

Reckon

2007 Annual Report





Reckon Limited Annual Report

ACN 003 348 730

for the Financial Year Ended 31 December 2007

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Our results at a glance

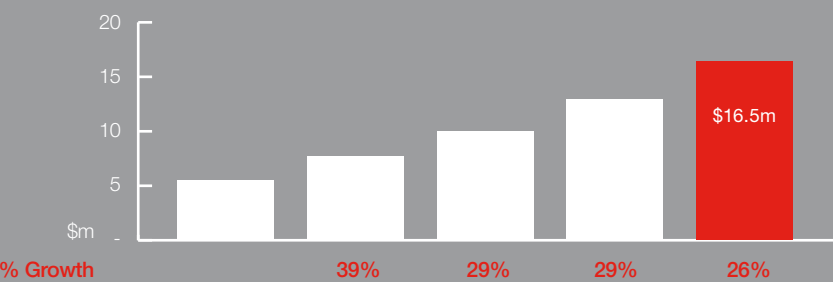
Revenue

Group revenue was up 23% to \$56.2 million from \$45.6 million.



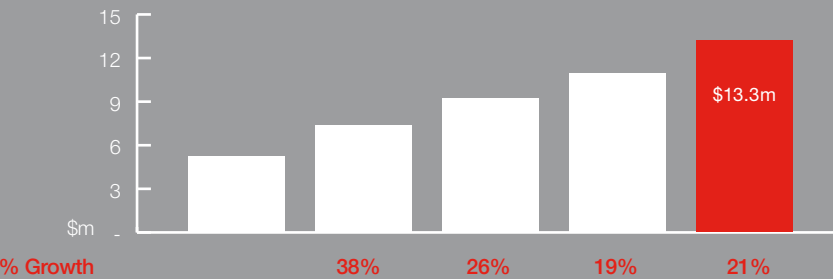
EBITDA

Group EBITDA was up 26% to \$16.5 million from \$13.0 million.



NPBT

Group NPBT was up 21% to \$13.3 million from \$11.0 million.



Message to shareholders from
the Chairman and the Group CEO

We are delighted to present the Reckon Limited results for the year ending 31 December 2007. The Company completed another successful year showing increases in revenue, EBITDA, operating cash flow, and other key metrics. This has translated into a final dividend for 2007 of 3 cents per share. This dividend is 100% franked for the first time.

The Company is well positioned to further expand and continue to establish itself as a leader in accounting and financial management software by capitalising on organic growth, exploring relevant additional acquisition opportunities and an industry appetite for technology.

- Group revenue was up 23% to \$56.2 million from \$45.6 million.
- Group EBITDA was up 26% to \$16.5 million from \$13.0 million.
- Group NPAT was up 21% to \$9.9 million from \$8.2 million.
- EPS was up 21% to 7.5 cents per share from 6.2 cents.
- Final dividend of 3 cents per share – 100% franked with a dividend payout ratio of 74%.
- Operating cash flow was up 19% to \$14.6 million with a cash balance of \$14.1 million at 31 December 2007.

Operations

The Reckon Group has continued to assess its operational structure and has refined its business units into a Professional Division, which supplies the APS brands, and a Business Division which supplies QuickBooks labelled products marketed through the retail and direct sale channels to small and medium sized businesses. The Quicken wealth management products are also marketed through the Business Division.

Reckon also provides tax and company compliance solutions to the professional sector through its Elite and Shelco businesses.

The Company remains in the admirable position of being able to leverage its brands off one another, resulting in not only stronger sales but in tangible benefits for a growing customer base. The APS and the QuickBooks brands, for example, are complementary businesses which together make an accountant's job significantly easier.

Reckon products are able to meet the demands of accounting firms of all sizes and complexities. The Professional Division, primarily through the APS product, sells practice management, tax and client accounting software and allied products to professional accounting firms with full service requirements. While the Business Division services the rest of the accounting market with Elite labelled products.

The diverse line of QuickBooks software caters to the needs of the entire range of small to mid-market businesses and their accountants.

APS built on a healthy 2006 with an even stronger 2007. It has become well established as the top provider for accounting firms and in late 2007 confirmed its leadership by adding two of the Top 4 Accounting firms as clients. APS has also invested in staff resources (especially consultancy resources) to meet increasing demand which should reap benefits beginning in the second quarter of 2008.

QuickBooks continued to strengthen its brand, expanding the software's popularity in the small and medium business sectors.

We are also undertaking an ongoing rebranding programme. The Reckon name will now be more heavily promoted to develop and distinguish it from the traditional range of products sold as QuickBooks and Quicken; alongside APS, Elite, Shelco, Reckon.Tools and other products.

With the backing of an investment initiative of hundreds of millions of US dollars into new product development by our supplier Intuit Inc, we are on schedule for the release of a dynamic new software package, the QuickBooks QBⁱ series, widely regarded as a major step change for business owners, in the first quarter of 2008.

QuickBooks QBⁱ is designed to make accountants' and customers' lives easier. It contains a raft of new features to achieve this goal, including: a past transactions memory, an 'always on' audit trail, simultaneous use with accountants, portable company files, and only one accountants version required to support different customers versions. The use of an SQL database also means that the product enjoys efficiencies of scale to accommodate small businesses of virtually any size; a higher magnitude of processing speed; and a fully scalable product for virtually unlimited multiple simultaneous users.

Acquisitions

Reckon is always eager to explore additional opportunities for expansion. We carefully select businesses that fit into our corporate strategy such as the addition of Reckon New Zealand and Shelco.

Despite positive revenue growth, the Reckon New Zealand business underperformed but we are taking steps to improve market share and to create profit opportunities.

As we previously announced, Shelco's company secretarial, registration and compliance business incorporates some of the latest technology to improve these processes for accountants and advisers. Shelco is showing significant prospects for integration into the Elite and APS businesses.

In 2008 we will continue to follow our traditional approach to acquisitions and insist that any target or technology must match our selection criteria, including the realisation of hard and soft synergies, positive EPS results and effective integration into the overall Reckon strategy.

Partners

We understand that success is not a solo endeavour. Our loyal partners (accountants, bookkeepers, business and IT consultants), and accredited trainers who make up the Professional Services Group play an integral role in Reckon's development by using and recommending our products as well as training their customers on product applications. We are proud to report increases in the number of new partner members in 2007, further integrating the Reckon brand throughout the accounting and financial services sectors.

Reckon has also aligned itself with educational institutions as they groom students to fill vital roles in the accounting and finance industries. Our products are now well entrenched in the curricula at secondary schools, TAFE colleges, universities and adult community education centres across Australia allowing us to better promote the brand while instilling our offerings as the products and services of choice.

We also extend our thanks for the support of all our employees, customers and suppliers who contributed to our success in 2007.



John Thame
Chairman



Clive Rabie
Group CEO

Directors' Report

The Directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2007.

Board of Directors

John Thame AAIBF FCPA

age 66, Non-Executive Chairman

John Thame has over 30 years' experience in the retail financial services industry. He was Managing Director of Advance Bank Limited from 1986 until it merged with St George Bank Limited in January 1997 and held a variety of senior positions in his career with Advance. John is Chairman of St George Bank Limited and has announced that he will retire from that position in 2008. He is also Chairman of Abacus Property Trust Group Limited, where he has been a Director since 2002. He was a Director of AWB Limited from 1999 until 10 March 2005. John was appointed to the Board on 19 July 1999.

Ian Ferrier FCA

age 67, Non-Executive Director

Ian Ferrier is the founder of Ferrier Hodgson. He is a Fellow of the Institute of Chartered Accountants in Australia. He has more than 40 years experience in company corporate recovery and turnaround practice. He is also a Director of a number of private and public companies. Ian was appointed Chairman of InvoCare Limited in 2001 and was Chairman of Port Douglas Reef Resorts Limited until April 2006. Ian is a Director of McGuigan Simeon Wines Limited since 1991, Macquarie Goodman Group Limited since 2003 and Australian Oil Company Limited since 2005. He was a Director of MIA Group Limited until September 2004 and has significant experience in property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries. Ian joined the Board on 17 August 2004. In January 2008 Ian assumed the Chair of a new accounting practice, Ferrier Green Krejci & Silvia.

Greg Wilkinson

age 52, Deputy Executive Chairman

Greg Wilkinson has over 20 years experience in the computer software industry. Greg entered the industry in the early 1980s in London where he managed Caxton Software, which became one of the UK's leading software publishers. Greg co-founded Reckon in 1987 and was the Chief Executive Officer until February 2006. He was appointed to the position of Deputy Chairman in February 2006 and became a member of the Board of the listed entity on 19 July 1999.

Clive Rabie

age 48, Group Chief Executive Officer

Clive was Chief Operating Officer of the Company until 2001 and in that time played a pivotal role in its turn-around. He has extensive management and operational experience in the IT and retail sectors as both an owner and Director of companies. In February 2006 Clive was appointed to the position of Group Chief Executive Officer.

Myron Zlotnick LLM, GCertAppFin

age 43, General Counsel and Company Secretary

Myron Zlotnick has over 15 years experience as a general and corporate counsel, and as a Director of companies in the information, communications and technology sector.

Principal Activities

Since its inception in 1987 Reckon Limited has conducted business predominantly in the supply of small business accounting and personal wealth management software under the QuickBooks and Quicken brands. In 2004 the Company expanded its operations to include professional accounting practice management and allied software under the APS brand.

Over the last two years Reckon Limited has through the strategic acquisition of businesses or technology, broadened its scope of operations to provide complementary products and services across two operational divisions, now formalised as a Professional division (principally APS, Desktop Super and allied products) and a Business division (principally QuickBooks, Quicken, Elite, Shelco and allied products).

In the Business division, under the QuickBooks and Quicken brands, the Company develops, localises, distributes and provides after sales technical support for the accounting software needs of small to medium sized businesses and in the personal finance and wealth management sector.

Under the Reckon.Tools brand, the Company also develops applications that enhance these products, for example: electronic data interchange ("EDI") functionality, bill payment solutions, super choice management solutions, on-line backup, and on-line trading. In addition, Reckon independently develops and distributes a payroll and point of sale solution.

Reckon operates its QuickBooks and Quicken business under an exclusive evergreen licence from Intuit Inc. Intuit is a leading US-based accounting software house with over 25 million customers worldwide, annual sales of over US\$2 billion and a market capitalisation of close to US\$10 billion. Intuit's annual research and development budget exceeds US\$300 million. Reckon is able to leverage off this extensive research and development spend

without the usual associated development risk. The licence from Intuit has an effective continuing rolling term of 10 years.

The Reckon Elite business develops and distributes tax return preparation tools, practice management tools and related solutions used by accountants and tax agents in public practice. Reckon Elite focuses on sales to smaller accounting firms compared to APS which pursues the top tier firms.

The APS business develops, distributes and supports a suite of practice management, tax and client accounting software for professional accounting firms in Australia, New Zealand and the United Kingdom. A majority of the major accounting firms in Australia and New Zealand use APS products. APS also delivers complementary applications for practice management such as document management, customer relations management and business intelligence solutions. Desktop Super is a tool for the professional administration of self managed superannuation funds.

Shelco which was acquired in March 2007 consists of two main revenue streams, a services business and a data business.

The services business comprises the technology and established client base for the registration of companies and other business structures using the traditional full service method. This business provides clients with an on-line company registration service available 24 hours a day, seven days a week. The business also provides services for the establishment of unit trusts and family trusts (discretionary trusts), as well services for constitution updates, domain name registrations and self-managed super funds.

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

State business names, REVs checks, credit reporting and land office searches will soon be added to the business.

In addition, Reckon acquired the business of its New Zealand distributor in March 2007. The Reckon product suite will accordingly be expanded by the acquisition of the technology for the IBankData; Intrepid Payroll; and IBackup solutions.

As part of the transaction Reckon restructured its distribution presence in New Zealand by rolling its current distributor into a wholly owned subsidiary which will distribute Quicken and Intrepid products nationwide. In due course a wider range of other products will be added.

Review of Operations

Overview of Financial performance

Group Operating Revenue:	Up 23% to \$56.2m from \$45.6m
Group EBITDA:	Up 26% to \$16.5m from \$13.0m
Group NPAT:	Up 21% to \$9.9m from \$8.2m
Basic EPS:	Up 21% to 7.5 cents per share from 6.2 cents
Final Dividend:	3 cents per share 100% franked with a dividend payout ratio of 74%
Operating cash flow:	Up 19% to \$14.6m with a cash balance of \$14.1m at 31 December 2007

Growth in revenue, strong management of costs, and the benefits of a sustainable customer base has resulted in the strong Group performance from both the Professional Division and Business Division.

Dividends

On 12 February 2008, the Board declared a final dividend of 3 cents per share (100% franked) payable to shareholders recorded on the Company's Register as at the record date of 22 February 2008. The Company does not have a dividend re-investment plan currently in operation. On 13 August 2007, the Board declared an interim dividend of 2.5 cents per share (50% franked) payable to shareholders recorded on the Company's Register at record date of 27 August 2007.

The Future

Reckon continues to pursue an overall strategy of:

- expanding the product and service offering to its customer base,
- leveraging cross selling opportunities across its customer base of small businesses and accountants,
- generating recurring revenue streams through subscription products,
- generating recurring revenue through consulting and technical support,
- seeking out new complementary products and services,
- enhancing relationships with sales channels, including retailers and professional partners,
- maintaining operating efficiencies resulting in increasing margins.

Based on these strategies Reckon seeks to pursue growth in all markets. Sales growth in the QuickBooks market is expected to continue along historical trends into the future subject to market conditions. There has been a strong start to 2008.

The QuickBooks products will undergo a technology step change at the end of the first quarter of 2008 with the release of the QBⁱ series. The QBⁱ series introduces the benefits of a SQL database, including: efficiencies of scale to accommodate small businesses of virtually any size; a higher magnitude of processing speed; a fully scalable product for virtually unlimited transaction and up to 30 multiple simultaneous users; and several new product features to make accountants' and their customers' lives easier. The QBⁱ series enjoyed an early release in New Zealand in February 2008.

The Company continues to maintain an excellent relationship with Intuit Inc.

The APS business will continue to expand in 2008 on the back of ongoing maintenance revenue growth and increased investment in consulting resources.

Historically, a significant percentage of Reckon's net asset value is in cash. As such, the Company constantly reviews potential opportunities to acquire businesses or technology.

Significant Changes in State of Affairs

There were no events in 2007 that represented material changes to the state of affairs of the Company but two acquisitions were completed in 2007.

As reported last year, effective 1 March 2007 the Company acquired the Shelco business, technology and customer base from Shelco DataBroker Pty Limited and Shelco Services Pty Limited as well as the Intrepid business from Intrepid Internet Solutions Pty Limited and the business of its New Zealand distributor, Rafael Technology Pty Limited.

Acquisition of Shelco

Shelco consists of two main revenue streams, a services business and a data business. The detail of these two businesses is set out above on page 8.

New Zealand Acquisition

Effective from 1 March 2007 the Company acquired the Intrepid business from Intrepid Internet Solutions Pty Limited and the business of its New Zealand distributor, Rafael Technology Pty Limited.

On 27 February 2007, Reckon New Zealand Pty Limited was incorporated as a wholly owned subsidiary of the Company. This is the entity through which the QuickBooks, Quicken and related business will be conducted in New Zealand.

The transaction expands the product suite Reckon will distribute as well as rationalising its existing licensing arrangement with its QuickBooks and Quicken sub-distributor in New Zealand.

The Reckon product suite will expand with the acquisition of technology for the IBankData; Intrepid Payroll; and IBackup solutions.

As part of the transaction Reckon also restructured its distribution presence in New Zealand by rolling its current distributor into a wholly owned subsidiary which will distribute QuickBooks, Quicken and Intrepid products nationwide. In due course a wider range of other products will be added.

Matters Subsequent to the End of the Financial Year

Dividend

A final dividend for 2007 was declared on 12 February 2008 as disclosed on page 9.

Options

Since balance date 15,305 shares were issued after exercise of options under Share Option Plan 2.

Since 31 December 2007 no options have lapsed.

Other Matters

Other than as disclosed in this Directors' Report no other matter or circumstance has arisen since 31 December 2007 that has significantly affected, or may significantly affect:

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

Future Developments

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

Directors' Shareholdings

As at the date of this report, the Directors held shares and options in Reckon Limited as set out in note 27 to the financial statements. All options were granted under the Executive Share Option Plan.

Remuneration Report

Policy for determining remuneration of Directors, the deputy Chairman, Group CEO, Group CFO, divisional MD's and other Company officers is the ultimate responsibility of a remuneration committee comprising the Chairman of the Board and the other independent non-executive Directors. The Chairman of the remuneration committee is Ian Ferrier. There is no formal charter for the remuneration committee but policy is set with due consideration for the need to motivate Directors and management to pursue the long-term growth and success of the Company as well as to tie remuneration in with performance as contemplated in the ASX Corporate Governance Guidelines ("ASX Guidelines"). It is the view of the Board that the Company complies with the substance of the aims and aspirations of the ASX Guidelines in the context of the size of the company, the size of the Board, the size of the senior management team and the size of the business.

Policy for determining remuneration of senior managers has been delegated to the Group CEO, Group CFO and divisional MD's by the Board to be exercised in accordance with the same broad principles as apply for the Group CEO, Group CFO, other company officers and divisional MD's. The Board approves all remuneration in its review of the Company's annual budget process.

The policy is to pay the relevant officers and employees' remuneration consistent with market comparisons suited to the unique features of the company, the competitive landscape, the scale of the business, the responsibilities of the individual Directors and employees, and internal relativities. The Board is conscious of the need to attract and retain talent. The remuneration policy takes account of striking the right balance between short term benefits and long term incentives. All remuneration is reviewed annually. Generally increases, if justified, will not exceed comparable market increases.

The relevant officers and employees are all appointed on standard employment terms that are not fixed term contracts.

Remuneration Report continued...

For 2007, for the Group CEO, Group CFO, other company officers, divisional MDs and certain senior executives, remuneration comprises a fixed element, a short-term incentive element and a long-term incentive element.

The short-term incentive element of remuneration is dependent on satisfaction of performance conditions. A pool representing varying percentages of the combined fixed remuneration of the relevant employees is the total potential amount in which they can share if the performance conditions are met. There are three weighted elements to the performance conditions, viz: a revenue target, a net profit after tax ("NPAT") target, and earnings per share ("EPS") target measured against the budgeted performance of the Company. The Board retains a discretion regarding the allocation of the pool between employees as well as regarding weightings. Short term incentives are paid in cash as bonuses usually in about February or March of the following year.

The long-term incentive element is intended to round off the mix of remuneration elements. It is aimed at retaining the long term services of the relevant officers and employees to whom it applies and to align their remuneration with the longer term performance of the Company. The substance of the long-term incentive element for related parties was approved by Special General Meeting on 20 December 2005. In general terms, the long-term incentive element 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 (ie a group of comparable ASX listed companies pre-selected by the Board) over the same period. The initial comparator group was determined after taking advice from 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 ongoing basis. During 2007 some of the entities comprising the comparator group were delisted either as part of merger and acquisition activity or for other reasons. This was factored into the calculation of the Company's performance by the independent valuers who undertook the exercise on behalf of the Company.

Only 50 percent 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.

It is the Board's opinion that an adequate balance is struck between the three elements comprising the relevant remuneration. For short term incentives, the performance targets reflect, in part, the key factors that the company pursues in measuring its performance: volume of sales; profit generated; and value returned to shareholders in terms of EPS. The targets also represent a measure of an incentive to encourage commitment to the business and to its growth. The audited financial results for the year are used to assess whether the performance conditions are satisfied. Audited results represent an independent accurate method of determining the attainment of the conditions. For long-term incentives, the additional targets comprising TSR reflect a further assessment of value to shareholders before the remuneration is earned. As

stated above the comparator group to which reference will be had will be subject to review.

The remuneration committee is satisfied that to date, the remuneration of the relevant employees accords with the general upward trend of the performance of the Company and returns to shareholders, as set out in the table below; and also takes into account the imperative to retain their services so as to avoid the business and opportunity costs associated with replacing them as well as the need to be commensurate with market rates.

The Remuneration Committee exercised its discretion to approve the release to participating employees of 100% of their entitlements under the 2005-2007 long term incentive plan based upon the Company's performance as formally assessed against the comparator group of companies as well as taking account of market indices and competitor performance.

Consequences of performance on shareholder wealth

	NPAT	EPS	Return of Capital	Reduction of Capital	Dividend	Changes in Share Price between the beginning and the end of the year	
						Beginning of January	End of December
		\$'000	(cents per share)				(cents)
2003	5,348	4.2	3	–	–	18.5	68
2004	10,151 ¹	7.4 ¹	3.5	–	–	68	85
2005	7,034 ²	5.1 ²	–	4	2	85	76
2006	8,169	6.2	–	–	4.5	76	102
2007	9,989	7.5	–	–	5.5	102	139

(1) Result positively impacted by one off booking of unutilised tax losses.

(2) Result impacted by tax expense booked for the first time.

Remuneration 2007

2007	Office	Salary	Bonus ¹	Super-annuation	Value of options ²	Long term incentive plan ³	Other short term benefits ⁴	TOTAL	Percentage of total that is performance related
Directors⁵									
John Thame	Chairman, Non-Executive Director	\$81,500	\$0	\$7,335	\$0	\$0	\$0	\$88,835	0%
Greg Wilkinson	Deputy Chairman, Executive Director	\$130,000	\$0	\$11,700	\$0	\$42,360	\$0	\$184,060	23%
Clive Rabie	Group CEO, Executive Director	\$415,001	\$164,096	\$37,350	\$0	\$284,833	\$0	\$901,280	50%
Ian Ferrier	Non-Executive Director	\$62,501	\$0	\$5,625	\$0	\$0	\$0	\$68,127	0%
Executives⁵									
Brian Armstrong	CEO, APS	\$300,000	\$109,397	\$27,000	\$0	\$60,276	\$0	\$496,674	34%
Chris Hagglund	CFO	\$260,001	\$70,859	\$23,400	\$0	\$40,042	\$0	\$394,302	28%
Paul James ⁶	GM, APS Australia	\$107,241	\$21,000	\$9,652	\$0	\$0	\$0	\$137,893	15%
Myron Zlotnick	General Counsel & Company Secretary	\$190,000	\$31,408	\$17,100	\$0	\$22,574	\$0	\$261,082	21%
Brian Coventry	MD, APS United Kingdom	\$207,637	\$40,000	\$9,649	\$0	\$11,788	\$40,274	\$309,348	17%
Gavin Dixon	CEO, Quicken Australia	\$275,001	\$75,211	\$24,750	\$0	\$27,014	\$0	\$401,976	25%
Michael Donnelly	MD, APS New Zealand	\$178,707	\$43,860	\$14,268	\$0	\$11,788	\$0	\$248,622	22%
Nigel Boland	GM Development, APS	\$157,714	\$19,824	\$12,850	\$0	\$11,788	\$0	\$202,176	16%
TOTAL		\$2,365,304	\$575,655	\$200,679	\$0	\$512,463	\$40,274	\$3,694,375	

1 The potential amounts payable for the short term cash performance bonuses are determined at the beginning of the year and are earned based upon the performance criteria for the year described in more detail on pages 11 to 13.

2 No options were granted to any person during the year as part of their remuneration. No options vested during 2007.

3 Mr Armstrong (72,451 shares), Mr Hagglund (63,630 shares), Mr Dixon (67,539 shares), Mr Zlotnick (28,204 shares), Mr Donnelly (9,823 shares), Mr Coventry, (9,823 shares), and Mr Boland (9,823 shares) are participants in the 2007 performance share plan. The date of grant for each of these participants is 1 January 2007. The value of the long term incentive is obtained by reference to the market price of the shares on the grant date allocated over each year of the performance period. If the performance criteria are met, then the shares are released at no consideration. The fair value of the performance shares at grant date was \$1.02. The performance shares are exercisable on 31 December 2009 at zero cents. The performance shares expire on 31 December 2016. Performance shares that vested in 2007 are referred to in Note 27 to the financial statements. Mr Rabie is a participant in the share appreciation plan. The date of grant of this participation 1 January 2007.

4 For Mr Coventry this reflects a sales commission.

5 To the extent that any of the above are directors of any wholly owned subsidiaries of the Company listed on page 52, no additional remuneration is paid.

6 Appointed 4 June 2007.

Remuneration 2006

2006	Office	Salary	Bonus ¹	Super-annuation	Value of options ²	Long term incentive plan ³	Other short term benefits ⁴	TOTAL	Percentage of total that is performance related
Directors⁵									
Greg Wilkinson	Deputy Chairman, Executive Director	\$237,584	\$94,725	\$21,383	\$0	\$8,750	\$0	\$362,442	29%
Clive Rabie	Group CEO, Executive Director	\$370,333	\$159,290	\$33,330	\$0	\$43,750	\$0	\$606,703	33%
John Thame	Chairman, Non-Executive Director	\$76,070	\$0	\$6,846	\$0	\$0	\$0	\$82,916	0%
Ian Ferrier	Non-Executive Director	\$57,389	\$0	\$5,165	\$0	\$0	\$0	\$62,554	0%
Executives⁵									
Brian Armstrong	CEO, APS Australia	\$250,000	\$106,194	\$25,616	\$0	\$22,162	\$25,000	\$428,972	30%
Chris Hagglund	CFO	\$246,753	\$53,097	\$22,208	\$5,823	\$10,331	\$0	\$338,212	19%
Shane Compton ⁶	MD, APS New Zealand	\$159,446	\$20,000	\$8,963	\$0	\$0	\$0	\$188,409	11%
Pierre le Grange ⁷	GM, APS Development	\$37,865	\$1,377	\$2,617	\$0	\$0	\$0	\$41,859	3%
Myron Zlotnick	General Counsel & Company Secretary	\$174,000	\$15,929	\$15,660	\$0	\$8,032	\$0	\$213,621	11%
Brian Coventry	MD, APS United Kingdom	\$186,298	\$30,000	\$8,252	\$0	\$0	\$21,929	\$246,479	12%
Gavin Dixon ⁸	CEO Quicken Australia	\$166,604	\$39,823	\$14,994	\$0	\$0	\$0	\$221,421	18%
Michael Donnelly ⁹	MD, APS New Zealand	\$125,645	\$25,818	\$7,034	\$0	\$0	\$20,026	\$178,523	14%
Nigel Boland ¹⁰	GM, APS Development	\$136,505	\$20,000	\$11,217	\$0	\$0	\$0	\$167,722	12%
TOTAL		\$2,224,492	\$566,253	\$183,285	\$5,823	\$93,025	\$66,955	\$3,139,833	

1 The potential amounts payable for the short term cash bonuses are determined at the beginning of the year and are earned based upon the performance criteria for that year.

2 No options were granted to any person during the year as part of their remuneration. For Mr Hagglund 22,500 options vested during 2006. No other options vested during 2006.

3 Mr Armstrong (46,762 shares), Mr Hagglund (21,802 shares) and Mr Zlotnick (16,873 shares) are participants in the performance share plan. The date of grant for each of these participants is 3 January 2006. The value of the long term incentive is obtained by reference to the market price of the shares on the grant date allocated over each year of the performance period. If the performance criteria are met, then the shares are released at no consideration. The fair value of the performance shares at grant date was 78 cents. The performance shares are exercisable on 31 December 2008 at zero cents. The performance shares expire on 31 December 2015. No performance shares vested in 2006. Mr Rabie and Mr Wilkinson are participants in the share appreciation plan. The date of grant for each of these participants is effective January 2006 although formal offers were only made in February 2007.

4 For Mr Armstrong this reflects a car allowance. For Mr Donnelly and Mr Coventry this reflects a sales commission.

5 To the extent that any of the above are Directors of any wholly owned subsidiaries of the company, no additional remuneration is paid.

6 Ms Compton was Managing Director until 30 June 2006. From 1 July 2006, Ms Compton was Client Management Executive.

7 Resigned 12 May 2006.

8 Appointed 10 April 2006.

9 Appointed as GM, APS New Zealand on 1 February 2006. Appointed as MD, APS New Zealand on 1 July 2006.

10 Appointed 1 January 2006.

Options and shareholding for directors and relevant employees can be found at note 27 to the accounts.

Indemnification of Directors and Officers and Auditors

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

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

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

Directors’ Meetings

The following table sets out the number of Directors’ meetings held during the financial year and the number of meetings attended by each Director.

Reckon Limited – Attendance Tables						
Directors	Meetings					
	Board		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
JM Thame	8	8	2	2	2	2
I Ferrier	8	7	2	2	2	2
G Wilkinson	8	8	–	–	–	–
C Rabie	8	8	–	–	–	–

Key: A – number of meetings eligible to attend; B - number of meetings attended.

Non-Audit Fees

Details of the non-audit services can be found in Note 4 to the financial statements.

Rounding of Amounts

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

Auditors’ Independence Declaration

The auditors independence declaration for the year ended 31 December 2007 has been received and can be found on page 24 of the Directors’ Report.

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

On behalf of the Directors



John Thame
Chairman

Sydney, 29 February 2008

Corporate Governance Statement

Governance of the Company in general is in accordance with the ASX Principles of Good Corporate Governance of March 2003, 2nd Edition ("the ASX Governance Principles"). Substantial compliance with the ASX Governance Principles is always pursued by the board. Any departure from the ASX Governance Principles is generally justified on the basis that formal compliance is not applicable to the size of the Company and the resources available.

1. Management and Oversight

The Company is governed on behalf of the shareholders by its Board of Directors through the management which the Board oversees. The Board is responsible for ensuring appropriate risk, accountability, and control mechanisms. The Board also provides advice and input into development of the businesses generally, overall corporate strategy, performance objectives, and appointment of senior executives. The Board monitors and reviews the performance of the Company, financial reporting and implementation of strategy. The Board approves the annual budget, material capital expenditure and large acquisitions.

The Company departs from the requirements of Principle 1 of the ASX Governance Principles only to the extent that there is no formal charter. The Board is of the opinion, given the relatively small size of the composition of the Board, the relatively flat structure of management, the size of the management team and open and frequent channels of communication between management and the Board that the Board has sufficiently appropriate close oversight of operations and material decisions to ensure compliance with principles of good corporate governance.

Because of the relatively small size of the Board, an Audit Committee and Remuneration Committee are the only committees of the board. The Board is able to efficiently deal with issues which in other larger enterprises may normally be delegated to committees.

The Company undertakes an annual performance evaluation of senior executives. This process is managed and administered by the Group Human Resources Manager. It generally involves a 360 degree feedback review in which selected peers and reporting staff assess the performance of relevant executives and managers according to a set of questions benchmarked against key performance indicators. The process also includes a series of reviews with the Divisional CEO's in which the 360 degree feedback review is discussed with the relevant executive or manager and remedial steps and coaching, if applicable, are implemented. There may be further additional reviews undertaken through the year if necessary.

Performance evaluation for senior executives was undertaken in 2007 and it was in accordance with the processes disclosed in this report.

In addition, a portion of senior executives' remuneration is tied into the financial performance of the Company as set out in more detail in the Remuneration Report section of the Directors' Report.

The independent non-executive Directors also generally informally monitor and review the ongoing performance of senior executives.

The Group Human Resources Manager is also responsible for managing and administering an induction process for newly appointed senior executives. In addition the Group CEO and divisional CEO's undertake a rigorous process of briefing new senior executives.

2. The Board

At present, the Board comprises four members: John Thame, Ian Ferrier, Greg Wilkinson and Clive Rabie. Mr Thame is Chairman of the board and he, together with Mr Ferrier, are independent non-executive Directors.

Further details of the Directors, including a summary of their skills and experience and period of office, are set out in the Directors' Report.

While there is not strictly an independent majority in the sense described in ASX Governance Principle 2, because there are only four directors, the non-executive Directors ensure that all issues that come before the board are considered in an impartial manner and from a variety of perspectives. The Chairman, who is independent, has a casting vote where necessary. The independent non-executive Directors oversee the nomination of any potential directors.

The criteria for directorship and the election process are set out in the Company's constitution. The Directors periodically review the composition of the Board to ensure that members have the desired breadth of experience and expertise to govern the Company effectively. The size of the Board dictates that there is no efficiency obtained in establishing a formal nomination committee.

Directors are entitled to seek independent professional advice at the Company's expense to assist them in fulfilling their duties in order to comply with all applicable laws and regulations. There is no formal procedure for the Board to agree when to take independent advice at the expense of the Company, but given the size of the board there is no efficiency to be obtained in formalising this process. The independent non-executive Directors exercise their judgement to call for such advice when they deem appropriate. The Chairman also has frequent contact with internal legal counsel to assess the need for external advice.

The Board met eight times during 2007. The details of attendance at these meetings are set out in the Directors' Report.

The independent non-executive Directors monitor and review the ongoing performance of the executive Directors and key executives. The independent non-executive Directors occasionally meet informally without management being present to generally discuss the affairs of the Company and the overall performance of key executives.

The independent non-executive Directors are subject to the Company's constitution and their continuity of tenure is dependent on re-election by shareholders in accordance with the constitution.

Any decision regarding the appointment of new Directors is taken cognisant of the need to appoint someone who is technically qualified and as far as possible familiar with the Company's market sector.

While there is no formal induction process in place, the Chairman, Deputy Chairman and Group CEO undertake a rigorous process of briefing new board members.

Given the size of the Company there is also direct informal communication on a regular basis between the Chairman and the Company Secretary on governance matters.

3. Ethical and Responsible Decision Making

The Company operates in accordance with appropriate laws, regulations, principles and ethics to fulfill its responsibilities.

The Board's policy is that the Company, the Directors and employees in addition to their legal obligations must maintain high ethical standards in their dealings with the public and other members of the industry.

A pro forma Directors' Code of Conduct was formally adopted in 2003 in order to meet the requirements of the ASX Governance Principles.

In 2007 the Directors' Code of Conduct was expanded to apply to all employees, with the relevant changes.

The Company's Human Resources Policy and Procedures, binding on all employees, also collectively embraces the substance of the ASX Governance Principles in a Code of Conduct, including expectations regarding behaviour in the workplace, disciplinary processes, grievance processes, discrimination and harassment, occupational health and safety, ethical business practices, conflict of interest, corporate opportunity and the like.

A Trading Policy is accessible to the public at the Company web site.

The Company is committed to training employees and maintaining employees' relevant product expertise and undertakes trade practices training from time to time for relevant staff.

4. Integrity in Financial Reporting

The Board assumes the responsibility to ensure the integrity of the Company's financial reporting. Consistent with the requirements of the *Corporations Act 2001* and Principle 4 of the ASX Governance Principles, the Group CEO and the Group CFO state in writing to the board that the Company's financial reports present a true and fair view, in all material respects, of the Company's operational results and are in accordance with relevant accounting standards.

The Audit Committee consists of John Thame and Ian Ferrier, independent, non-executive Directors, to ensure independent review of financial reporting over and above formal audit processes. The Audit Committee also meets informally to discuss matters including risk management and reporting. The terms of reference of the committee are to review and monitor all financial, risk management and compliance policies. The terms of reference for the Audit Committee were formalised in a Charter in 2003 to meet the requirements of the ASX Governance Principles. Because there are only four directors, the Audit Committee cannot comprise of three members as required by Principle 4 of the ASX Governance Principles. Again the size of the Board dictates that the role of the Audit Committee can operate efficiently and in accordance with the requirements of the ASX Governance Principles with only two members.

The independent non-executive Directors comprising the Audit Committee collectively have considerable technical expertise in the market sector of the Company and in the area of so-called "financial literacy" as set out in the ASX Governance Principles.

Deloitte Touche Tohmatsu, the Company's auditors, report directly to the Audit Committee on the appropriateness of the Company's internal accounting policies and practices. The Board reviews the adequacy of existing external audit arrangements each year, with particular emphasis on the scope and quality of the audit.

Although not formally chartered, at each Audit Committee meeting, the independent non-executive Directors meet separately with the auditors without management being present to review any concerns that the auditors may have regarding the financial management of the Company.

The Audit Committee met twice during 2007. The Audit Committee reports back to the board after each Audit Committee meeting. The details of attendance at these meetings are set out in the Directors' Report.

5. Timely and Balanced Disclosure

The Board remains conscious of the Company's disclosure obligations under the *Corporations Act 2001*, the ASX listing rules and the ASIC guidance principles. All required disclosures are also made in accordance with the Continuous Disclosure policy which is accessible to the public at the Company web site. The Continuous Disclosure Policy aspires to conform to the ASX guidance principles.

6. Rights of Shareholders

Given the size of the Company, there is no formally documented communications strategy but the Board is conscious of the requirements of Principle 6 of the ASX Governance Principles and acts in accordance with them. The Company communicates with shareholders through its ASX disclosures to the market. The Company also communicates with shareholders through the posting of statutory notices to shareholders and at the general and special meetings of the Company. The Company keeps recent announcements and general Company information on its web site with a dedicated investor relations section which

is accessible to the public. The web site contains a link to the ASX web site for older announcements.

The Company's auditor attends the Annual General Meeting and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report at the meeting.

7. Recognise and Manage Risk

As stated above in paragraph 1, the Board is responsible for ensuring appropriate risk management, accountability, and control mechanisms. As stated above also in paragraph 4 the Audit Committee meets to discuss matters regarding risk management and reporting. The efficiency that might be enjoyed by larger companies does not apply to the Company and hence there are no additional committees formally established and policies chartered for risk management.

The Group CEO and Group CFO monitor and review the financial performance of the Company and monitor any potential risk virtually on a daily basis. While there is no formal risk management system documented there is substantial compliance with the requirements of ASX Governance Principle 7.

The Board is responsible for the Company's system of internal controls. It constantly monitors the operational and financial aspects of the Company's activities and, through the Audit Committee, considers the recommendations and advice of auditors and other external advisers on the operational and financial risks that face the Company.

The Group CEO and Group CFO state in writing to the Board which is included in the declaration referred to under paragraph 4, that due consideration is given to budgets, cash flows, realisation of current assets, continuity of terms of trade, and consideration of contingencies in the day to day operations of the Company and in the monthly management financial reporting and statutory reporting of the Company.

Through the Audit Committee and meetings with the auditors, the Board is also

positioned to be informed of any changes to the general regulatory environment.

At present the nature of operations and scope of business is reasonably well established and understood by management and the Board. Hence the need for formalising business risk management policies has not arisen. However, as the Company grows, consideration will be given to expanding the formal structures in place for risk management.

As set out above in paragraph 3, the Company and the Board and management and employees are bound to observe all legal and ethical principles in the conduct of their activities in the Company.

8. Remunerate Fairly and Responsibly

The Company remunerates Directors and key executives in accordance with the aspirations set out in ASX Governing Principle 9. Accordingly the Board has adopted a remuneration policy designed to attract and maintain talented and motivated Directors and senior employees so as to encourage enhanced performance of the Company. There is a clear relationship between performance and remuneration and a desire to strike the correct balance between the various components making up remuneration. The remuneration committee supervises the development and implementation of the Company's remuneration policy including the operation of option plans, and reviews the performance of the executive directors and senior executives. There is no formal charter for the remuneration committee, but it does fix policy and reward in accordance with ASX Governance Principle 9. The full detail of the policy and remuneration is contained in the Remuneration Report.

The remuneration committee met twice during 2007. The details of attendance at these meetings are set out in the Directors' Report.

Independent Auditor's Report to the Members of Reckon Limited

Report on the Financial Report and AASB 124 Compensation Disclosures in the Directors' Report

We have audited the accompanying financial report of Reckon Limited, which comprises the balance sheet as at 31 December 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 26 to 62.

We have also audited the compensation disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the compensation of key management personnel ("compensation disclosures") as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("AASB 124"), under the heading "remuneration report" on pages 11 to 15 of the directors' report, and not in the financial report.

Directors' Responsibility for the Financial Report and the AASB 124 Compensation Disclosures Contained in the Directors' Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the compensation disclosures contained in the directors' report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and compensation disclosures contained in the directors' report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the compensation disclosures comply with AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the compensation disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the compensation disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the compensation disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the compensation disclosures contained in the directors' report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

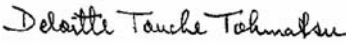
Auditor's Opinion on the Financial Report

In our opinion, the financial report of Reckon Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditor's Opinion on the AASB 124 Compensation Disclosures Contained in the Directors' Report

In our opinion, the compensation disclosures that are contained on pages 11 to 15 under the heading "remuneration report" of the directors' report, comply with paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures*.


DELOITTE TOUCHE TOHMATSU



Ben Arthur
Partner
Chartered Accountants
Sydney, 29 February 2008

29 February 2008

The Board of Directors
Reckon Limited
35 Saunders Street
Pyrmont NSW 2009

RECKON LIMITED

Dear Board Members

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

As lead audit partner of the audit of the financial statements of Reckon Limited for the year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

DELOITTE TOUCHE TOHMATSU



Ben Arthur
Partner

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 27 to 62:

- comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

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

This declaration is made in accordance with a resolution of the Directors and after receiving a declaration from the Chief Executive Officer and Chief Financial Officer as contemplated in section 295A of the *Corporations Act 2001*.

On behalf of the Directors



Mr J Thame

Chairman

Sydney, 29 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)
Profit before income tax		13,334	11,002	12,515	12,194
Income tax expense	3	(3,441)	(2,833)	(2,358)	(1,717)
Profit for the year		9,893	8,169	10,157	10,477
Loss attributable to minority interest		–	–	–	–
Profit attributable to members of Reckon Limited	22	9,893	8,169	10,157	10,477
		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		19,541	17,477	13,183	10,115
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		26,131	23,255	28,751	26,502
Total Assets		45,672	40,732	41,934	36,617
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		9,390	8,401	6,360	5,708
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		1,630	1,088	2,134	1,211
Total Liabilities		11,020	9,489	8,494	6,919
Net Assets		34,652	31,243	33,440	29,698
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		34,652	31,243	33,440	29,698

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 Inflows/(Outflows)		Parent 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.

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 the customer accepts that 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.

(aa) Adoption of revised accounting standards

The company has not adopted any of the revised accounting standards which have been issued but not yet applicable to the reporting period ended 31 December 2007 as detailed below:

- AASB 8 'Operating Segments' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 January 2009.
- Interpretation 11 'Group and Treasury Share Transactions' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 March 2007.
- Interpretation 12 'Service Concession Arrangements' and consequential amendments to other accounting standards resulting from its issue. Effective for annual reporting periods beginning on or after 1 January 2008.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the parent or the Group.

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

Sales revenue

Other revenue

Expenses

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3. Income Tax

(a) Income tax expense

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'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)
	3,441	2,833	2,358	1,717

(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
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Income tax expense calculated at 30% of profit

4,000	3,301	3,755	3,658
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Tax effect of:

Effect of higher tax rates on overseas income

42	52	–	–
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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

3,708	3,319	2,466	2,135
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Under/(over) provision in prior years

(192)	(18)	(108)	(18)
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Benefit of tax losses of prior years recouped

(75)	(468)	–	(400)
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Income tax expense attributable to profit

3,441	2,833	2,358	1,717
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(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
	2,261	2,533	2,261	2,261

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
	200,454	203,360	179,778	182,473

(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	–	–
	88,187	59,852	–	–
	288,641	263,212	179,778	182,473

5. Inventories

Finished goods:

At lower of cost and net realisable value	349	358	196	358
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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)
	3,725	3,426	1,102	1,249
Other receivables	480	293	387	207
	4,205	3,719	1,489	1,456

Non current:

Unsecured loans to subsidiaries (ii)	–	–	527	906
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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.

7. Other Assets

Prepayments
Work in progress

Consolidated		Parent	
2007	2006	2007	2006
\$'000	\$'000	\$'000	\$'000
714	491	461	329
132	183	–	–
846	674	461	329

8. Other Financial Assets

Security deposits
Shares in controlled entities - at cost
(note 26)

380	301	380	286
–	–	14,440	14,440
380	301	14,820	14,726

9. Property, Plant and Equipment

Leasehold Improvements

At cost
Less: Accumulated amortisation
Total leasehold improvements

1,368	1,319	763	756
937	763	716	692
431	556	47	64

Plant and Equipment

At cost
Less: Accumulated depreciation
Total plant & equipment

5,046	4,564	3,937	3,680
3,763	3,387	3,173	2,865
1,283	1,177	764	815
1,714	1,733	811	879

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	431	1,283	1,714
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	47	764	811

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Total \$'000
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9. Property, Plant and Equipment (cont.)

Consolidated

Carrying amount at 31 December 2005	96	556	652
Additions	506	996	1502
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

10. Deferred Tax Asset

The balance comprises temporary differences attributable to:

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

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 the 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	–
	14,750	13,842

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 \$'000	Intellectual Property \$'000	Development Costs \$'000	Total \$'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	14,750	1,694	6,882	23,326

11. Intangibles (cont.)

Consolidated movements in intangibles

	Goodwill \$'000	Intellectual Property \$'000	Development Costs \$'000	Total \$'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	13,842	1,468	5,553	20,863

Parent movements in intangibles

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	3,444	1,694	7,131	12,269
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	2,536	1,468	5,787	9,791

12. Other assets

Prepayments	324	200	324	200
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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
	5,038	5,492	3,098	3,743

(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.

14. Provisions

Current:

Sales returns, volume rebates
Employee benefits (Note 19)
Commissions and sundry provisions

Consolidated		Parent	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
135	274	135	274
246	–	232	–
346	334	–	–
727	608	367	274
Non-current:			
720	401	437	216
720	401	437	216

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
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2007 Consolidated

Carrying amount at the start of the year	274	334	608
Additional provisions recognised	–	12	12
Released to income statement	(139)	–	(139)
Carrying amount at the end of the year	135	346	481

2007 Parent

Carrying amount at the start of the year	274	–	274
Additional provisions recognised	–	–	–
Released to income statement	(139)	–	(139)
Carrying amount at the end of the year	135	–	135

Consolidated		Parent	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
2,617	1,957	1,690	1,385
71	64	–	–
2,688	2,021	1,690	1,385

15. Other Liabilities

Current:

Deferred revenue
Deferred rent contribution

16. Borrowings

Unsecured loans from subsidiaries

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

The temporary differences are attributable to:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Unsecured loans from subsidiaries	—	—	1,395	811
Withholding tax payable in event of distribution of pre-acquisition dividend	430	430	—	—
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)
	732	430	302	184
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)
Balance at 31 December	732	430	302	184
18. Other Liabilities				
Deferred rent contribution	178	257	—	—

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

Current (Note 13)

Current (Note 14)

Provision for long service leave:

Current (Note 14)

Non-current (Note 14)

Consolidated		Parent	
2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
983	1,018	513	516
173	—	173	—
254	80	254	80
73	—	59	—
466	321	183	136
1,949	1,419	1,182	732

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

19. Employee Benefits (cont.)

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 July 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.

19. Employee Benefits (cont.)

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
				128,879	414,068	321,847	238,636	1,327,614	1,778,340
Number of shares that can be issued for unexercised options								1,327,614	1,778,340

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.

Changes to the then Corporations Law abolished the authorised capital and par value concepts in relation to share capital from 1 July 1998. Therefore the company does not have a limited amount of authorised capital and issued shares do not have a par value.

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 \$'000	2006 \$'000	2007 \$'000	2006 \$'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>

21. Reserves (cont.)

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

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

22. Retained Earnings

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
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	15,938	12,674	14,776	11,248

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)

(b) Lease Commitments

Operating Leases

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

(a) Key Management Personnel Remuneration

	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).

27. Related Party Disclosures (cont.)

(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	814,532	728,000	42,222	42,222	89,900	43,138	72,451	162,351
Brian Coventry ²	MD, APS United 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	0	0	0	0	0	0	67,539	67,539
Michael Donnelly	MD, APS 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 Directors' Report remain unchanged.

6 Mr James was appointed on 4 June 2007.

27. Related Party Disclosures (cont.)

(e) Directors' and Key Management Equity Holdings (cont.)

Options and Shareholding 2006

	Office	Shareholding at start of 2006	Shareholding at end of 2006 ⁹	Options at start of 2006	Options at end of 2006 ⁶	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 ⁷
Greg Wilkinson	Deputy Chairman, Executive Director	11,000,000	7,450,000	0	0	0	0	0	0	0
Clive Rabie	Executive Director	11,000,000	10,508,000	0	0	0	0	0	0	0
Shane Compton ¹	MD, APS New Zealand	1,135,655	1,381,344	42,222	40,111	0	0	0	0	0
Brian Armstrong ²	MD, APS Australia	1,091,722	814,532	44,444	42,222	0	0	43,138	46,762	89,900
Brian Coventry ³	MD, APS United Kingdom	235,998	287,766	42,222	40,111	0	0	0	0	0
John Thame	Chairman, Non-Executive Director	20,000	19,000	0	0	0	0	0	0	0
Myron Zlotnick	General Counsel & Co Secretary	2,245	0	0	0	0	0	15,565	16,873	32,438
Ian Ferrier	Non- Executive Director	0	0	0	0	0	0	0	0	0
Chris Hagglund ⁴	Chief Financial Officer	0	0	50,000	47,500	0	0	20,112	21,802	41,914
Nigel Boland ⁵	GM, Development APS	82,380	28,261	24,444	23,222	0	0	0	0	0
Pierre le Grange ⁸	Director APS Development	1,846,265	1,753,952	42,222	40,111	0	0	0	0	0
Gavin Dixon	CEO, Quicken Australia	0	0	0	0	0	0	0	0	0
Michael Donnelly	MD, APS New Zealand	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 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.

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

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

9 Shareholdings at the date of the Directors' Report remain unchanged.

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:

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash (i)	14,141	12,726	11,037	7,972
	14,141	12,726	11,037	7,972

(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	–
	1,706	–	1,706	–

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)	–

	798	–	798	–
Goodwill	908	–	908	–
	1,706	–	1,706	–

28. Notes to the Statement of Cash Flows (cont.)

Elite and Desktop Super

Consideration:

	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Cash	—	2,097	—	2,097
Consideration yet to be paid (i)	—	1,050	—	1,050
	—	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)

	—	611	—	611
Goodwill	—	2,536	—	2,536
	—	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 may be 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.

28. Notes to the Statement of Cash Flows (cont.)

(c) Reconciliation of Profit After Income Tax To Net Cash Flows From Operating Activities

	Consolidated		Parent	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
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	14,617	12,234	14,503	14,425

29. Outside Equity Interests in Controlled Entities

Interest in:

Share Capital

Accumulated Losses

Consolidated	
2007 \$'000	2006 \$'000
–	–
(2)	(2)
(2)	(2)

30. Dividends – Ordinary Shares

Final unfranked dividend for the year ended 31 December 2006 of 2.5 cents (2005; 2 cents) per share paid on 30 March 2007

Interim unfranked dividend for the year ended 31 December 2007 of 2.5 cents per share (2006; 2 cents) paid on 10 September 2007

Franking credits available for subsequent financial years based on a tax rate of 30% (2006; 30%)

Parent	
2007 \$'000	2006 \$'000
3,312	2,645
3,317	2,646
6,629	5,291
2,977	990

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.

The Group and parent are exposed to interest rate risk on the cash held in bank deposits. If interest rates had been 50 basis points higher or lower and all other variables were held constant, the group's net profit would increase/decrease by \$71,000 (2006: \$64,000) and the parent's net profit would increase/decrease by \$55,000 (2006: \$41,000).

(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.

32. Financial Instruments (cont.)

(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.

The parent is exposed to NZ dollars (NZD). If the Australian dollar strengthens against the NZD by 10%, the resulting impact would be a profit of \$126,000 (2006: \$73,000). This sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

(f) Liquidity

The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cashflows.

(g) 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:

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

32. Segment Information (cont.)

(a) Primary Reporting – Business Segments (cont.)

Segment revenues

	External sales		Inter-segment		Other		Total	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'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 \$'000	2006 \$'000	2007 \$'000	2006 \$'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

32. Segment Information (cont.)

(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	6,932
Other countries	7,755	5,481	9,652	10,005	1,711	1,337
	55,274	44,755	46,365	40,780	6,311	8,269
Unallocated assets			(693)	(48)		
Total assets			45,672	40,732		

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.

35. Company Information

Reckon Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

35 Saunders Street
Pyrmont
Sydney NSW 2009

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the Directors' Report, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 February 2008.

Additional Information as at 21 February 2008

Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholder	Number	Percentage
National Nominees Limited	17,750,911	13.37
Intuit Ventures Inc.	14,828,304	11.17
HSBC Custody Nominees (Australia) Limited	9,719,974	7.32
Gregory John Wilkinson	7,450,000	5.61
Aust Executor Trustees NSW Limited	6,470,766	4.87
ANZ Nominees Limited	5,877,811	4.43
Invia Custodian Pty Limited	5,314,836	4.00
DJZ Investments Pty Limited	4,750,000	3.58
J P Morgan Nominees Australia Limited	4,670,496	3.52
Steve Rickwood	3,651,602	2.75
Mr Clive Rabie & Mrs Kerry Rose Rabie	3,585,500	2.70
Mr Philip Ross Hayman	2,605,384	1.96
Queensland Investment Corporation	2,482,419	1.87
Mr Clive Alan Rabie	2,172,500	1.64
Invia Custodian Pty Limited	1,786,241	1.35
Citicorp Nominees Pty Limited	1,218,638	0.92
UBS Nominees Pty Limited	1,145,349	0.86
Mr Philip Ross Hayman	1,000,000	0.75
Citicorp Nominees Pty Limited	970,442	0.73
Cogent Nominees Pty Limited	791,300	0.60
	98,282,381	74.03

Number of Holders of Equity Securities

Equity securities include shares, units, options over issued or unissued securities, rights to any one of the former securities and convertible securities.

Ordinary Share Capital

132,765,130 fully paid ordinary shares are held by 4,044 individual shareholders as at 21 February 2008.

All issued ordinary shares carry one vote per share.

Options

1,327,614 options were held by 119 individual option holders as at 31 December 2007. These options do not carry a right to vote and are not listed on ASX.

Since 31 December 2007, no options have lapsed.

Additional Information as at 21 February 2008 (cont.)

Distribution of Holders of Equity Securities

As at 21 February 2008

	Ordinary Shares	Options
1 – 1,000	875	1
1,001 – 5,000	1,974	12
5,001 – 10,000	608	56
10,001 – 100,000	537	50
100,001 and over	50	–

Substantial Shareholders

As at 21 February 2008

	Ordinary Shares (Number)	Ordinary Shares (Percentage)
National Nominees Limited	17,750,911	13.37
Intuit Ventures Inc.	14,828,304	11.17
Clive Alan Rabie (i)	10,508,500	7.92
HSBC Custody Nominees (Australia) Limited	9,719,974	7.32
Gregory John Wilkinson	7,450,000	5.61

(i) This includes associated holdings.

Principal Registered Office

35 Saunders Street
Pyrmont
Sydney NSW 2009
Tel: (02) 9577 5000

Share Registry

Computershare Investor Services
Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000
Tel: (02) 8234 5000

Auditors

Deloitte Touche Tohmatsu
225 George Street
Sydney NSW 2000

Principal Administration Office

35 Saunders Street
Pyrmont
Sydney NSW 2009
Tel: (02) 9577 5000

Stock Exchange Listings

Reckon Limited's ordinary shares are listed on the Australian Stock Exchange Limited under the symbol 'RKN'.

Company Secretary

Mr. Myron Zlotnick

Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on Thursday 29 May 2008 at 10:00am at 35 Saunders Street Pyrmont NSW. If you are unable to attend, you are invited to complete the Proxy Form included with your Notice of Meeting. The completed Proxy Form must be received no later than 48 hours before the Annual General Meeting.

Important Information – Corporate Notices

Securityholders will be aware that recent legislative changes have impacted the options to receive statutory corporate notices and reports. In the interest of cost saving and the environment (every little bit helps), we encourage you to opt in to receive all notices and reports electronically. Please go to: www.computershare.com.au and follow the prompts to register your opting in to receive ALL NOTICES AND REPORTS IN ELECTRONIC FORMAT.

To register to be notified by e-mail when the Annual Report and other announcements are available online:

- Visit the share registry at www.computershare.com
- Click on 'Securityholders'
- Click on 'Elect to receive eCommunications from your companies'
- Type 'RKN' in the Company Code field.
- You will need to enter your personal security information: Holder Identification Number (HIN) or Securityholder Reference Number (SRN); family or company name, postcode or country (if outside Australia); and click 'Submit'.
- After you have entered your e-mail address and selected which publications you wish to receive, a confirmation e-mail will be sent to you.

Should you have further enquiries, contact the Registry on 1300 855 080 or +61 3 9415 4000 (if outside Australia). For web enquiries, please send an e-mail to web.queries@computershare.com.au.

Alternatively, e-mail your full name and address of the securityholder to:

shareholders@reckon.com.au

to receive the Annual Report, corporate and statutory notices electronically.

We are working for the future generation...



