



Announcement

22 February 2007  
Reckon Limited - RKN  
ACN 003 348 730

Announcement of Preliminary Final Results

**HEADLINE RESULTS**

The company reported the following headline results:

- Group operating revenue was up 9% from \$41.4 million to \$45.0 million.
- Group EBITDA was up 29% from \$10.1 million to \$13.0 million.
- EPS was up 22% from 5.1 cents to 6.2 cents.
- Final dividend of 2.5 c per share - dividend payout ratio of 73%.

Reckon Limited Group CEO, Mr Clive Rabie said:

"We are pleased to see another strong year across all segments with an encouraging drop through to the bottom line from revenue growth. Our new acquisitions are operationally bedded down and are contributing above expectations.

The Quicken business has once again shown the benefits of a fixed cost model in a revenue growth environment. Growth of revenue from existing customers underlines the sustainability of the business.

APS continues its trend of gaining market share while at the same time benefiting from its close relationship with its existing customers and the roll out of our full service model.

We will continue to seek growth both organically and from acquisitions in 2007 and intend to leverage our strong balance sheet."

## **ACQUISITIONS - SHELCO**

Reckon Limited announced yesterday that it has acquired the Shelco business which comprises two main revenue streams, services and data.

The Services business provides company registration services using the traditional full service method and also provides clients with an immediate online service available outside of standard operating hours. The business can also set up unit trusts, family trusts (discretionary trusts), constitution updates, domain name registration or a self managed super fund for customers.

The Data business electronically provides comprehensive accredited ASIC information combined with a highly personalised client relationship and a full range of sophisticated information services to assist customers with the provision of financial, corporate and statutory information.

It is also proposed to add state business names, REVs checks, credit reporting and land office searches to this business in the near future as well.

## **ACQUISITIONS – NEW ZEALAND AND INTREPID**

Reckon Limited also announced yesterday that effective 1 March 2007 it will acquire the "Intrepid" business as well as the business of its New Zealand distributor.

The transaction forms part of an expansion of the product suite Reckon will distribute as well as a rationalisation of its existing licensing arrangement with its Quicken sub-distributor in New Zealand.

The Reckon product suite will be expanded by the acquisition of the technology for the IBankData; IPayroll; and IBackup solutions.

For further information, please contact Mr Clive Rabie, Group CEO, Reckon Limited, (02) 9577 5946, [clive.rabie@reckon.com.au](mailto:clive.rabie@reckon.com.au). Or contact Mr Chris Hagglund, Group CFO, (02) 9577 5414, [chris.hagglund@reckon.com.au](mailto:chris.hagglund@reckon.com.au).

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**Preliminary Final Report**
**Financial Year Ended 31 December 2006**


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**Results for announcement to the market**

	31 Dec 2006 \$'000	31 Dec 2005 \$'000	% Change
Revenue	45,615	42,258	+8%
Profit before income tax	11,002	9,259	+19%
Profit for the year	8,169	7,034	+16%
Net Profit attributable to members	8,169	7,034	+16%
Earnings per share	6.2 cents	5.1 cents	+22%

**Group Operating Revenue: Up 9%**
**Group EBITDA: Up 29%**
**Quicken Operating Revenue: Up 9%**
**Quicken EBITDA: Up 27%**
**APS Operating Revenue: Up 8%**
**APS EBITDA: Up 35%**
**Final Dividend**
**2.5 cents per share**

Growth in revenue, strong management of costs, and the benefits of a sustainable customer base have resulted in the strong group performance from both APS and Quicken.

The company acquired "Elite" and "Desktop Super" in 2006 which have both been successfully bedded down and have contributed to the profit growth.

**Net Tangible Assets per Security**

The net tangible assets per security as at 31 December 2006 is 7.7 cents per share (2005: 7.6 cents per share).

**Dividend**

The board declared a final dividend for Reckon Limited of 2.5 cents per share to shareholders on 22 February 2007. The dividend will be unfranked. The record date for payment of the dividend is 9 March 2007. An interim dividend for 2006 was paid on 4 September 2006. This takes the company's dividend payout ratio to 73% of NPAT.

**Acquisitions**

Effective from 1 March 2007 Reckon Limited acquired the Shelco business; and the "Intrepid" business together with the business of its New Zealand distributor.

These transactions form part of an expansion of the product suite Reckon will distribute as well as a rationalisation of its existing licensing arrangement with its Quicken sub-distributor in New Zealand.

**Reduction of capital**

On 20 December 2005 a 5% reduction of capital was approved by way of special resolution of shareholders. It was implemented on 6 January 2006. The company accordingly reduced its share capital by \$5,567,597 consisting of 6,959,496 fully paid ordinary shares.

**Less than marketable parcels**

On 31 January 2006, the company offered to purchase less than marketable parcels of shares at \$0.80 per share. Offers were sent to shareholders who at close of business on 31 January 2006 held 641 shares or less (based on a closing price of \$0.78 on 30 January 2006). The offer was open until 30 June 2006. At the close of the offer, a total of 47,398 shares were bought back and cancelled at a total cost of \$37,918

**Audit**

This report is based on accounts which are in the process of being audited.

Clive Rabie  
Director, Group CEO  
22 February 2007

# Income Statements

for the year ended 31 December 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Revenue</b>	<b>2</b>	<b>45,615</b>	<b>42,258</b>	<b>38,055</b>	<b>32,068</b>
Product and selling costs		(2,978)	(2,852)	(2,399)	(2,353)
Royalties		(3,985)	(3,885)	(3,905)	(3,492)
Employee benefits expenses		(15,103)	(14,340)	(9,293)	(8,816)
Employee related expenses		(746)	(718)	(552)	(498)
Expense of share-based payments		(281)	(303)	(281)	(303)
Marketing expenses		(3,920)	(3,945)	(3,598)	(3,625)
Premises and establishment expenses		(1,457)	(1,308)	(975)	(892)
Depreciation and amortisation		(2,619)	(1,678)	(2,548)	(1,635)
Telecommunications		(616)	(609)	(455)	(397)
Legal and professional expenses		(475)	(629)	(393)	(544)
Finance costs		-	-	(84)	(292)
Other expenses		(2,433)	(2,732)	(1,378)	(2,011)
<b>Profit before income tax</b>		<b>11,002</b>	<b>9,259</b>	<b>12,194</b>	<b>7,210</b>
Income tax expense	3	(2,833)	(2,225)	(1,717)	(1,419)
<b>Profit for the year</b>		<b>8,169</b>	<b>7,034</b>	<b>10,477</b>	<b>5,791</b>
Loss attributable to minority interest		-	-	-	-
<b>Profit attributable to members of Reckon Limited</b>	<b>22</b>	<b>8,169</b>	<b>7,034</b>	<b>10,477</b>	<b>5,791</b>
		Cents	Cents		
Basic Earnings per Share	23	6.2	5.1		
Diluted Earnings per Share	23	6.1	5.0		

The above income statements should be read in conjunction with the accompanying notes.

# Balance Sheets

as at 31 December 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>ASSETS</b>					
Current Assets					
Cash and cash equivalents	27	12,726	18,023	7,972	16,013
Receivables	6	3,719	2,920	1,456	1,404
Inventories	5	358	185	358	185
Tax assets		-	9	-	18
Other assets	7	674	499	329	247
<b>Total Current Assets</b>		<b>17,477</b>	<b>21,636</b>	<b>10,115</b>	<b>17,867</b>
Non-Current Assets					
Receivables	6	-	-	906	-
Financial assets	8	301	315	14,726	14,721
Property, plant and equipment	9	1,733	652	879	301
Deferred tax assets	10	158	2,000	-	1,720
Intangible assets	11	20,863	16,292	9,791	5,200
Other assets	12	200	-	200	-
<b>Total Non-Current Assets</b>		<b>23,255</b>	<b>19,259</b>	<b>26,502</b>	<b>21,942</b>
<b>Total Assets</b>		<b>40,732</b>	<b>40,895</b>	<b>36,617</b>	<b>39,809</b>
<b>LIABILITIES</b>					
Current Liabilities					
Payables	13	5,492	9,668	3,743	8,054
Tax liabilities		280	-	306	-
Provisions	14	608	620	274	187
Other liabilities	15	2,021	1,582	1,385	1,158
<b>Total Current Liabilities</b>		<b>8,401</b>	<b>11,870</b>	<b>5,708</b>	<b>9,399</b>
Non-Current Liabilities					
Payables	13	-	-	-	3,066
Interest-bearing liabilities	16	-	-	811	2,816
Deferred tax liabilities	17	430	430	184	-
Provisions	14	401	235	216	151
Other liabilities	18	257	-	-	-
<b>Total Non-Current Liabilities</b>		<b>1,088</b>	<b>665</b>	<b>1,211</b>	<b>6,033</b>
<b>Total Liabilities</b>		<b>9,489</b>	<b>12,535</b>	<b>6,919</b>	<b>15,432</b>
<b>Net Assets</b>		<b>31,243</b>	<b>28,360</b>	<b>29,698</b>	<b>24,377</b>
Equity					
Contributed equity	20	17,896	17,747	17,896	17,747
Reserves	21	675	819	554	568
Retained earnings	22	12,674	9,796	11,248	6,062
Parent entity interest		31,245	28,362	29,698	24,377
Minority interest	28	(2)	(2)	-	-
<b>Total Equity</b>		<b>31,243</b>	<b>28,360</b>	<b>29,698</b>	<b>24,377</b>

The above balance sheets should be read in conjunction with the accompanying notes.

# Statements of Changes in Equity

for the year ended 31 December 2006

	Note	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<b>Total equity at the beginning of the financial year</b>		28,360	31,262	24,377	28,632
Exchange differences on translation of foreign subsidiaries	21	(130)	110	-	-
<b>Net income/(loss) recognised directly into equity</b>		(130)	110	-	-
<b>Profit for the year</b>		8,169	7,034	10,477	5,791
<b>Total recognised income and expense for the year</b>		8,039	7,144	10,477	5,791
Transactions with equity holders in their capacity as equity holders:					
Reduction of capital, return of capital and share buy-back	20	(38)	(10,430)	(38)	(10,430)
Dividends paid	29	(5,291)	-	(5,291)	-
Employee share options	21	49	248	49	248
Issue of shares	20	124	136	124	136
<b>Total equity at the end of the financial year</b>		31,243	28,360	29,698	24,377
Total recognised income and expense for the year attributable to:					
Members of Reckon Limited		8,039	7,144	10,477	5,791
Minority interest		-	-	-	-
		8,039	7,144	10,477	5,791

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

# Cash Flow Statements

for the year ended 31 December 2006

	Note	Consolidated		Parent	
		Inflows/(Outflows)		Inflows/(Outflows)	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Cash Flows From Operating Activities					
Receipts from customers		48,830	47,203	33,060	31,394
Payments to suppliers and employees		(36,496)	(34,543)	(23,632)	(21,284)
Interest received		603	834	336	770
Dividends received		-	-	4,732	1,258
Income taxes paid		(703)	(940)	(71)	(288)
<b>Net cash inflow from operating activities</b>	27(c)	<b>12,234</b>	<b>12,554</b>	<b>14,425</b>	<b>11,850</b>
Cash Flows From Investing Activities					
Payment for purchase of business, net of cash acquired	27(b)	(2,097)	-	(2,097)	-
Payments for purchase of intellectual property		-	(174)	-	(174)
Expenditure on capitalised development costs		(3,226)	(2,559)	(3,349)	(2,716)
Payment for property, plant and equipment		(1,449)	(375)	(772)	(153)
Increase in loans from subsidiaries		-	-	-	308
Receipts/(Payments) for security deposits		14	1	(5)	-
<b>Net cash outflow from investing activities</b>		<b>(6,758)</b>	<b>(3,107)</b>	<b>(6,223)</b>	<b>(2,735)</b>
Cash Flows From Financing Activities					
Proceeds from issues of equity securities		124	136	124	136
Dividends paid to company's shareholders		(5,291)	-	(5,291)	-
Repayment of loans to subsidiaries		-	-	(5,470)	-
Return of capital to shareholders		(5,606)	(4,862)	(5,606)	(4,862)
<b>Net cash outflow from financing activities</b>		<b>(10,773)</b>	<b>(4,726)</b>	<b>(16,243)</b>	<b>(4,726)</b>
<b>Net Increase/(Decrease) in cash and cash equivalents</b>		<b>(5,297)</b>	<b>4,721</b>	<b>(8,041)</b>	<b>4,389</b>
Cash and cash equivalents at the beginning of the financial year		18,023	13,302	16,013	11,624
<b>Cash and cash equivalents at the end of the financial year</b>	27(a)	<b>12,726</b>	<b>18,023</b>	<b>7,972</b>	<b>16,013</b>

The above cash flow statements should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

for the year ended 31 December 2006

## 1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The financial report includes separate financial statements for Reckon Limited as an individual entity and the consolidated entity consisting of Reckon Limited and its subsidiaries.

### **Basis of preparation**

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

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

The financial report has been prepared in accordance with the historical cost convention, except for the revaluation of certain non-current assets and financial instruments.

### **Significant Accounting Policies**

#### (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. Trade payables are recognised initially at fair value, and subsequently at amortised cost.

#### (b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the fair value of 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 recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

The group has used the exemption in AASB 1 and has not applied AASB 3 Business Combinations to transactions which occurred before 1 January 2004.

## (c) Depreciation and Amortisation

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

Plant and equipment	3 - 5 years
Leasehold improvements	3 - 6 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, using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service.

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

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

## (e) Contributed Equity

## Transaction Costs on the Issue of Equity Instruments

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

## (f) Foreign Currency Translation

## Functional and presentation currency

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

## Transactions and balances

All foreign currency transactions during the financial year have been brought to account in the functional currency using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Exchange differences are brought to account in the income statement in the period in which they arise.

## Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency of the consolidated entity as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at average rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken directly to reserves. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity at the closing rate.

## (g) 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

Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. Goodwill represents the excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired. Goodwill is not amortised, and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Following initial recognition goodwill is measured at cost less any accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. If an impairment has been identified, the goodwill is written down and an expense recognised in the income statement. Impairment losses recognised for goodwill are not subsequently reversed.

Intellectual Property

Acquired Intellectual Property is recognised at cost, less accumulated amortisation and any impairment losses, and is amortised on a straight line basis between 3-5 years.

Research and development costs

Research and development expenditure is recognised as an expense when incurred, except in the undernoted instances.

Development costs on the existing APS and Elite suites 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 and Elite 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 each balance sheet 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

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities, and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to those temporary differences if they arose in a transaction, other than a business combination, that at the time of the

transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. All deferred tax liabilities are recognised.

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

Reckon Limited, and its wholly owned Australian controlled entities have formed a tax consolidated group.

Under the tax consolidation regime, the parent company is responsible for recognising the current tax assets and liabilities both for itself and its underlying subsidiaries. Therefore any current tax assets or liabilities attributable to the underlying subsidiaries are assumed by the parent company.

Deferred tax is recognised by each entity within the group, with the exception of deferred tax assets arising from available tax losses and tax credits, which are assumed by the parent company.

Both current and deferred tax assets and liabilities are calculated as if each entity were a standalone taxpayer.

All the wholly-owned Australian controlled entities in the group have entered into a tax funding agreement, which requires that all balances assumed by the head entity are settled in full. 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 in controlled entities

Investments in controlled entities are recorded at cost.

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

(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. Controlled entities are all entities over which the group has the power to govern the financial and operating policies.

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 the 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 amortised cost, less impairment.

(o) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(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.

## Royalty Income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreement.

## 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.

## (q) 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 income statement over the contract period, normally 12 months.

## (r) Earnings per share

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

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

## (s) Equity - based compensation benefits

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

### *Options granted before 7 November 2002 or vested before 1 January 2005*

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received are allocated to share capital.

### *Options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a binomial option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(t) Cash and cash equivalents

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

(u) Other financial assets

Other financial assets represent security deposits held as rental guarantees. They are valued at amortised cost.

(v) Comparative figures

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

(w) Provisions

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

(x) Fair Value estimation

The fair value of financial instruments and share based payments that are not traded in an active market is determined using valuation techniques. The group uses a variety of methods and assumptions that are based on existing market conditions. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining instruments.

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

(y) Rounding of amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100, and accordingly, amounts in the financial report have been rounded off to the nearest thousand dollars.

(z) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

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

Capitalisation of development costs - the group has adopted the policy of capitalising development costs only for products which will provide definite benefits going forward.

## Significant accounting estimates and assumptions

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

Impairment of goodwill - the group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation, and the effect if these assumptions change, are disclosed in Note 11.

Share based payments - the group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using the Binomial Option Pricing Model, and the assumptions related to this can be found in Note 19.

### (aa) Adoption of revised accounting standards

The company has not adopted any of the applicable revised accounting standards which have been issued but are not yet applicable to the reporting period ended 31 December 2006 as detailed below.

The only applicable standard, AASB 7 'Financial Instruments : Disclosures', has an application date for periods commencing on or after 1 January 2007, and will be adopted by the group at that time. This new standard is not expected to impact the accounting policies adopted by the group.

### (ab): New accounting standards now effective

In the current year, the Group has adopted all of the new and revised Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new Accounting Standards and Interpretations has not resulted in any changes to the group's accounting policies.

## 2 Profit from Ordinary Activities

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

### Revenue

#### Sales revenue

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Sale of goods and rendering of services	44,755	41,137	29,739	27,062

#### Other Revenue

Other income	257	287	257	287
Interest revenue - Other entities	603	834	336	770
Royalty revenue	-	-	2,991	2,691
Dividend income	-	-	4,732	1,258
	<u>860</u>	<u>1,121</u>	<u>8,316</u>	<u>5,006</u>
	<u>45,615</u>	<u>42,258</u>	<u>38,055</u>	<u>32,068</u>

### Expenses

Cost of Sales	6,963	6,737	6,304	5,845
Impairment in amounts receivable from:				
Other Entities	1	81	(28)	91
Bad debt expense				
Other Entities	11	11	2	11
Wholly-owned controlled entities	-	-	-	673
Finance costs expensed: Wholly-owned controlled entities	-	-	84	292
Net transfers to/(from) provisions:				
Sales returns and rebates	208	(127)	208	(127)
Employee benefits	58	309	(129)	208
Depreciation of non-current assets:				
Property, plant and equipment	357	264	225	170
Amortisation of non-current assets:				
Leasehold improvements	46	43	22	37
Intellectual property	638	555	638	555
Development costs	1,578	816	1,663	873
Foreign exchange losses/(gains)	(227)	91	-	-
Research and Development costs	2,247	2,053	2,247	2,053
Operating lease rental expenses:				
Minimum lease payments	1,270	1,209	739	695

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

### 3 Income Tax

(a) **Income tax expense**

Current tax	1,142	1,099	(13)	112
Deferred tax	1,709	1,452	1,748	1,518
Under / (over) provided in prior years	(18)	(326)	(18)	(211)
	<u>2,833</u>	<u>2,225</u>	<u>1,717</u>	<u>1,419</u>

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

<b>Profit before income tax</b>	<u>11,002</u>	<u>9,259</u>	<u>12,194</u>	<u>7,210</u>
Income tax expense calculated at 30% of profit from ordinary activities	3,301	2,778	3,658	2,163
<b>Tax Effect of:</b>				
Effect of higher tax rates on overseas income	52	45	-	-
Tax effect of non-deductible/non-taxable items:				
Dividends	-	-	(1,420)	(377)
Research and development claims	(129)	(232)	(129)	(232)
Share-based payments	15	75	15	75
Sundry items	80	(19)	11	1
	<u>3,319</u>	<u>2,647</u>	<u>2,135</u>	<u>1,630</u>
Under/(over) provision in prior years	(18)	(326)	(18)	(211)
Benefit of tax losses of prior years recouped	(468)	(96)	(400)	-
	<u>2,833</u>	<u>2,225</u>	<u>1,717</u>	<u>1,419</u>
Income tax expense/(revenue) attributable to profit from ordinary activities				

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

**Tax losses:**

Revenue	272	729	-	400
Capital	2,386	2,386	2,386	2,386
	<u>2,658</u>	<u>3,115</u>	<u>2,386</u>	<u>2,786</u>

Consolidated		Parent	
2006	2005	2006	2005
\$	\$	\$	\$

#### 4 Remuneration of Auditors

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

(a) DTT NSW

Auditing and reviewing of financial reports	126,188	125,350	105,301	95,350
Advice in relation to acquisitions	-	-	-	-
Other assurance services	24,802	11,075	24,802	11,075
Tax consulting services	52,370	86,905	52,370	85,555
	<u>203,360</u>	<u>223,330</u>	<u>182,473</u>	<u>191,980</u>

Other Auditors

Auditing and reviewing of financial reports	33,766	27,365	-	-
Tax compliance services	26,086	15,127	-	-
	<u>59,852</u>	<u>42,492</u>	<u>-</u>	<u>-</u>
	<u>263,212</u>	<u>265,822</u>	<u>182,473</u>	<u>191,980</u>

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

#### 5 Inventories

Finished goods:				
At net realisable value	358	185	358	185
	<u>358</u>	<u>185</u>	<u>358</u>	<u>185</u>

#### 6 Receivables

Current:				
Trade receivables	3,790	3,014	1,535	1,571
Allowance for doubtful debts	(364)	(363)	(286)	(314)
	<u>3,426</u>	<u>2,651</u>	<u>1,249</u>	<u>1,257</u>
Other receivables	293	269	207	147
	<u>3,719</u>	<u>2,920</u>	<u>1,456</u>	<u>1,404</u>
Non current:				
Unsecured loans to subsidiaries	-	-	906	-
	<u>-</u>	<u>-</u>	<u>906</u>	<u>-</u>

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 7 Other Assets

Prepayments	491	399	329	247
Work in progress	183	100	-	-
	<u>674</u>	<u>499</u>	<u>329</u>	<u>247</u>

## 8 Financial Assets

Security deposits	301	315	286	281
Shares in controlled entities - at cost (note 24)	-	-	14,440	14,440
	<u>301</u>	<u>315</u>	<u>14,726</u>	<u>14,721</u>

## 9 Property, Plant And Equipment

### Leasehold Improvements

At cost	1,319	784	756	722
Less: Accumulated amortisation	763	688	692	669
Total leasehold improvements	<u>556</u>	<u>96</u>	<u>64</u>	<u>53</u>

### Plant and equipment

At cost	4,564	3,771	3,680	2,903
Less: Accumulated depreciation	3,387	3,215	2,865	2,655
Total plant & equipment	<u>1,177</u>	<u>556</u>	<u>815</u>	<u>248</u>
	<u>1,733</u>	<u>652</u>	<u>879</u>	<u>301</u>

### 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 \$'000	Plant and Equipment \$'000	Total \$'000
Consolidated			
Carrying amount at 31 December 2005	96	556	652
Additions	506	996	1,502
Depreciation/amortisation expense	(46)	(375)	(421)
Balance at 31 December 2006	<u>556</u>	<u>1,177</u>	<u>1,733</u>
Parent entity			
Carrying amount at 31 December 2005	53	248	301
Additions	33	792	825
Depreciation/amortisation expense	(22)	(225)	(247)
Balance at 31 December 2006	<u>64</u>	<u>815</u>	<u>879</u>

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
Consolidated			
Carrying amount at 31 December 2004	81	532	613
Additions	59	316	375
Depreciation/amortisation expense	(44)	(292)	(336)
Balance at 31 December 2005	<u>96</u>	<u>556</u>	<u>652</u>
Parent entity			
Carrying amount at 31 December 2004	79	276	355
Additions	11	142	153
Depreciation/amortisation expense	(37)	(170)	(207)
Balance at 31 December 2005	<u>53</u>	<u>248</u>	<u>301</u>

Consolidated		Parent	
2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

## 10 Deferred Tax Asset

The balance comprises temporary differences attributable to:

Doubtful debts	97	100	-	94
Employee benefits	398	611	-	392
Sales returns and volume rebates	82	20	-	20
Deferred revenue	415	348	-	348
Difference between book and tax value of non-current assets	(1,195)	(602)	-	(602)
Other provisions	361	142	-	87
Overseas withholding tax recoverable	-	160	-	160
Tax losses	-	1,221	-	1,221
	<u>158</u>	<u>2,000</u>	<u>-</u>	<u>1,720</u>

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

Opening balance at 1 January	2,000	3,452	1,720	3,238
Credited (charged) to the income statement	(1,709)	(1,452)	(1,748)	(1,518)
Reclassification of recoverable withholding tax	(160)	-	(160)	-
Acquisition of businesses	27	-	4	-
Balance at 31 December	<u>158</u>	<u>2,000</u>	<u>*(184)</u>	<u>1,720</u>

\* Refer note 17

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 11 Intangibles

Intellectual property - at cost	5,256	4,249	5,256	4,249
Accumulated amortisation	(3,788)	(3,150)	(3,788)	(3,150)
	<u>1,468</u>	<u>1,099</u>	<u>1,468</u>	<u>1,099</u>
Development costs - at cost	8,121	4,877	8,514	5,165
Accumulated amortisation	(2,568)	(990)	(2,727)	(1,064)
	<u>5,553</u>	<u>3,887</u>	<u>5,787</u>	<u>4,101</u>
Goodwill - at cost	13,842	11,306	2,536	-
	<u>20,863</u>	<u>16,292</u>	<u>9,791</u>	<u>5,200</u>

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

### Impairment test for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to country of operation, as follows:

Australia	12,101	9,565
New Zealand	<u>1,741</u>	<u>1,741</u>
	<u>13,842</u>	<u>11,306</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on annual financial budgets for 2007 approved by the board. Cash flows beyond the annual budget are extrapolated for 5 years using estimated average growth rates of 10% per annum, which are based on past experience. If the cash flow or the growth rates were to be halved, the recoverable amount would still exceed the carrying amount for both CGU's. A pre-tax discount rate of 13.7% is applied to cash flow projections for both CGU's reflecting similar risk profiles in each.

Consolidated movements in intangibles	Goodwill	Intellectual Property	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2006	11,306	1,099	3,887	16,292
Additions	2,536	1,007	3,244	6,787
Amortisation charge	-	(638)	(1,578)	(2,216)
At 31 December 2006	<u>13,842</u>	<u>1,468</u>	<u>5,553</u>	<u>20,863</u>
At 1 January 2005	11,306	1,480	2,115	14,901
Additions	-	174	2,588	2,762
Amortisation charge	-	(555)	(816)	(1,371)
At 31 December 2005	<u>11,306</u>	<u>1,099</u>	<u>3,887</u>	<u>16,292</u>

Parent movements in intangibles	Goodwill	Intellectual Property	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2006	-	1,099	4,101	5,200
Additions	2,536	1,007	3,349	6,892
Amortisation charge	-	(638)	(1,663)	(2,301)
At 31 December 2006	<u>2,536</u>	<u>1,468</u>	<u>5,787</u>	<u>9,791</u>
At 1 January 2005	-	1,480	2,258	3,738
Additions	-	174	2,716	2,890
Amortisation charge	-	(555)	(873)	(1,428)
At 31 December 2005	<u>-</u>	<u>1,099</u>	<u>4,101</u>	<u>5,200</u>

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 12 Other assets

Prepayments	<u>200</u>	<u>-</u>	<u>200</u>	<u>-</u>
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## 13 Payables

Current:				
Trade payables and sundry accruals	3,424	3,095	2,177	1,897
Capital reduction payment to shareholders	-	5,568	-	5,568
Payables in relation to acquisitions	1,050	-	1,050	-
Employee benefits (Note 19)	<u>1,018</u>	<u>1,005</u>	<u>516</u>	<u>589</u>
	<u>5,492</u>	<u>9,668</u>	<u>3,743</u>	<u>8,054</u>
Non-Current:				
Unsecured loans from subsidiaries	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,066</u>

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

## 14 Provisions

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Current:				
Sales returns, volume rebates	274	66	274	66
Employee benefits (Note 19)	-	121	-	121
Commissions and sundry provisions	334	433	-	-
	<u>608</u>	<u>620</u>	<u>274</u>	<u>187</u>
Non-current:				
Employee benefits (Note 19)	401	235	216	151
	<u>401</u>	<u>235</u>	<u>216</u>	<u>151</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		Licences, commissions and sundry		Total
	\$'000		\$'000		
2006	Consolidated and parent		Consolidated		
Carrying amount at the start of the year		66	433		499
Additional provisions recognised		208	-		208
Released to income statement		-	(99)		(99)
		<u>274</u>	<u>334</u>		<u>608</u>

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 15 Other Liabilities

Current:

Deferred revenue	1,957	1,582	1,385	1,158
Deferred rent contribution	64	-	-	-
	<u>2,021</u>	<u>1,582</u>	<u>1,385</u>	<u>1,158</u>

## 16 Interest-bearing Liabilities

Unsecured loans from subsidiaries	-	-	811	2,816
	<u>-</u>	<u>-</u>	<u>811</u>	<u>2,816</u>

Loans from related parties are interest bearing on normal commercial terms with no fixed terms of repayment.

## 17 Deferred tax liabilities

Withholding tax payable in event of distribution of pre-acquisition dividend

	430	430	-	-
The temporary differences are attributable to:				
Doubtful debts	-	-	(86)	-
Employee benefits	-	-	(196)	-
Sales returns and volume rebates	-	-	(82)	-
Deferred revenue	-	-	(415)	-
Difference between book and tax value of non-current assets	-	-	1,195	-
Other provisions	-	-	(232)	-
Overseas withholding tax recoverable	-	-	-	-
Tax losses	-	-	-	-
	<u>430</u>	<u>430</u>	<u>184</u>	<u>-</u>

## 18 Other liabilities

Deferred rent contribution	257	-	-	-
	<u>257</u>	<u>-</u>	<u>-</u>	<u>-</u>

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 19 Employee Benefits

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

Accrued annual leave:				
Current (Note 13)	1,018	1,005	516	589
Long term incentive:				
Non-current (Note 14)	80	54	80	54
Provision for long service leave:				
Current (Note 14)	-	121	-	121
Non-current (Note 14)	321	181	136	97
	<u>1,419</u>	<u>1,361</u>	<u>732</u>	<u>861</u>

### Long-term incentive plan

The long term incentive plan was approved at the special general meeting on 20 December 2005, and comprises three possible methods of participation: an option plan, a performance share plan and a share appreciation plan. The board has a discretion to make offers to applicable employees to participate in any of these plans. Options granted and/or performance shares awarded (all in respect of the company's ordinary shares) and/or share appreciation rights do not vest before three years after their grant date. Vesting is also conditional upon the company achieving defined performance criteria. The performance criteria are based upon a total shareholder return (TSR) target. A TSR is the return to shareholders over a prescribed period, being the growth in the company's share price plus dividends or returns of capital for that period. The company's initial TSR target will be the Company achieving a median or higher ranking against the TSR position of individual companies within a 'comparator group' of companies (i.e. a group of comparable ASX listed companies pre-selected by the board) over the same period. The initial comparator group was determined by independent advisers and was set out in the Chairman's speech at the special general meeting on 20 December 2005. The board will review the suitability of the comparator group on an on going basis.

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

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

401,785 (2005; 302,014) share appreciation rights and 85,437 (2005; 78,815) performance shares were issued during the year. The fair value of these rights was 22.4 cents (2005; 29.8 cents) and the shares was 78 cents (2005; 84.5 cents), using market price for the shares, and a model that incorporates the Black Scholes model for the rights. The expense recognised for these rights/shares was \$84,275 (2005; \$47,908).

## Reckon Limited Employee Option Plans

The Company has previously had 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 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 were granted for a five-year period and 33.33% of each new tranche became 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 were exercisable (i.e. they were not conditional on future employment). Each option entitled 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	
				2006	2005	2006	2005	2006	2005
27/1/00	27/1/05	\$1.05	20,000	-	6,666	-	-	-	-
			20,000	-	6,666	-	-	-	-
Number of shares that can be issued for unexercised options								-	-

**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 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.

Amounts receivable on exercise of any options are recognised as share capital. Options exercised during the year were exercised with an average exercise price of \$0.52.

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	
				2006	2005	2006	2005	2006	2005
Jul 00	July 05	\$0.672	3,487,381	-	466,774	-	77,304	-	-
Jul 00	July 05	\$1.120	101,110	-	45,263	-	-	-	-
Aug 00	Aug 05	\$1.125	129,466	-	52,219	-	-	-	-
Sep 00	Sep 05	\$0.881	171,200	-	19,485	-	-	-	-
Oct 00	Oct 05	\$0.492	133,509	-	20,000	-	23,333	-	-
Nov 00	Nov 05	\$0.264	15,625	-	-	-	8,250	-	-
Dec 00	Dec 05	\$0.222	68,000	-	45,000	-	-	-	-
Jan 01	Jan 06	\$0.174	1,079,759	17,401	916	-	-	-	17,401
Feb 01	Feb 06	\$0.188	1,152,500	236,267	12,435	-	46,500	-	236,267
Mar 01	Mar 06	\$0.155	68,391	18,267	961	-	12,500	-	18,267
Apr 01	Apr 06	\$0.160	12,547	-	-	-	-	-	-
May 01	May 06	\$0.165	44,392	3,279	173	-	5,208	-	3,279
Jun 01	Jun 06	\$0.147	63,579	-	-	-	10,415	-	-
Jul 01	Jul 06	\$0.131	17,588	1,196	63	-	-	-	1,196
Aug 01	Aug 06	\$0.102	13,536	6,490	342	-	-	-	6,490
Sep 01	Sep 06	\$0.069	39,889	5,323	280	-	-	-	5,323
Oct 01	Oct 06	\$0.075	50,826	6,016	317	-	-	-	6,016
Dec 01	Dec 06	\$0.116	37,827	5,301	558	5,301	26,667	-	10,602
Jan 02	Jan 07	\$0.139	103,553	-	2,381	6,861	7,222	38,368	45,229
Feb 02	Feb 07	\$0.138	7,778	-	389	7,389	-	-	7,389
Mar 02	Mar 07	\$0.138	41,666	-	542	-	-	10,291	10,291
Jul 02	Jul 07	\$0.133	41,668	-	1,167	-	3,611	22,168	22,168
Sep 02	Sep 07	\$0.135	16,111	-	472	-	6,667	8,972	8,972
Dec 02	Dec 07	\$0.176	130,553	-	2,478	15,147	24,444	31,929	47,076
Jan 03	Jan 08	\$0.190	26,667	-	-	-	-	-	-
Jun 03	Jun 08	\$0.270	58,891	8,444	1,778	6,334	15,557	19,001	33,779
Sep 03	Sep 08	\$0.505	115,002	-	8,958	17,417	-	84,183	101,600
Dec 03	Dec 08	\$0.619	48,890	-	6,139	1,216	-	41,535	42,751
Jan 04	Jan 09	\$0.551	1,061,159	9,502	49,876	160,501	63,610	777,670	947,673
Mar 04	Mar 09	\$0.789	56,110	4,750	2,805	12,666	-	35,889	53,305
Jun 04	Jun 09	\$0.960	76,668	-	7,001	-	-	69,667	69,667
Sep 04	Sep 09	\$0.823	151,166	16,361	26,030	-	-	108,775	125,136
Dec 04	Dec 09	\$0.796	250,554	16,626	39,444	-	-	194,484	211,110
Mar 05	Mar 10	\$0.743	75,555	7,389	10,639	-	-	57,527	64,916
Jul 05	Jul 10	\$0.741	79,999	3,958	4,000	-	-	72,041	75,999
Sep 05	Sep 10	\$0.779	113,887	13,722	5,694	-	-	94,471	108,193
Dec 05	Dec 10	\$0.722	144,445	33,776	7,222	5,804	-	97,643	137,223
				<u>414,068</u>	<u>841,801</u>	<u>238,636</u>	<u>331,288</u>	<u>1,764,614</u>	<u>2,417,318</u>
Number of shares that can be issued for unexercised options								<u>1,764,614</u>	<u>2,417,318</u>

No further options will be issued under either of these plans. The plans have been replaced by the employee incentive plans approved by the Special General Meeting on 20 December 2005.

Options are valued using the Binomial Option Pricing Model, taking into account the exercise price, the expected life of the options (estimated at 4.5 years), the price of the underlying shares (range is between \$0.29 and \$1.00), the expected volatility of those shares based on historical volatility, the expected dividends and the risk-free rate of interest. The weighted average share price during the year was \$0.91.

## 20 Contributed Equity

Fully Paid Ordinary Share Capital	2006		2005	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	132,236,740	17,747	138,864,948	53,048
Transfer from share-based payments reserve for options exercised during the year	-	63	-	27
Transfer from accumulated losses	-	-	-	(25,034)
Issue of shares	238,636	124	331,288	136
Less than marketable parcel buy-back	(47,398)	(38)	-	-
Reduction of capital	-	-	(6,959,496)	(5,568)
Return of capital	-	-	-	(4,862)
Balance at end of financial year	<u>132,427,978</u>	<u>17,896</u>	<u>132,236,740</u>	<u>17,747</u>

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

238,636 (2005; 331,288) Options were exercised during the year with an average exercise price of \$0.52. Details of the options that were exercised and further details in respect of the share option plans are contained in note 19 to the financial statements.

Total consideration for options exercised during the year is \$124,530.

On 31 January 2006, the company announced that it would offer to shareholders of less than marketable parcels of shares to purchase such shares at \$0.80 per share. Offers were sent to shareholders who at close of business on 31 January 2006 held 641 shares or less (based on a closing price of \$0.78 on 30 January 2006). The offer remained open until 30 June 2006. 47,398 shares were purchased at a cost of \$37,918.

## 21 Reserves

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Foreign currency translation reserve				
Balance at beginning of financial year	251	141	-	-
Translation of foreign operations	<u>(130)</u>	<u>110</u>	<u>-</u>	<u>-</u>
Balance at end of financial year	<u>121</u>	<u>251</u>	<u>-</u>	<u>-</u>
Share-based payments reserve				
Balance at beginning of financial year	568	347	568	347
Option expense	49	248	49	248
Transfer to share capital (options exercised)	<u>(63)</u>	<u>(27)</u>	<u>(63)</u>	<u>(27)</u>
Balance at end of financial year	<u>554</u>	<u>568</u>	<u>554</u>	<u>568</u>
	<u>675</u>	<u>819</u>	<u>554</u>	<u>568</u>

**Nature and purpose of reserves**

## (a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(f).

## (b) Share-based payments reserve

The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised.

## 22 Retained Earnings

Balance at beginning of financial year	9,796	(22,272)	6,062	(24,763)
Transfer to contributed equity (Note 20)	-	25,034	-	25,034
Net profit	8,169	7,034	10,477	5,791
Dividends	<u>(5,291)</u>	<u>-</u>	<u>(5,291)</u>	<u>-</u>
Balance at end of financial year	<u>12,674</u>	<u>9,796</u>	<u>11,248</u>	<u>6,062</u>

## 23 Earnings Per Share

	2006	2005
	¢	¢
Basic earnings per share	6.2	5.1
Diluted earnings per share	6.1	5.0
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>132,318,888</u>	<u>138,780,700</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	<u>134,083,502</u>	<u>141,198,018</u>

Earnings per share calculations are based on profit for the year as set out in the income statement.

Potential ordinary shares of 1,764,614 (2005: 2,417,318) are options issued but not exercised as disclosed in note 19.

## 24 Contingent Liabilities

Additional payments may be required to be made in respect of the Desktop Super acquisition subject to future sales performance criteria. This amount cannot be reliably measured at this time. Refer to note 27(b) for further details.

## 25 Commitments For Expenditure

## (a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$Nil as at 31 December 2006 (2005: \$Nil)

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(b) Lease Commitments				
<b>Operating Leases</b>				
Within 1 year	1,272	1,308	703	699
Later than 1 year and not longer than 5 years	1,828	2,700	254	759
Later than 5 years	<u>-</u>	<u>215</u>	<u>-</u>	<u>-</u>
	<u>3,100</u>	<u>4,223</u>	<u>957</u>	<u>1,458</u>

Operating leases relate to office and warehouse premises and office facilities with lease terms of between 1 to 6 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.

## 26 Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2006 %	2005 %
<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 Holdings Pty Limited	Australia	100	100
Reckon Pacrim Pty Limited	Australia	100	100
Reckon Training Pty Limited	Australia	90	90
Reckon Limited Performance Share Plan Trust	Australia	100	-
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Advanced Professional Solutions Limited	United Kingdom	100	100

All shares held are ordinary shares.

Consolidated		Parent	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

## 27 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)	12,726	18,023	7,972	16,013
	<u>12,726</u>	<u>18,023</u>	<u>7,972</u>	<u>16,013</u>

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

### (b) Businesses Acquired

#### Consideration:

Cash	2,097	-	2,097	-
Consideration yet to be paid	1,050	-	1,050	-
	<u>3,147</u>	<u>-</u>	<u>3,147</u>	<u>-</u>

#### Fair value of net assets of entity acquired:

Receivables	117	-	117	-
Intellectual property	1,004	-	1,004	-
Deferred tax assets	27	-	27	-
Fixed assets	53	-	53	-
Trade payables	(90)	-	(90)	-
Other current liabilities	(500)	-	(500)	-
	<u>611</u>	<u>-</u>	<u>611</u>	<u>-</u>
Goodwill	2,536	-	2,536	-
	<u>3,147</u>	<u>-</u>	<u>3,147</u>	<u>-</u>

Reckon Limited acquired the Desktop Super business for \$800,000 and the Elite business for \$2.3 million, effective from 28 February 2006 and 1 March 2006 respectively. Consideration yet to be paid for Desktop Super is subject to development roadmap and quality criteria. Additional payments may also be made in respect of Desktop Super subject to future sales performance criteria. The goodwill is attributable to the established profitability of the Elite business.

The book value of all of the net assets acquired were equivalent to their fair values, apart from intellectual property. The book value of intellectual property was \$180,000.

Under the contract for the acquisition of the Elite business a second payment was due to be made on 28 February 2007. It is the company's contention that the vendor is in breach of certain warranties concerning the carrying on of the business, viz: out of the ordinary income was earned by the business immediately prior to the conclusion of the transaction which would otherwise have been revenue earned by the company after the conclusion of the transaction. The company is entitled under the contract is seeking to set off the lost revenue against the second payment.

The acquired businesses have contributed revenue of \$1,670,000 and net profit after tax of \$677,000 for the year ended 31 December 2006.

If the acquisitions had occurred in 1 January 2006, the consolidated revenue and consolidated profit after tax for the year ended 31 December 2006 would not have been materially different to the reported results.

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(c) Reconciliation of Profit from Operating Activities After Income Tax To Net Cash Flows From Operating Activities				
Profit from ordinary activities after income tax	8,169	7,034	10,477	5,791
Depreciation and amortisation of non-current assets	2,619	1,678	2,548	1,635
Non-cash employee benefits expense - share based payment	168	303	168	303
Write-off of wholly owned entity loan	-	-	-	673
Increase/(decrease) in current tax liability/asset	289	(518)	(183)	(18)
Increase in deferred tax balances	1,869	1,452	1,931	1,710
Unrealised foreign currency translation amount	(130)	110	-	-
(Increase)/decrease in assets:				
Current receivables	(683)	1,618	64	1,310
Current inventories	(173)	(5)	(173)	(5)
Other current assets	(118)	(161)	(25)	(78)
Non-current receivables	(200)	-	(200)	-
Increase/(decrease) in liabilities:				
Current trade payables	(400)	930	(535)	721
Other current liabilities	427	46	314	(237)
Other non-current liabilities	397	67	39	45
Net cash inflow from operating activities	<u>12,234</u>	<u>12,554</u>	<u>14,425</u>	<u>11,850</u>

## 28 Outside Equity Interests in Controlled Entities

	Consolidated	
	2006	2005
	\$'000	\$'000
Interest in:		
Share Capital	-	-
Accumulated Losses	(2)	(2)
	<u>(2)</u>	<u>(2)</u>

## 29 Dividends - ordinary shares

	Parent	
	2006	2005
	\$'000	\$'000
Final unfranked dividend for the year ended 31 December 2005 of 2 cents per share paid on 23 March 2006	2,645	-
Interim unfranked dividend for the year ended 31 December 2006 of 2 cents per share paid on 4 September 2006	2,646	-
	<u>5,291</u>	<u>-</u>
Franking credits available for subsequent financial years based on a tax rate of 30% (2005 30%)	990	449
	<u>990</u>	<u>449</u>

## 30 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 \$12,726,104 (which attracts an average variable interest rate of 6.3%, (2005: 5.9%). 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) Fair Value

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

### (e) Foreign Currency Risk

Foreign exchange risk arises when transactions, assets and liabilities are denominated in a currency that is not the entity's functional currency. The group includes entities operating in New Zealand and the United Kingdom, therefore balances included in the balance sheet can be affected by fluctuations in the exchange rates between these countries and the Australian dollar. The group does not hedge against this foreign currency risk.

### (f) Liquidity

The group maintains sufficient cash resources for expenditure and payment of liabilities.

## 31 Segment Information

(a) 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, client accounting and related software.

**Segment revenues**

	External sales		Inter-segment		Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Quicken products	29,739	27,197	7,723	3,949	593	1,057	38,055	32,203
APS products	15,016	13,940	-	-	267	64	15,283	14,004
Total of all segments							53,338	46,207
Eliminations							(7,723)	(3,949)
Total revenue							45,615	42,258

**Segment results**

Quicken products*							7,942	6,817
APS products							3,060	2,442
Profit before income tax							11,002	9,259
Income tax expense							(2,833)	(2,225)
Net profit for the year							8,169	7,034

\* The Quicken result includes royalty income from APS, net of APS development cost and IP amortisation.

**Segment assets and liabilities**

	Assets		Liabilities	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Quicken products	14,899	21,081	7,038	14,645
APS products	26,914	24,869	3,532	2,945
Total of all segments	41,813	45,950	10,570	17,590
Eliminations	(1,081)	(5,055)	(1,081)	(5,055)
Unallocated	-	-	-	-
Consolidated	40,732	40,895	9,489	12,535

## Other segment information

	Quicken products		APS products	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Acquisition of segment assets	4,188	153	4,081	2,955
Depreciation and amortisation of segment assets	721	637	1,898	1,041

## (b) 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	
	2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australia	39,274	35,965	30,775	33,837	6,932	2,142
Other countries	5,481	5,172	10,005	9,874	1,337	966
	<u>44,755</u>	<u>41,137</u>	<u>40,780</u>	<u>43,711</u>	<u>8,269</u>	<u>3,108</u>
Unallocated assets			(48)	(2,816)		
Total assets			<u>40,732</u>	<u>40,895</u>		

## 32 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 10 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.

### 33 Subsequent Events

Subsequent to the end of the financial year:

#### Acquisitions

Reckon Limited will acquire the Shelco business effective from 1 March 2007 for an initial payment of \$750,000 and a further maximum payment of \$1,250,000 based on future performance. Shelco is expected to contribute \$150,000 to operating profit in the first 10 months. To achieve the maximum payment, profitability would need to increase in excess of 500%. The second payment will be made by 31 August 2008. Shelco provides company registration, trust and superannuation fund establishment, ASIC and other search services predominantly to the accounting and legal professions.

Reckon Limited will also acquire its New Zealand Quicken distributor as well as the IP for a complimentary range of products for \$400,000 effective 1 March 2007. This business is expected to contribute operating profit of \$150,000 in the first 10 months. Appropriate profit share arrangements have been established to encourage aggressive growth in this business over the next 5 years. The additional products acquired include an ASP payroll solution, an online backup solution and a tool which allows downloading of bank data.

#### Dividend

The board has declared a dividend of 2.5 cents per share to shareholders on 22 February 2007. The dividend will be unfranked. The record date for the dividend is 9 March 2007.

#### Options

38,368 options in the Executive Share Option Plan No. 2 have lapsed and 10,555 options have been exercised with an average exercise price of \$0.551.