

Reckon



2005 annual report



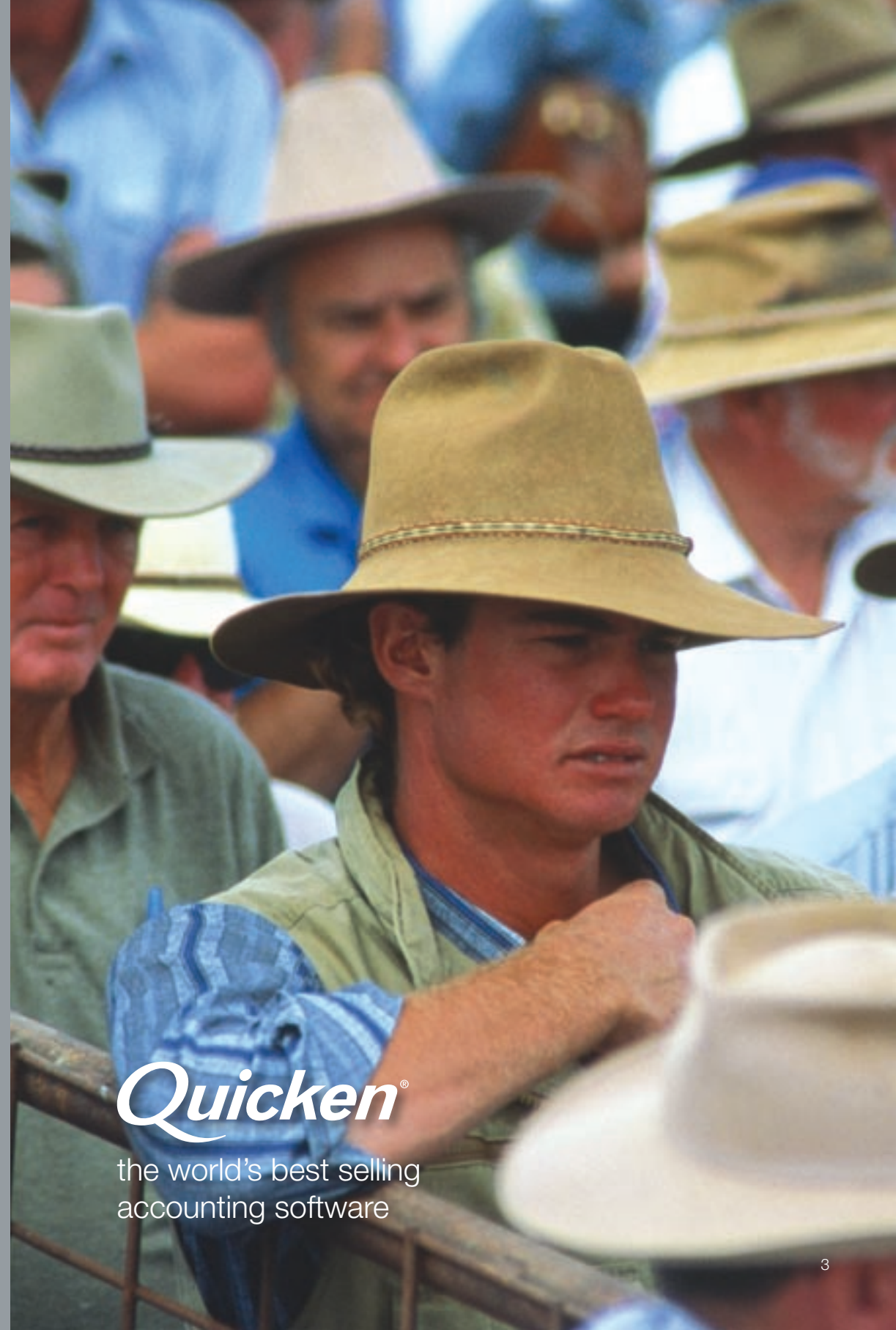
“Change is inevitable,
growth is intentional.”

Glenda Cloud

Reckon Limited Annual Report

for the Financial Year Ended
31 December 2005

Our results at a glance	4
Chairman's Review	6
CEO's Review	10
Directors' Report	14
Corporate Governance Statement	30
Independent Audit Report	36
Auditor's Independence Declaration	38
Directors' Declaration	40
Income Statements	41
Balance Sheets	42
Statement of Changes in Equity	43
Cash Flow Statements	44
Notes to the Financial Statements	45
Additional Information for Shareholders	75



Quicken[®]
the world's best selling
accounting software

our results at a glance

	31 Dec 2005 \$'000	31 Dec 2004 \$'000 restated	% Change
Revenue	42,258	36,580	+16%
Profit before income tax	9,259	7,361	+26%
Operating cash flow	12,554	8,689	+44%
Earnings per share (before tax)	6.7 cents	5.3 cents	+26%

The award-winning QuickBooks range



QuickBooks EasySart – judged best-value bookkeeping software

“...excellent for many small businesses who simply need to cover the essentials of tracking their customers’ payments and GST compliance.”

Australian PC User, January 2006



“The QuickBooks range offers something for just about every size and type of small business... there’s no denying that this is an excellent, well-supported business tool.”

Australian PC User, July 2005



“The Editor’s Choice is QuickBooks Premier 2005/06, a program that minimises the effort required to get data in and information out.”

APC Magazine, July 2005



“QuickBooks Plus 2005/06 provides the right balance of features and ease of use to appeal to a wide range of owner-operator businesses.”

APC Magazine, July 2005



John Thame

chairman's review

The results of the company's operations for 2005 bear positive testimony to the strategic direction of the business. As many shareholders will be aware the company has come a long way since its listing in July 1999. We have overcome some difficulties and have since acquired a measure of maturity while maintaining a flexibility and nimbleness to pursue market opportunity and growth. In 2005, we were able to declare our fourth profit in a row. We have undertaken several capital management exercises since 2003 which have returned value to shareholders and we are now in a position to declare our maiden dividend. Our core strategy is to continue to drive home our technological superiority over our competitors to:

- leverage the annual Intuit Inc research and development spend of US\$300 million;
- acquire new customers;
- expand product offerings;
- obtain efficiencies across complementing product offerings;
- obtain the right blend of revenue streams; and
- maintain high margins.

Several strategies that have been put in place are producing results.

Professional business – product excellence

The APS business continues to impress. In 2005 the APS Advance product was being used by 25,000 accounting practitioners representing growth of 100% over the last three years. By the end of 2005 APS can lay claim to having added a further 24 accounting firms out of the top 100 in Australia to its customer list. The Advance Foundation product, aimed at smaller accounting firms, was launched in October 2004 and now has 72 firms using it. The APS business also continues to show commitment to excellence in product development and was awarded Microsoft Gold Certified Partner status in 2005. Customer surveys continue to rank the product superior to our competitors in most areas, including technology and support. In New Zealand we have also seen good customer growth.

Professional business – growth

In 2006 APS will roll out a new tax product and a larger range of products for larger professional accounting firms.

Recurring revenue – growth driven

We have succeeded in obtaining an ever improving blend of recurring and first time revenue. Recurring revenue in 2005 represents 53% of group revenue. 28% of revenue was derived from new product sales which provides an excellent platform for organic growth in recurring revenues.

Contribution of revenue – growing revenue streams

The APS business contributed 34% of group revenue and as with last year, APS' performance again indicates what an excellent acquisition we did back in 2004.

Customer acquisition – product excellence

In the QuickBooks side of the business we acquired 32,000 new customers, while 37,000 customers renewed their subscription to products. The total customer base represents a formidable 400,000 customers. There was 11% growth in revenue in the QuickBooks sector.

Product development – product excellence

In the QuickBooks side of the business we expanded the range of products offered with the launch of QuickBooks EasyStart, a simple yet powerful software aimed at the lower end of the market. Sales of this product in 2005 were beyond expectation and these new customers with an entry level product are fertile ground for growth. At the other end of the spectrum the company saw excellent growth of 57% in the Enterprise market. The feature set of the products generally was enhanced by the addition of connected services.

In March 2006 we acquired the technology and customers of Elite Practice Solutions and thus brought to the business the opportunity to provide electronic tax lodgement software to the Quicken software customer base.

Scope for growth in personal finance market – driving growth

The company enjoys an excellent position in the personal finance and wealth management software market. We acquired 13,000 new customers in this market in 2005 and now have a total of 290,000 registered customers. This is an ideal platform from which to meet increasing consumer demand for wealth management tools. Our recent strategic alliances with Quicken E*TRADE is hopefully the first of similar transactions to take advantage of the opportunity.

2005

The results which show sustained growth in all key indicators over the last four years, are a culmination of the above strategies:

	2002	2003	2004	2005
Revenue	\$23.5m	\$24.7m	\$36.6m	\$42.3m
% Growth	–	5.1%	48%	16%
EBITDA (pre R&D and Royalties)	\$9m	\$10m	\$13m	\$16m
Margin	38%	43%	36%	38%
EBITDA	\$3.5m	\$5.6m	\$7.8m	\$10.1m
Margin	15%	23%	21%	24%
NPBT	\$2.3m	\$5.3m	\$7.4m	\$9.3m
Margin	10%	22%	20%	22%
% Growth	–	130%	38%	26%

Collectively all these outcomes provide proof of excellent results and a platform for growth.

2006

The first few months of 2006 indicate that the company continues to head in the right direction. In the QuickBooks and Quicken market in the first 6 weeks of 2006 in retail sales we outgrew the market by 10% and achieved 38% market share, up from 35% on the same period for last year.

For the APS business, the existing customer pipeline indicates continued prospects for growth.

The company has also positioned itself to maximise growth potential and exploit group efficiencies. Greg Wilkinson's appointment in February 2006 as Deputy Chairman together with Clive Rabie's appointment as Group CEO cements in place a senior executive structure that permits focus of their respective strengths to grow the company.

We remain confident that as the business grows we are pursuing the right strategies. It remains for me to congratulate the company for its success and to wish it well for the remainder of 2006.



John Thame

Chairman

8 March 2006

Quicken E*TRADE

Quicken Australia has partnered with E*TRADE to offer investors a comprehensive online trading service.

The new Quicken E*TRADE service provides users with advanced trading options, from managed funds and CFDs to options, warrants, IPOs and margin lending.

The seamless integration has been developed in Quicken Personal Plus 2006 and Quicken Home & Business 2005/06. Now Quicken customers can seamlessly import their portfolio and trading history with just one click of a button, saving time and removing data entry errors.



Greg Wilkinson

ceo's review

The past year has contained many new initiatives and opportunities for Reckon.

Exploring new areas and markets

We expanded our offering to explore untapped markets – such as the micro business, now catered for with QuickBooks EasyStart. To launch EasyStart into the market, we offered these customers 100% cash back for two weeks – generating market buzz, lots of press, awareness in the retail channel and a nice jump in market share. We now look forward to servicing these customers throughout their business growth and success.

Our Retail Starter Kit was launched shortly thereafter – this is a complete retail solution combining our award-winning QuickBooks Plus and QuickBooks Point of Sale packages, which includes the essential hardware peripherals to provide retailer customers with an affordable point of sale and back office management solution, out of the box.

The response from customers to Quicken's regional roadshow in 2004 inspired us to create the National Business Roadshow in 2005. We spent six weeks travelling to 34 regional and metropolitan centres, pulling together the experts in small business technology with representatives from Microsoft, Hewlett Packard, Telstra, American Express and ARL – to present a complete offering to small businesses for all of their hardware, business and financial management software and connectivity needs.

On the personal financial management front, we finally achieved a long term goal with a very successful technology integration with E*TRADE. Quicken Personal Plus customers can now seamlessly integrate their activity on the stock exchange with their desktop software. This will save them a great amount of time, ensure accuracy and effortlessly manage the tax implications of their investment activities.

Using our expertise and experience

These developments mean that the quality of our products continues to be recognised in industry publications, with awards from Australian PC User and APC magazines for our QuickBooks accounting and Quicken personal finance tools.

Whilst on the subject of awards, we are very proud to announce that APS was awarded Gold Certified Partner status, Microsoft's highest partner level – which recognises APS as one of the top-ranked development houses in the country. This is a direct reflection of the quality of the APS suite of products.

We continue to develop for the future – our next release of QuickBooks introduces even more tools and features to benefit small business. We've included an Audit Company File wizard to give customers peace of mind and control over the integrity of their data. Quicken SuperLink, our new fully integrated Super Choice solution will also be launched – helping small businesses save on compliance costs.

On the APS front, we also launched Advance CRM, a solution that fully integrates with the Advance Practice Management software suite – allowing our clients to extend the value of their existing database to manage new fee opportunities.

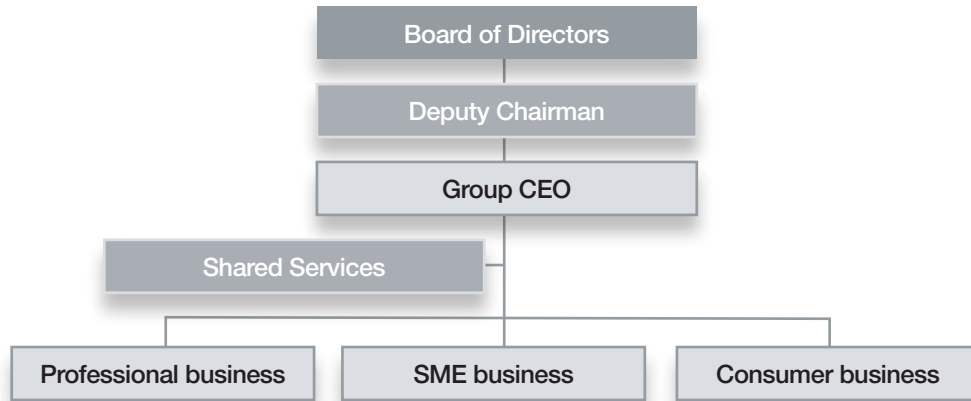
We continued to achieve growth from our existing APS products and services – there are now 25 000 individuals using APS Advance. This is more than twice the number of users than only three years ago. Since the launch of Advance Foundation Suite in October 2004, seventy two firms have implemented. This suite was specifically designed for the smaller accounting firms of 15 individual users or less.

Partnering with other experts in our field

Our recent acquisition of the Desktop Super product and customers provides a natural fit with the APS suite and an extension with good growth potential. The product quality and development behind it is consistent with the high standards expected of and associated with the existing APS suite of products.

However, client satisfaction, and not just acquisition, has always been the main goal for APS. In 2005, a survey showed that over 85% of clients rated Advance Practice Management, Advance Practice IQ and Advance Tax as superior or far superior to their previous product. This response formed the basis for an advertising campaign to accounting professionals, with testimonials from delighted clients.

We have introduced a new corporate structure to manage growth and strategic opportunities. Our business now focuses on our three customer groups – accounting professionals, businesses and consumers. Clive Rabie has been appointed as the Group CEO to oversee these units, and I will be concentrating on strategy as Deputy Chairman. Hence this will be my last report as CEO.



Our recent acquisition of the Elite business provides opportunities for each of these groups. Elite develops and distributes tax return preparation tools used by thousands of accountants and tax agents in public practice. This means that Reckon is now in a position to offer a complete product suite and service offering to the accounting and tax agent industry. The Elite product range will be aligned with the QuickBooks small business and Quicken personal finance customer groups, while allowing APS to continue its focus in the larger and more complex applications. Elite has had a long standing relationship with APS, with the tax forms forming part of the APS suite of products. The acquisition will also give Elite customers access to a broader range of products and services and greater integration in the product suites.

I would like to thank you for your support, and we look forward to sharing our achievements and successes with you throughout the year.

Greg Wilkinson
Chief Executive Officer



“People who work together will win, whether it be against complex football defenses, or the problems of modern society.”

Vincent Thomas Lombardi

directors' report

The directors of Reckon Limited submit these financial statements for the financial year ended 31 December 2005.





John Thame



Ian Ferrier



Greg Wilkinson



Clive Rabie



Myron Zlotnick

board of directors

John Thame AAIBF FCPA

age 64, 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 Abacus Property Trust Group Limited. He was a director of AWB Limited until 10 March 2005. John was appointed to the board on 19 July 1999.

Ian Ferrier FCA

age 65, 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 had over 40 years experience in company corporate recovery and turnaround practice. He is also a director of a number of private and public companies. Ian is currently Chairman of InvoCare Limited, Port Douglas Reef Resorts Limited and a director of McGuigan Simeon Wines Limited, Macquarie Goodman Management Limited and Australian Oil Company Limited. Ian has had 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.

Greg Wilkinson

age 50, Executive Deputy Chairman (effective 22 February 2006)

Greg Wilkinson has 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 since that time has been the Chief Executive Officer. In February 2006 Greg was appointed to the position of Deputy Chairman. Greg became a member of the Board of the listed entity on 19 July 1999.

Clive Rabie

age 46, Group Chief Executive Officer (effective 22 February 2006)

Clive Rabie's appointment as a director was confirmed at the Annual General Meeting on 24 May 2005. Clive has been Chief Operating Officer of the Company since 2001 and in that time has played a pivotal role in the turn-around in the performance of the Company. 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.

Phil Hayman

age 47, Executive Director (resigned effective 24 May 2005)

Phil Hayman co-founded Reckon in 1987 with Greg Wilkinson. Until December 2004, Phil spent 17 years with the company, initially as finance director and later as Logistics Manager. Phil resigned as a director on 24 May 2005.

Fred Tinker

age 52, Non-Executive Director (resigned effective 20 September 2005)

Fred Tinker was with Intuit Inc, USA, for 9 years and was Director of Corporate Alliances. Intuit has licensed to Reckon the rights to localise, manufacture and distribute the Quicken range of personal and financial management software and also the rights to the www.quicken.com.au website. Fred managed this relationship and previously held several financial positions, including Director of International Finance, Director of Financial Planning and Analysis and CFO of VFSC, an internal start up at Intuit. Fred spent the previous 12 years at Apple Computer in various financial management roles. The last 4 was spent at Claris, the software subsidiary of Apple Computer, where he last was the Vice President of Finance. Fred resigned as a director on 20 September 2005 after he left Intuit.

Myron Zlotnick LL.M

age 41, 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

Reckon Limited conducts business in three main sectors.

Under the QuickBooks brand Reckon develops, localises, distributes and provides after sales technical support for the accounting software needs of small to medium size businesses.

In the personal finance and wealth management sector Reckon develops, localises, distributes and provides after sales technical support for Quicken branded software for personal users.

Across both of these business sectors, Reckon also develops applications carrying the QuickBooks and Quicken brand, that enhance the products.

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 world wide, 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. The company 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.

In the third business sector, under the APS brand, Reckon also develops, distributes and supports the Advance 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.

Review of Operations

Overview of financial performance:

	31 Dec 2005 \$'000	31 Dec 2004 \$'000 restated	% Change
Revenue	42,258	36,580	+16%
Profit before income tax	9,259	7,361	+26%
Profit attributable to members	7,034	10,152	-31%
Operating cash flow	12,554	8,689	+44%
Earnings per share (after tax)	5.1 ¢	7.4 ¢	-31%
Earnings per share (before tax)	6.7 ¢	5.3 ¢	+26%

NPAT is negatively impacted by a tax expense being booked for the first time in Australia in 2005. The 2004 result is positively impacted by the once-off booking of unutilised tax losses and temporary differences. NPAT growth on a normalised basis (2004 adjusted for tax losses and temporary differences) would have been 26%.

The Future

There is historically proven growth potential in the market for the QuickBooks and Quicken range of products despite a reasonably mature market. It is expected that sales growth will continue along the trend in 2005, into the future subject to market conditions. There has been a strong start to 2006. The company continues to enjoy an excellent relationship with Intuit Inc. The APS business will also continue to grow in 2006 on the back of continued maintenance revenue growth.

The group intends to continue the strategy of migrating its customer base to a recurring revenue model where an annual or monthly fee is paid to continue to receive updates, upgrades and support for their application. 53% of Reckon's revenue is now recurring. The company also enjoys strong growth in new product sales providing a platform for further recurring revenue.

A significant percentage of Reckon's net asset value is presently in cash. As such, the company constantly reviews potential opportunities to acquire businesses or technology that deliver appropriate EPS accretive returns.

Return of Capital

As reported last year, when the board met in February 2005 to review the results for 2004, it intended to recommend the payment of a dividend out of profits for 2004. However, based upon advice received the company established that the board's power to declare a dividend for the 2004 financial year could effectively only be exercised before 31 December 2004. The reason for this is that the company carried accumulated losses and although the company generated a profit in 2004, those earnings could only be used for purposes of declaring a dividend before 31 December 2004. After that date any profit could not be used as retained earnings and had to be taken up and offset against the accumulated losses.

Accordingly on 28 February 2005, the board resolved to put to the shareholders a special resolution approving the payment of a return of capital of \$0.035 (three and one half cents) per share, with all shares treated equally. The special resolution was approved by shareholders at the Annual General Meeting on 24 May 2005. A total amount of \$4,861,763 was paid to shareholders.

Accumulated Losses to Capital

To overcome the problem mentioned above relating to the impact of accumulated losses on the board's power to declare a dividend, shareholders were requested to approve by way of special resolution that the capital of the company be reduced from \$53 million to \$28 million by reallocating contributed equity of \$25 million, the amount of accumulated losses in the company. This approval was obtained at the Annual General Meeting on 24 May 2005. This effectively freed up the board's power to declare dividends as appropriate.

Share Buy Back & Reduction of Capital

On market buy back

On 8 February 2005 the company announced an on market buy back scheme effective 23 February 2005 in accordance with Chapter 2J of the Corporations Act 2001. On 11 November 2005 the buy back was withdrawn. As at that date no bids had been placed.

Reduction of capital

On 20 December 2005 a 5% reduction of capital was approved by way of special resolution of shareholders. It was implemented on 6 January 2006 as follows:

- by purchasing from each shareholder 5 fully paid ordinary shares out of every 100 fully paid ordinary shares held by them as at the record date of 29 December 2005;
- by then paying A\$0.80 for each fully paid ordinary share so purchased; and
- then cancelling the 5 fully paid ordinary shares out of every 100 (one hundred) fully paid ordinary shares so purchased,

The company accordingly reduced its share capital by \$5,567,597 consisting of 6,959,496 fully paid ordinary shares.

At 6 January 2006:

Starting Issued Capital	Total Reduction of Capital (rounded)	Finished Issued Capital
139,196,236	6,959,496	132,236,740

Full details of the reduction of capital are contained in the Notice of Special General Meeting sent to shareholders on 11 November 2005.

Significant Changes in State of Affairs

Except as disclosed elsewhere in this financial report, there were no events during 2005 that represented material changes to the state of affairs of the company.

Matters Subsequent to the End of the Financial Year

Declaration of a Dividend

On 23 February 2006, the board declared a maiden dividend of 2c per share (unfranked) payable to shareholders recorded on the company's Register as at the record date of 9 March 2006. The company does not have a dividend re-investment plan currently in operation.

Acquisition of Elite Tax

Effective 1 March 2006 the company acquired the "Elite" business from Elite Practice Solutions Pty Limited. The purchase price of \$2.3 million is payable in two tranches of \$1.6 million at completion date and \$0.7 million in one year's time. The purchase price equates to 4.3 times NPBT for the financial year ending 30 June 2005.

Elite develops and distributes tax return preparation tools used by accountants and tax agents. It is anticipated that the product tools will also be made available to QuickBooks small business and Quicken personal customers.

In addition the Elite product range also includes ledger, fixed asset and rental property modules which again are complementary to the existing small to medium business product range.

As part of the transaction the existing management and staff of Elite have been retained.

It is intended that Elite will focus its energy and align its product range with the Quicken and QuickBooks customers, while APS will continue its focus in the larger and more complex applications.

Acquisition of Desktop Super

On 20 February 2006 the company acquired the Desktop Super product and customers from the Desktop Partnership. The acquisition adds a logical and complementary product offering to the APS suite of products and opens opportunities for growth in the superannuation administration software market. The purchase price is payable in tranches: \$450,000 at the effective date of the agreement and the balance subject to performance, quality conditions and the delivery of additional functionality.

Exclusive Distribution Agreement for Quicken SuperLink

Also on 20 February 2006 the company signed an exclusive distribution agreement to deliver Quicken SuperLink to QuickBooks customers. The company has an option to acquire the technology outright over the next 2 years.

This product presents growth potential in the market for managing and administering Super Choice. Quicken SuperLink provides small businesses with a facility integrated within QuickBooks to electronically distribute superannuation contributions to different nominated

funds. It is designed to simplify the extra burden placed on small business by Super Choice. Quicken SuperLink will be released with the next version of QuickBooks.

Management Restructure

Effective 22 February 2006 the company announced that in order to continue to pursue growth opportunities and to consolidate its strategic direction Mr Greg Wilkinson has been appointed as Deputy Chairman responsible for strategy, and Mr Clive Rabie has been appointed as Group CEO.

Less than Marketable Parcels

On 31 January 2006, the company announced that it will offer to holders 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 continued to hold 641 shares or less (based on a closing price of \$0.78 on 30 January 2006). The offer will remain open until 30 June 2006. If all relevant shareholders accept the offer, the cost to the company will be approximately \$120,000.

Other than as disclosed in this Directors' Report no other matter or circumstance has arisen since 31 December 2005 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.

Options

Since balance date 27,444 shares were issued after exercise of options under Share Option Plan 2.

Since 31 December 2005 271,932 options have lapsed.

Effective 31 December 2005 the company terminated Share Option Plan 2. Going forward it will issue shares to new employees pursuant to the share scheme approved at the Special General Meeting on 20 December 2005 or such other plan that the company may lawfully put in place from time to time. The Remuneration Report in the directors' report contains details of the relevant long term incentive plans approved by shareholders at the Special General Meeting of the company held on 20 December 2005.

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 the Remuneration Report immediately below. All options were granted under the Executive Share Option Plan No.2.

Remuneration Report

Policy for determining remuneration of directors, the CEO and COO, and senior executives 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 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 of March 2003 (“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 secretaries and senior managers (referred to hereafter as senior managers), has been delegated to the CEO and COO by the board. The board approves all remuneration in its review of the company’s annual budget process.

The policy is to pay directors, the CEO and COO, and senior managers 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 senior managers, 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 terms incentives. All remuneration is reviewed annually. Generally increases, if justified, will not exceed comparable market increases.

The executive directors and senior managers are all appointed on standard employment terms that are not fixed term contracts.

For 2005, for the CEO, COO and senior managers, 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 a percentage of the combined fixed remuneration of the CEO and COO is the total potential amount in which the CEO and COO can share if the performance conditions are met. There are three weighted elements to the performance conditions set for the CEO and COO, viz: a revenue target, a net profit after tax (“NPAT”) target, and earnings per share (“EPS”) target measured against the expected performance of the company. The board retains a discretion regarding the allocation of the pool between the CEO and COO. A pool representing a percentage of the combined fixed remuneration of all senior managers’ remuneration is the total potential amount in which senior managers can share equally if performance conditions are met. The performance conditions set for senior managers include, a revenue target, a net profit after tax (“NPAT”) target and EPS target measured against the expected performance of the company. Short term incentives are paid in cash as bonuses after the finalisation of the financial results for the year in question, usually in about 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 executives and senior managers 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 was announced in the notice of meeting preceding a Special General Meeting held on 20 December 2005. In general terms, the long term incentive element comprises an option plan and a performance plan. For both the option plan and the performance plan, the board in its discretion can make offers to applicable executives and senior managers to participate in the long term incentive plan. Options granted and/or performance shares awarded (all in respect of the company’s ordinary shares) 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 so-called 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 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 ongoing 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 (ie the extent to which the company exceeds a median ranking against the TSR position of the comparator group of companies).

Because the long term incentive plan contemplates that executive directors participate in the scheme which may include the issue of securities to directors, the plan was put to shareholders for approval at a Special General Meeting on 20 December 2005. The requisite approval was obtained.

At the meeting shareholders also approved a share appreciation right plan. This is an alternative remuneration element (to offering options or performance shares) under which the board can invite eligible 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 executive directors and senior managers accords with the general upward trend of the performance of the company and returns to shareholders, but 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.

Changes in Share Price
between the beginning and
the end of the year

	NPAT	EPS	Return of Capital	Reduction of Capital	Dividend	Beginning of January	End of December
	\$		(cents per share)			(cents)	
2001	(785,000)	(0.7)	0	-	-	15.5	14
2002	2,274,000	1.8	1	-	-	14	18.5
2003	5,348,000	4.2	3	-	-	20	68
2004	10,151,000	7.4 (after tax) 5.3 (before tax)	3.5	-	-	70	85
2005	7,034,000	5.1 (after tax) 6.7 (before tax)	-	4	2	85	76

As explained above, remuneration comprises three main elements, a fixed salary; a bonus which is a short term wholly performance related payment; and a long term incentive which is also a wholly performance related payment.

Remuneration 2005

	Office	Salary	Bonus	Super- annuation	Value of options ¹	Long term incentive plan ²	Other short term benefits ³	TOTAL	Percentage of total that is performance related %
Directors⁴									
Greg Wilkinson	CEO, Executive Director	\$339,494	\$161,220	\$38,833	-	\$12,500	-	\$552,047	31
Clive Rabie	COO, Executive Director	\$319,998	\$161,220	\$36,403	-	\$18,750	-	\$536,371	34
John Thame	Chairman, Non-executive Director	\$76,070	-	\$6,846	-	-	-	\$82,916	-
Ian Ferrier	Non-executive Director	\$57,389	-	\$5,165	-	-	-	\$62,554	-
Phil Hayman ⁵	Non-executive Director	-	-	-	-	-	-	-	-
Fred Tinker ⁶	Non-executive Director	-	-	-	-	-	-	-	-
Executives⁴									
Brian Armstrong	MD, APS Australia	\$222,915	\$50,000	\$22,855	\$13,583	\$9,117	\$32,260	\$350,730	17
Chris Hagglund	CFO	\$234,548	\$53,000	\$21,364	\$9,523	\$4,251	-	\$322,686	18
Shane Compton	MD, APS New Zealand	\$183,422	\$40,000	\$16,564	\$6,452	-	\$2,401	\$248,839	16
Pierre le Grange	GM, Development, APS	\$182,011	\$20,000	\$16,476	\$6,452	-	\$2,401	\$227,340	9
Myron Zlotnick	General Counsel & Company Secretary	\$149,835	\$16,122	\$14,253	-	\$3,290	-	\$183,500	11
Brian Coventry	GM, APS United Kingdom	\$168,750	-	\$8,438	\$6,452	-	-	\$183,640	-
TOTAL		\$1,934,432	\$501,562	\$187,197	\$42,462	\$47,908	\$37,062	\$2,750,623	

1 Options are valued using the Binomial Option Pricing Model, taking into account the exercise price, the expected life of the options, the price of the underlying shares, the expected volatility of those shares, the expected dividends and the risk-free rate of interest. Options that fully vested before 31 December 2003 are not valued.

2 For 2005 these amounts will only vest in 2008 assuming performance criteria are met. For 2005 for the CEO and COO, who are directors, these payments if made, will be in cash as shareholder approval for payment in securities was obtained on 20 December 2005. For other executives these payments will be in securities. Future payments to the CEO and COO may be in the form of securities. For other executives these payments may be in the form of options or performance shares.

3 This reflects a car allowance and contribution to parking for Mr Armstrong and a contribution to parking for Ms Compton and Mr le Grange.

4 It is to be noted that to the extent that any of the above are directors of any wholly owned subsidiaries of the company listed on page 66, no additional remuneration is paid.

5 Resigned as Logistics Manager 31 December 2004, resigned as director effective 24 May 2005.

6 Resigned effective 20 September 2005.

Remuneration 2004

	Office	Salary	Bonus	Super- annuation	Value of options ¹	Long term incentive plan ²	Other short term benefits ³	TOTAL	Percentage of total that is performance related %
Directors									
Greg Wilkinson	CEO, Executive Director	\$330,506	\$91,983	\$29,700	-	-	-	\$452,189	20
Clive Rabie	COO, Executive Director	\$308,003	\$91,983	\$27,720	-	-	-	\$427,706	22
John Thame ⁴	Chairman, Non-executive Director	\$63,616	-	\$5,725	-	-	-	\$69,341	-
Ian Ferrier ⁴	Non-executive Director	\$21,558	-	\$1,940	-	-	-	\$23,498	-
Phil Hayman ⁵	Non-executive Director	\$110,000	\$3,534	\$10,800	-	-	-	\$124,334	3
Fred Tinker ⁶	Non-executive Director	-	-	-	-	-	-	-	-
Geoff Tomlinson ⁴	Ex-Chairman, Non-executive Director	\$50,703	-	\$4,564	-	-	-	\$55,267	-
Executives									
Brian Armstrong	MD, APS Australia	\$149,128	\$50,000	\$10,376	\$13,583	-	\$24,123	\$247,210	20
Chris Hagglund ⁴	CFO	\$46,152	\$2,827	\$4,153	\$3,698	-	-	\$56,830	5
John Gleeson	GM, Call Centre	\$58,329	-	\$6,150	-	-	\$97,525	\$162,004	-
Glenn Roberts	National Sales Manager	\$110,000	\$8,534	\$11,250	-	-	\$9,999	\$139,783	6
Myron Zlotnick	Legal Counsel & Company Secretary	\$133,755	\$8,534	\$12,938	\$598	-	-	\$155,825	5
TOTAL		\$1,381,750	\$257,395	\$125,316	\$17,879	-	\$131,647	\$1,913,987	

1 Options are valued using the Binomial Option Pricing Model, taking into account the exercise price, the expected life of the options, the price of the underlying shares, the expected volatility of those shares, the expected dividends and the risk-free rate of interest. Options that fully vested before 31 December 2003 are not valued.

2 No long term incentive plan was in place in 2004.

3 For Mr Armstrong this refers to a car allowance and contribution to parking. For Mr Gleeson this refers to statutory payments on leaving the company on 19 May 2004. For Mr Roberts this refers to a car allowance.

4 Geoff Tomlinson resigned on 31 August 2004. John Thame was appointed Chairman on 1 September 2004. Ian Ferrier was appointed on 17 August 2004. Chris Hagglund was appointed Chief Financial Officer on 18 October 2004.

Indemnification of Officers and Auditors

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

In addition, Rule 12 of the company's constitution obliges the company to indemnify on a full indemnity basis and to the full extent permitted by law, every director, officer or former officer for all losses or liabilities incurred by the person as an officer. This obligation continues after the person has ceased to be a director or an officer of the company or a related body corporate, but 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.

Directors	Reckon Limited – Attendance Tables					
	Board		Meetings		Remuneration Committee	
	A	B	A	B	A	B
GJ Wilkinson	11	11	NA	NA	NA	NA
PR Hayman	4	3	NA	NA	NA	NA
JM Thame	11	11	2	2	3	3
F Tinker	7	6	NA	NA	2	2
I Ferrier	11	10	2	2	3	3
C Rabie	5	5	NA	NA	NA	NA

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 2005 has been received and can be found on page 38.

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

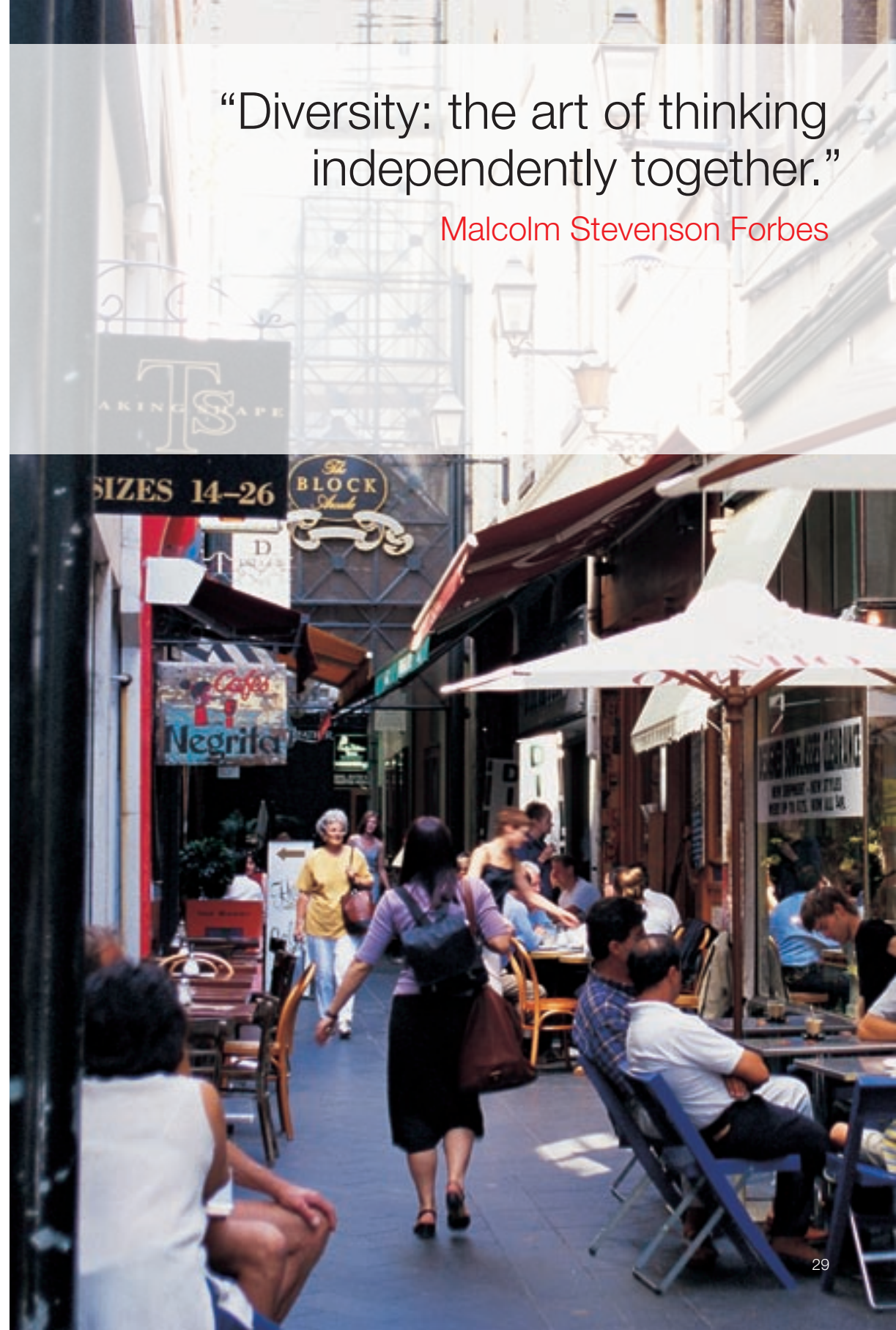
On behalf of the directors



Mr J Thame
Chairman
Sydney, 8 March 2006

“Diversity: the art of thinking
independently together.”

Malcolm Stevenson Forbes



corporate governance statement

Governance of the company in general is in accordance with the ASX Principles of Good Corporate Governance of March 2003 (“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 purely formal and generally justified on the basis that formal compliance is not applicable to the size of the company and the resources available.

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 management, accountability, and control mechanisms. The board also provides advice and input into development of 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 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 deal efficiently with issues which in other larger enterprises may normally be delegated to committees.

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. Greg Wilkinson was Chief Executive Officer until 22 February 2006 when he was appointed Deputy Chairman. Mr Rabie was appointed to the board on 24 May 2005. Mr Rabie was Chief Operating Officer until 22 February 2006, when he was appointed Group Chief Executive Officer.

Phil Hayman retired on 24 May 2005 and Fred Tinker resigned on 20 September 2005. Mr Tinker and Mr Hayman were non-executive directors.

Further details of the directors 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 directorial 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 board met 11 times during 2005. The details of attendance at these meetings are set out in the directors’ report.

Ethical and Responsible Decision Making

The board’s policy is that the company, the directors and employees 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. The company’s Human Resources Policy and Procedure Manual include the relevant requirements of the ASX Governance Principles. A Trading Policy is accessible to the public at the company web site.

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 Chief Executive Officer and the Group Chief Financial Officer 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 4 directors, the Audit Committee cannot comprise of 3 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.

Horwath Sydney Partnership, 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.

The Audit Committee met 2 times during 2005. The details of attendance at these meetings are set out in the directors’ report.

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.

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 an archive of announcements and general company information on its web site which is accessible to the public.

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.

Recognise and Manage Risk

As stated above in **Management and Oversight**, the board is responsible for ensuring appropriate risk management, accountability, and control mechanisms. As stated above also in **Integrity in Financial Reporting** 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 chartered for risk management.

The Group Chief Executive Officer and Group Chief Financial Officer 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 Chief Executive Officer and Group Chief Financial Officer state in writing to the board which is included in the declaration referred to under **Integrity in Financial Reporting**, 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.

Encourage Enhanced Performance

The company recognises the need for regular evaluation of the board, its committees, individual directors and key executives. Generally the independent non-executive directors monitor and review the ongoing performance of the executive directors and key executives as more fully set out in **Remunerate Fairly and Responsibly** below. The independent non-executive directors are subject to the Constitution and their continuity of tenure is dependent on re-election by shareholders in accordance with the Constitution. As set out above in **The Board** there is no formal nomination committee responsible for induction. However, the Chairman, Deputy Chairman and Group CEO undertake a rigorous process of briefing new board members. 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. Given the size of the company there is direct informal communication on a regular basis between the Chairman and the Company Secretary on governance matters.

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 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 3 times during 2005. The details of attendance at these meetings are set out in the directors' report.

Recognising the Legitimate Interests of Stakeholders

The company operates in accordance with appropriate laws, regulations, principles and ethics to fulfill its responsibilities. The company recognises and conducts its affairs consistent with the guidelines for a code of conduct set out in ASX Governance Principle 10. Employees are bound by a Human Resources Policy and Procedure Manual that regulates the ethical standards of their conduct in the business. The key relevant terms of the Manual deal with ethical business practices, conflict of interest and corporate opportunity.

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.

As stated above in **Integrity in Financial Reporting**, a pro forma directors' code of conduct was formally adopted in 2003 in order to meet the requirements of the ASX Governance Principles.



Chartered Accountants
A member of Horwath International

1 Market Street Sydney NSW 2000
GPO Box 1455 Sydney NSW 1041

Independent audit report on the financial report to members of Reckon Limited

We have audited the accompanying financial report of Reckon Limited (the company) and *Reckon Limited and Controlled Entities* (the consolidated entity) for the year ended 31 December 2005. The financial report comprises the balance sheet at 31 December 2005, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, for both the company and consolidated entity, and the directors' declaration for the year then ended. The consolidated entity comprises both the company and the entities it controlled at the year's end or during the financial year.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, under the heading "remuneration report" in pages 21 to 27 of the directors' report, as permitted by the *Corporations Regulations 2001*.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes: designing, implementing 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.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosures based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial 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 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.

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

Independence

We are independent of the company and group, and have complied with the independence requirements of the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. 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 the consolidated entity's financial position as at 31 December 2005 and of their performance for the year ended on that date; and
 - (b) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*.
2. The remuneration disclosures that are contained in pages 21 to 27 of the directors' report comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

Dated the 8th day of March 2006

HORWATH SYDNEY PARTNERSHIP
Chartered Accountants

A handwritten signature in black ink, appearing to read "Michael P Stibbard".

MICHAEL P STIBBARD
Partner



Chartered Accountants
A member of Horwath International

1 Market Street Sydney NSW 2000
GPO Box 1455 Sydney NSW 1041

8th day of March 2006

The Board of Directors
Reckon Limited
Ground Floor, Citywest Office Park
35 Saunders Street
Pymont NSW 2009

Auditor's independence declaration

This declaration is made in connection with my audit of the financial report of Reckon Limited for the year-ended 31 December 2005 and in accordance with the provisions of the *Corporations Act 2001*.

As lead auditor I declare that, to the best of my knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

HORWATH SYDNEY PARTNERSHIP
Chartered Accountants

A handwritten signature in black ink, appearing to read "Michael P. Stibbard".

MICHAEL P STIBBARD
Partner

our performance

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 41 to 74:

- 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 2005 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, 8 March 2006

Income Statements

for the year ended 31 December 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
		Restated		Restated	
Revenue	2	42,258	36,580	32,068	27,526
Product and selling costs		(2,852)	(2,671)	(2,353)	(2,051)
Royalties		(3,885)	(3,286)	(3,492)	(3,126)
Employee benefits expenses		(14,340)	(11,879)	(8,816)	(7,841)
Employee related expenses		(718)	(590)	(498)	(454)
Expense of share-based payments		(303)	(338)	(303)	(338)
Marketing expenses		(3,945)	(4,268)	(3,625)	(4,089)
Premises and establishment expenses		(1,308)	(1,315)	(892)	(901)
Depreciation and amortisation		(1,678)	(1,120)	(1,635)	(1,343)
Telecommunications		(609)	(685)	(397)	(438)
Legal and professional expenses		(629)	(483)	(544)	(401)
Finance costs		–	–	(292)	(197)
Other expenses		(2,732)	(2,584)	(2,011)	(1,377)
Profit before income tax		9,259	7,361	7,210	4,970
Income tax (expense)/revenue	3	(2,225)	2,790	(1,419)	3,200
Profit for the year		7,034	10,151	5,791	8,170
Loss attributable to minority interest		–	1	–	–
Profit attributable to members of Reckon Limited	20	7,034	10,152	5,791	8,170
		Cents	Cents		
Basic Earnings per Share	21	5.1	7.4		
Diluted Earnings per Share	21	5.0	7.2		
Earnings per share on a pre tax basis:					
Basic Earnings per Share		6.7	5.3		
Diluted Earnings per Share		6.6	5.2		

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

Balance Sheets

as at 31 December 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000 Restated	2005 \$'000	2004 \$'000 Restated
ASSETS					
Current Assets					
Cash and cash equivalents	26	18,023	13,302	16,013	11,624
Receivables	6	2,920	4,399	1,404	2,575
Inventories	5	185	180	185	180
Tax assets		9	–	18	–
Other assets	7	499	338	247	169
Total Current Assets		21,636	18,219	17,867	14,548
Non-Current Assets					
Receivables	6	–	139	–	139
Financial assets	8	315	316	14,721	14,069
Property, plant and equipment	9	652	613	301	355
Deferred tax assets	10	2,000	3,452	1,720	3,238
Intangible assets	11	16,292	14,901	5,200	3,738
Total Non-Current Assets		19,259	19,421	21,942	21,539
Total Assets		40,895	37,640	39,809	36,087
LIABILITIES					
Current Liabilities					
Payables	12	9,668	3,170	8,054	1,765
Tax liabilities		–	509	–	–
Provisions	13	620	509	187	304
Other liabilities	14	1,582	1,647	1,158	1,278
Total Current Liabilities		11,870	5,835	9,399	3,347
Non-Current Liabilities					
Payables	12	–	–	3,066	815
Interest-bearing liabilities	15	–	–	2,816	3,242
Deferred tax liabilities	16	430	430	–	–
Provisions	13	235	113	151	51
Total Non-Current Liabilities		665	543	6,033	4,108
Total Liabilities		12,535	6,378	15,432	7,455
Net Assets		28,360	31,262	24,377	28,632
Equity					
Contributed equity	18	17,747	53,048	17,747	53,048
Reserves	19	819	488	568	347
Retained earnings/(accumulated losses)	20	9,796	(22,272)	6,062	(24,763)
Parent entity interest		28,362	31,264	24,377	28,632
Minority interest	27	(2)	(2)	–	–
Total Equity		28,360	31,262	24,377	28,632

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

Statements of Changes in Equity

for the year ended 31 December 2005

	Note	Consolidated		Parent	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total equity at the beginning of the financial year		31,262	17,607	28,632	17,101
Employee share options	19	248	338	248	338
Exchange differences on translation of foreign subsidiaries	19	110	141	–	–
Net income recognised directly into equity		358	479	248	338
Profit for the year		7,034	10,152	5,791	8,170
Total recognised income and expense for the year		7,392	10,631	6,039	8,508
Transactions with equity holders in their capacity as equity holders:					
Reduction of capital and return of capital	18	(10,430)	(4,158)	(10,430)	(4,158)
Contributions of equity	18	136	7,181	136	7,181
Total equity at the end of the financial year		28,360	31,262	24,377	28,632
Total recognised income and expense for the year attributable to:					
Members of Reckon Limited		7,392	10,630	6,039	8,508
Minority interest		–	1	–	–
		7,392	10,631	6,039	8,508
Effect of reassessment of available tax losses resulting in an increase in the Retained Earnings attributable to Reckon Limited	33	–	623	–	623
Effect of reversal of goodwill amortisation resulting in an increase in the Retained Earnings attributable to Reckon Limited	33	–	997	–	–
		–	1,620	–	623

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 2005

	Note	Consolidated		Parent	
		Inflows/(Outflows)		Inflows/(Outflows)	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
Cash Flows From Operating Activities					
Receipts from customers		47,203	39,037	31,394	26,792
Payments to suppliers and employees		(34,543)	(31,017)	(20,026)	(21,706)
Interest received		834	669	770	591
Income taxes paid		(940)	–	(288)	–
Net cash inflow from operating activities	26(c)	12,554	8,689	11,850	5,677
Cash Flows From Investing Activities					
Payment for purchase of controlled entity, net of cash acquired	26(b)	–	(3,365)	–	(5,392)
Payments for purchase of intellectual property		(174)	(690)	(174)	(690)
Expenditure on capitalised development costs		(2,559)	(2,289)	(2,716)	(2,449)
Payment for property, plant and equipment		(375)	(334)	(153)	(264)
Increase in loans from subsidiaries		–	–	308	3,435
Receipts/(Payments) for security deposits		1	(45)	–	(29)
Net cash outflow from investing activities		(3,107)	(6,723)	(2,735)	(5,389)
Cash Flows From Financing Activities					
Proceeds from issues of equity securities		136	122	136	122
Return of capital to shareholders		(4,862)	(4,158)	(4,862)	(4,158)
Net cash outflow from financing activities		(4,726)	(4,036)	(4,726)	(4,036)
Net Increase/(Decrease) in cash and cash equivalents		4,721	(2,070)	4,389	(3,748)
Cash and cash equivalents at the beginning of the financial year		13,302	15,372	11,624	15,372
Cash and cash equivalents at the end of the financial year	26(a)	18,023	13,302	16,013	11,624

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 2005

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 equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

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).

These financial statements are the first Reckon Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of AIFRSs has been applied in preparing these financial statements. Certain of the exemptions allowed by this standard from retrospective application have been used, details can be found in the applicable notes below. The financial statements of Reckon Limited until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRSs and comparatives for the year ended 31 December 2004 have been restated accordingly. Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 33.

The financial report has been prepared in accordance with the historical cost convention, as modified by the valuation of share based payments.

Significant Accounting Policies

(a) Trade Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. These amounts are unsecured and are usually paid within 30 days of the month of recognition. Trade payables are recognised initially at fair value, and subsequently at amortised cost.

(b) Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the fair value of the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is the weighted average of their closing market price for the total of the five business days either side of the acquisition date.

In the event that settlement of all or part of the consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition. However, where the deferred component is subject to certain criteria being met, the amount deferred is

recognised based on an estimate where it is probable that the relevant criteria will be met. If the amount is not probable or cannot be reliably measured, no amount is recognised.

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

(c) Depreciation and Amortisation

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

Plant and equipment	3 – 5 years
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(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 at 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 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:

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

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

At 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.

(j) 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.

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

Reckon Limited, and its wholly owned controlled entities have elected to implement the tax consolidation regime.

Current taxation is recognised by each entity in the group. 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 recognised by 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, which are assumed by the parent company.

Both current and deferred tax assets and liabilities are calculated as if each entity were a separate taxpayer within the group method.

All the wholly-owned Australian controlled entities in the group have entered into a tax funding agreement, which requires that all balances assumed by the head entity are settled in full. Furthermore, in the event that the head entity defaults in its obligations under the tax consolidation system, each entity in the group is limited in its obligation to fund the income tax obligation of the head entity to the proportion that the tax liability to which the entity would have

been liable had the group not elected to become a tax consolidated entity bears to the total taxation liability of the head entity.

(j) Inventories

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

(k) Investments in Controlled Entities

Investments in controlled entities are recorded at cost.

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

(l) Leased Assets

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

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

Operating lease payments are recognised 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 controlled entities. Controlled entities are all entities over which the group has the power to govern the financial and operating policies.

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

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

(n) Receivables

Trade receivables and other receivables are recorded at amortised cost, which is amounts due less any provision for doubtful debts.

(o) Impairment of assets

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

(p) Revenue Recognition

Sale of Goods and Disposal of Assets

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

Rendering of Services

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

Interest and Other Revenue

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

(q) Deferred Revenue

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

(r) Earnings per Share

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

Diluted earnings per share adjusts the figures in the determination of basic earnings per share by taking into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to 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 and after 7 November 2002 and/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 Black–Scholes 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 be come exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

(t) Cash and Cash Equivalents

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

(u) Other Financial Assets

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

(v) Comparative Figures

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

(w) Provisions

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

(x) Fair Value Estimation

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

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(y) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 981 100, and accordingly, amounts in the financial report and directors report have been rounded off to the nearest thousand dollars.

(z) Significant accounting Judgments, Estimates and Assumptions

Significant accounting judgments

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

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

Significant accounting estimates and assumptions

The carrying amount of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a

significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities are:

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

Share based payments – the group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date on which they are granted. The fair value has been determined using the Black Scholes model, and the assumptions related to this can be found in Note 17.

(aa) Adoption of Revised Accounting Standards

The company has not adopted any of the applicable revised accounting standards which have been issued but are not yet applicable to the reporting period ended 31 December 2005 as detailed below.

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

Consolidated		Parent	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000

2 Profit from Ordinary Activities

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

Revenue

Sales revenue

Sale of goods	41,137	35,620	27,062	24,602
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Other revenue

Other income	287	291	287	174
Interest revenue – Other entities	834	669	770	591
Royalty revenue	–	–	2,691	2,159
Dividend income	–	–	1,258	–

	1,121	960	5,006	2,924
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	42,258	36,580	32,068	27,526
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Expenses

Cost of Sales	6,737	5,957	5,845	5,177
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Net provision for doubtful debts in respect of amounts receivable from:

Other Entities	81	196	91	137
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Bad debt expense:

Other Entities	11	–	11	–
Wholly-owned controlled entities	–	–	673	–

Finance costs expensed:

Wholly-owned controlled entities	–	–	292	197
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Net transfers to/(from) provisions:

Sales returns and rebates	(127)	(134)	(127)	(134)
Surplus lease space	–	(46)	–	(46)
Employee entitlements	309	94	208	(33)

Depreciation of non-current assets:

Property, plant and equipment	264	245	170	172
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Amortisation of non-current assets:

Leasehold improvements	43	156	37	145
Intellectual property	555	545	555	835
Development costs	816	174	873	191

Foreign exchange losses/(gains)

	91	138	–	–
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Inventory write-downs and other losses

	–	20	–	20
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Research and Development costs

	2,053	1,891	2,053	1,891
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Operating lease rental expenses:

Minimum lease payments	1,209	1,088	695	769
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	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3 Income Tax				
(a) Income tax expense				
Current tax	1,099	454	112	(170)
Deferred tax	1,452	(3,244)	1,518	(3,030)
Under/(over) provided in prior years	(326)	–	(211)	–
	<u>2,225</u>	<u>(2,790)</u>	<u>1,419</u>	<u>(3,200)</u>
(b) The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense/(income tax revenue) in the financial statements as follows:				
Profit before income tax	9,259	7,361	7,210	4,970
Income tax expense calculated at 30% of profit from ordinary activities	2,778	2,208	2,163	1,491
Tax effect of:				
Effect of higher tax rates on overseas income	45	52	–	–
Tax effect of non-deductible/non-taxable items:				
Dividends	–	–	(377)	–
Research and development claims	(232)	–	(232)	–
Share-based payments	75	101	75	101
Sundry items	(19)	17	1	14
	<u>2,647</u>	<u>2,378</u>	<u>1,630</u>	<u>1,606</u>
Under/(over) provision in prior years	(326)	–	(211)	–
Benefit of tax losses of prior years recouped	(96)	(1,968)	–	(1,606)
Benefit of timing differences and tax losses not previously recognised now considered recoverable	–	(3,200)	–	(3,200)
	<u>–</u>	<u>(3,200)</u>	<u>–</u>	<u>(3,200)</u>
Income tax expense/(revenue) attributable to profit from ordinary activities	<u>2,225</u>	<u>(2,790)</u>	<u>1,419</u>	<u>(3,200)</u>
(c) Future income tax benefits not brought to account as an asset: not probable of recovery				
Tax losses:				
Revenue	471	533	400	400
Capital	2,386	2,386	2,386	2,386
	<u>2,857</u>	<u>2,919</u>	<u>2,786</u>	<u>2,786</u>

	Consolidated		Parent	
	2005 \$	2004 \$	2005 \$	2004 \$
4 Remuneration of Auditors				
During the year, the auditors of the parent entity and its related practices earned the following remuneration:				
(a) Horwath Sydney Partnership				
Auditing and reviewing of financial reports	125,350	116,010	95,350	92,916
Advice in relation to acquisitions	–	37,695	–	37,695
Other assurance services	11,075	–	11,075	–
Tax consulting services	86,905	39,525	85,555	39,525
	<u>223,330</u>	<u>193,230</u>	<u>191,980</u>	<u>170,136</u>
Other Overseas Horwath's Practices				
Auditing and reviewing of financial reports	27,365	15,478	–	–
Tax compliance services	15,127	5,180	–	–
	<u>42,492</u>	<u>20,658</u>	<u>–</u>	<u>–</u>
	<u>265,822</u>	<u>213,888</u>	<u>191,980</u>	<u>170,136</u>
5 Inventories				
Finished goods:				
At net realisable value	185	180	185	180
6 Receivables				
Current:				
Trade receivables	3,014	4,209	1,571	2,521
Provision for doubtful debts	(363)	(282)	(314)	(223)
	<u>2,651</u>	<u>3,927</u>	<u>1,257</u>	<u>2,298</u>
Other receivables	269	472	147	277
	<u>2,920</u>	<u>4,399</u>	<u>1,404</u>	<u>2,575</u>
Non current:				
Trade receivables	–	139	–	139

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
7 Other Assets				
Prepayments	399	275	247	169
Work in progress	100	63	–	–
	<u>499</u>	<u>338</u>	<u>247</u>	<u>169</u>

8 Financial Assets

Security deposits	315	316	281	281
Shares in controlled entities – at cost (note 24)	–	–	14,440	13,788
	<u>315</u>	<u>316</u>	<u>14,721</u>	<u>14,069</u>

Related party loans of \$652,374 have been converted to equity during the year.

9 Property, Plant And Equipment

Leasehold Improvements

At cost	784	719	722	706
Less: Accumulated amortisation	<u>688</u>	<u>638</u>	<u>669</u>	<u>627</u>
Total leasehold improvements	96	81	53	79

Plant and equipment

At cost	3,771	3,449	2,903	2,756
Less: Accumulated depreciation	<u>3,215</u>	<u>2,917</u>	<u>2,655</u>	<u>2,480</u>
Total plant & equipment	556	532	248	276
	<u>652</u>	<u>613</u>	<u>301</u>	<u>355</u>

Reconciliations

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

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

9 Property, Plant And Equipment (cont)

	Leasehold Improvements	Plant and Equipment	Total
	\$'000	\$'000	\$'000
Consolidated			
Carrying amount at 31 December 2003	158	250	408
Additions	79	527	606
Depreciation/amortisation expense	<u>(156)</u>	<u>(245)</u>	<u>(401)</u>
Balance at 31 December 2004	81	532	613
Parent entity			
Carrying amount at 31 December 2003	158	250	408
Additions	66	198	264
Depreciation/amortisation expense	<u>(145)</u>	<u>(172)</u>	<u>(317)</u>
Balance at 31 December 2004	79	276	355

10 Deferred Tax Asset

The balance comprises temporary differences attributable to:

Doubtful debts	100	76	94	67
Employee benefits	611	387	392	233
Sales returns and volume rebates	20	58	20	58
Deferred revenue	348	426	348	426
Difference between book and tax value of non-current assets	(602)	(359)	(602)	(359)
Other provisions	142	115	87	64
Overseas withholding tax recoverable	160	–	160	–
Tax losses	<u>1,221</u>	<u>2,749</u>	<u>1,221</u>	<u>2,749</u>
	<u>2,000</u>	<u>3,452</u>	<u>1,720</u>	<u>3,238</u>

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

Opening balance at 1 January	3,452	–	3,238	–
Credited (charged) to the income statement	(1,452)	3,244	(1,518)	3,030
Acquisition of subsidiary	–	208	–	208
Balance at 31 December	<u>2,000</u>	<u>3,452</u>	<u>1,720</u>	<u>3,238</u>

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
11 Intangibles				
Intellectual property – at cost	4,249	4,075	4,249	4,075
Accumulated amortisation	(3,150)	(2,595)	(3,150)	(2,595)
	<u>1,099</u>	<u>1,480</u>	<u>1,099</u>	<u>1,480</u>
Development costs – at cost	4,877	2,289	5,165	2,449
Accumulated amortisation	(990)	(174)	(1,064)	(191)
	<u>3,887</u>	<u>2,115</u>	<u>4,101</u>	<u>2,258</u>
Goodwill – at cost	11,306	11,306	–	–
Accumulated amortisation	–	–	–	–
	<u>11,306</u>	<u>11,306</u>	<u>–</u>	<u>–</u>
	<u>16,292</u>	<u>14,901</u>	<u>5,200</u>	<u>3,738</u>

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

Impairment test for goodwill

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

Australia	9,565	9,565
New Zealand	1,741	1,741
	<u>11,306</u>	<u>11,306</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. The calculations use cash flow projections based on annual financial budgets for 2006 approved by the board. Cash flows beyond the annual budget are extrapolated 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 10.5% is applied to cash flow projections for both CGU's reflecting similar risk profiles in each.

11 Intangibles (cont)

Consolidated movements in intangibles	Goodwill	Intellectual Property	Development Costs	Total
	\$'000	\$'000	\$'000	\$'000
At 1 January 2005	11,306	1,480	2,115	14,901
Additions	–	174	2,588	2,762
Amortisation charge	–	(555)	(816)	(1,371)
At 31 December 2005	<u>11,306</u>	<u>1,099</u>	<u>3,887</u>	<u>16,292</u>
At 1 January 2004	–	1,335	–	1,335
Additions	11,306	690	2,289	14,285
Amortisation charge	–	(545)	(174)	(719)
At 31 December 2004	<u>11,306</u>	<u>1,480</u>	<u>2,115</u>	<u>14,901</u>
Parent movements in intangibles				
At 1 January 2005	–	1,480	2,258	3,738
Additions	–	174	2,716	2,890
Amortisation charge	–	(555)	(873)	(1,428)
At 31 December 2005	<u>–</u>	<u>1,099</u>	<u>4,101</u>	<u>5,200</u>
At 1 January 2004	–	1,335	–	1,335
Additions	–	690	2,449	3,139
Amortisation charge	–	(545)	(191)	(736)
At 31 December 2004	<u>–</u>	<u>1,480</u>	<u>2,258</u>	<u>3,738</u>

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

12 Payables

Current:

Trade payables and sundry accruals	3,095	2,342	1,897	1,274
Capital reduction payment to shareholders	5,568	–	5,568	–
Employee benefits (Note 17)	1,005	828	589	491
	<u>9,668</u>	<u>3,170</u>	<u>8,054</u>	<u>1,765</u>

Non-Current:

Unsecured loans from subsidiaries	–	–	3,066	815
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Loans from related parties are non-interest bearing with no fixed terms of repayment.

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
13 Provisions				
Current:				
Sales returns, volume rebates	66	193	66	193
Employee benefits (Note 17)	121	111	121	111
Licences, commissions and sundry provisions	433	205	–	–
	<u>620</u>	<u>509</u>	<u>187</u>	<u>304</u>
Non-current:				
Employee benefits (Note 17)	235	113	151	51
	<u>235</u>	<u>113</u>	<u>151</u>	<u>51</u>

Movement in provisions

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

	Sales returns, volume rebates \$'000	Licences, commissions and sundry \$'000	Total \$'000
	Consolidated and parent	Consolidated	
2005			
Carrying amount at the start of the year	193	205	398
Additional provisions recognised	–	228	228
Released to income statement	(127)	–	(127)
	<u>66</u>	<u>433</u>	<u>499</u>

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
14 Other Liabilities				
Current:				
Deferred revenue	1,582	1,647	1,158	1,278

15 Interest-bearing Liabilities

Unsecured loans from subsidiaries	–	–	2,816	3,242
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Loans from related parties are interest-bearing on normal commercial terms with no fixed terms of repayment.

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
16 Deferred Tax Liabilities				
Withholding tax payable in event of distribution of pre-acquisition dividend	430	430	–	–

17 Employee Benefits

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

Accrued annual leave:				
Current (Note 12)	1,005	828	589	491
Provision for long service leave:				
Current (Note 13)	121	111	121	111
Non-current (Note 13)	235	113	151	51
	<u>1,361</u>	<u>1,052</u>	<u>861</u>	<u>653</u>

Reckon Limited Employee Option Plans

The Company has two ownership-based remuneration schemes:

Executive share option plan

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

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

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	
				2005	2004	2005	2004	2005	2004
12/8/99	11/8/04	\$1.05	25,000	–	25,000	–	–	–	–
11/12/99	10/12/04	\$1.05	35,000	–	11,667	–	–	–	–
16/12/99	15/12/04	\$1.05	10,000	–	3,333	–	–	–	–
27/1/00	27/1/05	\$1.05	20,000	6,666	6,667	–	–	–	6,666
			<u>90,000</u>	<u>6,666</u>	<u>46,667</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>6,666</u>

Number of shares that can be issued for unexercised options – 6,666

17 Employee Benefits (cont)

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 free options over unissued shares in the company to executives and directors of the company (or their associates) or subsidiaries of the company selected by the directors from time to time, subject to the ASX Listing Rules and the *Corporations Act 2001*.

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

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 \$0.41.

The strike price and number of options not yet exercised on 29 December 2005 have been reduced by 5% as result of the reduction of capital on this date in terms of the plan rules.

17 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		
				2005	2004	2005	2004	2005	2004	
19/7/00	18/7/05	\$0.672	3,487,381	466,774	-	77,304	87,267	-	544,078	
July 00	July 05	\$1.120	101,110	45,263	-	-	-	-	45,263	
Aug 00	Aug 05	\$1.125	129,466	52,219	-	-	-	-	52,219	
Sep 00	Sep 05	\$0.881	171,200	19,485	-	-	-	-	19,485	
Oct 00	Oct 05	\$0.492	133,509	20,000	-	23,333	26,676	-	43,333	
Nov 00	Nov 05	\$0.264	15,625	-	-	8,250	-	-	8,250	
Dec 00	Dec 05	\$0.222	68,000	45,000	-	-	-	-	45,000	
Jan 01	Jan 06	\$0.174	1,079,759	916	-	-	6,296	17,401	18,317	
Feb 01	Feb 06	\$0.188	1,152,500	12,435	-	46,500	162,712	236,267	295,202	
Mar 01	Mar 06	\$0.155	68,391	961	-	12,500	-	18,267	31,728	
Apr 01	Apr 06	\$0.160	12,547	-	-	-	-	-	-	
May 01	May 06	\$0.165	44,392	173	-	5,208	7,280	3,279	8,660	
Jun 01	Jun 06	\$0.147	63,579	-	-	10,415	-	-	10,415	
Jul 01	Jul 06	\$0.131	17,588	63	-	-	-	1,196	1,259	
Aug 01	Aug 06	\$0.102	13,536	342	-	-	-	6,490	6,832	
Sep 01	Sep 06	\$0.069	39,889	280	-	-	6,256	5,323	5,603	
Oct 01	Oct 06	\$0.075	50,826	317	-	-	24,493	6,016	6,333	
Dec 01	Dec 06	\$0.116	37,827	558	-	26,667	-	10,602	37,827	
Jan 02	Jan 07	\$0.139	103,553	2,381	-	7,222	3,611	45,229	54,832	
Feb 02	Feb 07	\$0.138	7,778	389	-	-	-	7,389	7,778	
Mar 02	Mar 07	\$0.138	41,666	542	-	-	16,667	10,291	10,833	
Jul 02	Jul 07	\$0.133	41,668	1,167	-	3,611	11,111	22,168	26,946	
Sep 02	Sep 07	\$0.135	16,111	472	-	6,667	-	8,972	16,111	
Dec 02	Dec 07	\$0.176	130,553	2,478	12,778	24,444	29,333	47,076	73,998	
Jan 03	Jan 08	\$0.190	26,667	-	-	-	26,667	-	-	
Jun 03	Jun 08	\$0.270	58,891	1,778	-	15,557	7,777	33,779	51,114	
Sep 03	Sep 08	\$0.505	115,002	8,958	-	-	4,444	101,600	110,558	
Dec 03	Dec 08	\$0.619	48,890	6,139	-	-	-	42,751	48,890	
Jan 04	Jan 09	\$0.551	1,061,159	49,876	-	63,610	-	947,673	1,061,159	
Mar 04	Mar 09	\$0.789	56,110	2,805	-	-	-	53,305	56,110	
Jun 04	Jun 09	\$0.960	76,668	7,001	-	-	-	69,667	76,668	
Sep 04	Sep 09	\$0.823	151,166	26,030	-	-	-	125,136	151,166	
Dec 04	Dec 09	\$0.796	250,554	39,444	-	-	-	211,110	250,554	
Mar 05	Mar 10	\$0.743	75,555	10,639	-	-	-	64,916	-	
Jul 05	Jul 10	\$0.741	79,999	4,000	-	-	-	75,999	-	
Sep 05	Sep 10	\$0.779	113,887	5,694	-	-	-	108,193	-	
Dec 05	Dec 10	\$0.722	144,445	7,222	-	-	-	137,223	-	
				9,287,447	841,801	12,778	331,288	420,590	2,417,318	3,176,521

Number of shares that can be issued for unexercised options

2,417,318 3,176,521

17 Employee Benefits (cont)

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. No options have been granted in terms of the new plan.

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. Options that fully vested before 31 December 2003 are not valued. The weighted average share price during the year was \$0.78.

Additional information on these plans is disclosed in the directors' report.

18 Contributed Equity

Fully Paid Ordinary Share Capital	2005		2004	
	No.	\$'000	No.	\$'000
Balance at beginning of financial year	138,864,948	53,048	129,141,230	50,020
Transfer from share-based payments reserve for options exercised during the year	–	27	–	5
Transfer from accumulated losses	–	(25,034)	–	–
Issue of shares	331,288	136	9,723,718	7,181
Reduction of capital	(6,959,496)	(5,568)	–	–
Return of capital	–	(4,862)	–	(4,158)
Balance at end of financial year	132,236,740	17,747	138,864,948	53,048

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

A special resolution, put to the Annual General Meeting on 24 May 2005, seeking approval for the reallocation of \$25,034,000 from accumulated losses to contributed equity, was approved.

Shares And Options Issued During The Financial Year

331,288 options were exercised during the year with an average exercise price of \$0.41. Details of the options that were exercised and further details in respect of the share option plans are contained in note 18 to the financial statements.

During the year a Return of Capital was paid in the amount of 3.5¢ per share. This resulted in a reduction in Capital of \$4,861,763.

A Special General Meeting on 20 December 2005 approved a reduction of capital of 5% of the issued capital, comprising 6,959,496 shares at 80¢ per share, to shareholders registered on 29 December 2005, and paid to shareholders on 6 January 2006. This resulted in a reduction of capital of \$5,567,597.

During the year the company issued 413,886 options under the Executive Share Option Plan No. 2 at an average strike price of \$0.78.

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

Total consideration for options exercised during the year is \$163,068.

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
19 Reserves				
Foreign currency translation reserve				
Balance at beginning of financial year	141	–	–	–
Translation of foreign operations	110	141	–	–
Balance at end of financial year	251	141	–	–
Share-based payments reserve				
Balance at beginning of financial year	347	14	347	14
Option expense	248	338	248	338
Transfer to share capital (options exercised)	(27)	(5)	(27)	(5)
Balance at end of financial year	568	347	568	347
	819	488	568	347

Nature and purpose of reserves

- (a) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1(f).
- (b) Share-based payments reserve
The share-based payments reserve is for the fair value of options granted and recognised to date but not yet exercised.

20 Retained Earnings (Accumulated Losses)

Balance at beginning of financial year	(22,272)	(32,424)	(24,763)	(32,933)
Transfer to contributed equity (Note 18)	25,034	–	25,034	–
Net profit	7,034	10,152	5,791	8,170
Balance at end of financial year	9,796	(22,272)	6,062	(24,763)

21 Earnings Per Share

	2005 ¢	2004 ¢
Basic earnings per share	5.1	7.4
Diluted earnings per share	5.0	7.2
Weighted average number of ordinary shares used in the calculation of basic earnings per share on a pre-tax and post-tax basis	138,780,700	137,808,871
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share on a pre-tax and post-tax basis	141,198,018	140,985,392

21 Earnings Per Share (cont)

Earnings per share calculations are based on profit for the year as set out in the income statement. Pre-tax earnings per share calculations are based on the pre-tax profit as set out in the income statement.

Potential ordinary shares of 2,417,318 (2004: 3,176,521) are options issued but not exercised as disclosed in note 17.

22 Contingent Liabilities

There are no contingent liabilities.

23 Commitments For Expenditure

(a) Capital Expenditure Commitments

The consolidated entity has capital expenditure commitments of \$Nil as at 31 December 2005 (2004: \$175,000).

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(b) Lease Commitments				
Operating Leases				
Within 1 year	1,308	753	699	554
Later than 1 year and not longer than 5 years	2,700	1,232	759	1,121
Later than 5 years	215	–	–	–
	<u>4,223</u>	<u>1,985</u>	<u>1,458</u>	<u>1,675</u>

Operating leases relate to office premises and warehouse facilities with lease terms of between 1 to 6 years. All operating lease contracts contain market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

24 Controlled Entities

Name of Entity	Country of Incorporation	Ownership Interest	
		2005 %	2004 %
Parent Entity			
Reckon Limited	Australia		
Controlled Entities			
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
Advanced Professional Solutions Pty Limited	Australia	100	100
Advanced Professional Solutions Limited	New Zealand	100	100
Advanced Professional Solutions Limited	United Kingdom	100	100

All shares held are ordinary shares

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

25 Related Party Disclosures

(a) Key Management Personnel Remuneration

Short term benefits	2,473,056	1,770,792	1,568,896	1,547,541
Post-employment benefits	187,197	125,316	122,864	114,940
Other long term benefits	47,908	–	38,791	–
Share based payments	42,462	17,879	9,523	4,296
	<u>2,750,623</u>	<u>1,913,987</u>	<u>1,740,074</u>	<u>1,666,777</u>

Details of directors' remuneration for the consolidated entity are disclosed in the directors' report.

(b) Directors' Equity Holdings

	Fully Paid Ordinary Shares	Executive Share Options
Held as at the reporting date by directors and their director-related entities in Reckon Limited	<u>20,919,000</u>	<u>–</u>

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

(c) Other Transactions with directors

There were no other transactions with directors.

(d) Transactions within the Wholly-Owned Group

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

During the financial year, Reckon Limited charged royalties on intellectual property at market rates to the APS group of \$2,691,159 (2004 \$2,159,251), and was charged interest at normal commercial rates on the intercompany loan with Advanced Professional Solutions Limited in New Zealand of \$291,953 (2004 \$197,326). The APS group has also provided development services to Reckon Limited at market rates and has charged fees for these services of \$2,510,345 (2004 \$1,765,610). Reckon has also forgiven and written-off loans to APS of \$672,691.

(e) Other Related Party Transactions

Intuit Ventures Inc

Intuit Ventures Inc, a significant shareholder (11.21%) 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 \$3,416,796 (2004 \$3,119,237) which is expensed in the month the associated product was sold. The balance due at 31 December 2005 is \$103,025 (2004 \$134,928).

	Consolidated		Parent	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

26 Notes To The Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash (i)	18,023	13,302	16,013	11,624
	<u>18,023</u>	<u>13,302</u>	<u>16,013</u>	<u>11,624</u>

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

(b) Business Acquired

APS Group

Consideration:

9,295,175 ordinary shares in Reckon Ltd	–	7,059
Cash	–	5,392
Deposit paid in cash in 2003	–	1,337
	–	<u>13,788</u>

Fair value of net assets of entity acquired:

Cash	–	2,027
Receivables	–	1,914
Other current assets	–	138
Deferred tax assets	–	212
Fixed assets	–	272
Trade payables	–	(426)
Current tax liabilities	–	(173)
Provisions	–	(147)
Other current liabilities	–	(901)
Deferred tax liabilities	–	(434)
	–	<u>2,482</u>
Goodwill	–	<u>11,306</u>
	–	<u>13,788</u>

Full details regarding this are included in note 24.

	Consolidated		Parent	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

26 Notes To The Statement of Cash Flows (cont)

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

Profit from ordinary activities after income tax	7,034	10,151	5,791	8,170
Depreciation and amortisation of non-current assets	1,678	1,120	1,635	1,343
Non-cash employee benefits expense – share based payment	303	338	303	338
Write-off of wholly owned entity loan	–	–	673	–
Increase/(decrease) in current tax liability	(518)	336	(18)	–
Increase/(decrease) in deferred tax balances	1,452	(3,244)	1,710	(3,430)
Unrealised foreign currency translation amount	110	141	–	–
(Increase)/decrease in assets:				
Current receivables	1,618	(393)	1,310	(477)
Current inventories	(5)	97	(5)	97
Other current assets	(161)	95	(78)	126
Non-current receivables	–	–	–	–
Increase/(decrease) in liabilities:				
Current trade payables	930	410	721	(540)
Other current liabilities	46	(442)	(237)	32
Other non-current liabilities	67	80	45	18
Net cash inflow from operating activities	<u>12,554</u>	<u>8,689</u>	<u>11,850</u>	<u>5,677</u>

27 Outside Equity Interests in Controlled Entities

	Consolidated	
	2005 \$'000	2004 \$'000
Interest in: Share Capital	–	–
Accumulated Losses	(2)	(2)
	<u>(2)</u>	<u>(2)</u>

28 Non-cash financing and investing activities

	Consolidated		Parent	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Acquisition of controlled entity via the issue of shares in the parent entity (note 24)	–	7,059	–	7,059

29 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.

29 Financial Instruments (cont)

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk as at the reporting date was in respect of cash of \$18,022,912 (which attracts an average variable interest rate of 5.9%, (2004: 5.3%). All other financial assets and liabilities are non-interest bearing.

(c) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

(d) Fair Value

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

(e) Foreign Currency Risk

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

(f) Liquidity

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

30 Segment Information

(a) Primary Reporting – Business Segments

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

Quicken products

APS products

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

The principal activities of these divisions are as follows:

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

The APS Group was acquired on 29 January 2004.

30 Segment Information (cont)

	External sales		Inter-segment		Other		Total	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Segment revenues								
Quicken products	27,197	24,602	3,949	2,159	1,057	882	32,203	27,643
APS products	13,940	11,018	–	–	64	78	14,004	11,096
Total of all segments							46,207	38,739
Eliminations							(3,949)	(2,159)
Total revenue							42,258	36,580
Segment results								
Quicken products*							6,817	5,377
APS products							2,442	1,984
Profit before income tax							9,259	7,361
Income tax (expense)/revenue							(2,225)	2,790
Net profit for the year							7,034	10,151

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

Segment assets and liabilities	Assets		Liabilities	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Quicken products	21,081	19,526	14,645	6,707
APS products	24,869	21,378	2,945	2,935
Total of all segments	45,950	40,904	17,590	9,642
Eliminations	(5,055)	(3,264)	(5,055)	(3,264)
Unallocated	–	–	–	–
Consolidated	40,895	37,640	12,535	6,378
Other segment information			Quicken products	APS products
			2005	2004
			\$'000	\$'000
Acquisition of segment assets	153	264	2,955	14,627
Depreciation and amortisation of segment assets	637	747	1,041	373

(b) Secondary reporting – geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Australia	35,965	31,389	33,837	31,188	2,142	10,093
Other countries	5,172	4,231	9,874	8,708	966	4,798
	41,137	35,620	43,711	39,896	3,108	14,891
Unallocated assets			(2,816)	(2,256)		
Total assets			40,895	37,640		

31 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 agreement is an evergreen agreement for a rolling period of 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.

32 Subsequent Events

Subsequent to the end of the financial year:

Acquisitions

Reckon Limited has acquired the Desktop Super business effective 28 February 2006 for an initial payment of \$450,000. Further payments may be made subject to performance, future development roadmap and quality conditions.

Effective 1 March 2006 the company acquired the "Elite" business from Elite Practice Solutions Pty Limited. The purchase price of \$2.3 million is payable in two tranches of \$1.6 million at completion date and \$0.7 million in one year's time. The purchase price equates to 4.3 times NPBT for the financial year ending 30 June 2005. Elite develops and distributes tax return preparation tools used by accountants and tax agents. It is anticipated that the product tools will also be made available to QuickBooks small business and Quicken personal customers. In addition the Elite product range also includes ledger, fixed asset and rental property modules which again are complementary to the existing small to medium business product range. As part of the transaction the existing management and staff of Elite have been retained. It is intended that Elite will focus its energy and align its product range with the Quicken and QuickBooks customers, while APS will continue its focus in the larger and more complex applications.

Dividend

The board has declared a dividend of 2 cents per share to shareholders on 23 February 2006. The dividend will be unfranked. The record date for the dividend is 9 March 2006.

Less than marketable parcels

On 31 January 2006, the company announced that it will offer to shareholders of less than marketable parcels of shares to purchase such shares at \$0.80 per share. Offers will be sent to shareholders who at close of business on 31 January 2006 continue to hold 641 shares or less (based on a closing price of \$0.78 on 30 January 2006). The offer will remain open until 30 June 2006. If all relevant shareholders accept the offer, the cost to the company will be approximately \$120,000.

Options

271,932 options in the Executive Share Option Plan No. 2 have lapsed and 27,444 options have been exercised with an average exercise price of \$0.616.

33 Explanation of Transition to Australian Equivalents to IFRSs

	Note	Consolidated		Parent	
		31 Dec	1 Jan	31 Dec	1 Jan
		2004	2004	2004	2004
		\$'000	\$'000	\$'000	\$'000
(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS					
Total equity under AGAAP		29,642	17,607	28,009	17,101
Reassessment of available tax losses	34	623	–	623	–
AIFRS Adjustments to equity:		30,265	17,607	28,632	17,101
Write-back of goodwill amortisation (A)		997	–	–	–
Tax effect of above adjustments		–	–	–	–
Total equity under AIFRS		<u>31,262</u>	<u>17,607</u>	<u>28,632</u>	<u>17,101</u>

(A) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP. This is the reversal of the 2004 amortisation recognised. Exemption was taken under AASB 1 not to restate previous business combinations before 1 January 2004.

(b) Reconciliation of profit after tax under AGAAP to that under AIFRS

Profit after tax as previously reported		8,869	7,885
Reassessment of available tax losses	34	623	623
		9,492	8,508
AIFRS Adjustments:			
Write-back of goodwill amortisation (A)		997	–
Recognition of share-based payment expense (B)		(338)	(338)
Tax effect of above adjustments		–	–
Profit after tax under AIFRS		<u>10,151</u>	<u>8,170</u>

(A) Goodwill is not amortised under AASB 3 "Business Combinations", but was amortised under AGAAP. This is the reversal of the 2004 amortisation. Exemption was taken under AASB 1 not to restate previous business combinations before 1 January 2004.

(B) Options issued to employees after 7 November 2002 but that had not vested by 1 January 2005 are charged to the income statement under AASB 2 "Share-based Payment" over their vesting period. No such expense was recognised under AGAAP. An option reserve is recognised until the options are exercised and the shares issued.

(c) Explanation of material adjustments to the cash flow statements

No adjustments have been made to the cash flow statement on adoption of AIFRS. The reconciliation of operating profit to cash generated by operations has been restated for the profit effects as detailed in (b) above.

34 Reassessment of Available Tax Losses

The Group's available income tax losses has increased due to a reassessment of the tax deductibility of Intellectual Property. The increase in available tax losses has resulted in an increase in the future income tax benefit and income tax revenue as at 31 December 2004 of \$623,000.

Basic and diluted earnings per share for the prior year have been restated. These adjustments have been reflected in the prior year comparatives in these financial statements.

35 Company information

Reckon Limited is a 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 8th March 2006.

Additional information as at 8 March 2006

Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholders	Number	Percentage
Intuit Ventures Inc	14,828,304	11.21
National Nominees Limited	12,384,660	9.36
J P Morgan Nominees Australia Limited	11,152,611	8.43
Gregory John Wilkinson	10,450,000	7.90
Mr Philip Ross Hayman	5,600,000	4.23
DJZ Investments Pty Limited	4,750,000	3.59
Steve Rickwood	4,376,602	3.31
ANZ Nominees Limited	3,694,506	2.79
Invia Custodian Pty Limited	3,264,890	2.47
Mr Clive Rabie & Mrs Kerry Rose Rabie	3,182,500	2.41
UBS Nominees Pty Ltd	2,843,550	2.15
Citicorp Nominees Pty Limited	2,650,407	2.00
Mr Clive Alan Rabie	2,517,500	1.90
Appleton Trust Company (CI) Limited	1,753,952	1.33
Invia Custodian Pty Limited	1,658,572	1.25
Invia Custodian Pty Limited	1,579,432	1.19
Fortis Clearing Nominees P/L	1,254,056	0.95
Citicorp Nominees Pty Limited	1,202,054	0.91
Mrs Shane Catherine Compton & Mr Richard Graham Compton & Ms Marguerite Anne Brett	1,078,873	0.82
Cogent Nominees Pty Limited	992,907	0.75
	91,215,376	68.95

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

132,264,184 fully paid ordinary shares are held by 5081 individual shareholders as at 8 March 2006.

All issued ordinary shares carry one vote per share.

Options

2,417,318 options were held by 221 individual option holders as at 31 December 2005. These options do not carry a right to vote and are not listed on ASX.

Since 31 December 2005 271,932 options have lapsed.

Distribution of Holders of Equity Securities

As at 8 March 2006

	Ordinary Shares	Options
1 – 1,000	1,065	–
1,001 – 5,000	2,527	23
5,001 – 10,000	785	107
10,001 – 100,000	613	91
100,001 and over	63	–

Substantial Shareholders

As at 8 March 2006

	Ordinary Shares (Number)	Ordinary Shares (Percentage)
Intuit Ventures Inc	14,828,304	11.21
National Nominees Limited	12,384,660	9.36
J P Morgan Nominees Australia Limited	11,152,611	8.43
Gregory John Wilkinson	10,450,000	7.90
Clive Alan Rabie (i)	10,450,000	7.90

(i) this includes associated holdings

Annual General Meeting

The Annual General Meeting for Reckon Limited will be held on Friday 26 May 2006 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

As part of our commitment to efficiency we are now giving shareholders the option to receive all statutory corporate notices and reports electronically instead of by post. We have many securityholders and it is costly for the company to produce and mail Annual Reports.

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

- Visit the share registry at www.computershare.com
- Click on 'Investors'
- Click on 'Register your email address'
- Select 'RKN' from the drop down list and click on 'Proceed'
- 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 an email will be sent to you for confirmation purposes.
- Upon receipt, just click on 'Reply' to confirm your details, then 'Send'.

Should you have further enquiries contact the Registry on 1300 855 080 (or outside of Australia please call +61 3 9415 4000).

Alternatively, email the full name and address of the securityholder to:

shareholders@quicken.com.au

to receive the Annual Report and other statutory notices electronically, at the specified email address.

Please note that we can only enjoy the efficiency of this process if a significantly large number of securityholders opt to receive corporate notices and reports by e-mail. If the response is too low we may decide for the time being to continue with the regular post.

APS becomes a Microsoft Gold Certified Partner

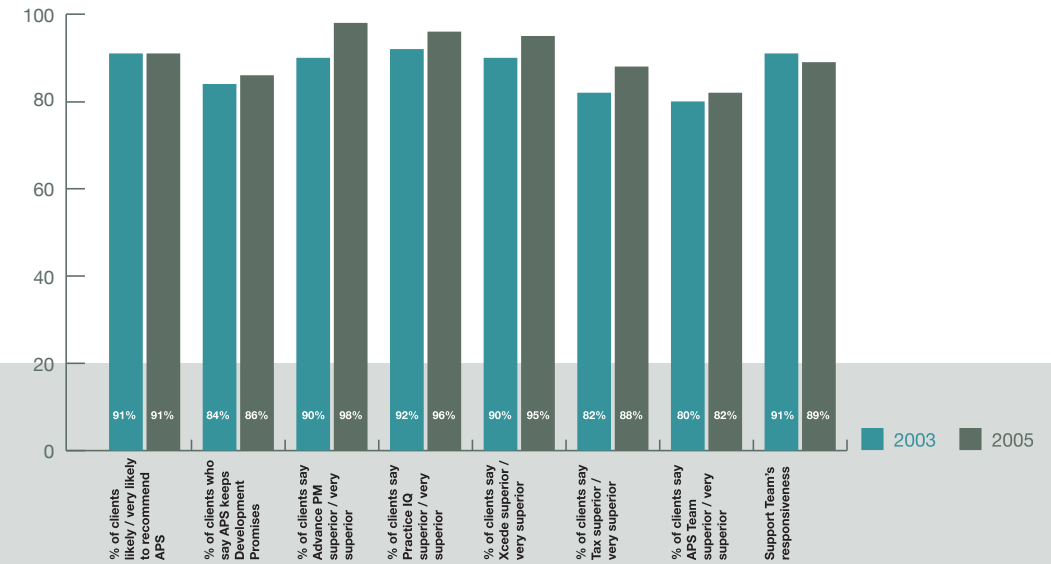


Microsoft
GOLD CERTIFIED
Partner

"We are delighted and proud to announce that APS was acknowledged with the prestigious Gold Certified Partner status by Microsoft. This is Microsoft's highest partner level and it underlines APS's position as one of the premier development houses. The award ensures that APS will receive the most advanced access to Microsoft's newest tools and development technologies."



Brian Armstrong CEO, Advanced Professional Solutions



Rave reviews from APS clients

Since we last conducted a client survey in 2003, APS has grown considerably in all our key markets. So in undertaking our 2005 Client Survey, we were particularly keen to see what effect that growth may have had on client satisfaction levels.

The results* show that we are still hitting all the right buttons from a client perspective.

- **90%** would be likely or very likely to recommend the Advance product suite to other accounting firms
- **93%** rate Advance Practice IQ as superior or far superior to their previous supplier's product
- **86%** rate Advance Practice Management as superior or far superior to their previous supplier's product
- **72%** rate APS's Xcede Professional Accounting package as superior or far superior to their previous supplier's product
- **85%** rate Advance Tax as equal or superior to their previous supplier's product
- **78%** of participants had moved over to APS Advance from Solution 6/Cee Data
- **85%** rate the APS team as superior or far superior to their previous supplier's team
- **89%** agreed that the APS Support team is responsive to their day-to-day needs

* source: StrategyCo Survey of APS Client Attitudes & Satisfaction

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

Horwath Sydney Partnership
1 Market 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 LLM



