### Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract or on a time and materials basis depending upon the nature of the contract. Support and maintenance revenue is recognised on a straight-line basis over the period of the contract.

### 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) *Comparative Figures*

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

(s) *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.

(t) *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

(u) *Equity – based compensation benefits*

Equity-based compensation benefits are provided to employees via the Employee Option Plan.

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.

## **Australian Equivalents to International Financial Reporting Standards (“AIFRS”)**

The Australian Accounting Standards Board (“AASB”) has adopted AIFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued AASB equivalents to International Financial Reporting Standards and Urgent Issues Group Interpretations corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be first reflected in the consolidated entity’s financial statements for the half-year ending 30 June 2005 and the full year ending 31 December 2005.

The consolidated entity is aware of AIFRS and the effect it will have on its financial statements. Major changes to date that will be required to the consolidated entity’s existing accounting policies include the following:

### Intangible assets – goodwill

Under AASB 3 “Business Combinations”, amortisation of goodwill is prohibited. It will be replaced with annual impairment testing focusing on the discounted cash flows of the related cash generating unit. This will result in a change to the current accounting policy, which conforms to existing Australian accounting standards, under which goodwill is amortised on a straight-line basis over 10 years, this being the period during which the benefits are expected to arise. Amortisation costs of \$996,983 p.a. will no longer be charged against profits. Recoverable amount is presently assessed based upon undiscounted future cash flows.

### Equity-based compensation benefits

Under AASB 2 “Share Based Payments” equity-based compensation to employees will be recognised as an expense in respect of the services received. This will result in a change to the current accounting policy, which conforms to existing Australian accounting standards, under which no expense is recognised for equity-based compensation. The effect that this will have on the consolidated entity result is yet to be finalised.

## 2. Profit from Ordinary Activities

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

### **Operating Revenue**

Sales revenue:

Sale of goods

| Consolidated |        |
|--------------|--------|
| 2004         | 2003   |
| \$'000       | \$'000 |
| 35,620       | 23,371 |

### **Non-Operating Revenue**

Other income

291 556

Interest revenue – Other entities

669 644

Proceeds from sale of other financial assets

- 128

960 1,328

36,580 24,699

### **Expenses**

Cost of Sales

6,208 4,650

Net provision for doubtful debts in respect of amounts receivable from: Other Entities

196 31

Net transfers to/(from) provisions:

Sales returns and rebates

(134) 249

Surplus lease space

(46) (23)

Employee entitlements

94 83

Depreciation of non-current assets:

Property, plant and equipment

245 384

Amortisation of non-current assets:

Leasehold improvements

156 137

Intellectual property

545 377

Development costs

174 -

Goodwill

997 -

Inventory write-downs and other losses

20 25

Research and Development costs

1,891 2,048

Operating lease rental expenses:

Minimum lease payments

1,088 952

### 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:

**Profit from Ordinary Activities**

Income tax expense calculated at 30% of profit from ordinary activities

**Tax Effect Of:**

Effect of higher tax rates on overseas income

Sundry non-deductible items

Benefit of tax losses of prior years recouped  
Benefit of timing differences and tax losses not previously recognized now considered virtually certain

Income tax expense/(revenue) attributable to profit from ordinary activities

| Consolidated |        |
|--------------|--------|
| 2004         | 2003   |
| \$'000       | \$'000 |

|  |         |         |
|--|---------|---------|
|  | 6,702   | 5,348   |
|  | 2,011   | 1,604   |
|  | 52      | -       |
|  | 315     | 117     |
|  | 2,378   | 1,721   |
|  | (1,968) | (1,721) |
|  | (2,577) | -       |
|  | (2,167) | -       |

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

Tax losses:

Revenue

Capital

Timing differences

|  |       |       |
|--|-------|-------|
|  | 533   | 5,117 |
|  | 2,432 | 2,447 |
|  | -     | 488   |
|  | 2,965 | 8,052 |

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 |        |
|----------------------------------|--------------|--------|
|                                  | 2004         | 2003   |
|                                  | \$'000       | \$'000 |
| <b>4. Inventories</b>            |              |        |
| Finished goods:                  |              |        |
| At net realisable value          | 180          | 277    |
|                                  |              |        |
| <b>5. Receivables</b>            |              |        |
| Current:                         |              |        |
| Trade receivables                | 4,209        | 2,142  |
| Provision for doubtful debts     | (282)        | (86)   |
|                                  | 3,927        | 2,056  |
| Other Receivables                | 472          | 36     |
|                                  | 4,399        | 2,092  |
| Non current:                     |              |        |
| Trade receivables                | 139          | 139    |
|                                  |              |        |
| <b>6. Other Assets</b>           |              |        |
| Prepayments                      | 275          | 151    |
| Security deposits                | -            | 144    |
| Work in progress                 | 63           | -      |
|                                  | 338          | 295    |
| <b>7. Other Financial Assets</b> |              |        |
| Security deposits                | 316          | 271    |
|                                  |              |        |

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>8. Property, Plant And Equipment</b> |                |                |
| <b>Leasehold Improvements</b>           |                |                |
| At cost                                 | 719            | 640            |
| Less: Accumulated amortisation          | 638            | 482            |
| Total leasehold improvements            | 81             | 158            |
| <b>Plant and equipment</b>              |                |                |
| At cost                                 | 3,449          | 2,558          |
| Less: Accumulated depreciation          | 2,917          | 2,308          |
| Total plant & equipment                 | 532            | 250            |
|   | 613            | 408            |

**Reconciliations**

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

|                                     | Leasehold<br>Improvements<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|-------------------------------------|-------------------------------------|----------------------------------|-----------------|
| <b>Consolidated</b>                 |                                     |                                  |                 |
| Carrying amount at 31 December 2003 | 158                                 | 250                              | 408             |
| Additions                           | 79                                  | 527                              | 606             |
| Disposals                           | -                                   | -                                | -               |
| Depreciation/amortisation expense   | (156)                               | (245)                            | (401)           |
| Balance at 31 December 2004         | 81                                  | 532                              | 613             |

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>9. Non-Current Assets – Other</b>                                    |                |                |
| Deposits and other costs in relation to the acquisition of a subsidiary | -              | 1,337          |

**10. Deferred Tax Asset**

Future income tax benefit:

|                      |       |   |
|----------------------|-------|---|
| - Timing differences | 703   | - |
| - Tax losses         | 2,126 | - |
|                      | 2,829 | - |

| Consolidated |        |
|--------------|--------|
| 2004         | 2003   |
| \$'000       | \$'000 |

## 11. Intangibles

|                                 |               |              |
|---------------------------------|---------------|--------------|
| Intellectual property – at cost | 4,075         | 3,385        |
| Accumulated amortisation        | (2,595)       | (2,050)      |
|                                 | <u>1,480</u>  | <u>1,335</u> |
| Development costs – at cost     | 2,289         | -            |
| Accumulated amortisation        | (174)         | -            |
|                                 | <u>2,115</u>  | <u>-</u>     |
| Goodwill                        | 11,306        | -            |
| Accumulated amortisation        | (997)         | -            |
|                                 | <u>10,309</u> | <u>-</u>     |
|                                 | <u>13,904</u> | <u>1,335</u> |

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

## 12. Payables

|                                    |              |              |
|------------------------------------|--------------|--------------|
| Current:                           |              |              |
| Trade payables and sundry accruals | 2,342        | 1,778        |
| Employee benefits                  | 828          | 558          |
|                                    | <u>3,170</u> | <u>2,336</u> |

## 13. Provisions

|                                 |            |            |
|---------------------------------|------------|------------|
| Current:                        |            |            |
| Sales returns, volume rebates   | 193        | 327        |
| Cost of surplus leased premises | -          | 46         |
| Employee benefits               | 111        | 95         |
| Other                           | 205        | -          |
|                                 | <u>509</u> | <u>468</u> |
| Non-current:                    |            |            |
| Employee benefits               | 113        | 33         |
|                                 | <u>113</u> | <u>33</u>  |

## 14. Other Liabilities

|                  |              |              |
|------------------|--------------|--------------|
| Current:         |              |              |
| Deferred revenue | 1,647        | 1,082        |
|                  | <u>1,647</u> | <u>1,082</u> |

## 15. Contributed Equity

| <i>Fully Paid Ordinary Share Capital</i> | 2004               |               | 2003               |               |
|--|--------------------|---------------|--------------------|---------------|
|  | No.                | \$'000        | No.                | \$'000        |
| Balance at beginning of financial year   | 129,141,230        | 50,020        | 124,842,816        | 50,411        |
| Issue of shares                          | 9,723,718          | 7,181         | 4,298,414          | 888           |
| Return of capital                        | -                  | (4,158)       | -                  | (1,279)       |
| Balance at end of financial year         | <u>138,864,948</u> | <u>53,043</u> | <u>129,141,230</u> | <u>50,020</u> |

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

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

9,295,175 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 19.

420,590 Options were exercised during the year with an average exercise price of \$0.29.

During the year a Return of Capital was paid in the amount of 3¢ per share. This resulted in a reduction in Capital of \$4,158,394.

During the year the company issued 1,595,657 options under the Executive share option plan no. 2 at an average strike price of \$0.659.

| Consolidated |        |
|--------------|--------|
| 2004         | 2003   |
| \$'000       | \$'000 |

## 16. Reserves

### **Foreign currency translation reserve**

|  |            |          |
|--|------------|----------|
| Balance at beginning of financial year | -          | -        |
| Translation of foreign operations      | 141        | -        |
| Balance at end of financial year       | <u>141</u> | <u>-</u> |

## 17. Accumulated Losses

|  |                 |                 |
|--|-----------------|-----------------|
| Balance at beginning of financial year | (32,410)        | (37,759)        |
| Net profit                             | 8,870           | 5,349           |
| Balance at end of financial year       | <u>(23,540)</u> | <u>(32,410)</u> |

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

## 18. Earnings Per Share

|  | 2004               | 2003               |
|--|--------------------|--------------------|
|  | ¢                  | ¢                  |
| Basic earnings per share   | 6.4                | 4.2                |
| Diluted earnings per share   | 6.3                | 4.1                |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share                                 | <u>137,808,871</u> | <u>127,993,192</u> |
| Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share | <u>140,979,559</u> | <u>130,034,822</u> |

## 19. Controlled Entities

| Name of Entity                                      | Country of Incorporation | Ownership Interest |           |
|---|--------------------------|--------------------|-----------|
|   |                          | 2004<br>%          | 2003<br>% |
| <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 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 Training Pty Limited                         | Australia                | 90                 | 90        |
| Electronic Business Management Software Pty Limited | Australia                | -                  | 100       |
| Advanced Professional Solutions Pty Limited         | Australia                | 100                | -         |
| Advanced Professional Solutions Limited             | New Zealand              | 100                | -         |
| Advanced Professional Solutions Limited             | United Kingdom           | 100                | -         |

### Acquisition of controlled entities

On 29 January 2004 the parent entity acquired from APS Group Limited (New Zealand) 100% of the issued share capital of the following entities comprising the APS group:

- Advanced Professional Solutions Pty Limited
- Advanced Professional Solutions Limited (registered in New Zealand)
- Advanced Professional Solutions Limited (registered in the United Kingdom).

The consideration paid for the purchase of APS consisted of 9,295,175 ordinary fully paid shares in Reckon Limited (1,724,138 of which were issued subject to a trading lock to be released in two equal tranches on 31 December 2004 and 30 June 2005) and cash of \$4.7million (\$1.3million of which was paid in 2003 and \$1million of which was placed in escrow to be released in two equal tranches on the same dates as the shares), net of cash acquired.

The shares and cash due for release from escrow on 31 December 2004, have been released.

| Consolidated |        | Parent |        |
|--------------|--------|--------|--------|
| 2004         | 2003   | 2004   | 2003   |
| \$'000       | \$'000 | \$'000 | \$'000 |

## 20. 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) | 13,302        | 15,372        |
|          | <u>13,302</u> | <u>15,372</u> |

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

### (b) Business Acquired

#### APS Group

Consideration:

9,295,175 ordinary shares in Reckon Ltd

Cash

Deposit paid in cash in 2003

|               |          |
|---------------|----------|
| 7,059         | -        |
| 5,392         | -        |
| 1,337         | -        |
| <u>13,788</u> | <u>-</u> |

Fair value of net assets of entity acquired:

Cash

Receivables

Other current assets

Deferred tax assets

Fixed assets

Trade payables

Current tax liabilities

Provisions

Other current liabilities

Deferred tax liabilities

|               |          |
|---------------|----------|
| 2,027         | -        |
| 1,914         | -        |
| 138           | -        |
| 212           | -        |
| 272           | -        |
| (426)         | -        |
| (173)         | -        |
| (692)         | -        |
| (356)         | -        |
| (434)         | -        |
| <u>2,482</u>  | <u>-</u> |
| 11,306        | -        |
| <u>13,788</u> | <u>-</u> |

Goodwill

Full details regarding this are included in note 19.

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2004<br>\$'000 | 2003<br>\$'000 |
| <b>EBMS</b>  |                |                |
| Consideration:   |                |                |
| 2,000,000 ordinary shares in Reckon Ltd                | -              | 493            |
| 1,000,000 ordinary shares in Reckon Ltd                | -              | 196            |
| Cash   | -              | -              |
|  | -              | 689            |
| Fair value of net assets of entity acquired            |                |                |
| Intellectual property                                  | -              | 689            |
| Outflow of cash to acquire EBMS, net of cash acquired: |                |                |
| Cash consideration                                     | -              | -              |

**(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

**(d) Reconciliation Of Profit from Operating Activities After Income Tax To Net Cash Flows From Operating Activities**

|  |         |       |
|--|---------|-------|
| Profit from ordinary activities after income tax                       | 8,869   | 5,348 |
| (Profit)/loss on sale of non-current assets                            | -       | (128) |
| Depreciation and amortisation of non-current assets                    | 2,117   | 898   |
| Increase/(decrease) in current tax liability                           | 336     | -     |
| Increase/(decrease) in deferred tax balances                           | (2,621) | -     |
| Increase/(decrease) in unrealized foreign currency translation reserve | 141     | -     |
| (Increase)/decrease in assets:   |         |       |
| Current receivables  | (393)   | (814) |
| Current inventories  | 97      | (70)  |
| Other current assets   | 95      | 24    |
| Non-current receivables  | -       | (139) |
| Increase/(decrease) in liabilities:                                    |         |       |
| Current trade payables   | 410     | 185   |
| Other current liabilities  | (442)   | 400   |
| Other non-current liabilities  | 80      | (20)  |
| Net cash inflow from operating activities                              | 8,689   | 5,684 |

**21. Outside Equity Interests in Controlled Entities**

|                    | Consolidated |            |
|--------------------|--------------|------------|
|                    | 2004         | 2003       |
|                    | \$'000       | \$'000     |
| Interest in:       |              |            |
| Share Capital      | -            | -          |
| Accumulated Losses | (2)          | (3)        |
|                    | <u>(2)</u>   | <u>(3)</u> |

**22. Non-cash financing and investing activities**

|   |              |            |
|---|--------------|------------|
| Acquisition of controlled entity via the issue of shares in the parent entity (note 19) | <u>7,059</u> | <u>689</u> |
|---|--------------|------------|

## 23. Segment Information

### Primary reporting - business segments

For management purposes, the consolidated entity is organised into two major operating divisions:

- Quicken products
- APS products

These divisions are the basis upon which the consolidated entity reports its primary segment information.

The principal activities of these divisions are as follows:

- Quicken products - development, distribution and support of personal financial and accounting software.
- APS products - development, distribution and support of practice management tax and client accounting software.

The APS Group was acquired on 29 January 2004.

### Segment revenues

|                       | External sales |        | Inter-segment |        | Other  |        | Total   |        |
|-----------------------|----------------|--------|---------------|--------|--------|--------|---------|--------|
|                       | 2004           | 2003   | 2004          | 2003   | 2004   | 2003   | 2004    | 2003   |
|                       | \$'000         | \$'000 | \$'000        | \$'000 | \$'000 | \$'000 | \$'000  | \$'000 |
| Quicken products      | 24,602         | 23,371 | 2,159         | -      | 882    | 1,328  | 27,643  | 24,699 |
| APS products          | 11,018         | -      | -             | -      | 78     | -      | 11,096  | -      |
| Total of all segments |                |        |               |        |        |        | 38,739  | 24,699 |
| Eliminations          |                |        |               |        |        |        | (2,159) | -      |
| Consolidated          |                |        |               |        |        |        | 36,580  | 24,699 |

### Segment results

|  | 2004   | 2003   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| Quicken products                                   | 3,856  | 5,348  |
| APS intellectual property                          | 1,859  | -      |
| APS products                                       | 987    | -      |
| Profit from ordinary activities before income tax  | 6,702  | 5,348  |
| Income tax revenue relating to ordinary activities | 2,167  | -      |
| Net profit   | 8,869  | 5,348  |

### Segment assets and liabilities

|                       | Assets  |        | Liabilities |        |
|-----------------------|---------|--------|-------------|--------|
|                       | 2004    | 2003   | 2004        | 2003   |
|                       | \$'000  | \$'000 | \$'000      | \$'000 |
| Quicken products      | 18,903  | 21,526 | 6,707       | 3,919  |
| APS products          | 20,381  | -      | 2,935       | -      |
| Total of all segments | 39,284  | 21,526 | 9,642       | 3,919  |
| Eliminations          | (3,264) | -      | (3,264)     | -      |
| Consolidated          | 36,020  | 21,526 | 6,378       | 3,919  |

**Other segment information**

|   | Quicken products |                | APS products   |                |
|---|------------------|----------------|----------------|----------------|
|   | 2004<br>\$'000   | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 |
| Acquisition of segment assets                   | 264              | 433            | 14,627         | -              |
| Depreciation and amortisation of segment assets | 747              | 898            | 1,370          | -              |

**Secondary reporting - geographical segments**

|                    | Segment revenues from sales to external customers |                | Segment assets |                | Acquisitions of property, plant and equipment, intangibles and other non-current segment assets |                |
|--------------------|---|----------------|----------------|----------------|---|----------------|
|                    | 2004<br>\$'000                                    | 2003<br>\$'000 | 2004<br>\$'000 | 2003<br>\$'000 | 2004<br>\$'000  | 2003<br>\$'000 |
| Australia          | 31,389  | 23,371         | 29,888         | 21,526         | 10,161  | 433            |
| Other countries    | 4,231   | -              | 8,388          | -              | 4,830   | -              |
|                    | <u>35,620</u>                                     | <u>23,371</u>  | <u>38,276</u>  | <u>21,526</u>  | <u>14,991</u>   | <u>433</u>     |
| Unallocated assets |   |                | (2,256)        |                |   |                |
| Total assets       |   |                | <u>36,020</u>  | <u>21,526</u>  |   |                |

**24. 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.