integrated research

Integrated Research Limited ABN 76 003 588 449

Annual Report 2004

integrated research

CORPORATE DIRECTORY

Directors	Brian Gatfield *Chairman and Independent Non-Executive Director*
	David Boyles *Independent Non-Executive Director*
	Alex Kennedy *Independent Non-Executive Director*
	Steve Killelea *Chief Executive Officer*
	David Leighton *Chief Financial Officer*
	Ian Winlaw *Independent Non-Executive Director*
Secretary	David Leighton
Registered Office	Level 10, 168 Walker Street North Sydney, NSW 2060 Australia Phone: (+61 2) 9966 1066
Share Registry	Computershare Investor Services Pty Limited
Auditors	KPMG 10 Shelley Street Sydney, NSW 2000
Solicitors	Dibbs Barker Gosling Level 8, Angel Place 123 Pitt Street Sydney, NSW 2000
Bankers	Westpac Banking Corporation
Stock Exchange Listing	Australian Stock Exchange Code IRI
Country of Incorporation	Integrated Research Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares
Notice of Annual General Meeting	The Annual General Meeting of Integrated Research Limited will be held at 3:00pm on Tuesday, 16th November 2004, at the Museum of Sydney, Corner of Phillip and Bridge Streets, Sydney

CONTENTS

" We are seeing strength in the global demand for our products across the board, and an accelerated uptake of VoIP, which should drive revenue over the next twelve months."

Chief Executive Officer's Report

I am very happy to report that the company's revenue for the year ended 30 June 2004 of $30.3 million was an increase of 8% over the prior year, and that profit after tax increased by 316% to $4.5 million. Revenue in the second half of $16.1 million was 13% better than the first half of the financial year, while second half profit after tax was 15% greater than the first half.

The results are especially pleasing, given that the terms of trade adversely affected revenue by 16% compared to the 2002/03 financial year. This was due to the appreciation of the Australian dollar in 2003/04. Our maintenance renewal rate of 97% and strong growth in IP telephony bodes well for future performance.

Our success in 2004 was assisted by an improved economic environment, but driven by organisational improvements and a stronger focus on the execution of our business plans.

Our HP NonStop product line is the market leader and we continue to gain large, new name accounts. We expect this product line to remain strong and offer growth opportunities in the coming years.

Our PROGNOSIS solutions manage high-availability, high-impact environments. In 2004 we have moved further into these markets with solutions to manage business-critical infrastructure in specific vertical industries such as banking, telecommunications and government. Our successes include ATM and POS networks in the banking sector.

We see growing confidence in, and uptake of, IP telephony, which opens new opportunities for us with organisations seeking to assess and manage their IP telephony infrastructure. IP telephony is a rapidly growing technology, yet still in its early stages of adoption. Integrated Research believes it is well placed with the recent addition of major Cisco resellers to our channel. Additionally, the company is setting up a US East Coast office, whose major focus will be this market.

We will continue to develop and market the PROGNOSIS suite of products for HP NonStop, Windows, UNIX and Linux environments, to keep our company at the forefront of the technology and to further enhance the outstanding future prospects for Integrated Research.

By ensuring our customer base is spread both geographically and across industry verticals, Integrated Research has a broad foundation to develop and support growth as market dynamics change.

Development of further growth options can be well supported by our strong balance sheet and free cash reserves.

I have previously announced that I will be stepping down as CEO of Integrated Research at some time in the next six months, however I will continue to maintain my interest in the company, both as a major shareholder and as a member of the board. I would like to personally recognise and thank all Integrated Research staff and associates around the world who have contributed to the company's success since its founding in 1988, attaining its position today as a leader in the Australian IT industry, earning revenue from nearly 50 countries.

Steve Killelea
Chief Executive Officer

"Our HP NonStop product line is the market leader and we continue to gain large, new name accounts. We expect this product line to remain strong and offer growth opportunities in the coming years."

Review of Operations and Activites

Principal activities

The company's principal activities during the period were the design, development and sale of systems and applications management computer software for high-reliability computer systems. There were no significant changes in the nature of these activities during the year.

Group overview

Integrated Research specialises in the development, marketing, sales and support of sophisticated systems management software. Since its establishment in 1988, the company has provided its core PROGNOSIS product suite to a range of organisations requiring high levels of performance, availability and reliability from their systems. Integrated Research now has over 500 customers in nearly 50 countries worldwide.

The PROGNOSIS product range provides real-time integrated systems and application management across the HP NonStop, Windows, UNIX and Linux platforms, and a sophisticated set of solutions for third-party application providers. The company has developed its PROGNOSIS products around a unique core, common architecture, designed to achieve high levels of functionality, scalability, reliability and cross-platform capability, with a low total cost of ownership.

Integrated Research's customer base consists of many of the world's largest organisations and includes major stock exchanges, banks, credit card companies, computer companies and hospitals.

The company generates most of its revenue from upfront licence fees, recurring maintenance and recurring licence fees.

Review and results of operations

The consolidated net profit after tax for the twelve months ended 30 June 2004 was $4,455,000 compared to $1,072,000 in 2003. This significant increase is mainly due to strong performances in the Europe and Americas regions and, as the following chart shows, a 28% increase in revenue from licence fees and a 14% decrease in total expenses.

The consolidated entity earned 76% of its revenue in US dollars (81% in 2003), and its US operations accounted for 29% of total spending (37% in 2003). The company hedges certain US dollar and UK pounds revenues throughout the year, sufficient to provide certainty to the company's cash flow. However, revenue for 2004 has absorbed a reduction of 16% due to changes in average effective exchange rates.

AU$'000	2004	2003	% Change
Revenue from licence fees	15,842	12,396	28%
Revenue from maintenance fees	13,712	14,456	-5%
Revenue from other ordinary activities	778	1,297	-40%
Total revenue from ordinary activities	30,332	28,149	8%
Total expenses from ordinary activities	23,159	26,884	-14%
Net profit of the consolidated entity after income tax	4,455	1,072	316%

Review of Operations and Activites *(continued)*

Review and results of operations (continued)

Revenue from licence fees

52% of revenue for the year was earned from licence fees, compared to 44% in 2003. The company recognises revenue from licence fees at the time of sale. The 28% increase in licence fees in 2004 included a 17% increase from Windows/UNIX and IP telephony products, and sales of PROGNOSIS licences for NonStop products increased by 31%. The company made 229 new sales in 2004, compared to 191 in 2003, of which 19% were to new customers (34% in 2003). Revenue from licence fees included $576,000 from renewals of ten-year licences ($382,000 in 2003).

Revenue from maintenance fees

Maintenance fees, which are paid annually at 15% of the value of a customer's licences, provided 45% of revenue in 2004, compared to 52% in 2003. Revenue from annual maintenance fees is deferred and recognised over a twelve-month period. The NonStop maintenance base retention rate in 2004 was 97%, indicating continuing reliance of customers on PROGNOSIS, an improvement on the rate of 96% renewals in 2003. The 5% reduction in revenue from maintenance fees compared to 2003 is mainly due to the above 16% change in effective exchange rates.

Revenue from other ordinary activities

Other revenue is mainly interest income and post-sales consultancy, and represented 3% of total revenue in 2004, compared to 4% in 2003. Interest income in 2003 was unusually high, due to interest received on tax refunds in Australia that year.

Expenses

Total expenses from ordinary activities were $23.2 million in 2004, 14% less than 2003. Changes in the average effective exchange rates referred to above have had the effect of reducing total expenses by 7%. Headcount at 30 June 2004 was 107, a reduction from 115 at 30 June 2003. Salaries and related other employee costs, such as occupancy, travel and office costs, made up 90% of total spending in 2004, compared to 84% in 2003. Research and development expense was $5.9 million, compared to $6.2 million in 2003, representing 20% of revenue (22% in 2003) and is made up of:

AU$'000	2004	2003
Software development expenses	6,482	6,429
Less amount capitalised	-3,699	-3,479
Amortisation of software development	3,093	3,261
Total research and development expenses	**5,876**	**6,211**

"Integrated Research's customer base consists of many of the world's largest organisations and includes major stock exchanges, banks, credit card companies, computer companies and hospitals."

Review of Operations and Activites *(continued)*

Review and results of operations (continued)

The Americas

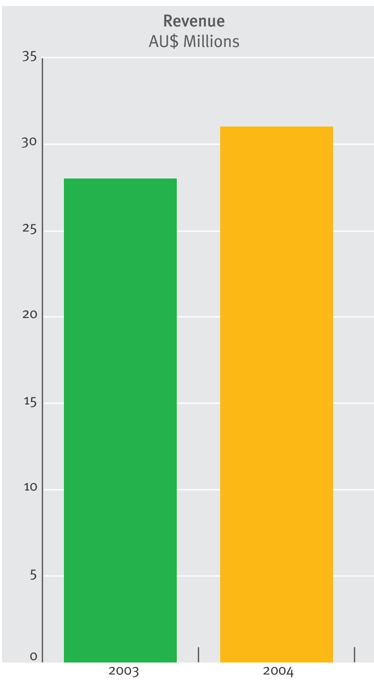
The business environment in the US has improved, and the company's revenue from the Americas in 2004 increased over the prior year by 26% in US dollar terms. When translated to Australian dollars, the Americas revenue increased by 2%, and spending has fallen by 32%. This has enabled the Americas region to return a profit before tax in 2004 of AU$2.3 million, compared to a loss of AU$848,000 in 2003. Revenue from the Americas was 60% of total revenue for the consolidated entity, compared to 62% in 2003.

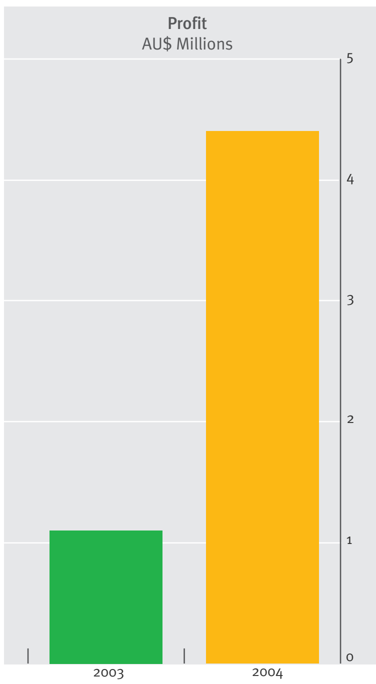
Europe

New business opportunities, particularly in the UK and Eastern Europe, are the main reason for an increase in revenue from Europe of 91% over 2003, in UK pounds. Currency has not had as significant an impact, with 2004 revenue increasing by 66% over 2003 when translated into Australian dollars and spending increasing by 4%. The resulting profit for the year was AU$464,000, compared to a loss last year of AU$622,000. Revenue from Europe was 19% of total revenue for the consolidated entity in 2004, compared to 12% in the prior year.

Asia Pacific, Africa and the Middle East

Sales to the telecommunications industry have provided new opportunities and strong revenue growth in Africa. Most revenue from the Asia Pacific, Africa and Middle East region is based in US dollars and revenue in US dollar terms increased by 26% over 2003. Revenue in Australian dollars increased by 3%. This represented 17% of total revenue for the consolidated entity in 2004, compared to 26% last year. The region returned a profit of AU$534,000 for the year, a decrease of 3% compared to the prior year profit of AU$548,000.





"The NonStop maintenance base retention rate in 2004 was 97%, indicating continuing reliance of customers on PROGNOSIS."

Review of Operations and Activites *(continued)*

Financial position

The consolidated entity continues to be in a strong position, with cash at 30 June 2004 of $8.5 million, compared to $5.9 million a year ago, and remains free of debt. The consolidated entity's current ratio (ratio of current assets to current liabilities) at 30 June 2004 was 1.79, an improvement from 1.57 at the same time last year. Return on equity (consolidated profit after tax as a percentage of equity at the end of the period) improved to be 23.9%, compared to 7.0% in the prior year.

Likely developments

The consolidated entity will continue to pursue its policy of increasing the profitability and market share of its major business sectors during the next financial year. This may require further investment in areas such as the Americas and Europe which performed well in 2004 and offer sound opportunities for future growth.

At the date of this report there have been several developments in the operations of the consolidated entity that are likely to be finalised next year, including:

- The opening of a second office in the Americas region, in the Washington, DC area, to improve our proximity to a large sector of the prospective customer base.
- Expansion of our distributor network in Europe to develop growth opportunities, particularly in Central and Eastern Europe.
- Appointment of more leading distributors in the Voice over IP (VoIP) sector to obtain wider coverage for IP telephony products.
- Release of PROGNOSIS Version 8.0 to maintain our leadership position with enhancements and new products to meet customer demand.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

2005 Outlook

Business conditions have gradually improved over the past year, and are expected to continue to show improvement in the year ahead. We are seeing strength in the global demand for our products across the board, and an accelerated uptake of VoIP, which should drive revenue over the next twelve months. The company will provide further earnings guidance for 2004/05 when first quarter results are available.

FINANCIALS

Since its inception in 1988, Integrated Research has built an impressive customer base that includes the "who's who" of globally-recognised companies

Directors' Report

The directors present their report together with the financial report of Integrated Research Limited ("the company") and of the consolidated entity, being the company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

Directors

The directors of the company at any time during or since the end of the financial year are:

Name and Qualifications	Age	Experience and Special Responsibilities
Mr Brian PR Gatfield, *FCPA* Chairman Independent Non-Executive Director	59	Director and Chairman since October 2000. Chairman of the Nomination Committee, and member of the Audit Committee. Mr Gatfield has extensive experience in capital markets and is also director of a number of private companies.
Mr David L Boyles, *BA, MA, MBA, MAICD* Independent Non-Executive Director	55	Appointed a Director 17 July 2003. Chairman of the Remuneration Committee. Mr Boyles has over twenty years senior management experience with US and Australian multinational companies and joined Integrated Research's Board during the financial year.
Mr Alexander S Kennedy, *M.Mgt, Dip CM, FAICD, ACIS* Independent Non-Executive Director	56	Director since May 2003. Mr Kennedy is a member of the Audit Committee and the Remuneration Committee. He has nearly 35 years of specialist and executive management experience across a broad range of industries.
Mr Stephen J Killelea Chief Executive Officer	54	Director since August 1988. Mr Killelea is a member of the Remuneration and Nomination Committees. He founded the company in 1988 and has guided the development of the product architecture and evolution of the company.
Mr David C Leighton, *MBA, FCPA, ACIS, MAICD* Chief Financial Officer	61	Director since September 1997. Mr Leighton has been company secretary since October 2000. He has over thirty years of senior financial management experience with international companies and joined Integrated Research in August 1996.
Mr Ian Winlaw, *M.Com, FCA, FAICD* Independent Non-Executive Director	65	Director since August 2000. Chairman of the Audit Committee and member of the Nomination Committee. Mr Winlaw has extensive financial and accounting experience. He is also a partner in Ian Winlaw & Co., and Secretary of Colloidal Dynamics Pty Ltd.

Directors' meetings

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2004, and the numbers of meetings attended by each director were:

	Board Meetings		Audit Committee Meetings		Remuneration Committee Meetings		Nomination Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Brian Gatfield	11	12	2	3	-	-	3	3
David Boyles	12	12	-	-	1	1	-	-
Alex Kennedy	12	12	3	3	1	1	-	-
Steve Killelea	12	12	-	-	1	1	3	3
David Leighton	12	12	-	-	-	-	-	-
Ian Winlaw	11	12	3	3	-	-	3	3

A: Number of meetings attended.
B: Number of meetings held during the time the directors held office or was a member of the committee during the year.

Dividends

Dividends paid or declared by the company since the end of the previous financial year were:

	Percent Franked	Cents Per Share	Total Amount $'000	Date of Payment
In respect of the current financial year:				
Interim - Ordinary shares	-	0.75	1,239	12 Mar 2004
Final - Ordinary shares	-	1.0	1,652	17 Sep 2004

State of affairs

In the opinion of the directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

Environmental regulation

The consolidated entity's operations are not subject to significant environmental regulations under either Commonwealth or State legislation.

Directors' and senior executives' remunerations

The remuneration committee is responsible for making recommendations to the board on remuneration policies and packages applicable to the board members and senior executives of the company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Senior executives may receive bonuses based on the achievement of specific goals related to the performance of the consolidated entity (including operational results). Options are also issued under the Employee Share Option Plan. Non-executive directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the remuneration of each director of the company and each of the five named officers of the company and the consolidated entity receiving the highest remuneration are:

	Base $	Bonuses $	Non-Cash Benefits $	Superannuation Contribution $	Termination Benefit $	Options Issued (A) $	Total $
Director							
Non-executive							
David Boyles	43,043	-	-	3,874	-	-	46,917
Brian Gatfield	90,000	-	-	8,100	-	-	98,100
Alex Kennedy	45,000	-	-	4,050	-	-	49,050
Ian Winlaw	45,000	-	-	4,050	-	-	49,050
Executive							
Steve Killelea	354,709	-	8,024	91,149	-	-	453,882
David Leighton	188,002	-	-	25,106	-	6,562	219,670
Executive officers (excluding directors)							
The Company							
Ross Ballard	214,175	62,553	8,024	39,069	-	3,129	326,950
Eddie Basile (B)	120,946	-	-	6,417	59,063	1,182	187,608
Doug Bertinshaw	188,913	30,260	6,199	16,037	-	2,258	243,667
David Priestley	150,831	50,695	8,024	11,002	-	1,638	222,190
Belinda York	171,444	27,178	8,024	15,959	-	-	222,605
Consolidated							
Ross Ballard	214,175	62,553	8,024	39,069	-	3,129	326,950
Doug Bertinshaw	188,913	30,260	6,199	16,037	-	2,258	243,667
Steve Douglas	154,892	265,778	-	-	-	1,665	422,335
Casey Ives	238,763	89,983	-	-	-	4,029	332,775
David Priestley	150,831	50,695	8,024	11,002	-	1,638	222,190

(A) The estimated value disclosed above is calculated at the date of grant using a Black-Scholes model applying a 60% volatility factor. Further details of options granted during the year are set out under "Options", below.

(B) Mr Basile ceased employment on 30 January 2004.

"Executive officers" are officers who are involved in, or who take part in, the management of the affairs of Integrated Research Limited and/or related bodies corporate. Remuneration for overseas-based employees has been translated to Australian dollars at the average exchange rates for the year.

Options granted to directors and senior executives

During or since the end of the financial year, the company granted options over unissued ordinary shares to the following director and to the following of the five or more of the most highly remunerated officers of the consolidated entity as part of their remuneration:

Number of Options Granted During Year

	(A)	(B)	(C)
Grant date	Aug 2003	Feb 2004	Apr 2004
Expiration date	Aug 2008	Feb 2009	Apr 2009
Exercise price	$0.22	$0.26	$0.46
Market price at grant date	$0.22	$0.26	$0.28
Director			
David Leighton	10,000	10,000	273,500
Officers			
Ross Ballard	15,000	15,000	460,000
Eddie Basile	6,000	-	-
Doug Bertinshaw	10,000	-	390,000
Steve Douglas	-	15,000	285,000
Casey Ives	-	10,000	190,000
David Priestley	-	10,000	290,000

The options were granted under the Integrated Research Limited Employee Share Option Plan. 25% of options vest and may be exercised from each of the first to fourth anniversaries of the issue date. In addition, the ability to exercise options under (c) above is conditional on the consolidated entity achieving certain performance hurdles. Unexercised options expire five years after the issue date or on termination of the employee's employment.

Directors' interests

At the date of this report, the interests of the directors in the shares of the company were:

	Ordinary Shares			Options
	Directly Held	Beneficially Held	Total	Number of Options
Brian Gatfield	-	500,000	500,000	-
David Boyles	1,250,000	-	1,250,000	-
Alex Kennedy	-	350,000	350,000	-
Steve Killelea	94,647,339	337,612	94,984,951	-
David Leighton	307,172	-	307,172	400,000
Ian Winlaw	100,000	50,000	150,000	-

Unissued shares under option

Unissued ordinary shares of Integrated Research Limited under option at the date of this report are as follows:

Expiry Date	Exercise Price	Number of Shares
Mar 2005	$0.08	86,393
Sep 2005	$0.10	145,907
May 2006	$1.20	173,500
Aug 2006	$0.54	391,000
Dec 2006	$0.51	168,900
Feb 2007	$0.62	421,500
May 2007	$0.63	252,500
July 2007	$0.57	379,000
Nov 2007	$0.25	100,000
Feb 2008	$0.24	474,500
Jun 2008	$0.12	351,000
Aug 2008	$0.22	507,000
Sep 2008	$0.22	10,000
Feb 2009	$0.26	551,000
Apr 2009	$0.46	2,288,500
May 2009	$0.33	493,500
		6,794,200

Options do not entitle the holder to participate in any share issue of the company or any other body corporate.

Shares issued on the exercise of options

During or since the end of the financial year, the company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number of Shares	Amount Paid on Each Share
15,000	$0.24
3,000	$0.12

Indemnification and insurance of directors and officers

Indemnification

The company has agreed to indemnify the directors of the company on a full indemnity basis to the full extent permitted by law, for all losses or liabilities incurred by the director as an officer of the company including, but not limited to, liability for negligence or for reasonable costs and expenses incurred, except where the liability arises out of conduct involving a lack of good faith.

Insurance

During the financial year Integrated Research Limited paid a premium of $31,000 to insure the directors and officers of the consolidated entity and related bodies corporate.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against officers in their capacity as officers of the consolidated entity.

Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars or in certain cases to the nearest dollar, in accordance with that Class Order.

Dated at North Sydney this 10th day of August 2004.

Signed in accordance with a resolution of the directors.

Brian Gatfield
Chairman

Stephen Killelea
Director

Corporate Governance Statement

This statement outlines the main corporate governance practices that were in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of directors and its committees

Role of the board

The board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. Details of the board's charter is located on the company's website (www.ir.com).

Board process

To assist in the execution of its responsibilities, the board has established a number of board committees including a Nomination Committee, a Remuneration Committee and an Audit Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full board currently holds twelve scheduled meetings each year, plus strategy and budget meetings and any extraordinary meetings at such other times as may be necessary to address any specific matters that may arise.

The agenda for its meetings is prepared in conjunction with the chairman, chief executive officer and company secretary. Standing items include the Chief Executive Officer's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and directors have other opportunities, including visits to operations, for contact with a wider group of employees.

Director education

The consolidated entity follows an induction process to educate new directors about the nature of the business, current issues, the corporate strategy and expectations of the consolidated entity concerning performance of directors. Directors also have the opportunity to visit consolidated entity facilities and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent advice and access to company information

Each director has the right of access to all relevant company information and to the company's executives and, prior to consultation with the chairman, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. A copy of the advice received by the director is made available to all other members of the board.

Composition of the board

The names of the directors of the company in office at the date of this Statement are set out in the Directors' Report on page 10 of this report.

The company's constitution provides for the board to consist of between three and twelve members. At present there are four independent non-executive directors, one of whom is chairman, and two executive directors.

At each Annual General Meeting one-third of directors, any director who has held office for three years and any director appointed by directors in the preceding year must retire, then being eligible for re-election. The chief executive officer is not required to retire by rotation.

The composition of the board is reviewed on a regular basis to ensure that the board has the appropriate mix of expertise and experience. When a vacancy exists, through whatever cause, or where it is considered that the board would benefit from the services of a new director with particular skills, the Nomination Committee will, in conjunction with the board, determine the selection criteria for the position based on the skills deemed necessary for the board to best carry out its responsibilities. The committee would then select a panel of candidates and the board would then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the chief executive officer, senior executives and the directors themselves. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies and industry surveys. Remuneration packages include a mix of fixed remuneration, performance-based remuneration and equity-based remuneration.

The members of the Remuneration Committee during the year were:

David Boyles (Chairman) - Independent Non-Executive
Alex Kennedy - Independent Non-Executive
Steve Killelea - Chief Executive Officer

The Remuneration Committee meets at least once a year and as required. The Committee met once during the year under review.

Total remuneration for all non-executive directors last voted upon at a special meeting of shareholders in October 2000 is not to exceed $500,000 per annum. Director's base fees are presently $45,000 per annum plus compulsory superannuation. The chairman receives the base fee by a multiple of two. Directors fees cover all main board activities and committee memberships.

Nomination Committee

The Nomination Committee was first convened in 2003 and oversees the appointment and induction process for directors. It reviews the composition of the board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. When a vacancy exists or there is a need for particular skills, the committee in consultation with the board determines the selection criteria based on the skills deemed necessary. The committee identifies potential candidates with advice from an external consultant. The board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. The Nomination Committee is also responsible for the selection, appointment and succession planning process of the company's chief executive officer and for reviewing the effectiveness of the board, its committees, individual directors and senior executives.

The Nomination Committee comprised the following members during the year:

Brian Gatfield (Chairman) - Independent Non-Executive
Ian Winlaw - Independent Non-Executive
Steve Killelea - Chief Executive Officer

The Nomination Committee meets as required and met three times during the year. The terms and conditions of the appointment of non-executive directors are set out in a letter of appointment, including expectations for attendance and preparation for all board meetings, expected time commitments, procedures with dealing with conflicts of interest, and the availability of independent professional advice.

Further details of the Nomination Committee's charter and policies are available on the company's website.

Audit Committee

The Audit Committee has a documented charter, approved by the board. All members must be non-executive directors with a majority being independent. The chairman may not be the chairman of the board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:

Ian Winlaw (Chairman) - Independent Non-Executive
Brian Gatfield - Independent Non-Executive
Alex Kennedy - Independent Non-Executive

The external auditor, chief executive officer and chief financial officer are invited to Audit Committee meetings at the discretion of the committee. The committee met three times during the year.

The external auditor met with the audit committee/board three times during the year, two of which included time without the presence of executive management. The chief executive officer and the chief financial officer declared in writing to the board that the company's financial reports for the year ended 30 June 2004 present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards. This statement is required annually.

The Audit Committee's charter is available on the company's website and includes information on procedures for selection and appointment of the external auditor, and for rotation of external audit engagement partners.

The main responsibilities of the Audit Committee include:

- Reviewing the annual and half-year financial reports and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles.
- Assisting the board in monitoring corporate risk assessment processes. The board has not delegated risk management to the Audit Committee, which is retained as part of the full board charter.

› Reviewing the company's policies and procedures for convergence with International Financial Reporting Standards for the reporting period beginning on 1 July 2005.

› Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence.

› Reviewing the nomination and performance of the external auditor. The external auditors were appointed at the annual general meeting held on 8 November 2001.

› Monitoring the establishment of an appropriate internal control framework, and appropriate ethical standards.

› Monitoring the procedures to ensure compliance with the Corporations Act 2001 and ASX Listing Rules and all other regulatory requirements.

› Addressing any matters outstanding with auditors, Australian Tax Office, overseas tax authorities, Australian Securities and Investments Commission and financial institutions.

The full board has retained responsibility for monitoring the corporate risk assessment processes and fraud control.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year as follows:

› To discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed.

› Prior to announcement of results:

  › To review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings.

  › To recommend the board approval of these documents.

› To finalise half-year and annual reporting:

  › Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

  › Review the draft financial report and recommend board approval of the financial report.

› As required, to organise, review and report on any special reviews or investigations deemed necessary by the board.

Risk management

The board reviews the status of business risks to the consolidated entity through integrated risk management programs ensuring risks are identified, assessed and appropriately managed. Major business risks arise from such matters as actions by competitors, government policy changes and the impact of exchange rate movements.

Comprehensive policies and procedures are established such that:

› Capital expenditure above a certain size requires board approval.

› Financial exposures are controlled, including the use of forward exchange contracts.

› Risks are identified and managed, including internal audit, privacy, insurances, business continuity and compliance.

› Business transactions are properly authorised and executed.

The chief executive officer and the chief financial officer have declared, in writing to the board that the company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Internal control framework

The board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The board has instigated the following internal control framework:

› Financial reporting - Monthly actual results are reported against budgets approved by the directors and revised forecasts for the year are prepared monthly.

› Continuous disclosure - Identify matters that may have a material effect on the price of the Company's securities, notify them to the ASX and post them to the Company's website.

› Quality and integrity of personnel - Formal appraisals are conducted at least annually for all employees.

› Operating unit controls - Operating units are required to confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals.

› Investment appraisals - Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures and levels of authority.

Internal audit

The company does not have an internal audit function but utilises its financial resources as needed to assist the board in ensuring compliance with internal controls.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of interest

Directors must keep the board advised, on an ongoing basis, of any interest that could potentially conflict with those of the company. Where the board considers that a significant conflict exists the director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The board has developed procedures to assist directors to disclose potential conflicts of interest. Details of director related entity transactions with the company and consolidated entity are set out in Note 26.

Code of conduct

The consolidated entity has advised each director, manager and employee that they must comply with the code of conduct. The code aligns behaviour of the board and management with the code of conduct by maintaining appropriate core values and objectives. It may be reviewed on the company's website and includes:

- Responsibility to the community and fellow employees to act with honesty and integrity, and without prejudice.
- Compliance with laws and regulations in all areas where the company operates, including employment opportunity, occupational health and safety, trade practices, fair dealing, privacy, drugs and alcohol, and the environment.
- Dealing honestly with customers, suppliers and consultants.
- Ensuring reports and other information are accurate and timely.
- Proper use of company resources, avoidance of conflicts of interest and use of confidential or proprietary information.

Trading in company securities by directors and employees

Directors and employees may acquire shares in the company, but are prohibited from dealing in company shares whilst in possession of price sensitive information, and except in the periods:

- From 24 hours to 28 days after the release of the company's half-yearly results announcement or following the wide dissemination of information on the status of the corporation and current results.
- From 24 hours after the release of the company's annual results announcement to a maximum of 28 days after the annual general meeting.

Directors must obtain the approval of the chairman of the board and notify the company secretary before they buy or sell shares in the company, subject to board veto. The company advises the ASX of any transactions conducted by directors in shares in the company.

The consolidated entity's trading policy may be reviewed on the company's website.

Communication with shareholders

The board provides shareholders with information using a comprehensive continuous disclosure policy which includes identifying matters that may have a material effect on the price of the company's securities, notifying them to the ASX, posting them on the company's website, and issuing media releases. Disclosures under this policy are in addition to the periodic and other disclosures required under the ASX Listing Rules and the Corporations Act. More details of the policy are available on the company's website.

The chief executive officer and the chief financial officer are responsible for interpreting the company's policy and where necessary informing the board. The company secretary is responsible for all communication with the ASX.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor is requested to attend the Annual General Meetings to answer any questions concerning the audit and the content of the auditor's report.

Copies of the Constitution are available to any shareholder who requests it.

Statements of financial performance

For the year ended 30 June 2004

		Consolidated		The Company	
$'000	**Notes**	**2004**	**2003**	**2004**	**2003**
Revenue from ordinary activities:					
Revenue from licence fees		15,842	12,396	10,069	8,143
Revenue from maintenance fees		13,712	14,456	8,021	8,333
Revenue from consulting and other services		518	658	128	314
Interest received		260	561	201	523
Government grants		-	78	-	78
Total revenue from ordinary activities	3	30,332	28,149	18,419	17,391
Expenses from ordinary activities:					
Research and development		5,876	6,211	5,876	6,211
Sales and marketing		13,790	16,106	5,846	5,804
General and administration		3,493	4,567	2,300	2,641
Total expenses from ordinary activities		23,159	26,884	14,022	14,656
Profit from ordinary activities before related income tax expense	4	7,173	1,265	4,397	2,735
Income tax expense	5	-2,718	-193	-1,689	-566
Net Profit	21	4,455	1,072	2,708	2,169
Non-owner transaction changes in equity:					
Net decrease in retained profits on the initial adoption of AASB 1028 "Employee Benefits"		-	-22	-	-22
Total changes in equity other than those resulting from transactions with owners as owners	22	4,455	1,050	2,708	2,147
Basic earnings per share (cents)	34	2.70¢	0.65¢		
Diluted earnings per share (cents)	34	2.69¢	0.65¢		

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 43.

Statements of financial position

As at 30 June 2004

		Consolidated		The Company	
$'000	**Notes**	**2004**	**2003**	**2004**	**2003**
Current assets					
Cash assets	6	8,510	5,909	4,423	4,533
Receivables	7	10,433	7,632	6,725	5,887
Other	8	4,006	5,462	3,082	4,019
Total current assets		**22,949**	**19,003**	**14,230**	**14,439**
Non-current assets					
Receivables	9	196	413	196	-
Investments	10	-	-	54	54
Property, plant and equipment	11	988	992	578	553
Deferred tax assets	12	1,618	1,910	1,170	1,754
Intangible assets	13	8,302	7,696	8,290	7,684
Total non-current assets		11,104	11,011	10,288	10,045
Total assets		**34,053**	**30,014**	**24,518**	**24,484**
Current liabilities					
Payables	14	2,636	3,473	1,199	3,072
Current tax liabilities	15	960	-	-	-
Provisions	16	988	996	643	702
Other	17	8,225	7,627	4,651	4,268
Total current liabilities		**12,809**	**12,096**	**6,493**	**8,042**
Non-current liabilities					
Deferred tax liabilities	18	2,339	2,227	2,336	2,220
Provisions	19	261	267	261	267
Total non-current liabilities		2,600	2,494	2,597	2,487
Total liabilities		15,409	14,590	9,090	10,529
Net assets		18,644	15,424	15,428	13,955
Equity					
Contributed equity	20	427	423	427	423
Retained profits	21	18,217	15,001	15,001	13,532
Total equity	22	**18,644**	**15,424**	**15,428**	**13,955**

The statements of financial position are to be read in conjunction with the notes to the financial statements set out on pages 22 to 43

Statements of cash flows

For the year ended 30 June 2004

		Consolidated		The Company	
$'000	**Notes**	**2004**	**2003**	**2004**	**2003**
Cash flows from operating activities					
Receipts from customers		27,525	30,358	16,206	15,300
Payments to suppliers and employees		-21,816	-24,682	-12,925	-13,333
Interest received		260	561	201	523
Interest paid		-	-331	-	-
Income taxes paid		-1,791	-1,643	-2,046	-347
Withholding tax payment		-	-2,093	-	-
Foreign tax credit refund for WHT		-	2,326	-	2,326
Net cash provided by operating activities	33	**4,178**	**4,496**	**1,436**	**4,469**
Cash flows from investing activities					
Payments for property, plant and equipment		-366	-591	-311	-364
Net cash used in investing activities		**-366**	**-591**	**-311**	**-364**
Cash flows from financing activities					
Proceeds from issuing of shares		4	-	4	-
Payment of dividend	23	-1,239	-2,892	-1,239	-2,892
Net cash used in financing activities		**-1,235**	**-2,892**	**-1,235**	**-2,892**
Net increase (decrease) in cash held		2,577	1,013	-110	1,213
Cash at the beginning of the reporting period		5,909	5,111	4,533	3,320
Effects of exchange rate changes on cash		24	-215	-	-
Cash at the end of the reporting period	6	**8,510**	**5,909**	**4,423**	**4,533**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 22 to 43.

Notes to the Financial Statements For the year ended 30 June 2004

Note 1. Statement of significant accounting policies

The significant policies, which have been adopted in the preparation of this financial report are:

a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy set out in Note 2, are consistent with those of the previous year.

b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought into account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) (or similar taxes in controlled entities), except where the amount of GST is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or part of the expense.

Receivables and payables are stated with the amounts of GST included.

The amount of GST recoverable from, or payable to, the taxation authorities is included as a current asset or current liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authorities are classified as operating cash flows.

e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transaction. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Hedges

Transactions are designated as a hedge of the anticipated specific sale only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency at the reporting date. Refer to Note 24.

If the hedge transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previous deferred gains or losses are recognised as revenue or expense accordingly.

Foreign operations

The assets and liabilities of foreign operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian dollars at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transaction occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

f) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

g) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful debts. Standard trade terms are 30 days, but may be extended up to 90 days in response to competitive situations. Trade debtors are carried at amounts due. Terms granted for greater than one year are carried at the amount due and reported as non-current.

h) Revenue recognition

Revenue is recognised net of returns or discounts, for the major business activities as follows:

Product licence fees

A sale is recorded and revenue is recognised when control of the product passes to the customer, being the time of shipment of the licence key to the customer following receipt of a valid purchase order or contract.

Product maintenance fees

Invoices are raised in the month prior to the renewal date, and revenue recognition is deferred and taken to the statement of financial performance over the period the service is provided.

Training and consulting

A sale is recorded and revenue is recognised at the time the service is provided.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield of the financial asset.

i) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal. Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount.

The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted to their present values.

j) Depreciation of property, plant and equipment

Depreciation is calculated on a reducing balance method to write off the cost of each item of property, plant and equipment over its expected useful life. Estimates of remaining useful lives are made on a regular basis, with annual reassessment for major items. The expected useful lives are as follows:

Computer equipment	4 years
Furniture and fittings	8 years
Computer software	2.5 years

k) Capitalised computer software development costs

Software development projects are defined as being systemic and experimental activities that involve innovation and high levels of technical risk. The basic purpose of the activity must be to acquire new knowledge or create new or improved materials, products, devices, processes or services. Individual timesheets are maintained by development personnel, and hours assigned to development projects are costed using each employee's hourly rate, uplifted for normal salary on-costs and department overheads, and are capitalised only to the extent that they are expected beyond any reasonable doubt to be recoverable.

Capitalised costs, net of any R&D grant received, are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit, but no more than three years.

Research costs are expensed as incurred.

Third party software intellectual property rights and patents and trademarks are amortised on a straight line basis over the period of expected benefit, but no more than 10 years and 16 years respectively.

l) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated economic entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

m) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefit will be required to settle the obligation, the timing or amount of which is uncertain.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared.

Warranties

The standard warranty period on new licences sold extends for three months. Rectification claims are settled by corrective action, at the discretion of the company. Provision for warranty expense is made for claims expected to be received in relation to sales made prior to the reporting date, based on historic claim rates.

n) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

o) Employee entitlements

Wages and Salaries, and Annual Leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled in the next twelve months of the year-end represent obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay after the reporting date including related on-costs.

Long Service Leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date. The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history.

Superannuation

The company contributes to a defined contribution superannuation plan. There are no defined benefit plans in operation.

Employee Share Option Plan

The Company has granted options to certain employees under an Employee Share Option Plan. Further information is set out in the directors' report to the financial report and Note 29. No accounting entries are made in relation to the Integrated Research Limited Employee Share Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital.

p) Cash

For the purposes of the statement of cash flows, cash includes deposits at call, which are readily convertible to cash on hand, and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Deposits at call have terms of no more than twelve months.

q) Leases

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

r) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the net profit attributable to members of the company for the reporting period, excluding any cost of servicing equity by the weighted average number of ordinary shares of the company.

Diluted EPS is calculated by dividing the basic EPS earnings by the weighted average number of ordinary shares and dilutive potential ordinary shares.

s) Segment reporting

The primary reporting segment has been identified on the basis of geographic groups subject to similar risks and returns. The geographic segments reported are: Americas, Europe and Asia Pacific.

Note 2. Changes in accounting policies

There have been no changes in accounting policies of the consolidated entity during the year to 30 June 2004.

Note 3. Revenue from ordinary activities

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Revenue from ordinary activities:				
Sales revenue	30,072	27,510	18,218	16,790
Interest received	260	561	201	523
Government grants	-	78	-	78
	30,332	**28,149**	**18,419**	**17,391**

Note 4. Profit from ordinary activities before income tax expense

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Profit from ordinary activities before income tax includes the following specific net gains and expenses:				
Net gains				
Interest revenue	260	561	201	523
Expenses				
Software development expenses	6,482	6,429	6,482	6,429
Less amount capitalised	-3,699	-3,479	-3,699	-3,479
	2,783	**2,950**	**2,783**	**2,950**
Amortisation of software development	3,093	3,261	3,093	3,261
Depreciation of plant and equipment	370	409	286	272
Interest expense related to payment of amended withholding tax	-	331	-	-
Net exchange difference on translation of foreign operations	39	-318	36	-99
Rental expense relating to operating leases	1,114	1,098	871	845
Provision for bad and doubtful debts	-21	540	41	165
Provision for employee entitlements	-77	5	-65	48

Note 5. Taxation

$'000	Consolidated 2004	Consolidated 2003	The Company 2004	The Company 2003
The income tax expense for the financial year differs from the amount calculated on the profit from ordinary activities before tax expense. The difference is reconciled as follows:				
Profit from ordinary activities	7,173	1,265	4,397	2,735
Income tax calculated at 30%	2,152	380	1,319	820
Tax-effect of permanent differences:				
Non-deductible expenses	23	60	13	15
Research and development concessions	-438	-408	-438	-408
Foreign-sourced income in accounts (net of expenses)	-1	68	-	-
Income tax adjusted for permanent differences	1,736	100	894	427
Effect of higher/(lower) tax rates on overseas income	158	-69	-	-
Reduction to FDT offset (see below)	806	-	806	-
Under/(over) provision in prior year	18	162	-11	139
Income tax expense attributable to profit from ordinary activities	**2,718**	**193**	**1,689**	**566**

Franking deficit tax offset

In March 2004, the Australian Taxation Office notified the company of retrospective changes in franking deficit tax (FDT) legislation (Taxation Laws Amendment Act (No. 8) 2003) that reduced the value of the company's deferred tax assets by an amount of $806,000. Accordingly, the company has written down the value of its deferred tax assets by $806,000 in the 30 June 2004 financial report.

The company understands that Treasury is considering amending the FDT legislation to include remission provisions and has obtained advice that, in such an event, the Company has strong prospects of either full or substantial remission of the adjustment.

The value of deferred tax assets will be reviewed in 2004/05 once the necessary legislative amendments are substantially enacted and the related application for remission has been agreed with the Australian Taxation Office.

The Taxation Laws Amendment Act (No. 8) 2003 received Royal Assent on 21 October 2003. Had the write-down of deferred tax assets been affected in the company's half-year financial report for the period ended 31 December 2003, the reported tax expense would have increased by $806,000 to $1,664,000 and operating profit after tax would have been reduced by the same amount to $1,269,000.

Note 6. Cash assets

$'000	Consolidated 2004	Consolidated 2003	The Company 2004	The Company 2003
Cash at bank and on hand	8,510	5,909	4,423	4,533

Note 7. Current receivables

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Trade debtors	10,695	8,207	1,782	1,883
Less: Provision for doubtful debts	-312	-584	-250	-209
	10,383	7,623	1,532	1,674
Receivable from controlled entities	-	-	5,190	4,204
Other debtors	50	9	3	9
	10,433	**7,632**	**6,725**	**5,887**

Other debtors

These amounts generally arise outside of the usual operating activities of the consolidated entity, and are interest free. Collateral is not normally obtained.

Note 8. Other current assets

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Dividend franking tax benefit	1,404	1,335	1,404	1,335
Income taxes receivable	852	2,235	-	866
Other prepayments	403	405	343	349
Unrealised FX gain	-	152	-	152
Deposits	1,347	1,335	1,335	1,317
	4,006	**5,462**	**3,082**	**4,019**

Note 9. Non-current receivables

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Trade debtors	196	413	196	-

Note 10. Investments

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Shares in controlled entities at cost (refer Note 31)	-	-	54	54

Note 11. Property, plant and equipment

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Plant and equipment at cost	3,851	3,485	2,615	2,304
Less: Accumulated depreciation	-2,863	-2,493	-2,037	-1,751
	988	**992**	**578**	**553**

Reconciliation

Reconciliation of the carrying amounts of plant and equipment at the beginning and end of the current and previous financial year are set out below:

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Carrying amount at start of year	992	810	553	461
Additions	366	591	311	364
Disposals	-	-	-	-
Depreciation expense (refer Note 4)	-370	-409	-286	-272
Carrying amount at end of year	**988**	**992**	**578**	**553**

Note 12. Deferred tax assets

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Future income tax benefit	882	558	434	402
Dividend franking tax benefit	736	1,352	736	1,352
	1,618	**1,910**	**1,170**	**1,754**

Note 13. Intangible assets

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Software development costs	12,282	10,912	12,282	10,912
Less: Accumulated amortisation	-4,192	-3,461	-4,192	-3,461
	8,090	7,451	8,090	7,451
Third party software intellectual property rights at cost	556	556	556	556
Less: Accumulated amortisation	-356	-323	-356	-323
	200	233	200	233
Patents and trademarks at cost	33	33	-	-
Less: Accumulated amortisation	-21	-21	-	-
	12	12	-	-
	8,302	**7,696**	**8,290**	**7,684**

Note 14. Payables

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Payable to controlled entities	-	-	1	3
Franking deficit tax payable	647	2,687	647	2,687
Trade and other creditors	1,989	786	551	382
	2,636	**3,473**	**1,199**	**3,072**

Note 15. Current tax liabilities

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Income tax provision	960	-	-	-

Note 16. Current provisions

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Employee benefits	843	919	588	647
Warranty	55	55	55	55
Other	90	22	-	-
	988	**996**	**643**	**702**

Reconciliation

Reconciliation of the carrying amount of warranty provision at the beginning and end of the current and previous financial year is set out below:

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Carrying amount at beginning of year	55	-	55	-
Provision made during the year	-	55	-	55
Carrying amount at end of year	**55**	**55**	**55**	**55**

Note 17. Other current liabilities

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Deferred revenue	8,096	7,627	4,522	4,268
Unrealised FX loss	129	-	129	-
	8,225	**7,627**	**4,651**	**4,268**

Note 18. Deferred tax liabilities

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Deferred income tax liability	2,339	2,227	2,336	2,220

Note 19. Non-current provisions

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Employee benefits	261	267	261	267

Note 20. Contributed equity

	The Company Shares ('000)		The Company $'000	
	2004	**2003**	**2004**	**2003**
Fully paid ordinary shares	165,244	165,226	427	423

Movements in ordinary share capital

Movements in ordinary share capital during the current and previous financial year are set out below:

		Ordinary Shares	$'000
30 Jun 2002	Balance	165,225,903	423
Jul 2002 - Jun 2003	No activity	-	-
30 Jun 2003	Balance	165,225,903	423
27 May 2004	Options exercised	9,000	2
27 June 2004	Options exercised	9,000	2
30 June 2004		**165,243,903**	**427**

Terms and conditions

a) Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

b) On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Note 21. Retained profits

		Consolidated		The Company	
$'000	**Notes**	**2004**	**2003**	**2004**	**2003**
Retained profits at the beginning of the financial year		15,001	15,191	13,532	12,625
Net profit attributable to members of Integrated Research Limited		4,455	1,072	2,708	2,169
Net effect of initial adoption of:					
Revised AASB 1028 "Employee Benefits"		-	-22	-	-22
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		-	1,652	-	1,652
Dividends provided for or paid	23	-1,239	-2,892	-1,239	-2,892
Retained profits at the end of the financial year		**18,217**	**15,001**	**15,001**	**13,532**

Note 22. Equity

		Consolidated		The Company	
$'000	**Notes**	**2004**	**2003**	**2004**	**2003**
Total equity at the beginning of the financial year		15,424	15,614	13,955	13,048
Total changes in equity recognised in the statement of financial performance		4,455	1,050	2,708	2,147
Net effect of initial adoption of:					
AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"		-	1,652	-	1,652
Transactions with owners as owners:					
Contributions of equity		4	-	4	-
Dividends provided for or paid	23	-1,239	-2,892	-1,239	-2,892
Total equity at the end of the financial year		**18,644**	**15,424**	**15,428**	**13,955**

Note 23. Dividends

	The Company	
$'000	**2004**	**2003**
Dividends:		
Unfranked interim dividend of 0.75 cents per share paid March 2004 (unfranked dividend of 0.75 cents per share paid in March 2003)	1,239	1,239
Net effect of initial adoption of AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	1,653
Total dividends paid	**1,239**	**2,892**

	The Company	
$'000	**2004**	**2003**
Franking credits available for the subsequent financial year based on a tax rate of 30%.	-	-

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

a) Franking credits that will arise from the payment of the current tax liability, and

b) Franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated entity received refunds for foreign tax credits in Australia of $2,326,000 in the financial year ended 30 June 2003. These credits relate to adjustments to foreign tax payments and have resulted in debits to its franking account. The entity's dividend payments in 2004/05 are unlikely to be fully franked.

Subsequent event

Since the end of the financial year, the directors declared an unfranked final dividend of $1,652,000 (1.0 cent per share) to be paid on 17 September 2004.

Note 24. Financial instruments

a) *Foreign exchange risks*

The consolidated entity enters into forward foreign exchange contracts to hedge a portion of anticipated sales commitments denominated in certain foreign currencies (US dollars and UK pounds). The amount of anticipated future sales is forecast in light of current conditions in foreign markets, commitments from customers and experience. All sales in a period are designated as being hedged until all hedge contracts for the period are fully utilised. Note 1(e) sets out the accounting treatment of these hedges.

The following table sets out the gross value to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity:

	Buy Australian Dollars ('000)		Average Exchange Rate	
	2004	**2003**	**2004**	**2003**
Sell US dollars:				
Maturity				
0-12 months	2,819	3,925	0.713	0.6496
Sell UK pounds:				
Maturity				
0-12 months	478	528	0.4078	0.3975

b) *Credit risk exposures*

The credit risk on the financial assets of the consolidated entity, which have been recognised on the statement of financial position is the carrying amount less any provision for doubtful debts.

c) *Interest rate exposures*

The consolidated entity's exposure to interest rate risk and the weighted average interest rates are set out below:

2004		**Floating Interest Rate**	**Fixed Interest Maturing in 1 Year or Less**	**Non-Interest Bearing**	**Total**
$'000	**Notes**				
Financial assets					
Cash and deposits	6	8,424	50	36	8,510
Receivables	7,9	-	-	10,629	10,629
Other financial assets	8	-	1,335	12	1,347
Income taxes receivable and dividend franking tax benefit	8,12	-	-	2,992	2,992
		8,424	**1,385**	**13,669**	**23,478**
Weighted average interest rate		**2.64%**	**5.35%**		
Financial liabilities					
Trade and other creditors	14	-	-	2,636	2,636
Current tax liability	15	-	-	960	960
Employee entitlements	16,19	-	-	1,104	1,104
		-	-	4,700	4,700
Net financial assets		**8,424**	**1,385**	**8,969**	**18,778**

2003		Floating Interest Rate	Fixed Interest Maturing in 1 Year or Less	Non-Interest Bearing	Total
$'000	**Notes**				
Financial assets					
Cash and deposits	6	4,533	950	426	5,909
Receivables	7,9	-	-	8,045	8,045
Other financial assets	8	-	1,317	18	1,335
Income taxes receivable and dividend franking tax benefit	8,12	-	-	4,922	4,922
		4,533	**2,267**	**13,411**	**20,211**
Weighted average interest rate		**3.03%**	**4.49%**		
Financial liabilities					
Trade and other creditors	14	-	-	786	786
Current tax liability	14,15	-	-	2,687	2,687
Employee entitlements	16,19	-	-	1,186	1,186
		-	-	4,659	4,659
Net financial assets		**4,533**	**2,267**	**8,752**	**15,552**

Note 25. Reconciliation of net financial assets to net assets

		Consolidated	
$'000	**Notes**	**2004**	**2003**
Net financial assets as above		18,778	15,552
Non-financial assets and liabilities:			
Other current assets	8	403	557
Property, plant and equipment	11	988	992
Intangibles	13	8,302	7,696
Deferred tax assets	12	882	558
Provisions	16,18	-2,484	-2,304
Other liabilities	17	-8,225	-7,627
Net assets per statements of financial position		**18,644**	**15,424**

Net fair value of financial assets and liabilities

The net fair value of cash and cash equivalents, non-interest bearing monetary financial assets and financial liabilities and off balance sheet derivative instruments of the consolidated entity approximates their carrying value.

Note 26. Directors and executive disclosures

Remuneration of specified directors and executives by the consolidated entity

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

Non-executive directors do not receive any performance related remuneration. Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles, which are linked to the consolidated entity's annual budget. Options are issued under the Employee Share Option Plan, which is explained under Note 29, below.

Total remuneration for all non-executive directors last voted upon at a special meeting of shareholders in October 2000 is not to exceed $500,000 per annum. Director's base fees are presently $45,000 per annum plus compulsory superannuation. The chairman receives the base fee by a multiple of two. Director's fees cover all main board activities and committee memberships.

The following table provides the details of all directors of the company ("specified directors") and the five or more executives of the consolidated entity with the greatest authority ("specified executives") and the nature and amount of their remuneration for the year ended 30 June 2004.

		Primary		**Post-employment**	**Equity**	**Other**	
	Salary & Fees	Bonus	Non-monetary Benefits	Superannuation Benefits	Value of Options	Termination Benefit	Total
	$	$	$	$	$	$	$
Specified directors							
Non-executive							
Brian Gatfield	90,000	-	-	8,100	-	-	98,100
David Boyles (Note A)	43,043	-	-	3,874	-	-	46,917
Alex Kennedy	45,000	-	-	4,050	-	-	49,050
Ian Winlaw	45,000	-	-	4,050	-	-	49,050
Executive							
Steve Killelea (CEO)	354,709	-	8,024	91,149	-	-	453,882
David Leighton (CFO)	188,002	-	-	25,106	6,562	-	219,670
Total, all specified directors:	**765,754**	**-**	**8,024**	**136,329**	**6,562**	**-**	**916,669**

(Note A): Mr Boyles was appointed a director on 17 July 2003.

	Salary & Fees	Bonus	Non-monetary Benefits	Superannuation Benefits	Value of Options	Termination Benefit	Total
Specified executives							
Ross Ballard (GM sales & marketing)	214,175	62,553	8,024	39,069	3,129	-	326,950
Eddie Basile (GM development)	120,946	-	-	6,417	1,182	59,063	187,608
Doug Bertinshaw (GM global operations)	188,913	30,260	6,199	16,037	2,258	-	243,667
Steve Douglas (Sales manager Europe; Integrated Research UK Ltd)	154,892	265,778	-	-	1,665	-	422,335
Casey Ives (Executive VP Americas; Integrated Research, Inc.)	238,763	89,983	-	-	4,029	-	332,775
David Priestley (Mgr Asia Pacific)	150,831	50,695	8,024	11,002	1,638	-	222,190
Total, all specified executives:	**1,068,520**	**499,269**	**22,247**	**72,525**	**13,901**	**59,063**	**1,735,525**

Equity instruments

All options refer to options over ordinary shares of Integrated Research Limited, which are exercisable on a one-for-one basis under the Employee Share Option Plan (ESOP).

Options granted as remuneration

During the reporting period, the following options over ordinary shares were granted and vested under the ESOP:

	Number of Options Granted During Year			Number of Options Vested During Year
	(A)	(B)	(C)	
Grant date	Aug 2003	Feb 2004	Apr 2004	
Expiration date	Aug 2008	Feb 2009	Apr 2009	
Exercise price	$0.22	$0.26	$0.46	
Market price at grant date	$0.22	$0.26	$0.28	
Specified director				
David Leighton	10,000	10,000	273,500	26,625
Specified executives				
Ross Ballard	15,000	15,000	460,000	2,500
Eddie Basile	6,000	-	-	7,500
Doug Bertinshaw	10,000	-	390,000	-
Steve Douglas	-	15,000	285,000	-
Casey Ives	-	10,000	290,000	25,000
David Priestley	-	10,000	290,000	-

No options have been granted to specified directors or specified executives since the end of the financial year. The options were provided at no cost to the recipient and normally expire on the earlier of their expiry date or termination of the individual's employment. 25% of the options are exercisable annually on the anniversary of the grant date. The ability to exercise options under (C) above is also conditional on the consolidated entity achieving certain performance hurdles.

No shares were issued to specified directors or specified executives during the reporting period.

Further details regarding options are in Note 29.

Option holdings

The movement during the reporting period in the number of options over ordinary shares in Integrated Research Limited held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Granted as Remuneration	Exercised	Other Changes	Held at 30 June 2004	Vested and Exercisable at 30 June 2004
Specified director						
David Leighton	106,500	293,500	-	-	400,000	48,375
Specified executives						
Ross Ballard	10,000	490,000	-	-	500,000	2,500
Eddie Basile (A)	78,000	6,000	-	-84,000	-	-
Doug Bertinshaw	-	400,000	-	-	400,000	-
Steve Douglas	-	300,000	-	-	300,000	-
Casey Ives	100,000	300,000	-	-	400,000	25,000
David Priestley	-	300,000	-	-	300,000	-

(A) Mr Basile ceased employment on 30 January 2004. His options were not exercised and have lapsed.

No options held by specified directors or specified executives are vested but not exercisable.

Equity holdings and transactions

The movement during the reporting period of ordinary shares of Integrated Research Limited held directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2004
Specified directors					
Non-executive					
Brian Gatfield	500,000	-	-	-	500,000
David Boyles	-	1,250,000	-	-	1,250,000
Alex Kennedy	150,000	200,000	-	-	350,000
Ian Winlaw	150,000	-	-	-	150,000
Executive					
Steve Killelea	94,984,951	-	-	-	94,984,951
David Leighton	307,172	-	-	-	307,172
Specified executives					
Ross Ballard	-	150,000	-	150,000	-
David Priestley	50,000	-	-	50,000	-

Other transactions with the company or its controlled entities

There were no other transactions between the specified directors or specified executives, or their personally-related entities, and the company or its controlled entities.

Note 27. Remuneration of auditors

	Consolidated		The Company	
	2004 $	2003 $	2004 $	2003 $
Remuneration for audit and review of the financial reports of the Company or any entity in the consolidated entity:				
Audit services:				
Auditors of the company - KPMG				
Audit and review of financial reports	154,600	140,000	104,000	94,000
Remuneration for other services by the auditors of the Company or any entity in the consolidated entity:				
Taxation services:				
Auditors of the company - KPMG	63,000	162,800	32,600	63,200

Note 28. Commitments for expenditure

Operating leases

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,355	1,288	1,052	1,001
Later than one year but not later than five years	2,061	3,316	1,881	2,828
Later than five years	-	-	-	-
Commitments not recognised in financial statements	**3,416**	**4,604**	**2,933**	**3,829**

Note 29. Employee benefits

	Consolidated		The Company	
$'000	**2004**	**2003**	**2004**	**2003**
Employee benefit liabilities				
Provision for employee benefits				
Current (Note 16)	843	919	588	647
Non-current (Note 19)	261	267	261	267
Aggregate employee benefit liability	1,104	1,186	849	914

	Consolidated		The Company	
	2004	**2003**	**2004**	**2003**
Employee numbers				
Number of employees at 30 June	107	115	74	81

Integrated Research Limited Employee Share Option Plan

The establishment of the Integrated Research Limited Employee Share Option Plan (ESOP) was approved by special resolution at a meeting of members of the company held on 4 October 2000. All employees (including executive directors) of Integrated Research Limited and its controlled entities are eligible to participate in the ESOP at the invitation of the board.

The number of options which may be granted under the ESOP is limited so that the number of shares issued if all options granted or offered under the ESOP were exercised, together with the number of shares issued under any employee share or option scheme established by the company in the previous five years, must not exceed 7.5 percent of the then total number of shares on issue.

Options are granted under the ESOP for no consideration. Options are granted for a five-year period, and 25% of each new tranche becomes exercisable after each of the first four anniversaries of the date of the grant. Each option is convertible into one ordinary share at an exercise price set at least as high as the market value of the Shares at the date of the grant of the options, based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Under the terms of an employee share option plan dated 1 March 1998 and an amendment to the plan dated 1 January 1999, which was superseded by the current ESOP, all existing options vested and were exercisable on the date of the Company's listing in December 2000. No options were exercised and no shares were issued under this plan in the year ended 30 June 2004. A total of 232,300 of these options granted to three employees at an average price of $0.09 had not been exercised at 30 June 2004.

Set out following are summaries of options granted under both plans:

Grant Date	Expiry Date	Exercise Price	Balance at Start of the Year	Issued During the Year	Exercised During the Year	Lapsed During the Year	Balance at End of the Year
Consolidated and Company - 2004							
Old plan (prior to December 2000)		$0.09	232,300	-	-	-	232,300
May 2001	May 2006	$1.20	217,500	-	-	44,000	173,500
Aug 2001	Aug 2006	$0.54	500,500	-	-	109,500	391,000
Dec 2001	Dec 2006	$0.51	212,820	-	-	43,920	168,900
Feb 2002	Feb 2007	$0.62	514,000	-	-	92,500	421,500
May 2002	May 2007	$0.63	333,500	-	-	81,000	252,500
Jul 2002	Jul 2007	$0.57	514,000	-	-	135,000	379,000
Nov 2002	Nov 2007	$0.25	100,000	-	-	-	100,000
Feb 2003	Feb 2008	$0.24	593,500	-	15,000	104,000	474,500
Jun 2003	Jun 2008	$0.12	464,500	-	3,000	110,500	351,000
Aug 2003	Aug 2008	$0.22	-	597,000	-	90,000	507,000
Sep 2003	Sep 2008	$0.22	-	10,000	-	-	10,000
Feb 2004	Feb 2009	$0.26	-	574,000	-	23,000	551,000
Apr 2004	Apr 2009	$0.46	-	2,288,500	-	-	2,288,500
May 2004	May 2009	$0.33	-	493,500	-	-	493,500
Total			**3,682,620**	**3,963,000**	**18,000**	**833,420**	**6,794,200**
Consolidated and Company - 2003							
Old plan (prior to December 2000)		$0.09	232,300	-	-	-	232,300
Feb 2001	Feb 2006	$3.33	300,000	-	-	300,000	-
May 2001	May 2006	$1.20	246,000	-	-	28,500	217,500
Aug 2001	Aug 2006	$0.54	559,000	-	-	58,500	500,500
Dec 2001	Dec 2006	$0.51	296,820	-	-	84,000	212,820
Feb 2002	Feb 2007	$0.62	625,000	-	-	111,000	514,000
May 2002	May 2007	$0.63	415,500	-	-	82,000	333,500
Jul 2002	Jul 2007	$0.57	-	709,500	-	195,500	514,000
Nov 2002	Nov 2007	$0.25	-	100,000	-	-	100,000
Feb 2003	Feb 2008	$0.24	-	610,500	-	17,000	593,500
Jun 2003	Jun 2008	$0.12	-	464,500	-	-	464,500
Total			**2,674,620**	**1,884,500**	**-**	**876,500**	**3,682,620**

Options exercised during the financial year and number of shares issued to employees on the exercise of options:

		Consolidated and Company	
Exercise date	**Fair value of shares at issue date**	**2004 number**	**2003 number**
May 2004	$0.24	9,000	-
June 2004	$0.24	6,000	-
June 2004	$0.12	3,000	-
Total		**18,000**	**-**

The fair value of shares issued on the exercise of options is the closing price at which the Company's shares were traded on the Australian Stock Exchange at the end of the month that the options were exercised.

	Consolidated and Company	
	2004	**2003**
Options vested at the reporting date (number)	1,305,500	731,255
	$	$
Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	**3,960**	-

Note 30. Non-director related parties

Wholly-owned group

The wholly-owned group consists of Integrated Research Limited and its wholly-controlled entities, Integrated Research, Inc and Integrated Research UK Limited. Ownership interests in these controlled entities are set out in Note 32.

Transactions between Integrated Research Limited and related parties in the wholly-owned group during the years ended 30 June 2004 and 2003 consisted of:

a) Inter-Company sales of products and services by Integrated Research Limited;

b) The payment to Integrated Research Limited for the above products and services; and

c) The payment of dividends to Integrated Research Limited.

The above transactions were made on normal commercial terms and conditions and at market rates.

The aggregate amounts included in the determination of operating profit before income tax that resulted from transactions with related parties in the wholly-owned group were as follows:

	The Company	
$'000	**2004**	**2003**
Inter-Company sales	11,467	9,984

Aggregate amounts receivable from and payable to subsidiaries in the wholly-owned group at balance date were as follows:

	The Company	
$'000	**2004**	**2003**
Current receivables (inter-Company sales)	5,190	4,204
Current payables	1	3

Note 31. Investments in controlled entities

			Equity Holding	
Name of entity	**Country of Incorporation**	**Class of Shares**	**2004 %**	**2003 %**
Integrated Research, Inc	USA	Ordinary	100	100
Integrated Research UK Ltd	England	Ordinary	100	100

Note 32. Segment information

Geographic segments

The consolidated entity's principal activities are organised on a global basis operating in three geographical areas:

a) The Americas. Operating from the United States with responsibility for the countries in North and South America.

b) Europe. Operating from the United Kingdom with responsibility for the countries in Europe.

c) Asia Pacific. Operating from Australia with responsibility for the countries in the rest of the world.

In presenting information on the basis of geographic segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

Primary reporting segments	Americas		Europe		Asia Pacific		Unallocated		Eliminations		Consolidated	
$'000	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
Sales to customers outside the consolidated entity	17,762	17,362	5,559	3,344	5,622	5,469	1,129	1,335	-	-	30,072	27,510
Inter-segment sales	-	-	-	-	-	-	11,467	9,984	-11,467	-9,984	-	-
Other revenue	-	-	-	-	-	-	260	639	-	-	260	639
Total segment revenue	**17,762**	**17,362**	**5,559**	**3,344**	**5,622**	**5,469**	**12,856**	**11,958**	**-11,467**	**-9,984**	**30,332**	**28,149**
Total revenue											**30,332**	**28,149**
Segment results	2,312	-848	464	-622	534	548	3,863	2,187	-	-	7,173	1,265
Profit from ordinary activities before income tax											7,173	1,265
Income tax expense											-2,718	-193
Profit from ordinary activities after income tax											**4,455**	**1,072**
Depreciation and amortisation	33	105	51	32	31	27	3,348	3,506	-	-	3,463	3,670
Segment assets	14,208	11,298	4,149	1,853	2,498	2,353	22,019	23,421	-8,821	-8,911	34,053	30,014
Consolidated total assets											**34,053**	**30,014**
Segment liabilities	11,459	9,951	3,628	1,677	2,324	2,044	6,764	9,775	-8,766	-8,857	15,409	14,590
Consolidated total liabilities											**15,409**	**14,590**
Acquisition of plant and equipment	30	113	25	114	8	29	303	335	-	-	366	591
Consolidated acquisitions of plant and equipment											**366**	**591**

Secondary reporting segment

The consolidated entity operates predominantly in the computer software products business segment. The consolidated entity provides systems and applications management software for high-reliability computer systems.

Note 33. Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

$'000	Consolidated 2004	Consolidated 2003	The Company 2004	The Company 2003
Profit from ordinary activities after income tax	4,455	1,072	2,708	2,169
Depreciation and amortisation	3,463	3,670	3,379	3,533
Provision for doubtful debts	-21	540	41	165
Net exchange differences	-39	318	-36	99
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	-2,534	3,145	-1,047	1,313
(Increase)/decrease in future income tax benefit	493	8	774	-24
(Increase)/decrease in other operating assets	-3,583	-3,552	-3,559	-3,396
Increase/(decrease) in trade creditors	1,824	-356	814	-2,346
Increase/(decrease) in other operating liabilities	613	1,214	391	648
Increase/(decrease) in provision for income taxes payable	-590	-1,635	-2,080	2,239
Increase/(decrease) in provision for deferred income taxes	112	-3	116	-3
Increase/(decrease) in other provisions	-15	75	-65	72
Net cash provided by operating activities	**4,178**	**4,496**	**1,436**	**4,469**

Note 34. Earnings per share

Classification of securities:

(i) Ordinary shares have been included in basic earnings per share.

(ii) Options outstanding under the Employee Share Option Plan have been classified as potential ordinary shares and included in diluted earnings per share only.

Earnings reconciliation

$'000	Consolidated 2004	Consolidated 2003
Net profit	4,455	1,072
Basic and diluted earnings	4,455	1,072

Weighted average number of shares used as the denominator

(Number)	Consolidated 2004	Consolidated 2003
Number for basic earnings per share:		
Ordinary shares	165,226,653	165,225,903
Effect of employee share options on issue	589,699	35,841
Number for diluted earnings per share	**165,816,352**	**165,261,744**

4,074,900 employee share options have not been included in the 2004 calculation of diluted EPS as they are not dilutive (2,985,820 in 2003).

Note 35. Events subsequent to reporting date

Dividends

For dividends declared after 30 June 2004 see Note 23.

International financial reporting standards

For reporting periods beginning on or after 1 July 2005, the consolidated entity will comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

The financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to-date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not yet completed the quantification of the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS and the date of preparing this report. The impact in future years will depend on the circumstances prevailing in those years.

The board has established a formal project reporting to the Audit Committee and managed by the CFO, to prepare the consolidated entity for the introduction of IFRS. This project commenced in mid-2002 with an objective of achieving transition to IFRS reporting, beginning with the half-year ended 31 December 2005. The company's implementation project consists of three phases as described below.

Assessment and planning phase

The assessment and planning phase produced a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff. The results of this phase included:

- › High level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- › Assessment of new information requirements affecting management information systems, as well as the impact on the business and its key processes;
- › Evaluation of the implications for staff, for example training requirements; and
- › Preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business processes and staff training.

The company considers the assessment and planning phase to be complete in most respects as at 30 June 2004.

Design phase

The design phase aims to formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS.

- › Formulating revised accounting policies and procedures for compliance with IFRS reporting periods prior to adoption of IFRS;
- › Developing revised IFRS disclosures;
- › Designing accounting and business processes to support IFRS reporting obligations;
- › Identifying and planning required changes to financial reporting and business source systems; and
- › Developing training programs for relevant staff.

The company has commenced its design phase, with work progress in each of the areas described above. The design phase is expected to be completed by December 2004.

Implementation phase

The implementation phase will include implementation of the identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the company to generate the required disclosures of AASB1 as it progresses through its transition to IFRS.

Except for certain training that has been given to operational staff, the company has not yet commenced the implementation phase. However, the company expects this phase to be substantially complete by 30 June 2005.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

IFRS difference identified	Nature of the IFRS impact
Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value. *Integrated Research has a number of hedging instruments in place to manage exchange rate exposures. AASB1 provides an election whereby IAS39 and IAS32 dealing with financial instruments are not required to be applied to the first IFRS comparative year rather first time adoption of these standards will apply from 1 July 2005.*	Increase in total assets and total liabilities due to the recognition of hedge instruments and related debt at fair value. No material impact on net assets or reported profit.
Income tax will be calculated based on the "balance sheet" approach, which will result in more deferred taxes and liabilities and, as tax effects follow the underlying transactions, some tax effects will be recognised in equity.	Increase in total assets and total liabilities as more deferred taxes and liabilities are recognised. No material impact on net assets or reported profit.
Internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised in the statement of financial position. *Integrated Research capitalises research and development expenses if they are recoverable beyond any reasonable doubt and amortises them from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit, but no more than three years. Under IFRS, research costs must be expensed as incurred and development costs may only be capitalised if stringent criteria are met.*	Decrease in net assets and equity as previously capitalised research and development costs that do not meet the IFRS criteria are adjusted to equity. No material impact on reported profit as the differences between the amounts capitalised and amortised in the comparative year are expected to be similar.
Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.	Based on current share options in place, no material impact on reported profit or equity.
The company's revenue recognition policies appear to be consistent with IFRS but there is an absence of IFRS application guidance in relation to software. Global software industry accounting practices are significantly influenced by US GAAP and the company is monitoring the application of IFRS by the software industry to determine whether revisions to existing policies are appropriate.	Possible deferral of revenue, decreasing net assets and equity. No material impact on reported profit as the differences between the amounts deferred on new contracts and amounts recognised from prior period contracts are expected to be similar.
Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.	No material impact on net assets or reported profit.

Directors' Declaration

In the opinion of the directors of Integrated Research Limited ("the Company"):

a) the financial statements and notes, set out in pages 22 to 43, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Act 2001; and

b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Dated at North Sydney this tenth day of August 2004.

Signed in accordance with a resolution of the directors:

Brian Gatfield	Stephen Killelea
Chairman	Director

Independent Audit Report to Members

Independent audit report to members of Integrated Research Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statements of financial position, statements of financial performance, statements of cash flows, accompanying Notes (1 to 35) to the financial statements, and the directors' declaration set out on pages 22 to 44 for both Integrated Research Limited (the "Company") and Integrated Research Limited Group (the "Consolidated Entity"), for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Integrated Research Limited is in accordance with:

a) The Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations regulations 2001; and

b) Other mandatory professional reporting requirements in Australia.

KPMG

John Wigglesworth
Partner

Sydney 10 August 2004

ASX Additional Information

Shareholder information

Analysis of numbers of equity security holders by size of holding at 31 July 2004:

	Class of Equity Security Ordinary Shares	
	Shares	Options
1 - 1,000	94	-
1,001 - 5,000	1,392	4
5,001 - 10,000	789	5
10,001 - 100,000	886	53
100,001 and over	71	18
	3,232	**80**

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities as at 31 July 2004 are listed below:

		Ordinary Shares	
		Number Held	Percentage of Issued Shares
1	Stephen John Killelea	94,647,339	57.28
2	National Nominees Limited	9,215,211	5.58
3	Andrew Rhys Rutherford	5,986,589	3.62
4	Westpac Custodian Nominees Limited	3,416,583	2.07
5	David Leroy Boyles and Patricia Lynn Boyles	1,250,000	0.76
6	J P Morgan Nominees Australia Limited	817,762	0.49
7	HSBC Custody Nominees (Australia) Limited	744,351	0.45
8	Farvex Corporation Pty Limited	715,882	0.43
9	Vicki Maree Lewis and David William Lewis	700,000	0.42
10	Gregory Charles Anderson and Karen Rosina Anderson	500,000	0.30
11	Lembridge Pty Ltd (Gatfield Super Fund a/c)	500,000	0.30
12	Chiatta Pty Ltd	460,589	0.28
13	Merrill Lynch (Australia) Nominees Pty Ltd	426,124	0.26
14	Citicorp Nominees Pty Limited	380,100	0.23
15	Robin Ravenscroft Barttelot	357,648	0.22
16	Bipeta Pty Ltd	337,612	0.20
17	Mark Lamkin	307,172	0.19
18	David Charles Leighton	307,172	0.19
19	Robert Bruce Woodland and Erika Woodland	275,000	0.17
20	Cameron Peter Leopold	258,502	0.16
		121,603,636	**73.59**

Unquoted equity securities

	Number on issue *	Number of holders
Options issued under the Integrated Research Limited Employee Option Plan to take up ordinary shares	6,794,200	80

*Number of unissued ordinary shares under the options. No person holds 20% or more of these securities.

On-market buy-back

There is no current on-market buy-back.

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Stephen John Killelea	94,647,339	57.28

Voting rights

The voting rights attaching to each class of equity securities are set out below:

1. Ordinary shares.
   On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
2. Options.
   No voting rights.

Other information

Integrated Research Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.

Designed and produced by RDA Creative - www.rda.com.au

For more information visit our web site at www.ir.com or email info@ir.com

integrated research