

Notification to the ASX
12 February 2008
Preliminary Final Results
Reckon Limited (RKN)
ACN: 003 348 730

Headline results up

The company reported the following headline results:

- Group revenue was up 23% from \$45.6 million to \$56.2 million.
- Group EBITDA was up 26% from \$13.0 million to \$16.5 million.
- Group NPAT was up 21% from \$8.2 million to \$9.9 million.
- EPS was up 21% from 6.2 cents to 7.5 cents per share.
- Final dividend of 3 cents per share – 100% franked.
- Operating cash flow was up 19% to \$14.6 million with a cash balance of \$14.1 million at 31 December 2007.

2nd half growth up

Significantly, in respect of key indicators, growth in the second half of 2007 was significantly higher than growth in the first half:

- Second half revenue 2007 up 24% on 2006 (first half revenue 2007 up 22% on 2006).
- Second half EBITDA 2007 up 30% on 2006 (first half EBITDA 2007 up 23% on 2006).
- Second half NPAT 2007 up 27% on 2006 (first half NPAT 2007 up 16% on 2006).



Reckon Limited Group CEO, Clive Rabie said:

"The overall performance in 2007 in itself is very satisfying. It was especially pleasing to see that strong average revenue growth of 18% over the last 3 years has been built upon in 2007 to 23%, and second half growth substantially out stripped growth in the first half.

Organic growth continues to be strong. Underlying business operating revenue was up by 17% and EBITDA by 27% over 2006.

In the Business Division, sales growth for 2007 was 23% up on 2006 while EBITDA for 2007 showed 27% growth on 2006.

A significant feature for our business in 2008 will be the launch of the QuickBooks QBi range which represents a 'step change' in technology and functionality for small businesses and opens the enterprise market to our company.

While the New Zealand business disappointed, an investment in marketing and organisational changes in 2007 should result in an improved result in 2008.

The development investment in our newly acquired Shelco business (a provider of a range of online services, including: company registration, unit trusts establishment, family trusts establishment, self-managed super fund establishment, domain name registration, business names searches, and financial, corporate and statutory information searches) continued throughout 2007 and provides an opportunity for the company to pursue its strategy of widening the product offering to our customers in 2008 and beyond.

In the Professional Division, APS continues to show steady growth. Revenue for 2007 was up 24% on 2006. EBITDA for 2007 was also 24% up on 2006. Although growth in the second half of the year was slower, investment in staff resources to meet increasing demand (especially consultancy resources) should reap benefits beginning in the second quarter of 2008.

APS' position as the product of choice amongst the Top 100 accounting firms was further confirmed by the conclusion of product supply contracts with two of the Top 4 accounting firms during the year.

Given our strong cash position we will continue to explore acquisition opportunities for businesses and technology to enhance our product and service offerings to existing customers in our territories."

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

*Preliminary Final Report**Financial Year Ended 31 December 2007*

Results for announcement to the market

	31 Dec 2007 \$'000	31 Dec 2006 \$'000	% Change
Revenue	56,153	45,615	+23%
Profit before income tax	13,334	11,002	+21%
Profit for the year	9,893	8,169	+21%
Net Profit attributable to members	9,893	8,169	+21%
Earnings per share	7.5 cents	6.2 cents	+21%

Group revenue: Up 23%**Group EBITDA: Up 26%****Business division revenue: Up 23%****Business division EBITDA: Up 27%****Professional division revenue: Up 24%****Professional division EBITDA: Up 24%****Final Dividend****3 cents per share, fully franked****Net Tangible Assets per Security**

The net tangible assets per security as at 31 December 2007 is 8.2 cents per share (2006: 7.7 cents per share).

Dividend

The board declared a final dividend for Reckon Limited of 3 cents per share to shareholders on 12 February 2008. The dividend will be franked. The record date for payment of the dividend is 9 March 2008. An interim dividend of 2.5 cents was paid on 10 September 2007. This takes the company's dividend payout ratio to 74% of NPAT.

Audit

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

Commentary

A very strong revenue growth result has enabled the group to invest in the future and still record a substantial uplift in profitability.

Organic growth continues to be strong. Underlying business operating revenue was up by 17% and EBITDA by 27% over 2006.

In the Business Division, sales growth for 2007 was 23% up on 2006 while EBITDA for 2007 showed 27% growth on 2006.

A significant feature for our business in 2008 will be the launch of the QuickBooks QBi range which represents new technology and functionality for small businesses and opens the enterprise market to the company.

While the New Zealand business disappointed, an investment in marketing and organisational changes in 2007 should result in an improved result in 2008.

The development investment in Shelco continued throughout 2007 and provides an opportunity for the company to pursue its strategy of widening the product offering to our customers in 2008 and beyond.

In the Professional Division, APS continues to show steady growth. Revenue for 2007 was up 24% on 2006. EBITDA for 2007 was also 24% up on 2006. Although growth in the second half of the year was slower, investment in staff resources to meet increasing demand (especially consultancy resources) should reap benefits beginning in the second quarter of 2008.

APS concluded product and services supply contracts with two of the Top 4 accounting firms during the year.

The company will continue to explore acquisition opportunities for businesses and technology to enhance our product and service offerings to existing customers in our territories

Clive Rabie
Director, Group CEO
12 February 2008

Income Statements

for the year ended 31 December 2007

	Note	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Revenue	2	56,153	45,615	42,135	38,055
Product and selling costs		(5,010)	(2,978)	(3,548)	(2,399)
Royalties		(4,081)	(3,985)	(4,062)	(3,905)
Employee benefits expenses		(17,432)	(15,103)	(9,674)	(9,293)
Employee related expenses		(835)	(746)	(596)	(552)
Expense of share-based payments		(571)	(281)	(571)	(281)
Marketing expenses		(4,275)	(3,920)	(3,571)	(3,598)
Premises and establishment expenses		(1,593)	(1,457)	(1,022)	(975)
Depreciation and amortisation		(3,839)	(2,619)	(3,636)	(2,548)
Telecommunications		(748)	(616)	(500)	(455)
Legal and professional expenses		(672)	(475)	(554)	(393)
Finance costs		-	-	(21)	(84)
Other expenses		(3,763)	(2,433)	(1,865)	(1,378)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit before income tax		13,334	11,002	12,515	12,194
Income tax expense	3	(3,441)	(2,833)	(2,358)	(1,717)
		<hr/>	<hr/>	<hr/>	<hr/>
Profit for the year		9,893	8,169	10,157	10,477
Loss attributable to minority interest		-	-	-	-
		<hr/>	<hr/>	<hr/>	<hr/>
Profit attributable to members of Reckon Limited	22	9,893	8,169	10,157	10,477
		<hr/>	<hr/>	<hr/>	<hr/>
		Cents	Cents		
Basic Earnings per Share	23	7.5	6.2		
Diluted Earnings per Share	23	7.4	6.1		

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

Balance Sheets

as at 31 December 2007

	Note	Consolidated		Parent	
		2007	2006	2007	2006
		\$'000	\$'000	\$'000	\$'000
ASSETS					
Current Assets					
Cash and cash equivalents	28	14,141	12,726	11,037	7,972
Trade and other receivables	6	4,205	3,719	1,489	1,456
Inventories	5	349	358	196	358
Other assets	7	846	674	461	329
Total Current Assets		<u>19,541</u>	<u>17,477</u>	<u>13,183</u>	<u>10,115</u>
Non-Current Assets					
Receivables	6	-	-	527	906
Other financial assets	8	380	301	14,820	14,726
Property, plant and equipment	9	1,714	1,733	811	879
Deferred tax assets	10	387	158	-	-
Intangible assets	11	23,326	20,863	12,269	9,791
Other assets	12	324	200	324	200
Total Non-Current Assets		<u>26,131</u>	<u>23,255</u>	<u>28,751</u>	<u>26,502</u>
Total Assets		<u>45,672</u>	<u>40,732</u>	<u>41,934</u>	<u>36,617</u>
LIABILITIES					
Current Liabilities					
Trade and other payables	13	5,038	5,492	3,098	3,743
Current tax liabilities		937	280	1,205	306
Provisions	14	727	608	367	274
Other liabilities	15	2,688	2,021	1,690	1,385
Total Current Liabilities		<u>9,390</u>	<u>8,401</u>	<u>6,360</u>	<u>5,708</u>
Non-Current Liabilities					
Borrowings	16	-	-	1,395	811
Deferred tax liabilities	17	732	430	302	184
Provisions	14	720	401	437	216
Other liabilities	18	178	257	-	-
Total Non-Current Liabilities		<u>1,630</u>	<u>1,088</u>	<u>2,134</u>	<u>1,211</u>
Total Liabilities		<u>11,020</u>	<u>9,489</u>	<u>8,494</u>	<u>6,919</u>
Net Assets		<u>34,652</u>	<u>31,243</u>	<u>33,440</u>	<u>29,698</u>
Equity					
Issued capital	20	18,203	17,896	18,203	17,896
Reserves	21	513	675	461	554
Retained earnings	22	15,938	12,674	14,776	11,248
Parent entity interest		34,654	31,245	33,440	29,698
Minority interest	29	(2)	(2)	-	-
Total Equity		<u>34,652</u>	<u>31,243</u>	<u>33,440</u>	<u>29,698</u>

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

Statements of Changes in Equity

for the year ended 31 December 2007

	Note	Consolidated		Parent	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Total equity at the beginning of the financial year		31,243	28,360	29,698	24,377
Exchange differences on translation of foreign subsidiaries	21	(69)	(130)	-	-
Net income/(loss) recognised directly into equity		(69)	(130)	-	-
Profit for the year		9,893	8,169	10,157	10,477
Total recognised income and expense for the year		9,824	8,039	10,157	10,477
Transactions with equity holders in their capacity as equity holders:					
Reduction of capital, return of capital and share buy-back	20	-	(38)	-	(38)
Dividends paid	30	(6,629)	(5,291)	(6,629)	(5,291)
Employee share options	21	11	49	11	49
Issue of shares	20	203	124	203	124
Total equity at the end of the financial year		34,652	31,243	33,440	29,698
Total recognised income and expense for the year attributable to:					
Members of Reckon Limited		9,824	8,039	10,157	10,477
Minority interest		-	-	-	-
		9,824	8,039	10,157	10,477

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 2007

	Note	Consolidated		Parent	
		Inflows/(Outflows)		Inflows/(Outflows)	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash Flows From Operating Activities					
Receipts from customers		60,496	48,830	39,094	33,060
Payments to suppliers and employees		(43,889)	(36,496)	(26,137)	(23,632)
Interest received		721	603	401	336
Dividends received		-	-	3,150	4,732
Income taxes paid		(2,711)	(703)	(2,005)	(71)
Net cash inflow from operating activities	28(c)	14,617	12,234	14,503	14,425
Cash Flows From Investing Activities					
Payment for purchase of business, net of cash acquired	28(b)	(2,315)	(2,097)	(2,315)	(2,097)
Payments for purchase of intellectual property		(100)	-	(100)	-
Expenditure on capitalised development costs		(3,745)	(3,226)	(3,900)	(3,349)
Payment for property, plant and equipment		(537)	(1,449)	(235)	(772)
Increase in loans from subsidiaries		-	-	1,632	-
Receipts/(Payments) for security deposits		(79)	14	(94)	(5)
Net cash outflow from investing activities		(6,776)	(6,758)	(5,012)	(6,223)
Cash Flows From Financing Activities					
Proceeds from issues of equity securities		203	124	203	124
Dividends paid to company's shareholders		(6,629)	(5,291)	(6,629)	(5,291)
Repayment of loans to subsidiaries		-	-	-	(5,470)
Return of capital to shareholders		-	(5,606)	-	(5,606)
Net cash outflow from financing activities		(6,426)	(10,773)	(6,426)	(16,243)
Net Increase/(Decrease) in cash and cash equivalents		1,415	(5,297)	3,065	(8,041)
Cash and cash equivalents at the beginning of the financial year		12,726	18,023	7,972	16,013
Cash and cash equivalents at the end of the financial year	28(a)	14,141	12,726	11,037	7,972

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 2007

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.

(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 subsidiaries 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 subsidiaries

Investments in subsidiaries 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 on a straight line basis.

(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 subsidiaries. Subsidiaries 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 subsidiary 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 the fee is fixed or determinable and collectibility is probable. 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, unless the cost of providing the technical support is insignificant. Under those circumstances the cost of providing the technical support is accrued upon shipment of the goods. In multiple element arrangements where goods and services are sold as a bundled product, the fair value of the services is recognised as revenue over the period during which the service is performed, unless cost of providing those services is insignificant. Under those circumstances the cost of providing the services is accrued upon shipment of the goods.

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 effective 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 recognised in the income statement over the contract period as the services are performed, normally 12 months. Refer note 1(p) for further detail.

(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 include 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) 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.

(w) 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.

(x) 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.

(y) 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.

(z): 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 2007. The adoption of these new Accounting Standards and Interpretations has not resulted in any changes to the group's accounting policies.

2 Profit for the year

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

Revenue

Sales revenue

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Sale of goods and rendering of services	55,274	44,755	35,372	29,739

Other Revenue

Other income	158	257	192	257
Interest revenue - Bank deposits	721	603	401	336
Royalty revenue	-	-	3,020	2,991
Dividend income	-	-	3,150	4,732
	<u>879</u>	<u>860</u>	<u>6,763</u>	<u>8,316</u>
	<u>56,153</u>	<u>45,615</u>	<u>42,135</u>	<u>38,055</u>

Expenses

Cost of Sales	9,091	6,963	7,610	6,304
Bad debt expense:				
Other Entities	20	11	12	2
Finance costs expensed: Wholly-owned controlled entities	-	-	21	84
Net transfers to/(from) provisions:				
Sales returns and rebates	(139)	208	(139)	208
Employee benefits	530	58	450	(129)
Allowance for doubtful debts	(70)	1	(96)	(28)
Depreciation of non-current assets:				
Property, plant and equipment	473	357	308	225
Amortisation of non-current assets:				
Leasehold improvements	174	46	24	22
Intellectual property	748	638	748	638
Development costs	2,444	1,578	2,556	1,663
Foreign exchange losses/(gains)	39	(227)	8	-
Research and Development costs	2,438	2,247	2,438	2,247
Operating lease rental expenses:				
Minimum lease payments	1,480	1,270	902	739

3 Income Tax

(a) Income tax expense

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Current tax	3,549	1,142	2,337	(13)
Deferred tax	84	1,709	129	1,748
Under /(over) provided in prior years	(192)	(18)	(108)	(18)
	<u>3,441</u>	<u>2,833</u>	<u>2,358</u>	<u>1,717</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:

Profit before income tax	13,334	11,002	12,515	12,194
Income tax expense calculated at 30% of profit	4,000	3,301	3,755	3,658
Tax Effect of:				
Effect of higher tax rates on overseas income	42	52	-	-
Tax effect of non-deductible/non-taxable items:				
Dividends	-	-	(945)	(1,420)
Research and development claims	(364)	(129)	(364)	(129)
Share-based payments	3	15	3	15
Sundry items	27	80	17	11
	<u>3,708</u>	<u>3,319</u>	<u>2,466</u>	<u>2,135</u>
Under/(over) provision in prior years	(192)	(18)	(108)	(18)
Benefit of tax losses of prior years recouped	(75)	(468)	-	(400)
	<u>3,441</u>	<u>2,833</u>	<u>2,358</u>	<u>1,717</u>
Income tax expense attributable to profit				

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

Tax losses:

Revenue	-	272	-	-
Capital	2,261	2,261	2,261	2,261
	<u>2,261</u>	<u>2,533</u>	<u>2,261</u>	<u>2,261</u>

4 Remuneration of Auditors

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

(a) Deloitte Touche Tohmatsu

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Auditing and reviewing of financial reports	130,158	126,188	109,482	105,301
Other assurance services	-	24,802	-	24,802
Tax consulting services	70,296	52,370	70,296	52,370
	<u>200,454</u>	<u>203,360</u>	<u>179,778</u>	<u>182,473</u>

(b) Other Auditors

Auditing and reviewing of financial reports	45,444	33,766	-	-
Other assurance services	18,520	-	-	-
Tax compliance services	24,223	26,086	-	-
	<u>88,187</u>	<u>59,852</u>	<u>-</u>	<u>-</u>
	<u>288,641</u>	<u>263,212</u>	<u>179,778</u>	<u>182,473</u>

5 Inventories

Finished goods:

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
At lower of cost and net realisable value	<u>349</u>	<u>358</u>	<u>196</u>	<u>358</u>

6 Trade and Other Receivables

Current:

Trade receivables (i)	4,019	3,790	1,292	1,535
Allowance for doubtful debts	(294)	(364)	(190)	(286)
	<u>3,725</u>	<u>3,426</u>	<u>1,102</u>	<u>1,249</u>

Other receivables	<u>480</u>	<u>293</u>	<u>387</u>	<u>207</u>
	<u>4,205</u>	<u>3,719</u>	<u>1,489</u>	<u>1,456</u>

Non current:

Unsecured loans to subsidiaries (ii)	<u>-</u>	<u>-</u>	<u>527</u>	<u>906</u>
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(i) The credit terms for the majority of account sales is 30 days. Interest is not charged. The group has provided for all receivables that are considered not recoverable.

(ii) The loans are interest free with no fixed repayment period.

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
7 Other Assets				
Prepayments	714	491	461	329
Work in progress	132	183	-	-
	<u>846</u>	<u>674</u>	<u>461</u>	<u>329</u>

8 Other Financial Assets

Security deposits	380	301	380	286
Shares in controlled entities - at cost (note 26)	-	-	14,440	14,440
	<u>380</u>	<u>301</u>	<u>14,820</u>	<u>14,726</u>

9 Property, Plant And Equipment

Leasehold Improvements

At cost	1,368	1,319	763	756
Less: Accumulated amortisation	937	763	716	692
Total leasehold improvements	<u>431</u>	<u>556</u>	<u>47</u>	<u>64</u>

Plant and equipment

At cost	5,046	4,564	3,937	3,680
Less: Accumulated depreciation	3,763	3,387	3,173	2,865
Total plant & equipment	<u>1,283</u>	<u>1,177</u>	<u>764</u>	<u>815</u>
	<u>1,714</u>	<u>1,733</u>	<u>811</u>	<u>879</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 2006	556	1,177	1,733
Additions	50	606	656
Depreciation/amortisation expense	(175)	(500)	(675)
Balance at 31 December 2007	<u>431</u>	<u>1,283</u>	<u>1,714</u>
Parent entity			
Carrying amount at 31 December 2006	64	815	879
Additions	7	257	264
Depreciation/amortisation expense	(24)	(308)	(332)
Balance at 31 December 2007	<u>47</u>	<u>764</u>	<u>811</u>

	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	556	1,177	1,733

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	64	815	879

Consolidated		Parent	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000

10 Deferred Tax Asset

The balance comprises temporary differences attributable to:

Doubtful debts	32	97	-	-
Employee benefits	205	398	-	-
Sales returns and volume rebates	-	82	-	-
Deferred revenue	75	415	-	-
Difference between book and tax value of non-current assets	-	(1,195)	-	-
Other provisions	75	361	-	-
	387	158	-	-

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

Opening balance at 1 January	158	2,000	-	-
Credited (charged) to the income statement	229	(1,709)	-	-
Reclassification of recoverable withholding tax	-	(160)	-	-
Acquisition of businesses	-	27	-	-
Balance at 31 December	387	158	-	-

11 Intangibles

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Intellectual property - at cost	6,230	5,256	6,230	5,256
Accumulated amortisation	(4,536)	(3,788)	(4,536)	(3,788)
	<u>1,694</u>	<u>1,468</u>	<u>1,694</u>	<u>1,468</u>
Development costs - at cost	11,894	8,121	12,414	8,514
Accumulated amortisation	(5,012)	(2,568)	(5,283)	(2,727)
	<u>6,882</u>	<u>5,553</u>	<u>7,131</u>	<u>5,787</u>
Goodwill - at cost	14,750	13,842	3,444	2,536
	<u>23,326</u>	<u>20,863</u>	<u>12,269</u>	<u>9,791</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 business entities acquired, as follows:

APS Australia	9,564	9,564
APS New Zealand	1,742	1,742
Elite	2,536	2,536
Shelco	908	-
	<u>14,750</u>	<u>13,842</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 2008 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 13.4% 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 2007	13,842	1,468	5,553	20,863
Additions	908	974	3,773	5,655
Amortisation charge	-	(748)	(2,444)	(3,192)
At 31 December 2007	<u>14,750</u>	<u>1,694</u>	<u>6,882</u>	<u>23,326</u>
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>

Parent movements in intangibles	Goodwill	Intellectual Property	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2007	2,536	1,468	5,787	9,791
Additions	908	974	3,900	5,782
Amortisation charge	-	(748)	(2,556)	(3,304)
At 31 December 2007	<u>3,444</u>	<u>1,694</u>	<u>7,131</u>	<u>12,269</u>
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>

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

12 Other assets

Prepayments	<u>324</u>	<u>200</u>	<u>324</u>	<u>200</u>
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13 Trade and Other Payables

Current:				
Trade payables and sundry accruals (i)	3,551	3,424	2,081	2,177
Payables in relation to acquisitions	504	1,050	504	1,050
Employee benefits (Note 19)	983	1,018	513	516
	<u>5,038</u>	<u>5,492</u>	<u>3,098</u>	<u>3,743</u>

(i) The credit period for the majority of goods purchased is 30 days. No interest is charged. The group has policies in place to ensure payables are paid within the credit periods.

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

14 Provisions

Current:

Sales returns, volume rebates	135	274	135	274
Employee benefits (Note 19)	246	-	232	-
Commissions and sundry provisions	346	334	-	-
	<u>727</u>	<u>608</u>	<u>367</u>	<u>274</u>

Non-current:

Employee benefits (Note 19)	720	401	437	216
	<u>720</u>	<u>401</u>	<u>437</u>	<u>216</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 \$'000	Commissions and sundry \$'000	Total \$'000
2007 Consolidated			
Carrying amount at the start of the year	274	334	608
Additional provisions recognised	-	12	12
Released to income statement	(139)	-	(139)
	<u>135</u>	<u>346</u>	<u>481</u>
2007 Parent			
Carrying amount at the start of the year	274	-	274
Additional provisions recognised	-	-	-
Released to income statement	(139)	-	(139)
	<u>135</u>	<u>-</u>	<u>135</u>

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

15 Other Liabilities

Current:

Deferred revenue	2,617	1,957	1,690	1,385
Deferred rent contribution	71	64	-	-
	<u>2,688</u>	<u>2,021</u>	<u>1,690</u>	<u>1,385</u>

16 Borrowings

Unsecured loans from subsidiaries	-	-	1,395	811
	<u>-</u>	<u>-</u>	<u>1,395</u>	<u>811</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	-	-
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The temporary differences are attributable to:

Doubtful debts	(57)	-	(57)	(86)
Employee benefits	(226)	-	(226)	(196)
Sales returns and volume rebates	(41)	-	(41)	(82)
Deferred revenue	(452)	-	(452)	(415)
Difference between book and tax value of non-current assets	1,446	-	1,446	1,195
Other provisions	(368)	-	(368)	(232)
	<u>732</u>	<u>430</u>	<u>302</u>	<u>184</u>

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

Opening balance at 1 January	430	430	184	(1,720)
Charged (credited) to the income statement	313	-	129	1,748
Reclassification of recoverable withholding tax	-	-	-	160
Acquisition of businesses	(11)	-	(11)	(4)
	<u>732</u>	<u>430</u>	<u>302</u>	<u>184</u>
Balance at 31 December	732	430	302	184

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

18 Other liabilities

Deferred rent contribution	178	257	-	-
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19 Employee Benefits

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

Accrued annual leave:				
Current (Note 13)	983	1,018	513	516
Long term incentive:				
Current (Note 14)	173	-	173	-
Non-current (Note 14)	254	80	254	80
Provision for long service leave:				
Current (Note 14)	73	-	59	-
Non-current (Note 14)	466	321	183	136
	1,949	1,419	1,182	732

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.

561,798 (2006; 401,785) appreciation rights and 300,585 (2006; 85,437) performance shares were issued during the year. The fair value of these rights was 26.7 cents (2006; 22.4 cents) and the shares were \$1.02 (2006; 78 cents), using market price for the shares, and a model that incorporates the Black Scholes model for the rights. The expense recognised in 2007 for appreciation rights/performance shares was \$559,615 (2006; \$93,025).

Reckon Limited Employee Option Plans

The Company has previously had two ownership-based remuneration schemes:

Executive share option plan

The executive share option plan has been terminated.

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 \$0.63.

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 \$1.23.

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	
				2007	2006	2007	2006	2007	2006
Jan 01	Jan 06	\$0.174	1,079,759	-	17,401	-	-	-	-
Feb 01	Feb 06	\$0.188	1,152,500	-	236,267	-	-	-	-
Mar 01	Mar 06	\$0.155	68,391	-	18,267	-	-	-	-
Apr 01	Apr 06	\$0.160	12,547	-	-	-	-	-	-
May 01	May 06	\$0.165	44,392	-	3,279	-	-	-	-
Jun 01	Jun 06	\$0.147	63,579	-	-	-	-	-	-
Jul 01	Jul 06	\$0.131	17,588	-	1,196	-	-	-	-
Aug 01	Aug 06	\$0.102	13,536	-	6,490	-	-	-	-
Sep 01	Sep 06	\$0.069	39,889	-	5,323	-	-	-	-
Oct 01	Oct 06	\$0.075	50,826	-	6,016	-	-	-	-
Dec 01	Dec 06	\$0.116	37,827	-	5,301	-	5,301	-	-
Jan 02	Jan 07	\$0.139	103,553	38,368	-	-	6,861	-	38,368
Feb 02	Feb 07	\$0.138	7,778	-	-	-	7,389	-	-
Mar 02	Mar 07	\$0.138	41,666	10,291	-	-	-	-	10,291
Jul 02	Jul 07	\$0.133	41,668	22,168	-	-	-	-	22,168
Sep 02	Sep 07	\$0.135	16,111	-	-	8,972	-	-	8,972
Dec 02	Dec 07	\$0.176	130,553	31,929	-	-	15,147	-	31,929
Jan 03	Jan 08	\$0.190	26,667	-	-	-	-	-	-
Jun 03	Jun 08	\$0.270	58,891	-	8,444	-	6,334	19,001	19,001
Sep 03	Sep 08	\$0.505	115,002	-	-	-	17,417	84,183	84,183
Dec 03	Dec 08	\$0.619	48,890	-	-	-	1,216	41,535	41,535
Jan 04	Jan 09	\$0.551	1,061,159	-	9,502	233,710	160,501	557,686	791,396
Mar 04	Mar 09	\$0.789	56,110	-	4,750	-	12,666	35,889	35,889
Jun 04	Jun 09	\$0.960	76,668	-	-	-	-	69,667	69,667
Sep 04	Sep 09	\$0.823	151,166	-	16,361	21,111	-	87,664	108,775
Dec 04	Dec 09	\$0.796	250,554	-	16,626	35,888	-	158,596	194,484
Mar 05	Mar 10	\$0.743	75,555	-	7,389	-	-	57,527	57,527
Jul 05	Jul 10	\$0.741	79,999	6,860	3,958	15,305	-	49,876	72,041
Sep 05	Sep 10	\$0.779	113,887	3,430	13,722	6,861	-	84,180	94,471
Dec 05	Dec 10	\$0.722	144,445	15,833	33,776	-	5,804	81,810	97,643
				<u>128,879</u>	<u>414,068</u>	<u>321,847</u>	<u>238,636</u>	<u>1,327,614</u>	<u>1,778,340</u>
Number of shares that can be issued for unexercised options								<u>1,327,614</u>	<u>1,778,340</u>

20 Issued Capital

Fully Paid Ordinary Share Capital	2007		2006	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	132,427,978	17,896	132,236,740	17,747
Transfer from share-based payments reserve for options exercised during the year	-	104	-	63
Issue of shares	321,847	203	238,636	124
Less than marketable parcel buy-back	-	-	(47,398)	(38)
Balance at end of financial year	<u>132,749,825</u>	<u>18,203</u>	<u>132,427,978</u>	<u>17,896</u>

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

321,847 (2006; 238,636) Options were exercised during the year with an average exercise price of \$0.63. 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 \$202,581.

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	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Foreign currency translation reserve				
Balance at beginning of financial year	121	251	-	-
Translation of foreign operations	(69)	(130)	-	-
Balance at end of financial year	<u>52</u>	<u>121</u>	<u>-</u>	<u>-</u>
Share-based payments reserve				
Balance at beginning of financial year	554	568	554	568
Option expense	11	49	11	49
Transfer to share capital (options exercised)	(104)	(63)	(104)	(63)
Balance at end of financial year	<u>461</u>	<u>554</u>	<u>461</u>	<u>554</u>
	<u>513</u>	<u>675</u>	<u>461</u>	<u>554</u>

Nature and purpose of reserves

(a) Foreign currency translation reserve

Exchange differences arising on translation of the financial reports of foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(f)

(b) 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	12,674	9,796	11,248	6,062
Net profit	9,893	8,169	10,157	10,477
Dividends	(6,629)	(5,291)	(6,629)	(5,291)
Balance at end of financial year	<u>15,938</u>	<u>12,674</u>	<u>14,776</u>	<u>11,248</u>

23 Earnings Per Share

	2007	2006
	¢	¢
Basic earnings per share	7.5	6.2
Diluted earnings per share	7.4	6.1
Weighted average number of ordinary shares used in the calculation of basic earnings per share	132,599,634	132,318,888
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	133,927,248	134,083,502

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

Potential ordinary shares of 1,327,614 (2006: 1,778,340) 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.

25 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$Nil as at 31 December 2007 (2006: \$Nil)

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

(b) Lease Commitments

Operating Leases

Within 1 year	1,485	1,272	803	703
Later than 1 year and not longer than 5 years	1,725	1,828	312	254
Later than 5 years	-	-	-	-
	3,210	3,100	1,115	957

Operating leases relate to office and warehouse premises and office facilities with lease terms of between 1 to 4 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period. The group is currently in negotiations to extend its head office lease to 1 April 2015 (current expiry is 1 April 2009).

26 Subsidiaries

Name of Entity	Country of Incorporation	Ownership Interest	
		2007 %	2006 %
Parent Entity			
Reckon Limited	Australia		
Subsidiaries			
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	100
Reckon New Zealand Pty Limited (note a)	New Zealand	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.

(a) Reckon New Zealand Pty Limited was a shelf company incorporated in 2007.

27 Related Party Disclosures

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term benefits	2,981,236	2,857,700	1,755,581	1,691,597
Post-employment benefits	234,174	183,285	160,756	119,586
Share based payments	512,463	98,840	416,823	76,686
	<u>3,727,873</u>	<u>3,139,825</u>	<u>2,333,160</u>	<u>1,887,869</u>

The names of and positions held by the key management are set out in note 27(e). Further details of the remuneration of key management are disclosed in the directors' report.

(b) Other Transactions with Directors

There were no transactions with Directors apart from those disclosed in this note.

(c) Transactions within the Wholly-Owned Group

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

During the financial year, Reckon Limited charged royalties on intellectual property at market rates to the APS group of \$3,020,422 (2006; \$2,991,243), and was charged interest at normal commercial rates on the intercompany loan with Advanced Professional Solutions Limited in New Zealand of \$21,315 (2006; \$84,398). The APS group has also provided development services to Reckon Limited at market rates and has charged fees for these services of \$3,900,823 (2006; \$3,347,995). The APS group paid dividends to Reckon Limited of \$3,149,703 (2006; \$4,732,539). Receivables/payables from entities within the wholly-owned group include amounts arising under the group's tax funding arrangement. These loans are interest free and repayable on demand.

(d) Other Related Party Transactions

Intuit Ventures Inc

Intuit Ventures Inc, a significant shareholder (11.2%) in Reckon Limited provides the rights for Reckon to market and distribute Intuit software throughout Australasia and parts of South-East Asia. In return for this, Intuit receives a royalty payment based on sales made throughout the territory. These royalties amounted to \$3,991,294 (2006; \$3,777,787) which is expensed in the month that the associated product was sold. The balance due at 31 December 2007 is \$154,402 (2006; \$184,717).

(e) Directors' and Key Management Equity Holdings

Options and Shareholding 2007

	Office	Shareholding at start of 2007	Shareholding at end of 2007 ⁵	Options at start of 2007	Options at end of 2007 ⁴	Performance shares at start of 2007	Performance shares vested in 2007	Performance shares issued in 2007	Performance shares held at end of 2007
Greg Wilkinson	Deputy Chairman, Executive Director	7,450,000	7,450,000	0	0	0	0	0	0
Clive Rabie	Executive Director	10,508,000	10,508,000	0	0	0	0	0	0
Brian Armstrong ¹	CEO, APS MD, APS United Kingdom	814,532	774,532	42,222	42,222	89,900	43,138	72,451	162,351
Brian Coventry ²	Kingdom	287,766	287,766	40,111	40,111	0	0	9,823	9,823
John Thame	Non-Executive Director	19,000	19,000	0	0	0	0	0	0
Myron Zlotnick	General Counsel & Co Secretary	0	0	0	0	32,438	15,565	28,204	60,642
Ian Ferrier	Non-Executive Director	0	0	0	0	0	0	0	0
Chris Hagglund ³	Chief Financial Officer	0	0	47,500	47,500	41,914	20,211	63,630	105,544
Nigel Boland	GM, Development APS	28,261	23,222	23,222	0	0	0	9,823	9,823
Paul James ⁶	GM APS Australia	0	0	0	0	0	0	0	0
Gavin Dixon	CEO Quicken Australia MD, APS	0	0	0	0	0	0	67,539	67,539
Michael Donnelly	New Zealand	0	0	0	0	0	0	9,823	9,823

1 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.637 is payable per share.

2 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.637 is payable per share.

3 Options granted on: 15 December 2004; fair value per option granted: \$0.3809; options expire on 15 December 2009. At exercise of options, an exercise price of \$0.796 is payable per share.

4 All options have vested and are exercisable. No options were issued in 2007.

5 Shareholdings at the date of the director's report remain unchanged.

6 Mr James was appointed on 4 June 2007.

Options and Shareholding 2006

	Office	Shareholding at start of 2006	Shareholding at end of 2006 ¹⁰	Options at start of 2006	Options at end of 2006 ⁷	Options granted during 2006	Performance shares at start of 2006	Performance shares issued in respect of 2005 entitlements	Performance shares issued in respect of 2006 entitlements	Performance shares held at end of 2006 ⁸
Greg Wilkinson	Deputy Chairman, Executive Director	11,000,000	7,450,000	0	0	0	0	0	0	0
Clive Rabie	Executive Director MD APS New Zealand	11,000,000	10,508,000	0	0	0	0	0	0	0
Shane Compton ¹	MD, APS Australia	1,135,655	1,381,344	42,222	40,111	0	0	0	0	0
Brian Armstrong ²	MD, APS United Kingdom	1,091,722	814,532	44,444	42,222	0	0	43,138	46,762	89,900
Brian Coventry ³	Non-Executive Director	235,998	287,766	42,222	40,111	0	0	0	0	0
John Thame	General Counsel & Co Secretary	20,000	19,000	0	0	0	0	0	0	0
Myron Zlotnick	Non-Executive Director	2,245	0	0	0	0	0	15,565	16,873	32,438
Ian Ferrier	Chief Financial Officer	0	0	0	0	0	0	0	0	0
Chris Hagglund ⁴	GM, Development APS	0	0	50,000	47,500	0	0	20,112	21,802	41,914
Nigel Boland ⁵	Director APS Development	82,380	28,261	24,444	23,222	0	0	0	0	0
Pierre le Grange ⁹	CEO Quicken Australia GM, APS New Zealand	1,846,265	1,753,952	42,222	40,111	0	0	0	0	0
Gavin Dixon		0	0	0	0	0	0	0	0	0
Michael Donnelly		0	0	0	0	0	0	0	0	0

1 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.67 is payable per share.

2 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.67 is payable per share.

3 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.67 is payable per share.

4 Options granted on: 15 December 2004; fair value per option granted: \$0.3809; options expire on 15 December 2009. At exercise of options, an exercise price of \$0.838 is payable per share.

5 Options granted on: 1 January 2004; fair value per option granted: \$0.3056; options expire on 1 January 2009. At exercise of options an exercise price of \$0.67 is payable per share.

6 Movements in shareholding are attributable to the 5% reduction of capital approved on 20 December 2005 and implemented on 6 January 2006 as well as on market and off market transfer of shares.

7 Variations in options are attributable to the application of the 5% reduction of capital to option holders. For Mr Hagglund 22,500 options vested during 2006. No other options vested during 2006. All options have vested and are exercisable.

8 None of the performance shares are exercisable or have vested.

9 For Mr le Grange these were his holdings at the date of his resignation.

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000

28 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)	14,141	12,726	11,037	7,972
	<u>14,141</u>	<u>12,726</u>	<u>11,037</u>	<u>7,972</u>

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

(b) Businesses Acquired

Shelco and New Zealand Distributor

Consideration:

Cash	1,170	-	1,170	-
Direct costs relating to the acquisition	128	-	128	-
Consideration yet to be paid	408	-	408	-
	<u>1,706</u>	<u>-</u>	<u>1,706</u>	<u>-</u>

Fair value of net assets of entity acquired:

Receivables	7	-	7	-
Inventories	88	-	88	-
Intellectual property	804	-	804	-
Deferred tax assets	11	-	11	-
Fixed assets	119	-	119	-
Trade payables	(42)	-	(42)	-
Other current liabilities	(189)	-	(189)	-
	<u>798</u>	<u>-</u>	<u>798</u>	<u>-</u>
Goodwill	908	-	908	-
	<u>1,706</u>	<u>-</u>	<u>1,706</u>	<u>-</u>

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Elite and Desktop Super				
Consideration:				
Cash	-	2,097	-	2,097
Consideration yet to be paid (i)	-	1,050	-	1,050
	<hr/>	<hr/>	<hr/>	<hr/>
	-	3,147	-	3,147
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)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	611	-	611
Goodwill	-	2,536	-	2,536
	<hr/>	<hr/>	<hr/>	<hr/>
	-	3,147	-	3,147

(i) During the current year \$947,000 was paid for deferred consideration.

Shelco and New Zealand Distributor

Reckon Limited acquired the Shelco business effective from 1 March 2007 for an initial payment of \$750,000. Further payments maybe made subject to performance criteria for the year ended 30 June 2008. The maximum payment is \$1,250,000, however based on performance to-date, the future payment has been assessed to be \$408,000. Shelco is a provider of company registration, trust and superannuation fund establishment, ASIC and other services predominantly to the accounting and legal professions.

Effective 1 March 2007 Reckon Limited also acquired its New Zealand Quicken distributor as well as the intellectual property for a complimentary range of products for \$420,000. The additional products acquired included an ASP payroll solution, an online backup solution and a tool which allows the more efficient downloading and processing of bank data.

The acquired businesses have contributed revenue of \$2,582,000 and an EBITDA loss of \$103,000 for the year ended 31 December 2007.

If the acquisitions had occurred in 1 January 2007, the consolidated revenue and consolidated profit after tax for the year ended 31 December 2007 would not have been materially different to the reported results.

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 \$nil.

	Consolidated		Parent	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
(c) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities				
Profit after income tax	9,893	8,169	10,157	10,477
Depreciation and amortisation of non-current assets	3,839	2,619	3,636	2,548
Non-cash employee benefits expense - share based payment	11	168	11	168
Increase/(decrease) in current tax liability/asset	657	289	203	(183)
Increase in deferred tax balances	84	1,869	129	1,931
Unrealised foreign currency translation amount	(69)	(130)	-	-
(Increase)/decrease in assets:				
Current receivables	(479)	(683)	(26)	64
Current inventories	97	(173)	178	(173)
Other current assets	(172)	(118)	(132)	(25)
Non-current receivables	(124)	(200)	(124)	(200)
Increase/(decrease) in liabilities:				
Current trade payables	(104)	(400)	(106)	(535)
Other current liabilities	744	427	356	314
Other non-current liabilities	240	397	221	39
Net cash inflow from operating activities	<u>14,617</u>	<u>12,234</u>	<u>14,503</u>	<u>14,425</u>

29 Outside Equity Interests in Controlled Entities

	Consolidated	
	2007	2006
	\$'000	\$'000
Interest in:		
Share Capital	-	-
Accumulated Losses	(2)	(2)
	<u>(2)</u>	<u>(2)</u>

30 Dividends - ordinary shares

	Parent	
	2007	2006
	\$'000	\$'000
Final unfranked dividend for the year ended 31 December 2006 of 2.5 cents (2005; 2 cents) per share paid on 30 March 2007	3,312	2,645
Interim unfranked dividend for the year ended 31 December 2007 of 2.5 cents per share (2006; 2 cents) paid on 10 September 2007	3,317	2,646
	<u>6,629</u>	<u>5,291</u>
Franking credits available for subsequent financial years based on a tax rate of 30% (2006; 30%)	<u>2,977</u>	<u>990</u>

31 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 \$14,141,334 (which attracts an average variable interest rate of 6.2%, (2006: 6.3%). 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 manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cashflows.

(f) Capital risk management

The group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the group consists of cash and equity attributable to equity holders of the parent, comprising share capital, reserves and retained earnings as disclosed in notes 20, 21 and 22. The Board reviews the capital structure on a regular basis. Based upon this review, the group balances its overall capital structure through the payment of dividends, issues of shares, share buy-backs and returns of capital. This strategy remains unchanged since the prior year.

32 Segment Information

(a) Primary reporting - business segments

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

Business Division (formerly Quicken products)

Professional Division (formerly 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, as well as related products and services to professional partners.
- APS products - development, distribution and support of practice management, tax, client accounting and related software.

Segment revenues

	External sales		Inter-segment		Other		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Business Division	36,658	29,739	6,170	7,723	538	593	43,366	38,055
Professional Division	18,616	15,016	-	-	341	267	18,957	15,283
Total of all segments							62,323	53,338
Eliminations							(6,170)	(7,723)
Total revenue							56,153	45,615

Segment results

Business Division*		9,655	7,942
Professional Division		3,679	3,060
Profit before income tax		13,334	11,002
Income tax expense		(3,441)	(2,833)
Net profit for the year		9,893	8,169

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

Segment assets and liabilities

	Assets		Liabilities	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Business Division	21,010	14,899	7,850	7,038
Professional Division	25,140	26,914	3,648	3,532
Total of all segments	46,150	41,813	11,498	10,570
Eliminations	(478)	(1,081)	(478)	(1,081)
Unallocated	-	-	-	-
Consolidated	45,672	40,732	11,020	9,489

Other segment information

	Business Division		Professional Division	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Acquisition of segment assets	3,115	4,188	3,196	4,081
Depreciation and amortisation of segment assets	939	721	2,900	1,898

(b) Secondary reporting - geographical segments

	Segment revenues from external sales		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
	Australia	47,519	39,274	36,713	30,775	4,600
Other countries	7,755	5,481	9,652	10,005	1,711	1,337
	<u>55,274</u>	<u>44,755</u>	<u>46,365</u>	<u>40,780</u>	<u>6,311</u>	<u>8,269</u>
Unallocated assets			(693)	(48)		
Total assets			<u>45,672</u>	<u>40,732</u>		

33 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.

34 Subsequent Events

Subsequent to the end of the financial year:

Dividend

The board has declared a dividend of 3 cents per share to shareholders on 12 February 2008. The dividend will be franked. The record date for the dividend is 22 February 2008. The impact on the franking account balance of unrecognised dividends is \$1,705,000.

Options

Nil options in the Executive Share Option Plan No. 2 have lapsed and 15,305 options have been exercised with an average exercise price of \$0.551.