

Integrated Research Limited

ABN: 76 003 588 449

Half-Year Report - 31 December 2004

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Directors' Report

Your directors present their report on the consolidated entity, consisting of Integrated Research Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2004.

Directors

The following persons were directors of Integrated Research Limited during or since the end of the half-year:

Name:	Date Appointed:
Brian Gatfield (Chairman)	October 2000
Stephen Killelea	August 1988
David Leighton	September 1997
Ian Winlaw	August 2000
Alexander Kennedy	May 2003
David Boyles	July 2003
Keith Andrews	November 2004

Principal Activities

The company's principal activities are 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 half-year.

Half-Year Results

The consolidated entity's net profit after tax for the six months was \$2.4 million, an increase of 14% over the corresponding period for the prior year. Revenue from ordinary activities for the half-year was \$15.1 million, an increase of 6%. Revenue from licence fees increased by 6%, and revenue from maintenance fees increased by 5%. Sales of the company's Voice over IP Telephony products for managing the Cisco CallManager environment grew by 113%, while sales of the company's flagship systems management products for the HP NonStop environment increased by 7%. Before the impact of changes in exchange rates profit after tax would have been 34% higher than the same period last year.

The following table summarises the key revenue, expense and profit results for the first half, compared to the corresponding period last year:

\$'000	2004	2003	% Incr
Revenue from license fees	7,261	6,821	6
Revenue from maintenance fees	7,491	7,123	5
Revenue from other operating activities	354	320	11
Total revenue from ordinary activities	15,106	14,264	6
Total expenses from ordinary activities	11,669	11,331	3
Net profit of the consolidated entity after income tax	2,373	2,075	14

The major business factors that have driven the above results are:

\$'000	Revenue	Expenses	PAT
Changes in exchange rates	-642	-48	-409
Higher new sales	1,008	-	628
Higher recurring revenue	414	-	285
Higher interest and other income	62	-	43
Higher spending and changes in effective tax rates	-	386	-249
Total changes half-year to 31 December 2004 on 2003	842	338	298

Review of Operations

Mr Keith Andrews was appointed the company's new CEO in November 2004. He succeeded Mr Steve Killelea, the founder CEO, who announced his retirement in March 2004, and remains actively involved with the company as a non-executive director. Mr Andrews joined Integrated Research after over twenty years experience at senior management levels in the IT industry in Australia and overseas.

The company opened its second North American office in November 2004, in the Washington, DC area, to improve its proximity to a large sector of the prospective customer base, and continued to develop its distribution network in Europe by appointing new distributors in Germany.

In January 2005, Integrated Research released PROGNOSIS® IP Telephony Express, a new suite of products specifically designed to manage Cisco's Voice Over IP deployments in multi-site, branch-office organisations such as banks, finance and insurance companies, retailers, hospitals, travel agencies and educational institutions. PROGNOSIS IP Telephony Express is the only management solution to address the unique requirements of this rapidly growing market segment.

Revenue

48% of revenue for the half-year was earned from licence fees, compared to 48% in the same period last year. The company recognises revenue from licence fees at the time of sale. Maintenance fees provided 50% of revenue in the first half, compared to 50% in 2003. Revenue from annual maintenance fees is deferred and recognised over a twelve-month period. Other revenue is mainly interest income and post-sales consultancy, and represented 2% of total revenue for the first half, the same proportion as in the same period last year.

New sales growth was fairly even across all three geographic segments, with US dollar growth in the Americas region over the first half last year of 15%, Asia Pacific new sales grew in US dollar terms by 25% and Europe grew in GB pounds by 22%. In Australian dollar terms, new sales grew by 12%.

Expenses

Total expenses from ordinary activities were \$11.7 million in the first half of 2004, an increase of 3% on the same period in the prior year. Headcount at 31 December 2004 was 113, slightly higher than December 2003 headcount of 112. Research and development expense was \$2.8 million, compared to \$2.9 million in 2003, representing 18% of revenue (21% in 2003).

Financial Position

The consolidated entity continues to be in a strong position, with first-half cash flow from operations totalling \$3.2 million, compared to \$700,000 for the same period last year, and remains free of debt. Cash at 31 December 2004 was \$9.1 million, compared to \$8.5 million at 30 June 2004, and \$6.1 million a year ago. The consolidated entity's current ratio (ratio of current assets to current liabilities) at 31 December 2004 was 1.85, an improvement from 1.79 at 30 June 2004. Return on equity (consolidated profit after tax as a percentage of equity at the end of the period) improved to be 12.2%, compared to 11.9% in the first half of the prior year.

Outlook

Business conditions continue to improve, and the company anticipates a positive response to the next major release of its PROGNOSIS products for all business segments to be released early in the second half. The pipeline and future revenue prospects for the HP NonStop products remains solid. We anticipate strength in the global demand for our products, and an accelerated uptake of Voice over IP. Directors anticipate the second half will maintain the momentum of the previous eighteen months. Profit before tax in the six months to 30 June 2005 is expected to be approximately 20% higher than the previous corresponding period.

Interim Dividend

The company will pay an unfranked interim dividend of 1.0 cent per share on 11 March 2005 to shareholders registered at the end of trading on Friday 25 February 2005.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

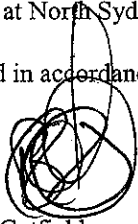
The lead auditor's independence declaration is set out on page 13 and forms part of the directors' report for the half-year ended 31 December 2004.

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 February 2005.

Signed in accordance with a resolution of the directors:



Brian Gatfield
Chairman



Keith Andrews
Managing Director

Statements of Financial Performance

For the half-year ended 31 December 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
Revenue from ordinary activities:		
Revenue from license fees	7,261	6,821
Revenue from maintenance fees	7,491	7,123
Revenue from other operating activities	354	320
Total revenue from ordinary activities	15,106	14,264
Expenses from ordinary activities:		
Research and development	2,827	2,943
Sales and marketing	6,820	6,431
General and administration	2,022	1,957
Total expenses from ordinary activities	11,669	11,331
Profit from ordinary activities before related income tax expense	3,437	2,933
Income tax expense	1,064	858
Net profit	2,373	2,075
Total changes in equity other than those resulting from transactions with owners as owners	2,373	2,075
Basic earnings per share (cents)	1.4	1.3
Diluted earnings per share (cents)	1.4	1.3

The statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

As at 31 December 2004

	Notes	Consolidated	
		31 December 2004 \$'000	30 June 2004 \$'000
Current assets			
Cash assets		9,065	8,510
Receivables		8,114	10,433
Other		4,974	4,006
Total current assets		22,153	22,949
Non-current assets			
Receivables		58	196
Property, plant and equipment		1,147	988
Deferred tax assets		1,334	1,618
Intangible assets		9,646	8,302
Total non-current assets		12,185	11,104
Total assets		34,338	34,053
Current liabilities			
Payables		1,071	2,636
Current tax liabilities		1,236	960
Provisions		1,153	988
Other		8,485	8,225
Total current liabilities		11,945	12,809
Non-current liabilities			
Deferred tax liabilities		2,831	2,339
Provisions		173	261
Total non-current liabilities		3,004	2,600
Total liabilities		14,949	15,409
Net assets		19,389	18,644
Equity			
Contributed equity	4	453	427
Retained profits	2	18,936	18,217
Total equity		19,389	18,644

The statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows

For the half-year ended 31 December 2004

	Consolidated	
	2004	2003
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	17,540	13,916
Payments to suppliers and employees	-13,561	-10,784
Interest received	116	86
Income taxes paid	-889	-2,541
Net cash inflows from operating activities	3,206	677
Cash flows from investing activities		
Payments for property, plant and equipment	-456	-198
Net cash (outflow) from investing activities	-456	-198
Cash flows from financing activities		
Proceeds from issuing of shares	26	-
Payment of dividend	-1,654	-
Net cash (outflow) from financing activities	-1,628	-
Net increase in cash held	1,122	479
Cash at the beginning of the reporting period	8,510	5,909
Effects of exchange rate changes on cash	-567	-323
Cash at the end of the reporting period	9,065	6,065

The statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the half-year ended 31 December 2004

Note 1. Statement of significant accounting policies

Basis of preparation of half-year financial report

The half-year consolidated financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting", the recognition and measurement requirements of applicable AASB standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. This half-year report is to be read in conjunction with the 30 June 2004 Annual Financial Report and any public announcements by Integrated Research Limited and its Controlled Entities during the half-year in accordance with continuous disclosure obligations arising under 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 current values of non-current assets.

These accounting policies have been consistently applied by each entity in the economic entity and are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report.

Note 2. Retained profits

	Consolidated	
	2004	2003
	\$'000	\$'000
Retained profits at the beginning of the half-year	18,217	15,001
Net profit attributable to members of Integrated Research Limited	2,373	2,075
Dividends paid	-1,654	-
Retained profit at the end of the half-year	18,936	17,076

Note 3. Dividends

	Consolidated	
	2004	2003
	\$'000	\$'000
During the reporting period, Integrated Research Limited had paid the following dividends:		
Final dividend on ordinary shares paid in September	1,652	-
<i>Subsequent to reporting date:</i>		
Since 31 December 2004, the directors have declared the following dividend payable in March 2005:		
Interim dividend on ordinary shares	1,655	1,240
The financial effect of this dividend has not been brought to account in the consolidated financial statements for the half-year ended 31 December 2004.		

Note 4. Contributed equity

	Consolidated	
	31 December	30 June
	2004	2004
	\$'000	\$'000
Issued and paid up capital	453	427

Movements in issued and paid up ordinary share capital during the past six months were:

		Ordinary Shares	Paid Up Capital \$'000
1 July 2004	Balance	165,243,903	427
25 August 2004	Issued per ESOP	187,882	20
20 December 2004	Issued per ESOP	28,250	6
31 December 2004	Balance	165,460,035	453

Options:

1,102,000 options were granted under the Integrated Research Employee Share Option Plan (ESOP) to 57 employees of Integrated Research Limited and its controlled entities during the half-year ended 31 December 2004. Each option is convertible into one ordinary share and may be exercised during the exercise period, after vesting at 25% per annum on the first four anniversaries of their issue. 216,132 options were exercised by employees and 1,372,250 options lapsed unexercised during the half-year. The number of unissued ordinary shares under the ESOP at 31 December 2004 was 6,307,818. In addition, 1,000,000 options were granted to the managing director in accordance with a Resolution passed by shareholders at the company's AGM on 16 November 2004.

Note 5. Segment reporting

Primary reporting segments	Americas	Europe	Asia Pacific	Unallo- cated	Interseg. Elimin.	Consoli- dated
31 December 2004	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Segment revenue	8,939	2,690	2,517	8,926	-7,966	15,106
Segment result	837	83	139	2,378	-	3,437

Primary reporting segments	Americas	Europe	Asia Pacific	Unallo- cated	Interseg. Elimin.	Consoli- dated
31 December 2003	A\$000	A\$000	A\$000	A\$000	A\$000	A\$000
Segment revenue	8,966	2,100	2,320	7,464	-6,586	14,264
Segment result	1,026	176	4	1,727	-	2,933

The primary segment reported is by geographic region.

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.

Impact of transition to AIFRS

The differences between Australian Generally Accepted Accounting Principles (Australian GAAP) and Australian equivalents to International Financial Reporting Standards (AIFRS) identified to date as potentially having a significant impact 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 differences between current Australian GAAP and AIFRS. 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 completed its project to assess the impact of adoption of AIFRS and has not quantified the effects of all the differences discussed below.

Any assessments made in respect of the transition to AIFRS may require adjustment before inclusion in the first complete annual/half year financial report prepared in accordance with AIFRS due to new or revised standards or interpretations, changes in accordance with AIFRS due to new or revised standards or interpretations, changes in the operations of the business, or additional guidance on the application of AIFRS to a particular transaction.

The key potential implications on the consolidated entity of conversion to AIFRS, identified to date, are summarised below:

Differences identified	Potential nature of impact
<p>Financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.</p> <p><i>Integrated Research has a number of hedging instruments in place to manage exchange rate exposures. AASB1 provides an election whereby IAS 39 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.</i></p>	<p>Increase in total assets and total liabilities due to the recognition of hedge instruments and related debt at fair value.</p> <p>No material impact on net assets or reported profit.</p>
<p>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.</p>	<p>Increase in total assets and total liabilities as more deferred taxes and liabilities are recognised.</p> <p>No material impact on net assets or reported profit.</p>
<p>Internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised in the statement of financial position.</p> <p><i>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.</i></p>	<p>Decrease in net assets and equity as previously capitalised research and development costs that do not meet the IFRS criteria are adjusted to equity.</p> <p>No material impact on reported profit as the differences between the amounts capitalised and amortised in the comparative year are expected to be similar.</p>
<p>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.</p>	<p>Based on current share options in place, no material impact on reported profit or equity.</p>

Integrated Research Limited and Controlled Entities

Key potential implications of the conversion to AIFRS on the consolidated entity (continued):

Differences identified	Potential nature of impact
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.

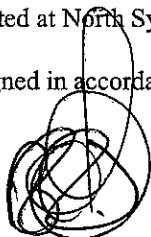
Directors' Declaration

In the opinion of the directors of Integrated Research Limited:

1. the financial statements and notes set out on pages 5 to 10, are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2004 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - b) complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
2. 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 10th day of February 2005

Signed in accordance with a resolution of the directors:



Brian Gatfield
Chairman



Keith Andrews
Managing Director



Independent review report to the members of Integrated Research Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Integrated Research Limited and its Controlled Entities ("the Consolidated Entity"), for the half-year ended 31 December 2004. The Consolidated Entity comprises Integrated Research Limited ("the Company") and the entities it controlled during that half-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.

Review approach

We conducted an independent review in order for the Company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements.

We performed procedures in order to state whether on the basis of the procedures described anything has come to our attention that would indicate the financial report does not present fairly, in accordance with the Corporations Act 2001, Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Consolidated Entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which were limited primarily to:

- enquiries of company personnel; and
- analytical procedures applied to the financial data.

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

The procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

A review cannot guarantee that all material misstatements have been detected.





Independence

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

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe the half-year financial report of Integrated Research Limited is not in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - ii. complying with Australian Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

KPMG

John Wigglesworth
Partner
Sydney, 10 February 2005





Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Integrated Research Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 31 December 2004 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

John Wigglesworth
Partner
Sydney, 10 February 2005

