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TECHNOLOGY ONE LIMITED Annual Report 2005



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technologyone
business software solutions

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BUILDING BLOCKS FOR FUTURE GROWTH

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ABOUT TECHNOLOGY ONE LIMITED

Technology One has been providing comprehensive and deeply integrated enterprise business software solutions for over 18 years. Our unique value proposition, The Power of One, is that we develop, market, sell, implement and support our own world class software solutions. Our new generation of software solutions, Connected Intelligence (CI), are based on state of the art technology, and seamlessly connect our clients with their key stakeholders including employees, suppliers and customers.

Technology One's comprehensive suite of software solutions are fully integrated to provide organisations with a solution to manage their complete business needs.

Our integrated products include:

- Financial Management (Finance One)
- Human Resource and Payroll (People One)
- Supply Chain and Retail Management (Sales One and Retail One)
- Rating and Property Management (Proclaim One)
- Education Administration (Student One)
- Work and Asset Management (Work One)
- Business Intelligence (Enterprise One)
- Custom Software Development (Project Services)

The Technology One difference guarantees that our clients will realise significant benefits from their investment in our solutions both now and into the future.

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Technology One Limited will be held on Friday 4 November at 10.30am, at the Stamford Plaza Hotel, corner of Edward and Margaret Streets, Brisbane.

The business to be presented is set out in the separate Notice of Meeting issued with a Proxy Form to shareholders with this Report.

BUILDING BLOCKS FOR FUTURE GROWTH

2005 was a year of consolidation and planning for our future. 2006 will be a year of continuing investment in our future.

In 2005, we introduced an improved operating structure to support the company as it moves forward. This new improved operating structure will allow us to better execute on our initiative to act locally and think globally.

Our Power of One value proposition remains a key focus in our future strategy, and we will take this philosophy to new markets, such as the United Kingdom.

Technology One remains at the forefront of innovation. Our Connected Intelligence framework has allowed us to build an exciting, new generation of enterprise business software solutions that deliver greater automation, tailoring of the

environment to the individual and significant capabilities to connect our clients with their major stakeholders including employees, customers and suppliers. It will allow us to deliver the very first people centric enterprise business software solution.

We will continue to invest strongly in research and development to deploy our products and solutions on the Connected Intelligence framework over the coming years. We remain committed to delivering innovation and exceeding our customers' expectations.

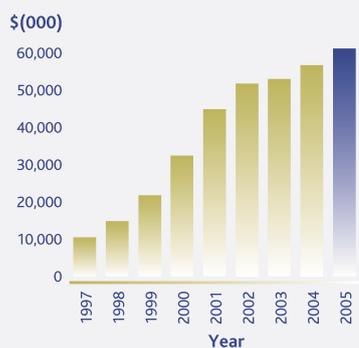
We will continue to increase our product breadth and depth, to give us an ever expanding suite of fully integrated applications to manage all our customers' business needs.

We are putting in place the building blocks to become an international company. The 2006 financial year will be an exciting year, as we invest in positioning the company as one of the world's great software and services organisations.

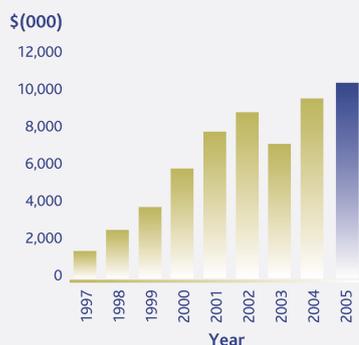
FINANCIAL SUMMARY

ACTUAL 2005 VS ACTUAL 2004

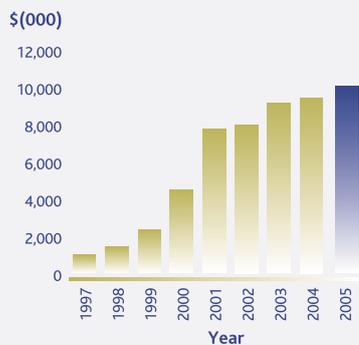
REVENUE



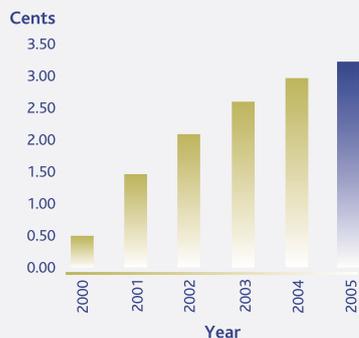
NET PROFIT AFTER TAX



RESEARCH AND DEVELOPMENT



DIVIDEND PER SHARE



Full Year 2005 v 2004

	2005 \$ (000)	2004 \$ (000)	Variance \$ (000)	Increase %
Revenue¹	54,538	50,554	3,984	8%
Expenses ²	29,552	27,334	2,218	8%
EBITDAR³	24,986	23,220	1,766	8%
R&D⁴	10,220	9,547	673	7%
EBITDA ⁵	14,766	13,673	1,093	8%
Depreciation and Amortisation	1,099	906	193	21%
Amortisation of Intangibles	650	667	(17)	(3%)
EBIT ⁶	13,017	12,100	917	8%
Net Interest Income	1,285	1,010	275	27%
NPBT ⁷	14,302	13,110	1,192	9%
NPAT⁸ Pre Amortisation	10,930	10,146	784	8%
NPAT⁸ Reported	10,280	9,479	801	8%
Earnings Per Share - Reported (Cents)	3.44	3.17	0.27	9%
Dividend Per Share (Cents)	3.10	2.85	0.25	9%
Adjusted Return on Shareholders' Equity	55%	52%		
Cash and Cash Equivalents	25,623	23,853	1,770	7%
Net Operating Cash Flow	11,061	12,300	(1,239)	(10%)
Debt/Equity	3%	3%		
EBITDA ⁵ Margin	26%	27%		
NPBT ⁷ Margin	26%	25%		
R&D⁴ as Percentage of Total Revenue	18%	19%		

1. Excl Interest
2. Excl R&D, Depreciation, FOREX and Amortisation
3. Earnings Before Interest, Tax, Depreciation, Amortisation and R&D
4. Research and Development
5. Earnings Before Interest, Tax, Depreciation and Amortisation
6. Earnings Before Interest and Tax
7. Net Profit Before Tax
8. Net Profit After Tax

2004/05 HIGHLIGHTS

FINANCIAL

Revenue of \$54.54 million, up 8%

Research and Development Expenditure (fully expensed) of \$10.22 million, representing 18% of revenue

Dividend Per Share of 3.10 cents, up 9%

Net Operating Cash Flow of \$11.06 million, versus Net Profit After Tax of \$10.28 million, up 8%

EBITDAR* of \$24.99 million, up 8%

Earnings Per Share of 3.44 cents, up 9%

* Earnings before interest, tax, depreciation, amortisation, and research and development.

RESEARCH AND DEVELOPMENT

- Completed our latest technology platform, the Connected Intelligence (CI) framework, and released our first new product on this platform, Technology One Financials (Finance One CI) to our customers.
- Released a new solution – Work and Asset Management (Work One CI) to complement our integrated solution suite.
- Commenced development of a Business Intelligence solution (Enterprise One CI) to operate across all our products.
- Strengthened Technology One Human Resource and Payroll (People One) with two major releases, focused on increasing the depth of Human Resource functionality and integration to Technology One Work and Asset Management.
- Improved functionality of Technology One Supply Chain and Retail Management (Sales One/Retail One), particularly customer management and supply chain control and efficiency.
- Delivered three major releases of Technology One's Rating and Property Management solution (Proclaim One), including significant internet functionality to provide councils with increased options for managing their ratepayer and customer requests.
- Worked closely with clients in the education market to develop and deliver three major releases of Technology One's Student Administration Solution (Student One) on time and on budget to allow them to comply with requirements from an extensive government legislative reform program.

SALES AND DISTRIBUTION

- International expansion into the wider Asia Pacific region, including the whole of Samoan Government and Papua New Guinea Harbours selecting Technology One's integrated Financials, Human Resource and Payroll, and Supply Chain solution.
- Vertical market expansion, with 83 new customers signed in key markets, including:
 - ▶ Utilities – Port of Tauranga, NSW State Water Corporation, Adelaide Airport
 - ▶ Financial Services – Allco Finance Group, Australian Central Credit Union
 - ▶ Health – St George's Hospital
 - ▶ Local Government – North Shore City Council, Snowy River Shire Council
 - ▶ Central Government – New Zealand Ministry of Defence, Government of Samoa
 - ▶ Education – James Cook University
 - ▶ General Commercial – West Coast Eagles, Wesfarmers
 - ▶ Not for Profit – Royal Flying Doctor Service SA, National Heart Foundation

CORPORATE INITIATIVES

- Launch of improved brand and logo to represent Technology One as the sophisticated, reputable, professional and highly successful company it is today.
- Grew our Product Marketing team to deliver a structured and integrated approach to aggressively target and outperform our competitors.
- Invested in virtual server infrastructure and hosted VoIP telephony solution to deliver significant reduction in hardware costs, reduce deployment time for internal systems, and reduce ongoing costs.
- Refined our market positioning to maximise potential for our total solution suite in the market.
- Signed agreement to expand office space at the Technology One headquarters in Toowong by 25%, due to significant increase in staff numbers.
- The most successful Technology One User Conference to-date was held in November 2004 with over 500 delegates attending to learn about the latest developments of Technology One's solutions.
- Launched a Product Service Delivery business unit to improve the integration between research and development and consulting teams.

LETTER TO SHAREHOLDERS

On behalf of the Board and management of Technology One, I am pleased to announce another year of record profit. Demand for our products and services has increased, as shown by the addition of 83 new clients, and licence fees to new clients up 17% on the prior year.

FINANCIAL SUMMARY

Our profit before tax of \$14.3 million, is an increase of 9% over the previous year.

We invested in our ongoing research and development (R&D) program, spending \$10.2 million on R&D, an increase of 7%. This is a significant investment representing 18% of our revenue, and we have continued our approach of fully expensing all R&D as incurred.

Our operating cash flow was \$11.1 million versus a net profit after tax of \$10.3 million.

SIGNIFICANT ACHIEVEMENTS

There have been a number of significant achievements this year as follows:

- Success of our new Finance One Connected Intelligence (CI) solution
- Continued significant R&D program
- Continued organisational changes
- Platform for continued geographical expansion

Success Of Our New Finance One CI Solution

A significant achievement this year has been the release of our new generation product, Finance One CI to the market and the substantial success it has achieved in a short period of time. This new and exciting product has now 'gone live' at 22 sites, with a further 33 sites in the process of implementing it. Technology One believes this release gives us a strong leadership position over our competitors, as our CI products will allow organisations to move to a more devolved

and empowered business model that seamlessly connects clients, suppliers, staff, managers and disparate systems.

Continued Significant R&D Program

The company continued to significantly enhance its existing products with new releases of all our products as follows:

- Retail One, Sales One, Finance One, People One R11.1
- Student One (Student Administration) R3.2
- Proclaim One (Local Government Rating and Property Management) R9.06

Technology One also invested in developing CI versions for each of the above products, and is on track to release these products on our powerful CI platform progressively in the 2005 and 2006 years.

Another significant development was the introduction of a sophisticated and advanced Work and Asset Management solution (Work One). This provides an exciting new market opportunity for us, which we will progressively explore over the next 12 months.

The company's breadth of solution is today large and extensive, encompassing: Financial Management and Accounting, Supply Chain and Procurement, Point Of Sale, Work and Asset Management, Human Resources and Payroll, Local Government Rating and Property Management, and Student Administration.

The company plans to further extend the breadth of its product as follows.

ADRIAN DI MARCO
EXECUTIVE CHAIRMAN

PLATFORM FOR CONTINUED GEOGRAPHICAL EXPANSION

This year Technology One finalised its plan to enter one of the largest markets in the world for enterprise applications, the United Kingdom. Our initial estimates place this market at over three times the size of the Australian market, and has the potential to provide significant growth to Technology One in the coming years. Technology One

will open its first office in the UK in early 2006, and will subsequently open up other offices throughout the UK over a period of four years.

Technology One believes we are well positioned for success in the medium term in the UK market, once we have established our presence, because of our new generation

products (our CI series) and our powerful and unique Power of One business model where we build, market, sell, implement and support our range of products directly.

Technology One sees the UK as a stepping platform in the medium term into a number of other large markets.

Firstly, after successfully establishing a new R&D centre in Western Australia to focus on enterprise reporting, we are extending this group to deliver us a unified Business Intelligence solution, "out of the box and ready to go", operating across all our products. We believe we will be able to offer this exciting new solution at a compelling price to our customers and this will help to further differentiate our product offerings. We are partnering with a local Australian software company to build this new and exciting solution.

We are also investigating a number of potentially new and exciting areas, including Customer Relationship Management (CRM), Contract Management, Strategic Planning and Fleet Management to further extend the breadth of our products over the coming years.

The company also further enhanced its "world best practice" in R&D with the implementation of a number of significant initiatives including:

- The move to smaller, more focused R&D teams called domain teams to improve product quality and increase innovation and speed.

- The implementation of a new formal Product Roll Out process to better manage the complexity, issues and risks associated with transitioning a new product into the market place.

Continued Organisational Changes

Technology One's business has continued to grow and increase dramatically in both complexity and diversity. Today we are a world class provider of enterprise applications, competing with the world's largest software companies; with operations in 10 geographical territories and with seven R&D teams.

With the retirement of two long serving executives, we took the opportunity this year to create a new and larger executive team, and also restructured our business to provide a platform for the next stage of growth. The expanded executive team will give us greater bandwidth to undertake new opportunities, as well as to better manage our existing diversified business as it continues to grow. Our continuing strong results this year are a strong indicator of the successful transition to our new executive team and our new organisational structure.

LOOKING FORWARD 2006

Continuing growth will depend on continuing improvement in the enterprise software market. Technology One is well positioned next year as we address the following:

- Increased sales focus in Australia, New Zealand and Asia generally.
- Continued success of our new generation CI products, and
- Our unique Power of One business model.

Having said that we will need to manage carefully the following:

- Our substantial investment in the UK.
- Increased expenditure on both Product Marketing and Product Services Delivery, to ensure we provide better support to our sales people and consultants respectively, as we continue to dramatically expand our product range and roll out new product offerings.
- Continued increase in R&D expenditure, as we continue our development of our new CI products.

BOARD MEMBERS



ADRIAN DI MARCO



RON MCLEAN



JOHN MACTAGGART



SYD LARWILL



KEVIN BLINCO

COMPANY SECRETARY
AND CFO



DAVID ORCHARD

LETTER TO THE SHAREHOLDERS

(continued)

LONG TERM

Technology One has built a very strong business in providing world class enterprise applications. Our strategy has been to continue to expand the range of our enterprise applications and provide a compelling proposition to our potential customers based on:

- Functionality
- Integration
- Product breadth and depth
- Unique Power of One business model

Coupled with our continued aggressive R&D program to further expand the depth and breadth of our products, our new generation Connected Intelligence products, and continued geographical expansion into new markets such as the UK, this will provide us with significant opportunities for continued growth for Technology One.

DIVIDEND INCREASED

The Board remains committed to the careful management of our capital base to ensure that capital, where appropriate, is returned to our shareholders, while still allowing us to grow our business. It is for this reason we have increased our dividend this year once again by 9% to 3.1 cents fully franked. Based on the share price as at 19 August 2005 of 61 cents, this represents a dividend yield (fully franked) of 5.08%.

CAPITAL BUY BACK

Technology One has always taken a very controlled approach to the issue of options, to minimise the dilutionary impact on existing shareholders. This year we have commenced a capital buy back program, which is aimed at managing the dilutionary effect that options have on existing shareholders, as they are exercised.

AFTERWORD

Once again I would like to thank the management and staff of Technology One for their passion and commitment. It is a pleasure to lead such a talented team of people.

With our exceptional people, our clear and focused strategy, our unique Power of One business model, our devolved organisational structure and our emerging product leadership position through our exciting new CI series of products, I am confident about Technology One's continued success.

A handwritten signature in black ink, appearing to read 'Adrian Di Marco'.

Adrian Di Marco
Executive Chairman

THE TECH ONE WAY

Technology One is creating products and delivering services that make our clients' work faster and smarter. Our business software solutions provide our clients with real strategic advantage. Our success comes from our shared values, our entrepreneurial spirit and our innovation. We call this the Tech One Way. The way in which each of our staff members embrace these ideals is of critical importance.

OUR CLIENTS

We must never forget that our clients are the reason we exist.

- The client always comes first. We always demonstrate this in all that we do and say.
- The client defines a job well done. The clients' perception is all that matters.
- Our clients are not just organisations, they are the people. We treat our clients as real people.
- We listen and respond to our clients quickly, to ensure their expectations are met, and surpassed.
- We work closely with our clients' staff and respect their opinions.
- We work with our clients in partnership and share their vision for their organisations. We work with them to deliver real business benefits.
- We give our clients great value for money and great service.
- Passion - we are passionate about our vision, about what we do and how we do it, and we communicate and demonstrate this passion to our Clients.

OUR PEOPLE

Technology One is more than a company, it is us. It is our behaviour, our values, our innovation.

- We communicate with each other clearly, openly and honestly. This is the least we can do.
- We recognise, respect and reward each person as they strive to reach their full potential.
- We ensure each person's career objectives are understood and are met.
- No Politics. No barriers. Trust your colleagues.
- We all work together as part of a cohesive team. We help and support our colleagues.
- Together we can do anything.
- Share ideas. Provide constructive ideas, not criticism.
- Follow through – do not assume others will do what they say. Assume nothing!
- We work hard, but at the same time, we remember to enjoy each others company and have fun.
- Passion - we are passionate about what we do and how we do it, and we communicate and demonstrate this passion to our colleagues.
- Attempt the Impossible!

INNOVATION AND SPEED

We are in a dynamic market place and we must continually innovate, work quickly, decisively and with determination to remain competitive.

- We innovate to provide solutions and services that will make our clients' successful.
- If competitors are doing things a certain way, let us learn from them, but there is always a better way.
- We do our own thinking. We do not allow others to do it for us. Answers come from our own ingenuity.
- Invent different and better ways of working. We strive and are passionate to find a better way.
- The simpler way is always the better way.
- Look past the traditional way. Look for the logical solution.
- Think outside the square. Radical ideas can create great innovative solutions.
- We are flexible and adaptable. We believe that change is good. We embrace change.
- Anticipate – do not be reactive, be proactive.
- Just do it!

QUALITY

Our clients rely on us to provide mission critical software. Our commitment is to deliver "excellence in software and services".

- We deliver to our clients quality in both software and services, through the consistent application of world's best practice and the continual improvement of such practice.
- We understand that quality is not just about process and paperwork. It is what we give our Clients.
- Close enough is never good enough. If it is worth doing, we do it 100%.
- We never compromise the quality because of the budget.
- Our software must continually operate reliably and exceed our clients' expectations.
- Our software must be easy to use, intuitive and a pleasure to work with.
- Perseverance – we recognise that to deliver excellence, we must strive, work hard, and never give in.

OUR STAKEHOLDERS HAVE TRUSTED US WITH THEIR MONEY TO RUN AND GROW OUR BUSINESS.

- We must be consistently profitable, and grow our business, so that we can meet our financial obligations to our stakeholders: our staff, our creditors, our community and our shareholders.
- We act in the best interest of our stakeholders. We act responsibly and carefully to protect their investment.
- We adhere to accounting standards, and the principals of best practice full disclosure, and full transparency. We adhere to the laws of each region we operate in.
- We are active and responsible members of our community, respecting the environment and providing financial assistance through donations and community activities.



BUILDING BLOCKS FOR SUCCESS

At Technology One, our business model is built around our customers. Our Power of One value proposition is that we build totally integrated enterprise business solutions, that we also then market, sell, implement and support.

Technology One has grown to be one of Australia's largest and most successful publicly listed software companies, recording 28% compound annual revenue growth since 1992. We now employ over 330 staff in 10 offices throughout Australia, New Zealand and the wider Asian region, and are soon to expand our operations to the United Kingdom.

Technology One's continued growth will come from both new market initiatives, and from increasing our penetration in existing markets as organisations become dissatisfied with our competitor's products and delivery model.

Our growth will ensure a stable and strong future as we continue to rely on some fundamental building blocks for success:

- We will remain committed to delivering on our Power of One promise and will take this philosophy into new markets, such as the United Kingdom.
- We will continue to remain at the forefront of innovation and, like the release of our Connected Intelligence (CI) series, remain committed to delivering leading edge solutions to our current and future clients.
- We will continue to deliver best in class products that can stand alone, be delivered as fully integrated solutions, or integrated to our competitors' products in order to achieve a lower cost of ownership for our current and future clients.

These are our primary building blocks for success now, and into the future.

THE POWER OF ONE

Our business model gives us deep ownership of our clients, with no third parties between us the developer and our clients.

At Technology One, our business model is built around our customers. Our Power of One value proposition is that we build totally integrated enterprise business software solutions, and that we also market, sell, implement and support of all our products directly. This allows us to deliver synergies across our business and lower the total cost of ownership for our clients' investment in our solutions over the long term.

This business model gives us a competitive edge in today's market. Our major competitors have built their business by selling their solutions through a reseller network, allowing them to opt out of dealing directly with the customer. We believe this is a fundamentally flawed approach and shows a lack of commitment to the customer. Customers are now far more educated in choosing their enterprise software solutions. Many have been let down by our multinational competitors over promising and under delivering.

Technology One delivers fully integrated solutions to our customers, taking total responsibility for the software implementation and support. If a customer is unhappy for any reason, we take total ownership of the issue and we fix the problem.

We have implemented, and are committed to, an operating structure that supports this approach.

CONNECTED INTELLIGENCE AND BEYOND

Technology One has a history of providing our customers with a clear migration path all the way from green screen to client server technology, and now to a sophisticated internet/intranet enabled architecture, based on a rich user experience. Although we use advancements in technology as catalysts for change, we continue to remain focused on delivering a real world solution to our current and future customers that ensures their success.

We understand the need for our customers to realise a return on investment in their Technology One solution, and we believe a key metric in achieving this is met with our Connected Intelligence (CI) release. While CI is our latest release in the migration path for our customers and delivers improved ease of use and easy of deployment in a new technology environment, it embodies our vision for the future. CI represents a significant shift from functionality centric software to people centric software. It delivers greater automation, tailoring of the environment to the individual and significant capabilities to connect our clients with their major stakeholders including employees, customers and suppliers. The use of this technology allows our customers to maximise the productive use of time for all employees who rely on access to information stored in our applications.

Our technical direction is part of our overall research and development strategy that allows us to neutralise our competitor's activities and focus on the customer.

We have invested significant research and development into an Application Development Framework (ADF) that forms the core of all our solutions. This framework gives us the ability to deliver fully integrated solutions with the same user interface and look and feel across all our products, ultimately making it easier for our clients to manage their business. We are also working closely with our business partners to allow them to develop their solutions on our framework. This gives us full integration with partner products and ultimately delivers even greater return on investment to our customers.

DELIVERING ON THE DEMAND FOR FULLY INTEGRATED SOLUTIONS

Organisations in our target markets are moving towards totally integrated solutions to manage their business. They are no longer interested in implementing numerous best of breed solutions, but instead are seeking a single solution that simplifies their business processes. They are looking for one supplier and one investment to reduce the total cost of ownership, improve service, and gain a superior user experience. Technology One's approach to developing functionality rich, best in class software solutions, places us in a unique position where we are one of a very few vendors to own the intellectual property of a fully integrated financial

management, supply chain, and human resource and payroll solution.

This allows us to develop vertical market solutions with deep integration across our core products that provides us with a competitive edge in specific markets, such as local government, higher education and retail. We have also recognised that whilst we can provide deep solutions across a number of verticals, some organisations have unique requirements where an out of the box solution does not work. To meet those clients' needs, we have a custom software development team who are experienced in building client specific requirements using our core ADF. This gives our customers a unique solution, fully integrated with our core solutions. We can then use this intellectual property as a mechanism for entry into new vertical markets.

Technology One will continue to focus on these fundamental building blocks for success in the 2006 financial year to allow us to become one of the world's great software and services organisations.

REVIEW OF OPERATIONS

OPERATING OFFICERS



RICHLEY DOWN
Operating Officer –
Business Development



MARK CULVERSON
Operating Officer –
Central Division



ROGER PHARE
Operating Officer –
North West Division



PETER CAMERON
Operating Officer –
Project Services Division

In the 2005 financial year, we actioned an improved operating structure to allow us to better manage our business and position the company ready for its next stage of growth.

Critical to managing Technology One's business model is an operating structure that provides the mechanism for us to grow and continue to improve our business. In the 2005 financial year, we actioned an improved operating structure to allow us to better manage our business, and position the company ready for its next stage of growth.

Four Technology One senior managers were promoted to the position of Operating Officer to manage the complexities of the business, improve synergies between business units and help the company to capitalise on new opportunities in the market. These Operating Officers have a deep understanding of the business and the market in which we operate.

Technology One has a unique business model in the enterprise applications market, where we take total responsibility for our solutions from **research and development**, through **product marketing, sales, implementation** and **support**.

The newly appointed Operating Officers are responsible for delivering this model to our customers.

RESEARCH AND DEVELOPMENT

Technology One has developed a suite of fully integrated software solutions to deliver a complete business solution for organisations in our key vertical markets.

Key achievements in the 2005 financial year included:

- Delivery of the first of our Connected Intelligence (CI) series of solutions to the market, Technology One Financials (Finance One CI).

- Initial conversion of the remaining Technology One products on the CI platform.
- Release of a new Work and Asset Management solution (Work One), which adds to our growing list of fully integrated solutions for specific vertical markets.
- First stage development of an out of the box business intelligence solution (Enterprise One) which will operate across our total suite of products.
- Introduction of domain teams within each product development group to improve product quality and increase innovation and speed.
- Focused on delivering tightly integrated solutions to key vertical markets, rather than individual products. This strategy allows us to provide a total business solution to our clients, improving the customer experience and generating further revenue streams.

PRODUCT MARKETING

The Product Marketing Group was introduced in 2004 to give us a focused approach to aggressively target and overcome our competitors. Key deliverables from this unit in the 2005 year included:

- Merged with Marketing Communications to deliver a more integrated approach to marketing.
- Introduced an improved brand and visual identity to be applied to all published material.
- Commenced a shift from marketing our solutions under product names such as Finance One, and instead positioning our solution

suite under the Technology One brand, such as Technology One Financials. We believe this will enforce our current position of delivering fully integrated solutions to the market.

- Employed a number of product specialists with extensive experience in specific vertical markets, to give us a competitive advantage in key markets by working closely with both the Research and Development and Sales teams.
- Undertook comprehensive competitor analysis and market research to identify our strengths and weaknesses and to develop strategies for our sales and R&D teams.

SALES

In the past year, Technology One's integrated business solutions were sold to 83 new clients, an 18% increase in new client sales over the previous year.

The sales team introduced a number of initiatives to deliver this increase in sales and improve the bottom line, including:

- Revised sales pipeline management to allow more reliable prediction of sales and subsequent consulting requirements.
- Local telemarketing and user groups focused on providing a clear local communication point for corporate messages.
- Developing "act locally, think globally" initiatives to improve sales in each region.

The company made substantial market gains to achieve market leadership status in the local government market, and we are gaining significant traction within the government, higher education, financial services and utilities markets.

Key results included:

- 15 new customers in the local government sector
- 10 new customers in state, federal and central governments.
- 9 new customers in the utilities sector
- 7 new customers in the financial services sector.
- 43 new customers in other sectors.

Australia

Technology One is headquartered in Brisbane, Australia. The company operates seven offices, one in each capital city (except Darwin), delivering fully integrated solutions to our customers key vertical markets.

In the 2005 financial year, 63 deals were signed in Australia with new customers across all regions. Major deals included:

- Queensland – Queensland Motorways, Warwick Shire Council and QM Technologies.
- New South Wales and ACT - Clarence Valley and Snowy River Shire Councils, State Water Corporation, Allco Finance Group Ltd and Sydney Fish Markets.
- Victoria – Wyndham, Frankston, Stonnington and Mitchell City Councils and the National Heart Foundation.
- Tasmania – Fusion Australia and Meander Valley Council.
- South Australia - Cities of Campbelltown, Holdfast Bay and Barossa, Australian Central Credit Union and Adelaide Airport.
- Western Australia – Wesfarmers and West Coast Eagles.

The company has also developed a successful custom software development team in Australia to deliver one-off application developments for customers with unique requirements. In the 2005 financial year, a number of major application software projects were signed.

New Zealand

Technology One continues to achieve outstanding growth within the New Zealand market place, signing 16 clients in the past 12 months.

The signing of new clients included some of New Zealand's top names in business, including:

- Pinnacle Healthcare
- Todd Energy
- Farmers Mutual Group
- Ministry of Defence
- Ticketek
- Automobile Association
- Port of Tauranga
- Wellington Institute of Technology.

Our Power of One value proposition, local presence and technology platform are the key reasons behind our success in this market.

Technology One is now one of the two major players in the local government market in New Zealand, helping us to win a further three councils in the past year.

In the 2005 year, we also grew our market share in central government, utilities and asset intensive industries, education, health and financial services.

Asia and the Pacific

Technology One's Malaysian office had its most successful year in 2005, winning new business with major blue chip Malaysian organisations, including:

- Nandos Chickenland Sdn Bhd
- Khazanah Nasional Sdn Bhd
- Delcom Services Sdn Bhd
- Hijrah Ventures Holding Sdn Bhd

The office also signed a partnership agreement with local organisation, HV Holdings, to act as a reseller of our products in Malaysia, Indonesia, Thailand, India, Vietnam, Brunei and the Middle East. The Asian market remains particularly difficult to penetrate without a local partner and this partnership aims to help us to gain further traction in the region.

The company also won a major deal with the Whole of Samoan Government in the 2005 year, and expanded our presence to Papua New Guinea, winning a deal with Papua New Guinea Harbours. There are a number of other opportunities in the Papua New Guinea market that we are currently pursuing.

United Kingdom

Technology One advanced its plans to open an office in the United Kingdom, with the launch expected early in the 2006 calendar year. The United Kingdom is a potentially large market for Technology One's solutions. Our competitors in this market space remain very similar to our competitors within the Asia Pacific region, and we are confident our commitment to our customers and unique business model will be well received.

REVIEW OF OPERATIONS

(continued)

IMPLEMENTATION

Technology One's unique business model is supported by a team of highly skilled Customer Relationship Managers and Business Consultants who work directly with our clients to gain an intimate understanding of their organisation and their future strategic business directions. Their indepth knowledge of our software, combined with a deep understanding of our clients' business needs, help our clients' to maximise the use of our solutions. Our Customer Relationship Managers achieve significant success introducing new Technology One products to the client base to help them improve their business processes, and improve our revenue stream.

In the past year, our complementary products, such as Human Resource and Payroll, Rating and Property Management, Business Intelligence, Work and Asset Management and Student Administration were sold to a number of our existing clients.

The company also introduced a number of key initiatives to improve the consulting process, including:

- Deploying a vertical market focus within the consulting teams to ensure customers are supported by consultants with industry specific knowledge.
- Employment of a number of consultants with specialist application knowledge, such as Human Resource and Payroll specialists to support our existing and new clients.
- Improved Client Relationship Management to engage with our clients on multiple levels and help them to develop their strategic direction.

Common Methodologies and Systems

Supporting all of Technology One's delivery activities is a well understood and documented set of highly sophisticated methodologies (ie standards, procedures and business systems) that

are adhered to by all staff. These methodologies ensure that all the company's processes are well defined and understood by our people, so that we can deliver fully integrated software solutions and a consistent service, on time, to budget and to a high standard of excellence. Our methodologies include:

- Advanced project management (PPMM – Proactive Project Management Methodology).
- Advanced software development (QSDM – Quality System Development Methodology).
- Advanced software implementation (AIM – Application Implementation Methodology).
- Advanced client support (ASM – Application Support Methodology).

Product Service Delivery

A major initiative during the year was the formation of the Product Service Delivery team. This corporate initiative was introduced as a result of a need to co-ordinate, focus and strive for excellence in the areas of professional services, project management, consulting and training. The team's initial key focus during the year was to improve consulting methodologies inline with the latest product developments, co-ordinate and deliver training to consultants and clients alike, as well as developing a pool of expert staff for critical response areas.

Key achievements included:

- Significant improvements to our internal training procedures, including improved documentation, co-ordinated annual training plan and improved efficiencies in training delivery.
- Updated and upgraded methodologies. With the ongoing migration to the CI platform, we have refreshed the company's approach to implementation and delivery. The initial methodologies were successfully delivered during the year, with planned successive roll-outs to take place over the next twelve months.

- Critical Response Team – A team of Critical Response Professionals has been put in place to cover key expertise areas across all product areas. Already the reputation of this team has been enhanced with assistance on major key projects. Further expansion of the team is planned for the coming year.

SUPPORT

All of Technology One's clients are given access to multi-level support, including our Support Centre, Customer Relationship Managers and Business Consultants. Technology One's rapid response Support Centre is available to clients via web, email, or phone.

In the 2005 financial year, we delivered an online support solution to allow clients to manage and track their support requests using the web. More than 100 clients are now using this solution to manage their requests.

The Support Centre is staffed by skilled Technology One personnel who have either worked directly within the product development teams or as Technology One Business Consultants. This ensures that clients can be confident that their support requests are managed by staff who actually understand, and can solve, their problem.

We believe the operational initiatives undertaken in the 2005 financial year provide the building blocks for our continued success.

INTEGRATED SOLUTIONS



Total Solution

Technology One has developed a comprehensive suite of software products to provide organisations with a fully integrated solution to manage their complete business needs. The company targets organisations in the Financial Services, Professional Services, Utilities, Health Services, Media, and Government markets, with this integrated product suite.

Technology One Local Government

Technology One provides local government organisations with a flexible software solution, from rating and property systems through to asset management, human resource management and financial accounting, with internet functionality to improve access to council stakeholders. The solution helps councils deliver exceptional customer service to their constituents.

Technology One has achieved outstanding success in the local government market with its fully integrated approach, growing its market position with an additional 15 new clients in the 2005 year.

Technology One Education

Technology One provides a totally integrated solution for tertiary and higher education institutions including student administration, core financials, and human resource and payroll. The solution empowers all stakeholders of the organisation by providing a consistent and online, real time view of their information for use in making business decisions.

A number of new opportunities have been identified for Technology One's education solution locally as the viability of its competitors in this sector continues to be questioned. The company is also exploring options in existing international markets, as well as the significant opportunities that exist in the United Kingdom.

Technology One Retail

Technology One provides a totally integrated supply chain management solution from sales order processing, through to inventory control, replenishment, purchasing and financial accounting to give organisations complete control of their business operations.

The company also provides a total retail solution from point of sale to profit and loss. The system provides a high performance point of sale system integrated with head office merchandise management, supply chain management, customer management and financial accounting.

PRODUCT SUITE



Technology One Financials (Finance One)

Technology One Human Resource and Payroll (People One)

Technology One Financials (Finance One)

Technology One Financials continues to achieve outstanding success in the marketplace, and is now deployed by over 500 organisations in the Asia Pacific region.

The company has made the decision to position its flagship solution, Finance One, under the Technology One brand to support its market positioning.

Technology One Financials delivers enterprise wide control and integration of financial information essential to strategic decision making and improving the bottom line. Through its unique financial architecture,

rich functionality, powerful online enquiries, and versatile reporting ability, the solution provides the ability to interpret accounting and financial information more efficiently than ever before.

In the 2005 financial year, over 80 new clients chose Technology One Financials as their business software solution. Our ongoing commitment to investing significant research and development into our product suite allows us to continually innovate and gain significant competitive advantage in the market.

In the past year, we delivered the first release of our Connected Intelligence (CI) series – Release

11.1 of Technology One Financials. Our CI series significantly raises the bar in enterprise technology, providing a platform for our clients to seamlessly connect users, suppliers, customers, managers and disparate systems.

In the 2006 year, research and development will be specifically focused on strengthening the CI release of Technology One Financials. We will also be introducing significant new multi-currency functionality within the product in time for our launch into the UK and wider international markets.

Technology One Human Resource and Payroll (People One)

Technology One delivers a human resource and payroll solution for effective employee lifecycle management. The solution provides deep integration and reporting, from full human resources functionality to sophisticated payroll management and employee self service. It is fully integrated to all of the Technology One solutions, including financials, supply chain, local government and education, delivering a complete package to meet all of an organisation's business software needs.

In the 2005 financial year, two major releases of our human resource and payroll solution were delivered to the market to strengthen

the depth of our total solution. Development specifically focused on increased depth of human resource functionality, including training and automated forms, and delivering integration to Technology One Work and Asset Management, particularly timesheet and billing functionality.

The solution gained significant traction in the past year, with 37 new and existing clients purchasing the solution. There has been a significant shift in the marketplace with clients looking to reduce their overall number of suppliers and best of breed solutions, instead looking for one company to give them a fully integrated solution that lowers their total cost of ownership. Technology One began development of its human

resource and payroll solution in the year 2000 to meet this need, and the significant interest in the past 12 months highlights the market's move towards this model.

Development for the coming year will focus on extending the breadth of the solution to deliver increased flexibility to meet all of Technology One's clients' human resource and payroll requirements.

Technology One Supply Chain and Retail Management (Retail One)

Technology One Work and Asset Management (Work One)

Technology One Business Intelligence (Enterprise One)

Technology One Supply Chain and Retail Management (Retail One)

In the 2005 financial year, significant research and development was invested to consolidate the retail management solution and focus on delivering key requirements to the company's existing client base.

Development included improving the existing functionality of the retail solution and the initial stages of migration to the

Connected Intelligence (CI) platform. Significant improvements were delivered in customer management functionality and improved supply chain control and efficiency.

In 2006, development will focus on finalising the migration to the CI platform, and delivering improvements to purchasing and requisitions.

Technology One Business Intelligence (Enterprise One)

In the 2005 year we identified the need to deliver an out of the box business intelligence solution to our existing clients. Organisations are looking for a business intelligence solution that allows them to gain a big picture view of their business with drill down functionality through their business solutions, without investing in a best of breed solution.

Technology One has begun development of an out of the box solution from our Perth Research and Development Centre. First stage of development is the extension of our popular XLOne reporting solution to give organisations a simple and easy to use enterprise wide reporting solution to manage their business. This solution has already been sold to a number of existing Technology One clients.

The second phase of development involves investing significant research and development to deliver an easy to use solution for:

- Reporting
- Enquiries
- Performance Indicators
- Modelling

Technology One will deliver the initial release of our business intelligence solution in the 2006 year.

Technology One Work and Asset Management (Work One)

Technology One has introduced an out of the box Work and Asset Management solution to round out our fully integrated suite of products for the local government market and asset intensive industries.

Since we began marketing Technology One Work and Asset Management to our client base earlier this year, we have generated significant interest, highlighting the demand for this solution in the market. Over 20 clients have already committed to implementing the solution.

Our Work and Asset Management solution allows existing and new clients to leverage from their investment in other Technology One solutions, particularly Technology One's local government, financials and human resource and payroll solutions.

The solution provides clients with totally integrated project management, work orders, asset maintenance, asset capitalisation, billing, timesheets and reporting.

The development of the solution was driven by both customer and market demand.

The Work and Asset Management solution is focused on works and project management with strengths in cost control, forecasting and budget tracking. Our customer base has played a large role in working with us to bring this solution to market.

In the 2006 year, our research and development will concentrate on improving the solution to prepare it for general distribution. It will also include development of a Contracts Module to meet further demand in the market.

PRODUCT SUITE

(continued)



Technology One Rating and Property Management (Proclaim One)

Technology One has developed a strong Rating and Property Management solution, based on its highly successful Proclaim One software, to meet the needs of local government authorities, water utilities, airports, ports, commercial property managers and not-for-profit authorities.

Significant new functionality was delivered to clients in the past year, with three major releases of the product. Development included internet functionality for local government

organisations to provide ratepayers and other council customers the ability to log and monitor action requests, and pay their debtor accounts.

Major development focused on improving functionality for New Zealand clients and providing full compliance with their local legislation.

In the 2006 financial year, we will focus on migration to the Connected Intelligence (CI)

framework to allow local government users to reap the benefits of this technology and improve their business processes

We have also commenced investigation of a mobile solution (Proclaim Mobile) with access to the property database for field users and will concentrate on delivering the initial release in 2006.

Student Administration (Student One)

Technology One provides tertiary and higher education institutions a student administration solution integrated to its full suite of products.

In the past year, the company signed a major deal with James Cook University to implement our student administration solution.

Australian higher education institutions have been working hard to comply with the extensive government legislative reform program. Technology One has worked closely with its clients to develop and deliver timely new releases to meet the requirements of these reforms. Three new releases were issued to support these changes, with the final release due to be shipped to clients in December 2005.

The legislative reform program requirements have translated into in excess of 30 new fields of data being captured, 10 new transaction types being developed, eight updates and six additional government data extract programs, a large number of updates to student sets and word merge facilities, and the provision of web services for online, real time allocation and verification of student Commonwealth support numbers and entitlement details.

Technology One was the first software vendor to ship a new release of its products, on time and on budget to ensure its clients complied with the new legislative requirements. A significant number of other enhancements were also delivered.

The strategy for the 2006 year will focus on the final requirements for the legislative reform program as well as the migration of the solution to the CI platform. The CI platform will ensure that Technology One's Student Administration solution is fully integrated with the company's full suite of products, as well as delivering significant business benefits to institutions.

PRODUCT INTEGRATION

Technology One Financials (Finance One)

Technology One Human Resource and Payroll (People One)

Technology One Supply Chain and Retail Management (Retail One)

Technology One Work and Asset Management (Work One)

Technology One Business Intelligence (Enterprise One)

Technology One Rating and Property Management (Proclaim One)

Technology One Student Administration (Student One)

Custom Software Development and System Integration

Technology One's core competency is the development of world class enterprise software solutions for key vertical markets. However, we recognise that some organisations have a unique requirement where an out of the box solution does not meet their requirements.

In 2004, we launched a service to meet the requirements of those clients looking for a unique solution that could be delivered fully integrated to one of our total solutions. In the past year, we have delivered a number of projects to meet the needs of new and

existing clients, and we have retained the intellectual property for these solutions to further expand our vertical market offering.

Some of the projects included:

- Development of a tolling administration system fully integrated to Technology One Financials.
- Development of a billing solution to meet specific requirements of a water services provider, fully integrated to Technology One Rating and Property Management.

- Integration between Technology One Financials and a credit union loans system.
- Development of a property portfolio management solution, integrated to Technology One Financials.

We believe this initiative will give us a major advantage over our competitors in the longer term.

Technical Architecture

Underpinning all Technology One's solutions is a unique Application Development Framework (ADF) which provides us with the architecture, framework and application development environment to achieve a consistent look and feel across all the company's software development. The ADF delivers many of our software solution's advanced features: put simply it allows us to manage our solutions within a single infrastructure.

Technology One has invested significant research and development to establish and refine our sophisticated framework. The solution forms the framework across all our

solutions, and many of the company's custom built solutions. It is also now being used by partners to provide the same look and feel across their suite of integrated products, and give us the combined competitive edge in marketing our solutions.

In the 2005 financial year, significant enhancements were completed in our ADF to provide us with improved functionality across our total suite of solutions. New enhancements included: Drag and Analyse, Alerts, Published Reports, KPI Portal, Web Services, and Data Modelling, to enhance large enterprise support.

Development in the next 12 months will focus on a program to allow the independent shipping and installation of Technology One products to customers whilst still providing one consistent, integrated user experience, called the "One System" initiative. This program will coincide with the rollout of the Connected Intelligence platforms of our local government and education solutions.



PEOPLE FOCUS

Technology One has, and continues to experience, a lower than industry average employee turnover.

Technology One's success is built on the wealth of talent we employ. As such we recognise that our people are our most important and valuable asset. It is their skills, commitment and hard work that has enabled us to meet the challenges that rapid growth brings.

Technology One's management team continues to profitably grow the company. Our development staff deliver a high level of software innovation and quality. Our services staff constantly provide a high level of commitment to the delivery of excellence in client service. We continue to operate a healthy, safe and productive work environment for our employees.

A priority for us is the continuing recruitment and retention of highly motivated people, in order to continue our rapid growth. We attract quality people by offering a culture of creativity, with a corporate commitment to world best practices and high financial rewards. The management of Technology One works hard to create an environment that is friendly and supportive. We actively encourage open and honest dialogue between managers and staff. As a result, Technology One has, and continues to experience, a lower than industry average employee turnover.

In the 2005 year, Technology One placed 50 new staff members, giving us a team of more than 330 employees throughout Australia, New Zealand and Malaysia.

Training

Technology One is committed to the ongoing training of our staff. In the 2005 year, we rolled out corporate initiated training programs to our consulting teams, project services staff, senior managers, human resources and administration teams. We also supported the individual training and study for numerous staff members.

Graduate and Traineeships

Technology One believes it is important to nurture the next generation of information technology leaders, and we run a graduate recruitment program to give recent graduates the opportunity to create world-class software solutions. Technology One is one of only a few business software developers in Australia creating solutions from the ground up, giving graduates a sought after opportunity to influence the way in which our clients' manage their business.

In the 2005 financial year, we employed a number of graduates in different sections of our business, and we are looking to increase this recruitment in the 2006 year.

COMMUNITY FOCUS

“Technology One’s sponsorship (of the BYTE Awards) demonstrates the importance of local companies sharing their knowledge and success and helping to develop the next generation of technology professionals,” said Queensland Minister for Education and the Arts, Anna Bligh.

TECHNOLOGY ONE BYTE AWARDS

Technology One is committed to nurturing the talents of the future generation of IT leaders. For the past two years, the company has signed on as major sponsor of the Technology One Building Youth Technology Excellence (BYTE) Awards - a competition for Queensland state school students that recognises and rewards outstanding abilities in developing and using information and communication technologies in curriculum-related activities.

Technology One invests millions of dollars each year developing our software to provide our clients with the latest technology and best possible solutions to manage their business. The Technology One BYTE Awards provide a great opportunity for students to develop their skills in pursuit of excellence – exactly the right mix that we need to drive the future of our industry.

The Technology One BYTE Awards are a great opportunity for primary and secondary school students to be rewarded for their creativity, intelligence and commitment outside of the school environment. But more importantly, they reward students with an opportunity to see how their enjoyment of IT can be developed in the real world.

Winners of the Technology One BYTE Award win a number of prizes, including the opportunity to participate in a week long Career Workshop. The program takes the students on a whirlwind tour of major businesses within the Queensland IT industry, giving them a great insight into the career opportunities available. Technology One also hosts the winners for a morning workshop to give them practical advice on how they can use the skills they have learnt through the Technology One BYTE Awards to help them pursue a rewarding career.

Technology One believes that it has a responsibility to give back to the community that supports its staff and their families.

This means having a strong set of values that underpin the company’s everyday activities – our attitudes to our clients, our attitudes to our staff, our transparency, our high ethical standards, as well as our community work.

It is this belief that underlines our Community Works initiative – providing much needed sponsorship, donations and support to community-based and educational organisations, and encouraging our staff to become actively involved in activities that contribute to the community.

In the 2005 financial year, Technology One responded to the overwhelming need of the Asian Tsunami Appeal, raising over \$68,000 for World Vision.

The company also supported the Salvation Army and Juvenile Diabetes Research Foundation with major fundraising

appeals, as well as numerous other local and national charities.

We are also committed to sharing our success and knowledge to help nurture our industry’s future IT talent. We are currently involved in a number of programs, including:

- Major sponsor of Education Queensland’s 2005 Technology One Building Youth Technology Excellence (BYTE) Awards for the second year (see case study).
- Major sponsor of the Epilepsy Queensland Website Competition for the third consecutive year.
- Work Placement Program, offering opportunities to university students in computer science and software engineering degrees to gain practical experience in the development of world-class software.

Technology One also proactively manages its activities to ensure that it does not negatively impact the environment in the course of conducting its business.

FINANCIAL STATEMENTS

Technology One Limited and
Controlled Entities for the
Year Ended 30 June 2005.

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DIRECTORS' REPORT

The Board of Directors of Technology One Limited "Technology One" (ABN 84 010 487 180) has pleasure in submitting its report in respect of the financial year ended 30 June 2005.

Directors

The names and details of the Directors in office during or since the end of the financial year are:

NAMES AND QUALIFICATIONS	EXPERIENCE AND SPECIAL RESPONSIBILITIES
<p>Adrian Di Marco <i>(Executive Chairman)</i> B Sc, FAICD</p>	<p>Mr Di Marco founded Technology One in 1987, after extensive experience in the software industry in the area of large scale fixed time and fixed price software development projects to meet client specific requirements. Mr Di Marco has over 25 years experience in the software industry. He has been responsible for all operational aspects of Technology One, as well as the strategic direction of the company.</p>
<p>Ron McLean</p>	<p>Mr McLean has over 30 years experience in the software industry, having held senior positions in companies in Australia and overseas, including the multi-national computer manufacturer NCR Corporation. Mr McLean joined the Board as a Non-executive Director in 1992, was appointed as a General Manager in 1994, Chief Operating Officer in 1999 and Chief Executive Officer of Operations in 2003. Mr McLean resigned as Chief Executive Officer of Operations on 15 July 2004, and remains a non-executive director.</p>
<p>John Mactaggart <i>(Chairman of Executive Remuneration Committee)</i> FAICD</p>	<p>Mr Mactaggart has extensive experience across many industries, including export of animal products, food processing, industrial fasteners, manufacturing of building equipment and computer hardware and software. Mr Mactaggart is a Director of a number of companies. Mr Mactaggart through JL Mactaggart Holdings Pty Ltd is a founding shareholder of Technology One. He has been a Fellow of the Australian Institute of Company Directors since 1991.</p>
<p>Syd Larwill <i>(Chairman of Audit Committee)</i> B Com</p>	<p>Mr Larwill was a partner in the accountancy firms, Larwill and Larwill, Irish Young and Outhwaite, Deloitte Haskins and Sells and was a Founding Director of Hart Larwill Pty Ltd. He has been a Director and Company Secretary for a number of other companies. Mr Larwill has been involved as a Director of Technology One since 1992. He was formerly a Fellow of the Institute of Chartered Accountants and an Associate of the Institute of Chartered Secretaries and Administrators for over 30 years.</p>
<p>Kevin Blinco B Bus, FCA, ATI</p>	<p>Mr Blinco is the current Chairman and a Director of accounting firm Moore Stephens. His expertise is broadly respected and acknowledged throughout the business community. As a reflection of this he is the Director and/or Secretary of numerous organisations and the external financial controller of several large family owned businesses. He is a Fellow of the Institute of Chartered Accountants and Fellow of the Taxation Institute of Australia.</p>
COMPANY SECRETARY	EXPERIENCE AND SPECIAL RESPONSIBILITIES
<p>David Orchard <i>(Company Secretary and Chief Financial Officer)</i> BCom, CA, ACIS</p>	<p>Mr Orchard joined Technology One in 1994 as the Financial Controller. This position was re-assessed to Chief Financial Officer on the company's Australian Stock Exchange (ASX) listing in 1999. He became Company Secretary in 1995.</p>

Unless indicated otherwise, all Directors held their position as a Director throughout the entire financial year and up to the date of this report.

DIRECTORS' REPORT

(continued)

Directors' Interests

Relevant interests of the Directors in the shares of the company, as at date of this report are:

	Ordinary Shares
A Di Marco (Masterbah Pty Ltd)	70,372,500
R McLean (RONMAC Investments Pty Ltd)	100,000
J Mactaggart (JL Mactaggart Holdings Pty Ltd)	75,902,500
S Larwill	200,000
K Blinco (Assembly Road Pty Ltd)	201,285

Refer to Note 23 for further information concerning Directors' interests.

Directors' Meetings

The number of meetings of the Board of Directors and of Board Committees during the year were:

Board or Committee	Number of Meetings
Full Board	12
Audit	7
Executive Remuneration	1
Nomination	1

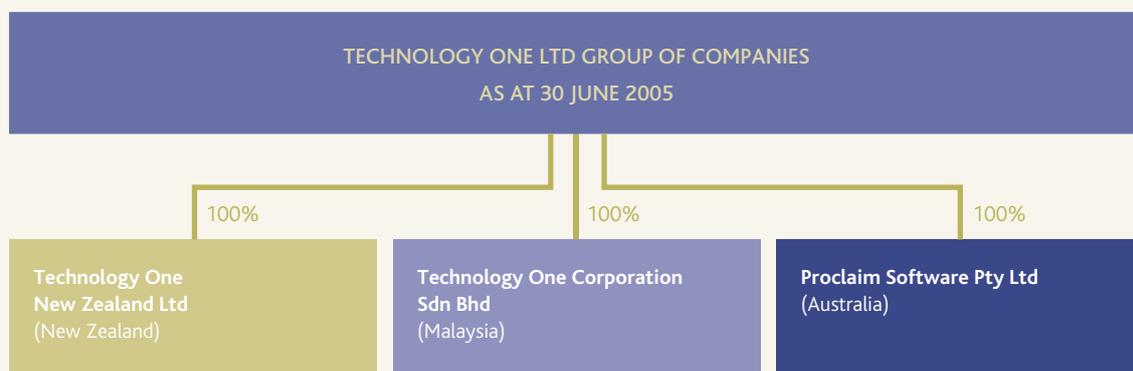
The attendance of Directors at meetings of the Board and its Committees were:

	Full Board	Audit	Executive Remuneration	Nomination
A Di Marco	12	7	1	1
R McLean	12			
J Mactaggart	12	7	1	1
S Larwill	12	7	1	1
K Blinco	12	7		

Where a Director did not attend all meetings of the Board or relevant Committee, the number of meetings for which the Director was eligible to attend is shown in brackets.

As at the date of this report, the company had an Audit Committee of the Board of Directors, which met seven times during the year. The details of the functions and memberships of the other Committees of the Board are presented in the Corporate Governance Statement.

Corporate Structure



Principal Activities

The principal activity of the company during the financial year was the service delivery of software which includes the design, development, implementation and support of integrated software solutions to meet the specific requirements of vertical or horizontal markets including:

- Financial Management and Accounting (Finance One);
- Local Governments (Proclaim One);
- Higher Education and Universities (Student One);
- Retail (Retail One);
- Wholesale/Distribution (Sales One); and
- Payroll and Human Resources (People One).

Technology One also provides large scale "purpose built" application development services to meet the specific requirements of corporate and government organisations.

Results

The profit of the consolidated entity for the financial year was \$10,280,404 after income tax.

Dividends

The following dividends of the company have been paid, declared or recommended since the end of the preceding financial year:

	On Ordinary Shares \$000
Final dividend (franked to 100%) for 2004 as recommended in last year's report	4,779
Interim fully franked dividend for 2005 paid 24 March 2005	4,191
Final fully franked dividend for 2005 as recommended by the Directors	5,097

DIRECTORS' REPORT

(continued)

Review of Operations

FINANCIAL SUMMARY

Demand for our products and services has increased, as shown by the addition of 83 new clients, and licence fees to new clients up 17% on the prior year. Technology One's profit before tax of \$14.3 million, is an increase of 9% over the previous year. We invested in our ongoing research and development (R&D) program, spending \$10.2 million on R&D, an increase of 7%. This is a significant investment, representing 18% of our revenue, and we have continued our approach of fully expensing all R&D as incurred.

Technology One's operating cash flow was \$11.1 million versus a net profit after tax (NPAT) of \$10.3 million.

A summary of our performance is as follows:

Full Year 2005 v 2004	2005 \$ (000)	2004 \$ (000)	Variance \$ (000)	Increase %
Revenue	54,538	50,554	3,984	8%
Expenses	29,552	27,334	2,218	8%
EBITDAR	24,986	23,220	1,766	8%
R&D	10,220	9,547	673	7%
EBITDA	14,766	13,673	1,093	8%
Depreciation and Amortisation	1,099	906	193	21%
Amortisation of Intangibles	650	667	(17)	(3%)
EBIT	13,017	12,100	917	8%
Net Interest Income	1,285	1,010	275	27%
NPBT	14,302	13,110	1,192	9%
NPAT Pre Amortisation	10,930	10,146	784	8%
NPAT Reported	10,280	9,479	801	8%
Earnings Per Share - Reported (Cents)	3.44	3.17	0.27	9%
Dividend Per Share (Cents)	3.10	2.85	0.25	9%
Adjusted Return on Shareholders' Equity	55%	52%		
Cash and Cash Equivalents	25,623	23,853	1,770	7%
Net Operating Cash Flow	11,061	12,300	(1,239)	(10%)
Debt/Equity	3%	3%		
EBITDA Margin	26%	27%		
NPBT Margin	26%	25%		
R&D as Percentage of Total Revenue	18%	19%		

SIGNIFICANT ACHIEVEMENTS

There have been a number of significant achievements this year as follows:

- Success of our new Finance One Connected Intelligence (CI) solution
- Continued significant R&D program
- Continued organisational changes
- Platform for continued geographical expansion

SUCCESS OF OUR NEW FINANCE ONE CI SOLUTION

A significant achievement this year has been the release of Technology One's new generation product, Finance One CI to the market and the substantial success it has achieved in a short period of time. This new and exciting product has now "gone live" at 22 sites, with a further 33 sites in the process of implementing it. Technology One believes this release gives us a strong leadership position over our competitors, as our CI products will allow organisations to move to a more devolved and empowered business model that seamlessly connects clients, suppliers, staff, managers and disparate systems.

CONTINUED SIGNIFICANT R&D PROGRAM

The company continued to significantly enhance its existing products with new releases of all Technology One's products as follows:

- Retail One, Sales One, Finance One, People One R11.1
- Student One (Student Administration) R3.2
- Proclaim One (Local Government Rating and Property) R9.06

Technology One also invested in developing CI versions for each of the above products, and is on track to release these products on our powerful CI platform progressively in the 2005 and 2006 years.

Another significant development was the introduction of a sophisticated and advanced Work and Asset Management solution, Work One. This provides an exciting new market opportunity for Technology One, which we will progressively explore over the next 12 months.

The company's breadth of solution is today large and extensive, encompassing: Financial Management and Accounting, Supply Chain and Procurement, Point Of Sale, Work and Asset Management, Human Resources and Payroll, Local Government Rating and Property Management, and Student Administration.

The company plans to further extend the breadth of its product as follows.

Firstly after successfully establishing a new R&D centre in Western Australia to focus on enterprise reporting, Technology One is extending this group to deliver a unified Business Intelligence solution, "out of the box and ready to go", operating across all our products. The company believes we will be able to offer this exciting new solution at a compelling price to our customers and this will help to further differentiate our product offerings. Technology One is partnering with a local Australian software company to build this new and exciting solution.

The company is also investigating a number of potentially new and exciting areas, including Customer Relationship Management (CRM), Contract Management, Strategic Planning and Fleet Management to further extend the breadth of our products over the coming years.

The company also further enhanced its "world best practice" in R&D with the implementation of a number of significant initiatives including:

- The move to smaller more focused R&D teams called domain teams to improve product quality and increase innovation and speed.
- The implementation of a new formal Product Roll Out process to better manage the complexity, issues and risks associated with transitioning a new product into the market place.

CONTINUED ORGANISATIONAL CHANGES

Technology One's business has continued to grow and increase dramatically in both complexity and diversity. Today it is a world class provider of enterprise applications, competing with the world's largest software companies, with operations in 10 geographical territories and with seven R&D teams.

With the retirement of two long serving executives, the company took the opportunity this year to create a new and larger executive team, and also restructured our business to provide a platform for the next stage of growth. The expanded executive team will give Technology One greater bandwidth to undertake new opportunities, as well as better manage our existing diversified business as it continues to grow. Technology One's continuing strong results this year are a strong indicator of the successful transition to a new executive team and a new organisational structure.

PLATFORM FOR CONTINUED GEOGRAPHICAL EXPANSION

This year Technology One finalised its plan to enter one of the largest markets in the world for enterprise applications – the United Kingdom. The company's initial estimates place this market at over three times the size of the Australian market, and has the potential to provide significant growth to Technology One in the coming years. Technology One will open its first office in the UK in early 2006, and will subsequently open up other offices through the UK over a period of four years.

Technology One believes we are well positioned for success in the medium term in the UK market, once we have established our presence, because of our new generation products (our CI series) and our powerful and unique Power of One business model where we build, market, sell, implement and support our range of products directly.

Technology One sees the UK as a stepping platform in the medium term into a number of other large markets.

DIRECTORS' REPORT

(continued)

DIVIDEND INCREASED

The Board remains committed to the careful management of our capital base to ensure that capital, where appropriate, is returned to our shareholders, while still allowing us to grow our business. It is for this reason the company has increased its dividend this year once again by 9% to 3.1cents fully franked. Based on the share price as at 19 August 2005 of 61 cents, this represents a dividend yield (fully franked) of 5.08%.

CAPITAL BUY BACK

Technology One has always taken a very controlled approach to the issue of options, to minimise the dilutionary impact on existing shareholders. This year the company commenced a capital buy back program, which is aimed at managing the dilutionary effect that options have on existing shareholders, as they are exercised.

OUTLOOK

This will be addressed in the Annual Report to be published on 23 September 2005.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the company throughout the year.

Significant Events after Year End

The company will pay a fully franked final dividend on 23 September 2005 of \$5,097,297.

One of the company's subsidiaries, Proclaim Software Pty Ltd, is in the process of being wound up, by way of Members' Voluntary Liquidation. This is expected to be completed by the end of September 2005. The operations of Proclaim Software Pty Ltd have been transferred to the parent entity and the Proclaim One product (Technology One Property Management) will continue to be offered by the company. The wind up of Proclaim is being completed for administrative reasons only.

Shares and Options

Details of shares and options held by directors are set out in Note 23 of the financial statements and form part of this report. Details of options issued to employees are set out in Note 17 of the financial statements and form part of this report.

REMUNERATION REPORT

Details of remuneration provided to directors and the five most highly remunerated officers are as follows:

		Base Salary \$	Directors' Fee \$	Performance Related Bonus **** \$	Super- annuation \$	Retirement Benefits \$	Long Term Emoluments Options granted* \$	Total \$
SPECIFIED DIRECTORS								
A Di Marco (Executive)								
	2005	338,412	27,938	246,586	26,711	—	—	639,647
	2004	328,655	27,124	229,473	25,762	—	—	611,014
R McLean (Executive until 15 July 2004)								
	2005	26,869	27,938	—	73,972	—	—	128,779
	2004	311,077	27,124	219,912	27,930	245,694**	124,667	956,404
J Mactaggart (Non-executive)								
	2005	—	27,938	—	—	—	—	27,938
	2004	—	27,124	—	—	—	—	27,124
S Larwill (Non-executive)								
	2005	—	27,938	—	—	—	—	27,938
	2004	—	27,124	—	—	—	—	27,124
K Blinco (Non-executive)								
	2005	—	27,938	—	—	—	—	27,938
	2004	—	6,862	—	—	—	—	6,862
TOTAL REMUNERATION: SPECIFIED DIRECTORS								
	2005	365,281	139,690	246,586	100,683	—	—	852,240
	2004	639,732	115,358	449,385	53,692	245,694	124,667	1,628,528
SPECIFIED EXECUTIVES								
R Down (Operating Officer, Business Development)								
	2005	170,136	—	219,256	15,313	—	12,459	417,164
	2004	—	—	—	—	—	—	—
M Culverson (Operating Officer, Central Division)								
	2005	153,964	—	136,470	13,857	—	10,623	314,914
	2004	—	—	—	—	—	—	—
R Phare (Operating Officer, North West Division)								
	2005	122,401	—	131,148	11,016	—	6,199	270,764
	2004	—	—	—	—	—	—	—
P Cameron (Operating Officer, Project Services Division)								
	2005	141,743	—	84,814	12,757	—	7,852	247,166
	2004	—	—	—	—	—	—	—
D Orchard (Chief Financial Officer and Company Secretary)								
	2005	104,842	—	—	9,436	—	—	114,278
	2004	94,845	—	—	8,536	—	—	103,381
M Clahsen (Operating Officer)								
	2005	—	—	—	—	—	—	—
	2004	44,651	—	16,520	7,572	—	***	68,743
TOTAL REMUNERATION: SPECIFIED EXECUTIVES								
	2005	693,086	—	571,688	62,379	—	37,133	1,364,286
	2004	139,496	—	16,520	16,108	—	—	172,124

DIRECTORS' REPORT

(continued)

REMUNERATION REPORT (continued)

The percentage of remuneration comprising options was: R Down 2.9%, M Culverson 3.4%, R Phare 2.2%, P Cameron 3.2%

- * Options granted as part of remuneration are estimates only. The estimates are based on the degree of probability of future performance hurdles being met, combined with the use of the Black Scholes option pricing model. This model takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option.
- ** This amount was paid in his capacity as an executive of the company, and not due to his capacity as a director.
- *** M Clahsen's Long Term Emoluments Options Granted has been valued at nil due to his resignation.
- **** The objective of the bonus program is to link the achievement of the company's profit target with the remuneration received by the executives charged with meeting those targets. The incentive component of the executives' remuneration ranges between 34 and 53% of their total remuneration. This relatively large component is evidence of the company's requirement for executives to perform well, in order to attain their target remuneration. The incentive is based on the company's Net Profit Before Tax (NPBT) figure. NPBT has been chosen as it is the key indicator of performance. It is calculated in accordance with statutory reporting requirements.

Remuneration Practices

The Executive Remuneration Committee of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer (CEO) and the executive team.

The constitution and the ASX listing rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was in 1999, at the time of company's ASX listing when shareholders approved an aggregate remuneration of \$300,000 per year. In the 2005 year, directors' fees of \$139,690 were paid. No additional fees are paid for each board committee on which a director sits.

In considering the remuneration to be paid to executives, the following principles are applied:

- The company should provide the packages needed to attract, retain and motivate highly talented and experienced executives.
- The company should judge where to position itself relative to other companies. This involves being aware of comparable companies' pay, but to exercise caution.
- The company should be sensitive to the wider scene, especially with regard to salary increases.
- Performance related elements should form a significant proportion of the package, should align interests with those of shareholders, and should provide keen incentives.
- The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.
- Lastly the company must take in specific and unique conditions that may apply in individual circumstances in order to attract and retain the right executive team in the long term.

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- Reward executives for company, business unit and individual performance against targets;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

Remuneration consists of the following key elements:

- Fixed remuneration
- Incentive component (performance related bonus)
- Long term incentive component (options)

FIXED REMUNERATION

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles.

INCENTIVE COMPONENT

The objective of the incentive program is to link the achievement of the company's profit target with the remuneration received by the executives charged with meeting those targets. The incentive component of the executives' remuneration ranges between 35 and 53% of their total remuneration. This relatively large component is evidence of the company's requirement for executives to perform well, in order to attain their target remuneration.

The incentive is based on the company's net profit before tax (NPBT) figure. NPBT has been chosen as it is the key indicator of performance. It is calculated in accordance with statutory reporting requirements.

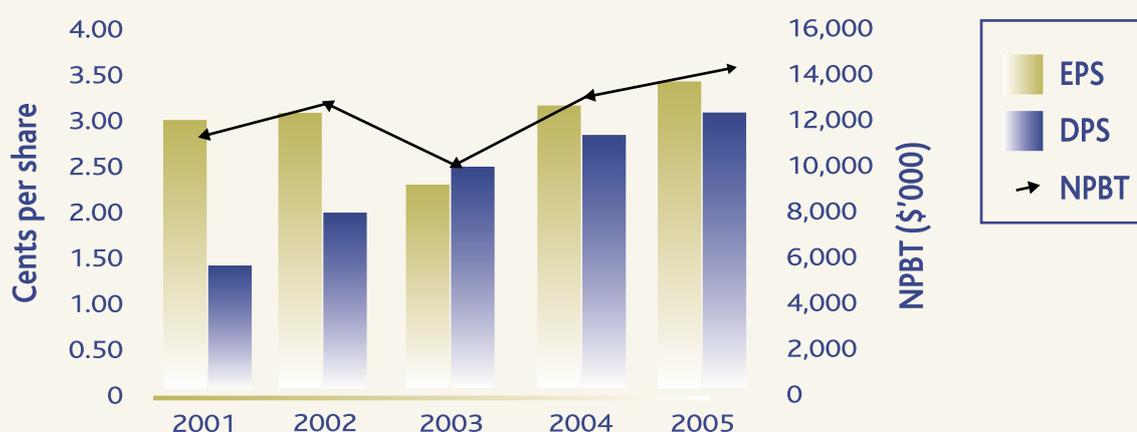
LONG TERM INCENTIVES

The objective of having long term incentives for executives is to reward executives in a manner which aligns this element of remuneration with the company's interests. By having an equity interest in the company, it aligns the executives' actions with the interests of shareholders. The executives must meet continued service conditions in order to exercise these options. The options become exercisable over five separate tranches, commencing in July 2007.

Details of these options are shown in Note 23 of the Financial Statements.

COMPANY PERFORMANCE

The graph below shows the performance of the company (as measured by the company's NPBT) and the comparison of the company's NPBT with its earnings per share (EPS) and dividends per share (DPS) over the last five years.



	2001	2002	2003	2004	2005
Share price at year end	\$0.82	\$0.47	\$0.41	\$0.56	\$0.52

EMPLOYMENT CONTRACTS

The CEO, Mr Di Marco, is employed under contract. The current employment contract commenced on 1 December 1999 and continues until terminated in accordance with the agreement. Under the terms of the present contract:

- Mr Di Marco may resign from his position and thus terminate this contract by giving not less than three months' written notice.
- The company may terminate this employment agreement by either providing three months' written notice or by paying the appropriate proportion of the termination remuneration package in lieu thereof.

All other executives are employed on a continuing basis.

Apart from termination benefits which accrue under statute, or mentioned above (such as unpaid Annual Leave, Long Service Leave), there are no retirement benefits for executive directors and executives.

DIRECTORS' REPORT

(continued)

Indemnification of Officers

Insurance and indemnity arrangements established in the previous year concerning officers of the company were renewed or continued during 2005.

An indemnity agreement has been entered into between Technology One and each of the directors of the company named earlier in this report and with each full-time executive officer and secretary of the company. Under the agreement, the company has indemnified those officers against any claim or for any expenses or costs which may arise as a result of work performed in their respective capacities. There is a limit of \$20,000,000 for any one claim.

Technology One paid an insurance premium in respect of a contract insuring each of the directors of the company named earlier in this report and each full-time executive officer and secretary of the company, against all liabilities and expenses arising as a result of work performed in their respective capacities, to the extent permitted by law.

Tax Consolidations

From 1 July 2003, for purposes of income taxation, Technology One Limited and its 100% owned subsidiary, Proclaim Software Pty Ltd, have formed a consolidated tax group. These companies have entered into a tax sharing arrangement in order to allocate income tax expense on a pro-rata basis.

Rounding of Amounts

The company is a company of the kind specified in Australian Securities and Investment Commission Class Order 98/0100. In accordance with that class order, amounts in the financial statements and the Directors' Report have been rounded to the nearest thousand dollars unless specifically stated to be otherwise.

Auditor's Independence Declaration to the Directors

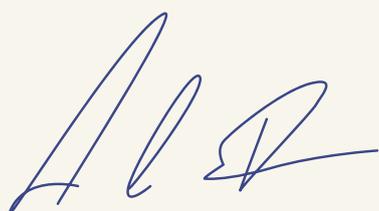
The Directors received a declaration from the company's auditor, Ernst & Young. It is included at the end of the Financial Statements.

Non-Audit Services

Non-audit services provided by the company's auditor, Ernst & Young, in the current and prior financial year included taxation and statutory compliance assistance in Australia, New Zealand and Malaysia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. Fees for these services were:

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$	\$	\$	\$
Assessment of AIFRS accounting policies	37,120	—	37,120	—
Compliance services – taxation and statutory	33,653	58,346	16,370	26,345
Taxation advice	28,741	13,717	1,480	13,717
	<u>99,514</u>	<u>72,063</u>	<u>54,970</u>	<u>40,062</u>

This report has been made in accordance with a resolution of directors.



Adrian Di Marco

Executive Chairman

Brisbane

26 August 2005

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of the company is responsible for its corporate governance. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Directors have the authority to delegate any of their powers to committees consisting of such directors and external consultants, as the directors think fit. The Board has established an Audit Committee, an Executive Remuneration Committee, and a Nominations Committee.

The format of the Corporate Governance Statement is in accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period.

Technology One's corporate governance practices were in place throughout the year ended 30 June 2005. As noted below, there are some recommendations with which the company has not complied. These are at the end of the statement. Apart from these, the company has complied with all of the principles.

The Directors have established guidelines for the operation of the Board. Set out below are the company's main corporate governance practices.

Unless otherwise stated, these practices were in place throughout the financial year.

The Corporate Governance Statement is available on the company's internet site: www.TechnologyOneCorp.com under the "Investor Relations" area.

BOARD OF DIRECTORS AND ITS COMMITTEES

Board of Directors

The Directors are:

Adrian Di Marco	Executive Chairman (and Chief Executive Officer) - major shareholder
Ronald McLean	Non-executive Director – ex Chief Executive Officer of Operations
John Dugald Mactaggart	Non-executive Director – major shareholder
Sydney John Alfred Larwill	Non-executive Director – independent
Kevin Phillip Blinco	Non-executive Director – independent

The Board of Directors operates in accordance with the following broad principles:

- The Board should comprise at least three members, but no more than 10. The current Board membership is five. The Board may increase the number of Directors where it is felt that additional expertise in specific areas is required.
- The Board should be comprised of Directors with an appropriate range of qualifications, expertise and experience.
- The Board shall meet regularly as required and have available all necessary information to participate in an informed discussion of agenda items.
- The Directors are entitled to be paid expenses incurred in connection with the execution of their duties as Directors. Each Director is therefore able to seek independent professional advice at the company's expense, where it is in connection with their duties and responsibilities as Directors. The company policy is that a Director wishing to seek independent legal advice should advise the Board, or if this is not possible the Chairman, at least 48 hours before doing so.

Appointment of Directors

If a vacancy exists, or where the Board considers it will benefit from the appointment of a new Director with particular skills, the Board will interview the candidates. Potential candidates will be identified by the Board although the Board will be entitled to seek the advice of an external consultant. The Board will then appoint the most suitable candidate, who upon acceptance will hold office until the next Annual General Meeting, where the appointee must retire and is entitled to stand for re-election.

Audit Committee

The Board has established an Audit Committee. The Committee is comprised of:

S Larwill (Chairman)
J Mactaggart
K Blinco
A Di Marco (*resigned 30 June 2005*)

CORPORATE GOVERNANCE STATEMENT

(continued)

The role of the Committee is to:

- Receive and review reports from the external auditor.
- Ensure that systems of internal control are functioning effectively and economically and that these systems and practices contribute to their achievement of the company's corporate objectives.
- Direct follow-up action where considered necessary.
- Relate any matters of concern to the accountable authority.
- The Committee reviews the performance of the external auditor on an annual basis.

Executive Remuneration Committee

The Board has established an Executive Remuneration Committee. The Committee meets annually.

The Committee is comprised of:

J Mactaggart (Chairman)

A Di Marco

S Larwill

The terms of reference of the committee are to:

- Advise the Board with regard to the company's broad policy for executive remuneration.
- Determine, on behalf of the Board, the individual remuneration packages for each Executive Director.
- Give the Executive Directors encouragement to enhance the company's performance and to ensure that they are fairly, but responsibly, rewarded for their individual contribution.

Non-executive directors' remuneration is determined by the Board within the aggregate amount per annum which may be paid in directors' fees.

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 company.

Shareholders' Role

The Board of Directors aims to ensure that shareholders are informed of all major developments affecting the company's state of affairs.

The information is communicated to shareholders by the:

- Annual Report being distributed to all shareholders. The Board ensures the Annual Report contains all relevant information about the operations of the company during the financial year, together with details of future developments and other disclosures required under the Corporations Act 2001.
- Half Year Results Report distributed to all shareholders.
- Disclosures forwarded to the Australian Stock Exchange under the company's continuous disclosure obligations.

Non-Compliance with ASX Corporate Governance Guidelines

The Board of Technology One believes in working to the highest standards of Corporate Governance. Notwithstanding this, the Board believes it is important to recognise there is not a "one size fits all" to good Corporate Governance, and that it is important to consider the size of the company, the industry it operates within, the corporate history and the company's inherent strengths.

The ASX Corporate Governance Council has recognised this fact, and has allowed companies to explain where they do not comply with the Principles of Good Corporate Governance and best Practice Recommendations.

The company has complied with the majority of the ASX recommendations. The Board believes the areas of non-conformance shown below will not impact the company's ability to meet the highest standards of Corporate Governance, and will at the same time allow the company to capitalise on its inherent strengths.

This section explains those areas of non-compliance.

Majority of Independent Directors (Refer ASX Corporate Guidelines – Recommendation 2.1)

As a smaller market capitalisation company, it is important that Technology One has a Board of an appropriate size. The Board believes that five Directors are appropriate for the company at its current size, and that all existing Directors have the necessary skills and industry knowledge. To add additional independent Directors at this stage would increase the Board's size beyond what is currently regarded as appropriate and would unnecessarily increase costs. As the company continues to grow, the number of Directors will be increased and the Board has committed that additional Directors will be independent Directors.

Independent Chairman (Refer ASX Corporate Guidelines – Recommendation 2.2)

The Board is of the opinion it should maximise the vision, skills and industry knowledge of the company's founder and major shareholder to continue to lead the company forward. The Board believes Mr Di Marco is the best candidate to clearly communicate the company's vision, strategy and to set market expectations. To this end it is seen as appropriate that Mr Di Marco should remain as Executive Chairman of the company. There is no empirical evidence to support the preference of an Independent Chairman.

Separation of Chairman and CEO Roles (Refer ASX Corporate Guidelines – Recommendation 2.3)

The company's Chief Executive Officer, is also the company's Executive Chairman. There are four Operating Officers who are responsible for the day to day operations in each region, who report to the Executive Chairman. The Board believes this provides the necessary balance required.

Structure of the Remuneration Committee (Refer ASX Corporate Guidelines – Recommendation 9.2)

The Technology One Remuneration Committee meets the following stated requirements:

- Not chaired by the Chairman of the Board.
- At least three members.
- Majority of Non-Executive Directors.

The majority of the Committee are not Independent Directors and the Chairman is not an Independent Director. This is as a result of the size of the Board, which is deemed appropriate for a company of Technology One's size. As the company grows and extends the Board to include additional Independent Directors, this matter will be addressed.

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Sales revenue	2	54,394	50,465	48,092	45,469
Other revenue	2	1,429	1,086	3,396	2,412
Total operating revenue		55,823	51,551	51,488	47,881
Sales and marketing expense		(5,850)	(4,915)	(4,959)	(7,268)
Occupancy expense		(1,169)	(1,048)	(991)	(923)
Administration expense		(9,075)	(8,122)	(8,539)	(7,629)
Product distribution and servicing expense		(13,410)	(13,395)	(12,210)	(12,137)
Other expenses		(1,623)	(1,352)	(804)	(645)
Borrowing costs		(122)	(76)	(71)	(76)
Equity based compensation		(52)	—	(52)	—
Profit from operating activities before research and development expense		24,522	22,643	23,862	19,203
Research and development expense		(10,220)	(9,547)	(10,194)	(8,597)
Profit from operating activities before income tax expense		14,302	13,096	13,668	10,606
Proceeds from sale of listed securities		—	2,914	—	2,914
Cost of listed securities sold		—	(2,900)	—	(2,900)
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		14,302	13,110	13,668	10,620
Income tax expense attributable to ordinary activities	3	(4,022)	(3,631)	(3,713)	(2,898)
NET PROFIT		10,280	9,479	9,955	7,722
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTED TO MEMBERS OF TECHNOLOGY ONE LIMITED		10,280	9,479	9,955	7,722
Basic Earnings Per Share (cents per share)	21	3.44	3.17		
Diluted Earnings Per Share (cents per share)	21	3.43	3.16		

The accompanying notes form an integral part of this Statement of Financial Performance.

STATEMENT OF RETAINED PROFITS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Retained profits at the beginning of the year		7,532	6,566	4,280	5,071
Dividends paid	4	(8,970)	(8,211)	(8,970)	(8,211)
Transfer to dividend reserve	18	(5,097)	(4,779)	(5,097)	(4,779)
Transfer from dividend reserve	18	4,779	4,477	4,779	4,477
Net profit		<u>10,280</u>	<u>9,479</u>	<u>9,955</u>	<u>7,722</u>
Retained profits at the end of the year		<u>8,524</u>	<u>7,532</u>	<u>4,947</u>	<u>4,280</u>

The accompanying notes form an integral part of this Statement of Retained Profits.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
CURRENT ASSETS					
Cash assets	5	23,623	22,853	22,801	19,771
Other financial assets – listed securities		2,000	1,000	2,000	1,000
Receivables	6	9,933	9,696	8,172	8,446
Other	7	3,416	2,510	2,703	1,912
Total Current Assets		38,972	36,059	35,676	31,129
NON-CURRENT ASSETS					
Property, plant and equipment	8	2,166	2,208	2,142	2,122
Intangible assets	9	9,059	9,709	191	245
Other financial assets	10	—	—	12,173	12,173
Deferred tax assets	11	1,206	1,365	1,206	1,325
Total Non-Current Assets		12,431	13,282	15,712	15,865
TOTAL ASSETS		51,403	49,341	51,388	46,994
CURRENT LIABILITIES					
Payables	12	3,775	3,701	7,415	6,034
Provisions	13	2,616	2,557	2,524	2,343
Tax liabilities		1,010	1,151	1,283	271
Unearned revenue		3,119	2,900	3,108	2,681
Interest bearing liabilities	14	415	412	415	412
Total Current Liabilities		10,935	10,721	14,745	11,741
NON-CURRENT LIABILITIES					
Provisions	15	485	346	485	346
Interest bearing liabilities	14	550	542	550	542
Deferred tax liabilities		886	651	639	536
Other	16	46	125	46	125
Total Non-Current Liabilities		1,967	1,664	1,720	1,549
TOTAL LIABILITIES		12,903	12,385	16,465	13,290
NET ASSETS		38,500	36,956	34,923	33,704
EQUITY					
Contributed equity	17	24,827	24,645	24,827	24,645
Reserves	18	5,149	4,779	5,149	4,779
Retained profits		8,524	7,532	4,947	4,280
TOTAL EQUITY		38,500	36,956	34,923	33,704

The accompanying notes form an integral part of this Statement of Financial Position.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	Note	CONSOLIDATED		PARENT	
		2005 \$000	2004 \$000	2005 \$000	2004 \$000
Cash flows from operating activities					
Receipts from customers		53,971	50,896	48,738	46,011
Payments to suppliers and employees		(40,546)	(36,043)	(34,195)	(31,713)
Interest received		1,296	1,036	1,227	907
Income tax paid		(3,770)	(3,475)	(2,479)	(2,905)
Other revenue		283	72	152	84
Interest and other costs of finance paid		(122)	(76)	(71)	(76)
GST paid		(51)	(54)	(51)	(51)
Net operating cash flows	5 (b)	11,061	12,356	13,321	12,257
Cash flows from investing activities					
Payments for plant and equipment		(507)	(538)	(507)	(512)
Purchase of financial assets – listed securities		(1,000)	(1,000)	(1,000)	(1,000)
Proceeds from sale of financial assets – listed securities		—	2,914	—	2,914
Proceeds from sale of plant and equipment		4	3	4	3
Net investing cash flows		(1,503)	1,379	(1,503)	1,405
Cash flows from financing activities					
Proceeds from conversion of options		502	42	502	42
Payments for share buy-back		(320)	—	(320)	—
Dividends paid		(8,970)	(8,211)	(8,970)	(8,211)
Net financing cash flows		(8,788)	(8,169)	(8,788)	(8,169)
Net increase in cash held		770	5,566	3,030	5,493
Cash at the beginning of the financial year		22,853	17,287	19,771	14,278
Cash at the end of the financial year	5 (a)	23,623	22,853	22,801	19,771

The accompanying notes form an integral part of this Statement of Cash Flows.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared as a general purpose financial report which complies with the requirements of the *Corporations Act 2001*, Australian Accounting Standards, other authoritative pronouncements of the AASB and Urgent Issues Group Consensus Views.

The statements are prepared on an accruals basis from the records of the company. They are based on historic costs and do not take into account changing money values.

Changes in Accounting Policies

The group provides benefits to employees in the form of share based payment transactions, whereby employees render services in exchange for rights over shares (equity based remuneration). From 1 July 2004 the company changed its accounting policy with respect to the expensing of employee option schemes.

The cost of the equity based remuneration with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using methods as described in Note 17. This change in policy has resulted in an expense of \$52,000 being recorded in the 2005 financial year.

The cost of equity based remuneration is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (vesting date).

The cumulative expense recognised for equity based remuneration at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the company, will ultimately vest. This opinion is formed based on the best available information at the balance date. No expense is recorded for options that do not ultimately vest.

Revenue Recognition

SOFTWARE LICENCE FEE REVENUE

Revenue from licence fees due to software sales is recognised on the passing of control of the licensed software under an agreement between the company and the customer.

IMPLEMENTATION AND CONSULTING SERVICES REVENUE FOR LICENSED SOFTWARE

Revenue from implementation and consulting services attributable to licensed software is recognised in proportion to the stage of completion.

POST SALES CUSTOMER SUPPORT REVENUE FOR LICENSED SOFTWARE

Post sales customer support (PSCS) revenue for licensed software comprises fees for ongoing upgrades, minor software revisions and helpline support. PSCS revenue is allocated between annual fees for helpline support and fees for rights of access to ongoing upgrades and minor software patches. Annual fees for helpline support are allocated over the period of service. Fees for rights of access to ongoing upgrades and minor software revisions are recognised at the commencement of the period to which they relate on the basis that the company has no ongoing obligations or required expenditure related to this revenue.

UNEARNED SERVICES REVENUE

Amounts received from customers in advance of provision of services are accounted for as a liability called Unearned Revenue.

PROJECT SERVICES REVENUE

Revenue from project services agreements is recognised in proportion to their stage of completion, typically in accordance with the achievement of contract milestones.

EARNED AND UNBILLED REVENUE

Amounts recorded as Earned and Unbilled Revenue represent revenues recorded on Software Licence fees and PSCS fees not yet invoiced to customers. These amounts have met the revenue recognition criteria of the company, but have not reached the payment milestones contracted with customers.

GRANT INCOME

Revenue in the form of Grant Income is recognised when earned and receivable.

Principles of Consolidation

The consolidated financial statements include the financial statements of the parent entity, Technology One Limited and its controlled entities, referred to collectively throughout these financial statements as the "Consolidated Entity".

All inter-entity balances and transactions have been eliminated. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Financial statements of foreign controlled entities are prepared in accordance with overseas accounting principles and are, for consolidation purposes, adjusted to comply with group policy and generally accepted accounting principles in Australia.

Research and Development Costs

Research and development expenses include payroll, employee benefits and other headcount-related costs associated with product development. Technological feasibility for software products is reached shortly before the products are released for commercial sale to customers. Costs incurred after technological feasibility is established are not material, and accordingly, all research and development costs are expensed when incurred.

Property, Plant and Equipment

Property, plant and equipment are included at cost. Assets are depreciated over their estimated useful economic lives as follows:

	Life	Method
Office furniture and equipment	3-11 years	Straight line
Computer software	3-4 years	Straight line
Motor vehicles	4 years	Straight line

Foreign Currency Transactions

Foreign currency items are translated to Australian currency on the following bases:

- transactions are converted at exchange rates approximating those in effect at the date of each transaction;
- amounts payable and receivable are translated at the average of the buy and sell rates available on the close of business at balance date;
- exchange differences relating to monetary items are included in the Statement of Financial Performance, as exchange gains or losses, in the period when the exchange rates change; and
- the financial statements of all foreign operations are translated using the temporal method as they are considered to be integrated operations.

Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Goodwill on Acquisition

On acquisition of a controlled entity, the difference between the purchase consideration plus incidental expenses and the fair value of identifiable net assets acquired is initially brought to account as goodwill or discount on acquisition. Where the purchase consideration is subject to an earn out calculation, an estimate is made of the consideration payable. This estimate is re-evaluated periodically with any required adjustment made to the goodwill or discount on acquisition. Where settlement of all or any part of the cash consideration given in the acquisition of a controlled entity is deferred, the fair value of the purchase consideration is determined by discounting the cash amounts payable in the future, using a relevant discounting rate, to present values.

In establishing the fair value of the identifiable net assets acquired, a liability for restructuring cost is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan. The liability is only recognised where there is little or no discretion to avoid payments to other parties in settlement of costs of the restructuring and a reliable estimate of the amount of the liability as at the date of acquisition can be made.

Purchased goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise, up to twenty years. The unamortised balance of goodwill is reviewed at each balance date and charged to profit from ordinary activities to the extent that applicable future benefits are no longer probable. Any re-measurement of goodwill is amortised on a prospective basis over the remaining period during which benefits are expected to arise.

Goodwill relating to the acquisition of Proclaim Software Pty Ltd is amortised over twenty years.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Tax

The financial statements apply the principles of tax-effect accounting. The income tax expense in the Statement of Financial Performance represents the tax on the pre-tax accounting profit adjusted for income and expenses never to be assessed or allowed for taxation purposes. The provision for deferred income tax liability and the future income tax benefit include the tax effect of differences between income and expense items recognised in different accounting periods for book and tax purposes, calculated at the tax rates expected to apply when the differences reverse.

Provision for Employee Entitlements

Provision has been made in the financial statements for benefits accruing to employees in relation to annual leave and long service leave. No provision is made for non-vesting sick leave.

All on-costs, including payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions. Annual leave and the current portion of the long service leave provision are measured at their nominal amounts.

The non-current portion of long service leave is measured at the present value of estimated future cash flows, discounted by 5.18% the interest rate applicable to 10 year Commonwealth Government bonds.

Employee superannuation funds exist to provide benefits for the employees and their dependants on retirement, death or disability. The contributions made to these funds by the company are expensed in the year to which they relate.

Recoverable Amounts of Non-Current Assets

All non-current assets are reviewed at least annually to determine whether their carrying amounts require write down to recoverable amount, which is the net amount expected to be recovered through the cash inflows and outflows arising from the continued use and ultimate disposal of these assets. Recoverable amount is determined using discounted net cash flows discounted at 5.18% to present values.

Leased Assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

OPERATING

Operating leases under which the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Operating lease payments are included in the determination of the operating profit in equal instalments over the lease term.

FINANCING

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised leased assets are amortised over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

Option Schemes

Certain employees are entitled to participate in option schemes. A \$52,000 remuneration expense has been recognised in respect of the option schemes described in Note 17.

Intangible Assets

Purchase cost of the intellectual property known as People One (Technology One HR and Payroll), has been capitalised and has been amortised over a period of five years and now has a written down value of Nil.

Purchase cost of the intellectual property known as Retail One (Technology One Retail Management) has been capitalised and is being amortised over a period of 10 years. The unamortised balance is reviewed each balance date and charged to profit and loss to the extent that future benefits are no longer probable.

Cash Assets

Cash includes cash on hand and in banks and deposits at call within a 24 hour period.

Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Financial Instruments included in Equity

Ordinary share capital bears no special terms or conditions affecting income or capital entitlements of the shareholders.

Financial Instruments included in Liabilities

Interest is recognised as an expense on an effective yield basis.

Financial Instruments included in Assets

Trade debtors are initially recorded at the amount of contracted sales proceeds.

Provision for doubtful debts is recognised to the extent that recovery of the outstanding receivable balance is considered less than likely. Any provision established is based on a review of all outstanding amounts at balance date.

Bank deposits are carried at cost. Interest revenue is recognised on an effective yield basis.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Share Buy-Back

The price paid for the repurchase of contributed equity is taken as a direct charge to equity. The price paid is measured at the fair value of consideration given. Any costs associated with the buy-back are taken as a direct charge to equity.

Tax Consolidations

From 1 July 2003 for purposes of income taxation, Technology One Limited and its 100% owned subsidiary Proclaim Software Pty Ltd, have formed a consolidated tax group. These companies have entered into a tax sharing arrangement in order to allocate income tax expense on a pro-rata basis.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	CONSOLIDATED		PARENT	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
NOTE 2. OPERATING PROFIT				
Operating profit is after crediting the following revenues:				
SALES REVENUE				
Software sales	12,746	11,996	10,315	10,082
Implementation and consulting services	14,846	13,438	12,806	11,666
Post sales customer support	17,292	14,388	15,461	13,078
Project services	9,510	10,643	9,510	10,643
Total sales revenue	<u>54,394</u>	<u>50,465</u>	<u>48,092</u>	<u>45,469</u>
OTHER REVENUE				
Interest received – from unrelated parties	1,285	1,011	1,215	909
Royalty received – from related parties	—	—	2,025	1,415
Proceeds from sale of fixed assets	4	3	4	3
Other	140	72	152	85
Total other revenue	<u>1,429</u>	<u>1,086</u>	<u>3,396</u>	<u>2,412</u>
Total revenue	<u>55,823</u>	<u>51,551</u>	<u>51,488</u>	<u>47,881</u>
Operating profit is after charging the following expenses:				
DEPRECIATION OF:				
- Office furniture and equipment	437	306	428	269
- Computer software	76	111	76	109
	<u>513</u>	<u>417</u>	<u>504</u>	<u>378</u>
AMORTISATION OF:				
- Leased office furniture and equipment	410	343	410	343
- Leased computer software	176	146	176	146
- Intellectual property	54	71	54	71
- Goodwill	596	596	—	—
	<u>1,236</u>	<u>1,156</u>	<u>640</u>	<u>560</u>
OTHER OPERATING EXPENSE ITEMS:				
Directors' fees	142	119	142	116
Provision for annual leave	(66)	(195)	(76)	(192)
Provision for long service leave	267	204	267	204
Provision for doubtful debts	(113)	239	(96)	153
Foreign exchange loss	105	2	—	—
Rental expenses on operating leases	1,214	1,194	1,060	1,060
Loss/(gain) on sale of fixed assets	30	63	30	46
Royalty paid – to related parties	—	—	—	3,395
Marketing support fee – to related parties	—	—	—	190

	CONSOLIDATED		PARENT	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000

NOTE 3. INCOME TAX

(a) The difference between income tax expense provided in the financial statements and the prima facie income tax expense on operating profit is reconciled as follows:

Profit from ordinary activities	14,302	13,110	13,668	10,620
Prima facie tax thereon at 30% (2004: 30%)	4,291	3,933	4,100	3,186
Tax effect of permanent and other differences:				
Research and development tax concession	(300)	(180)	(300)	(165)
Non-deductible amortisation	179	179	—	—
Other non-deductible expenses	21	129	20	45
Under/(over) provision of tax prior year	(112)	(430)	(107)	(168)
Non-deductible foreign exchange loss	31	—	—	—
Non-assessable foreign income	(88)	—	—	—
Total income tax attributable to profit from ordinary activities	4,022	3,631	3,713	2,898

NOTE 4. EQUITY

Total equity at the beginning of the financial year	36,956	35,646	33,704	34,151
Net profit	10,280	9,479	9,955	7,722
Transactions with owners as owners:				
Contributed equity	502	42	502	42
Dividends (a)	(8,970)	(8,211)	(8,970)	(8,211)
Share buy-back	(320)	—	(320)	—
Aggregate of amounts transferred to share option reserve	52	—	52	—
Total equity at the reporting date	38,500	36,956	34,923	33,704

(a) Dividends Paid

Final dividend 2004 (2003) – fully franked	4,779	4,477	4,779	4,477
Interim dividend 2005 (2004) – fully franked	4,191	3,734	4,191	3,734
	8,970	8,211	8,970	8,211

Franking Credit Balance

The amount of franking credits available for the subsequent financial year are:

Franking account balance as at the end of the financial year	3,098	3,997	1,138	2,579
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,347	1,127	1,335	599
Franking account balance	4,445	5,124	2,474	3,178

The tax rate at which paid dividends have been franked is 30% (2004: 30%). Dividends proposed will be franked at the rate of 30% (2004: 30%).

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	CONSOLIDATED		PARENT	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
NOTE 5. CASH ASSETS				
(a) Cash is defined to include the following:				
Cash at bank	5,506	5,669	4,684	3,471
Money market accounts at call	18,117	17,184	18,117	16,300
	<u>23,623</u>	<u>22,853</u>	<u>22,801</u>	<u>19,771</u>
(b) Reconciliation of net operating cash flows to net profit				
Net profit	10,280	9,479	9,955	7,722
Adjustments for non-cash expense items				
Depreciation and amortisation	1,749	1,573	1,144	938
Profit/(loss) on sale of assets	30	46	30	28
Equity based remuneration expense	52	—	52	—
Transfers to/(from) provisions:				
Employee entitlements	199	11	320	12
Doubtful debts	(164)	244	(142)	153
Movement in provision for:				
Income tax payable	(141)	500	1,012	295
Deferred income tax	234	(126)	103	(78)
Changes in assets and liabilities				
(Increase)/decrease in assets:				
Trade debtors	(124)	(902)	353	(679)
Sundry debtors	142	(136)	51	(138)
Prepayments	(65)	(110)	4	(111)
Earned and unbilled revenue	(732)	956	(387)	886
Other	(52)	(145)	(289)	(116)
(Decrease)/increase in liabilities:				
Trade creditors	116	(19)	238	(90)
Accruals	51	778	(35)	695
Other	(1,139)	(502)	473	2,196
Unearned revenue	625	709	439	544
Net operating cash flows	<u>11,061</u>	<u>12,356</u>	<u>13,321</u>	<u>12,257</u>

(c) Controlled entities acquired

There were no controlled entities acquired during the 2005 financial year.

(d) Non-cash financing and investing activities

FINANCE LEASE TRANSACTIONS

During the financial year the consolidated entity acquired plant and equipment with an aggregate fair value of \$552,094 (2004: \$335,661), by means of finance leases.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

NOTE 6. RECEIVABLES (Current)

Trade debtors	9,993	9,869	8,208	8,561
Provision for doubtful debts	(223)	(386)	(154)	(296)
Sundry debtors	163	213	118	181
	<u>9,933</u>	<u>9,696</u>	<u>8,172</u>	<u>8,446</u>

NOTE 7. OTHER ASSETS (Current)

Earned and unbilled revenue	2,842	2,110	1,832	1,446
Prepayments	291	295	291	295
Other	283	105	580	171
	<u>3,416</u>	<u>2,510</u>	<u>2,703</u>	<u>1,912</u>

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

Office Furniture and Equipment:

<i>Cost</i>				
Opening balance	3,321	3,864	3,119	3,585
Additions	536	359	536	333
Disposals	(749)	(902)	(603)	(799)
Closing balance	<u>3,108</u>	<u>3,321</u>	<u>3,052</u>	<u>3,119</u>
<i>Accumulated depreciation</i>				
Opening balance	2,147	2,681	2,031	2,519
Depreciation for the year	437	306	428	269
Disposals	(662)	(840)	(569)	(757)
Closing balance	<u>1,922</u>	<u>2,147</u>	<u>1,890</u>	<u>2,031</u>
Net book value	<u>1,186</u>	<u>1,174</u>	<u>1,162</u>	<u>1,088</u>

Leased Office Furniture and Equipment:

<i>Cost</i>				
Opening balance	1,251	945	1,251	945
Additions	389	315	389	315
Disposals	(6)	(9)	(6)	(9)
Closing balance	<u>1,634</u>	<u>1,251</u>	<u>1,634</u>	<u>1,251</u>
<i>Accumulated amortisation</i>				
Opening balance	652	315	652	315
Amortisation for the year	410	343	410	343
Disposals	(6)	(6)	(6)	(6)
Closing balance	<u>1,056</u>	<u>652</u>	<u>1,056</u>	<u>652</u>
Net book value	<u>578</u>	<u>599</u>	<u>578</u>	<u>599</u>

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 8. PROPERTY, PLANT AND EQUIPMENT (continued)

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Computer Software:				
<i>Cost</i>				
Opening balance	738	567	645	474
Additions	24	171	24	171
Disposals	(93)	—	—	—
Closing balance	669	738	669	645
<i>Accumulated depreciation</i>				
Opening balance	535	424	442	333
Depreciation for the year	76	111	76	109
Disposals	(93)	—	—	—
Closing balance	518	535	518	442
Net book value	151	203	151	203
Leased Computer Software:				
<i>Cost</i>				
Opening balance	576	555	576	555
Additions	163	21	163	21
Closing balance	739	576	739	576
<i>Accumulated amortisation</i>				
Opening balance	344	198	344	198
Amortisation for the year	176	146	176	146
Closing balance	520	344	520	344
Net book value	219	232	219	232
Motor Vehicles:				
<i>Cost</i>				
Opening balance	—	—	—	—
Additions	32	—	32	—
Closing balance	32	—	32	—
<i>Accumulated depreciation</i>				
Opening balance	—	—	—	—
Depreciation for the year	—	—	—	—
Disposals	—	—	—	—
Closing balance	—	—	—	—
Net book value	32	—	32	—
Total property, plant and equipment, at cost	6,182	5,886	6,126	5,591
Total property, plant and equipment, net	2,166	2,208	2,142	2,122

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

NOTE 9. INTANGIBLE ASSETS

Intellectual property:

<i>Cost</i>				
Opening balance	480	480	480	480
Additions	—	—	—	—
Closing balance	480	480	480	480
<i>Accumulated amortisation</i>				
Opening balance	235	164	235	164
Amortisation for the year	54	71	54	71
Closing balance	289	235	289	235
Net book value	191	245	191	245

Goodwill:

<i>Cost</i>				
Opening balance	11,694	11,694	—	—
Reductions	—	—	—	—
Closing balance	11,694	11,694	—	—
<i>Accumulated amortisation</i>				
Opening balance	2,230	1,634	—	—
Amortisation for the year	596	596	—	—
Closing balance	2,826	2,230	—	—
Net book value	8,868	9,464	—	—

Total intangible assets, at cost	12,174	12,174	480	480
Total intangible assets, net	9,059	9,709	191	245

NOTE 10. OTHER FINANCIAL ASSETS (Non-Current)

Shares not quoted on prescribed stock exchanges:

Shares in controlled entities – at cost (Note 28)	—	—	12,173	12,173
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NOTE 11. DEFERRED TAX ASSETS (Non-Current)

Future income tax benefit attributable to timing differences	1,206	1,365	1,206	1,325
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NOTE 12. PAYABLES

Trade creditors	961	845	932	695
Accruals	1,738	1,915	1,571	1,754
Directors' fees	71	55	71	55
Sundry creditors	1,005	886	768	603
Amounts owing to controlled entities	—	—	4,073	2,927
	3,775	3,701	7,415	6,034

NOTE 13. PROVISIONS (Current)

Annual leave	1,831	1,899	1,739	1,697
Long service leave	785	658	785	646
	2,616	2,557	2,524	2,343

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

NOTE 14. INTEREST BEARING LIABILITIES

Current

Lease liability (Note 19)	415	412	415	412
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Non-Current

Lease liability (Note 19)	550	542	550	542
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NOTE 15. PROVISIONS (Non-Current)

Long service leave	485	346	485	346
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NOTE 16. OTHER LIABILITIES (Non-Current)

Lease incentive	46	125	46	125
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NOTE 17. CONTRIBUTED EQUITY

Ordinary shares	24,827	24,645	24,827	24,645
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Movements in contributed equity for the year:

	NUMBER OF ORDINARY SHARES			
	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Opening number of shares	298,706	298,496	298,706	298,496
Share buy-back	(600)	—	(600)	—
Options converted to ordinary shares	1,315	210	1,315	210
Closing number of shares	299,421	298,706	299,421	298,706

Employee options over ordinary shares in Technology One Limited (a):
2005

Issue date	1-Jul-04	31-Oct-02	24-Sep-02	12-Sep-02	1-Jul-02
	Number of options				
On issue at beginning of the year	—	375,000	3,100,000	1,155,000	400,000
Issued during the year	5,500,000	—	—	—	—
Exercised during the year	—	(68,750)	(895,000)	(195,000)	—
Cancelled during the year	—	(150,000)	(265,000)	(435,000)	—
Outstanding at date of Directors' Report	5,500,000	156,250	1,940,000	525,000	400,000
Number of recipients	4	2	34	3	1
Exercise price	\$0.55	\$0.39	\$0.45	\$0.45	\$0.00
	Jul 2007	Oct 2004	Jan 2003	Apr 2003	Jun 2004
Exercise period (commencement)	to Jul 2011	to Oct 2007	to Nov 2006	to May 2007	to Jun 2007
	Jun 2012	Oct 2006	Jan 2005	Apr 2005	Jun 2006
Expiration date	to Jun 2016	to Oct 2009	to Nov 2008	to May 2009	to Jun 2009
	\$0.15				
Fair value of option at issue date (b)	to \$0.19	\$0.12	\$0.11	\$0.13	\$0.55

2004

Issue date	31-Oct-02	24-Sep-02	12-Sep-02	1-Jul-02	28-Jul-99
	Number of options				
On issue at beginning of the year	375,000	3,250,000	1,155,000	2,800,000	210,000
Issued during the year	—	—	—	—	—
Exercised during the year	—	—	—	—	(210,000)
Cancelled during the year	—	(150,000)	—	(2,400,000)	—
Outstanding at date of Directors' report	375,000	3,100,000	1,155,000	400,000	—
Number of recipients	3	41	4	1	1
Exercise price	\$0.39	\$0.45	\$0.45	\$0.00	\$0.20
	Oct 2004	Jan 2003	Apr 2003	Jun 2004	Dec 2002
Exercise period (commencement)	to Oct 2007	to Nov 2006	to May 2007	to Jun 2007	to Dec 2003
	Oct 2006	Jan 2005	Apr 2005	Jun 2006	Dec 2003
Expiration date	to Oct 2009	to Nov 2008	to May 2009	to Jun 2009	to Dec 2005
Fair value of option at issue date (b)	\$0.12	\$0.11	\$0.13	\$0.55	\$0.63

(a) Each option entitles the holder to purchase one share.

(b) Fair values of options granted as part of remuneration are based on values determined using the Black Scholes option pricing model.

This model takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000

NOTE 18. RESERVES

Dividend reserve	5,097	4,779	5,097	4,779
Share option reserve	52	—	52	—
	<u>5,149</u>	<u>4,779</u>	<u>5,149</u>	<u>4,779</u>

Movement in Dividend Reserve

Opening balance	4,779	4,477	4,779	4,477
Transfer to liability account for payment of dividends	(8,970)	(8,211)	(8,970)	(8,211)
Transfer from retained earnings for interim dividend	4,191	3,734	4,191	3,734
Transfer from retained earnings for final dividend	5,097	4,779	5,097	4,779
Closing balance	<u>5,097</u>	<u>4,779</u>	<u>5,097</u>	<u>4,779</u>

NOTE 19. LEASING COMMITMENTS

Operating Lease Commitments:

Non cancellable operating leases contracted but not capitalised in the accounts are due as follows:

Not later than one year	1,020	1,263	877	1,146
Later than one year and not later than five years	866	1,042	866	1,042
	<u>1,886</u>	<u>2,305</u>	<u>1,743</u>	<u>2,188</u>

Operating leases are entered into as a means of acquiring access to office property. Rental payments are generally fixed, but with inflation escalation clauses on which contingent rentals are determined. No renewal or purchase options exist in relation to operating leases and no operating leases contain restrictions on financing or other leasing activities.

Finance Lease Commitments:

Non cancellable finance leases capitalised in the accounts are due as follows:

Not later than one year	472	462	472	462
Later than one year and not later than five years	606	576	606	576
Total minimum lease payments	1,078	1,038	1,078	1,038
Future finance charges	(113)	(84)	(113)	(84)
Lease liability	<u>965</u>	<u>954</u>	<u>965</u>	<u>954</u>
Current liability	415	412	415	412
Non-current liability	<u>550</u>	<u>542</u>	<u>550</u>	<u>542</u>
	<u>965</u>	<u>954</u>	<u>965</u>	<u>954</u>

The finance lease liabilities above are secured by a Registered Mortgage Debenture given by the company in favour of ANZ Banking Group Limited. The Registered Mortgage Debenture is given over all the assets and undertakings of the company.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$	\$	\$	\$

NOTE 20. REMUNERATION OF AUDITOR

Amounts received, or due and receivable, for the audit and review of the financial reports of the parent entity and any other entity in the consolidated group by:

Ernst & Young	146,000	139,000	131,000	125,000
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Amounts received, or due and receivable, for other services in relation to all entities in the consolidated group by:

Ernst & Young	99,514	72,063	54,970	40,062
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Other services provided by Ernst & Young in the current and prior financial year included taxation and statutory compliance assistance in Australia, New Zealand and Malaysia.

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$	\$	\$	\$
Assessment of AIFRS accounting policies	37,120	—	37,120	—
Compliance services – taxation and statutory	33,653	58,346	16,370	26,345
Taxation advice	28,741	13,717	1,480	13,717
	99,514	72,063	54,970	40,062

	CONSOLIDATED	
	2005	2004

NOTE 21. EARNINGS PER SHARE

Earnings used for calculating basic and diluted earnings per share (\$000)	10,370	9,479
Basic earnings per share (cents per share)	3.44	3.17
Diluted earnings per share (cents per share)	3.43	3.16

Weighted average number of ordinary shares used in the calculation of basic earnings per share	299,229,021	298,600,402
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Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	299,999,910	299,950,045
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NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 22. SEGMENT REPORTING

Primary Segments – Business Units

	SERVICE DELIVERY \$000	SOFTWARE ENGINEERING \$000	UNALLOCATED \$000	CONSOLIDATED \$000
30 JUNE 2005				
Revenue				
External sales	38,697	13,926	1,771	54,394
Other revenue	17	2	1,410	1,429
Inter-segment sales	—	10,256	—	10,256
	<u>38,714</u>	<u>24,184</u>	<u>3,181</u>	<u>66,079</u>
Inter-segment elimination				<u>(10,256)</u>
Total Consolidated Revenue				<u>55,823</u>
Result				
Segment result (before tax)	12,687	6,684	(5,069)	14,302
Income tax expense				<u>(4,022)</u>
Net Profit				<u>10,280</u>
Assets and Liabilities				
Total segment assets	12,201	11,684	27,518	51,403
Total segment liabilities	3,693	2,950	6,260	12,903
Other Segment Information				
Capital expenditure	382	505	233	1,120
Depreciation and amortisation	415	469	865	1,749
Total non-cash expenses	170	100	(78)	192
30 JUNE 2004				
Revenue				
External sales	35,341	14,026	1,098	50,465
Other revenue	52	11	1,023	1,086
Inter-segment sales	—	8,583	—	8,583
	<u>35,393</u>	<u>22,620</u>	<u>2,121</u>	<u>60,134</u>
Inter-segment elimination				<u>(8,583)</u>
Total Consolidated Revenue				<u>51,551</u>
Result				
Segment result (before tax)	12,994	6,135	(6,019)	13,110
Income tax expense				<u>(3,631)</u>
Net Profit				<u>9,479</u>
Assets and Liabilities				
Total segment assets	11,502	12,265	25,574	49,341
Total segment liabilities	4,935	3,656	3,794	12,385
Other Segment Information				
Capital expenditure	290	399	160	849
Depreciation and amortisation	270	392	911	1,573
Total non-cash expenses	81	(42)	212	251

Segments are comprised of:

Service Delivery: The marketing, sale and implementation of core software products; and

Software Engineering: The development of purpose built software to meet the needs of specific customers, plus the continuing research and development and support of core products.

Unallocated items mainly comprise other revenue and corporate expenses.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one year.

SECONDARY SEGMENTS - GEOGRAPHICAL

	AUSTRALIA \$000	INTERNATIONAL \$000	TOTAL \$000
2005			
Total Consolidated Revenue	49,551	6,272	55,823
Total Segment Assets	48,434	2,969	51,403
2004			
Total Consolidated Revenue	46,772	4,779	51,551
Total Segment Assets	46,866	2,475	49,341

NOTE 23. DIRECTORS AND EXECUTIVES DISCLOSURES

(a) Details of Specified Directors and Specified Executives

The following persons held the position of specified director or specified executive of Technology One Limited during all of the past financial year, unless otherwise stated:

(I) SPECIFIED DIRECTORS

A Di Marco	Executive Chairman
R McLean	Director (non-executive)
J Mactaggart	Director (non-executive)
S Larwill	Director (non-executive)
K Blinco	Director (non-executive)

(II) SPECIFIED EXECUTIVES

R Down	Operating Officer – Business Development
M Culverson	Operating Officer – Central Division
R Phare	Operating Officer – North West Division
P Cameron	Operating Officer – Project Services Division
D Orchard	Chief Financial Officer and Company Secretary

All specified executives (except D Orchard) became specified executives with effect from 1 July 2004.

(b) Remuneration of Specified Directors and Specified Executives

(I) REMUNERATION POLICY

Remuneration of directors and senior executives of the company is established by the Executive Remuneration Committee. Remuneration is determined as part of an annual performance review, having regard to market factors, a performance evaluation process and independent remuneration advice. For executive directors and officers, remuneration packages generally comprise salary, a performance based bonus and superannuation. Executives are also provided with longer-term incentives through the employee share ownership and option schemes, which act to align the executives' actions with the interests of the shareholders.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 23. DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(II) REMUNERATION OF SPECIFIED DIRECTORS AND SPECIFIED EXECUTIVES

Details of remuneration provided to specified Directors and to specified Executives are as follows:

	Base Salary \$	Directors' Fee \$	Performance Related Bonus **** \$	Super- annuation \$	Retirement benefits \$	Long Term Emoluments Options Granted* \$	Total \$
Specified Directors							
A Di Marco (Executive)							
2005	338,412	27,938	246,586	26,711	—	—	639,647
2004	328,655	27,124	229,473	25,762	—	—	611,014
R McLean (Executive until 15 July 2004)							
2005	26,869	27,938	—	73,972	—	—	128,779
2004	311,077	27,124	219,912	27,930	245,694**	124,667	956,404
J Mactaggart (Non-executive)							
2005	—	27,938	—	—	—	—	27,938
2004	—	27,124	—	—	—	—	27,124
S Larwill (Non-executive)							
2005	—	27,938	—	—	—	—	27,938
2004	—	27,124	—	—	—	—	27,124
K Blinco (Non-executive)							
2005	—	27,938	—	—	—	—	27,938
2004	—	6,862	—	—	—	—	6,862
Total Remuneration: Specified Directors							
2005	365,281	139,690	246,586	100,683	—	—	852,240
2004	639,732	115,358	449,385	53,692	245,694	124,667	1,628,528
Specified Executives							
R Down (Operating officer – Business Development)							
2005	170,136	—	219,256	15,313	—	12,459	417,164
2004	—	—	—	—	—	—	—
M Culverson (Operating officer – Central Division)							
2005	153,964	—	136,470	13,857	—	10,623	314,914
2004	—	—	—	—	—	—	—
R Phare (Operating officer – North West Division)							
2005	122,401	—	131,148	11,016	—	6,199	270,764
2004	—	—	—	—	—	—	—
P Cameron (Operating officer – Project Services Division)							
2005	141,743	—	84,814	12,757	—	7,852	247,166
2004	—	—	—	—	—	—	—
D Orchard (Chief Financial Officer)							
2005	104,842	—	—	9,436	—	—	114,278
2004	94,845	—	—	8,536	—	—	103,381
M Clahsen (Operating Officer)							
2005	—	—	—	—	—	—	—
2004	44,651	—	16,520	7,572	—	***	68,743
Total Remuneration: Specified Executives							
2005	693,086	—	571,688	62,379	—	37,133	1,364,286
2004	139,496	—	16,520	16,108	—	—	172,124

The percentage of remuneration comprising options was: R Down 2.9%, M Culverson 3.4%, R Phare 2.2%, and P Cameron 3.2%.

- * Options granted as part of remuneration are estimates only. The estimates are based on the degree of probability of future performance hurdles being met, combined with the use of the Black Scholes option pricing model. This model takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option.
- ** This amount was paid in his capacity as an executive of the company, and not in his capacity as a director.
- *** M Clahsen's Long Term Emoluments Options Granted have been valued at nil due to his resignation.
- **** The objective of the Bonus program is to link the achievement of the company's profit target with the remuneration received by the executives charged with meeting those targets. The incentive component of the executives' remuneration ranges between 35 and 53% of their total remuneration. This relatively large component is evidence of the company's requirement for executives to perform well, in order to attain their target remuneration. The incentive is based on the company's Net Profit Before Tax (NPBT) figure. NPBT has been chosen as it is the key indicator of performance. It is calculated in accordance with statutory reporting requirements.

(c) Remuneration options: Granted and vested during the year

During the year, 5,500,000 options were issued to four employees. The options in Technology One Limited are not listed. One option entitles the employee to one ordinary share in Technology One Limited.

(d) Option holdings of Specified Directors and Specified Executives

	Balance at beginning of year 1 July 2004	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of year 30 June 2005	Vested at 30 June 2005 Exercisable
Specified Directors						
R McLean	400,000	—	—	—	400,000	400,000
Specified Executives						
R Down	—	1,800,000	—	—	1,800,000	—
M Culverson	—	1,600,000	—	—	1,600,000	—
R Phare	200,000	1,000,000	(50,000)	—	1,150,000	100,000
P Cameron	—	1,100,000	—	—	1,100,000	—
Total	600,000	5,500,000	(50,000)	—	6,050,000	500,000

(e) Shareholdings of Specified Directors and Specified Executives

	Balance 1 July 2004	Granted as Remuneration	On Exercise of Options	Purchases/ (Sales)	Balance 30 June 2005
Specified Directors					
A Di Marco	78,372,500	—	—	(8,000,000)	70,372,500
R McLean	—	—	—	100,000	100,000
J Mactaggart	83,902,500	—	—	(8,000,000)	75,902,500
S Larwill	200,000	—	—	—	200,000
K Blinco	201,285	—	—	—	201,285
Specified Executives					
R Down	300,000	—	—	—	300,000
M Culverson	110,000	—	—	—	110,000
R Phare	—	—	50,000	(50,000)	—
P Cameron	400,000	—	—	(200,000)	200,000
D Orchard	224,351	—	—	—	224,351
Total	163,710,636	—	50,000	(16,150,000)	147,610,636

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 23. DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(f) Other transactions and balances with Specified Directors and Specified Executives

There were no transactions during the year (2004: \$70,000).

NOTE 24. RELATED PARTY DISCLOSURES

(a) Ultimate Controlling Entity

The ultimate controlling entity of the consolidated entity is Technology One Limited, a company incorporated in Australia.

(b) Transactions with Related Parties in the Wholly-Owned Group

The parent entity entered into the following transactions during the year with related parties in the wholly-owned group:

- loans were advanced and repayments received on short term intercompany accounts;
- royalties were received and paid from several wholly-owned controlled entities;
- marketing support fees were charged to a wholly-owned controlled entity; and
- interest was charged on certain intercompany accounts.

These transactions were undertaken on commercial terms and conditions.

Amounts due to and receivable from related parties in the wholly-owned group are set out in the respective notes to the financial statements.

The ownership interest in related parties in the wholly-owned group is set out in Note 28.

NOTE 25. EMPLOYEE ENTITLEMENTS

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
The number of full-time equivalents employed at year end	330	280	310	260

(a) Employee Entitlements Recognised

	CONSOLIDATED		PARENT	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Aggregate employee entitlements liability (refer to Notes 13 & 15)	3,101	2,903	3,009	2,689

(b) Employee Option Ownership Schemes

Details of the employee option ownership schemes for the company are as follows:

2005

During the year, 5,500,000 options were issued to four employees. The options in Technology One Limited are not listed. One option entitles the employee to one ordinary share in Technology One Limited.

The details of options issued during the year are:

Issue Date	Exercise Price	Number of Options	Fair Value at Issue Date
1 July 2004	\$0.55	5,500,000	\$0.15 to \$0.19

Options have been valued using the Black Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Further details of options issued are contained in Note 17.

2004

No options were issued during the year.

NOTE 26. FOREIGN CURRENCY EXPOSURE

	CONSOLIDATED	
	2005 \$000	2004 \$000
Current assets		
Australian dollar equivalents of amounts receivable in foreign currency which are not effectively hedged:		
Malaysian Ringgit	398	202
New Zealand Dollars	1,387	1,107
Current liabilities		
Australian dollar equivalents amounts payable in foreign currency which are not effectively hedged:		
Malaysian Ringgit	—	25
New Zealand Dollars	31	115

NOTE 27. FINANCIAL INSTRUMENTS

The consolidated entity is exposed to interest rate risk through financial assets and liabilities. The following table summarises interest rate risk, together with effective interest rates as at balance date.

2005	Fixed interest rate maturing in					Total \$000	Average interest rate	
	Floating interest rate (a)	Over 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing		rate	
	\$000	\$000	\$000	\$000	\$000		Floating	Fixed
Financial assets								
Cash	23,623	—	—	—	—	23,623	5.50%	
Listed securities	—	2,000	—	—	—	2,000	6.82%	
Trade debtors	—	—	—	—	9,993	9,993		
Sundry debtors	—	—	—	—	163	163		
	<u>23,623</u>	<u>2,000</u>	<u>—</u>	<u>—</u>	<u>10,156</u>	<u>35,779</u>		
Financial liabilities								
Trade creditors	—	—	—	—	961	961		
Lease liability	—	415	550	—	—	965		6.92%
	<u>—</u>	<u>415</u>	<u>550</u>	<u>—</u>	<u>961</u>	<u>1,926</u>		

- (a) Floating interest rates represent the most recently determined rate applicable to the instrument at balance date.
- (b) The carrying amounts of trade debtors, sundry debtors and trade creditors approximate their fair value. The fair value of the listed securities at 30 June 2005 was \$2,023,600. The fair value does not consider any capital gains tax which may arise on the sale of these listed securities.
- (c) There is a fixed and floating charge over the company's assets. At 30 June 2005, the company had no debt other than finance lease liabilities as disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 27. FINANCIAL INSTRUMENTS (continued)

2004	Fixed interest rate maturing in					Total \$000	Average interest rate	
	Floating interest rate (a)	Over 1 year or less	1 to 5 years	More than 5 years	Non-interest bearing		Floating	Fixed
	\$000	\$000	\$000	\$000	\$000			
Financial assets								
Cash	22,853	—	—	—	—	22,853	5.25%	
Listed securities	—	1,000	—	—	—	1,000	6.52%	
Trade debtors	—	—	—	—	9,869	9,869		
Sundry debtors	—	—	—	—	213	213		
	<u>22,853</u>	<u>1,000</u>	<u>—</u>	<u>—</u>	<u>10,082</u>	<u>33,935</u>		
Financial liabilities								
Trade creditors	—	—	—	—	845	845		
Lease liability	—	412	542	—	—	954		7.87%
	<u>—</u>	<u>412</u>	<u>542</u>	<u>—</u>	<u>845</u>	<u>1,799</u>		

NOTE 28. CONTROLLED ENTITIES

The consolidated financial statements at 30 June 2005 include the following controlled entities. The financial years of all controlled entities are the same as that for the parent entity.

Name of controlled entity	Place of incorporation	% of shares held 2005	% of shares held 2004
Technology One Corporation SDN BHD	Malaysia	100	100
Technology One New Zealand Ltd	New Zealand	100	100
Proclaim Software Pty Ltd	Australia	100	100

The parent entity is Technology One Limited, a public company, and is domiciled in Brisbane, Australia.

The Registered office is located at:

Ground Floor
67 High Street
Toowong QLD 4066

NOTE 29. CONTINGENT LIABILITIES

Guarantees

At year end the consolidated entity had \$895,834 (2004: \$1,024,412) in outstanding performance guarantees. Included in this amount is nil (2004: \$142,341) held in a restricted bank account relating to rental guarantees.

NOTE 30. SUBSEQUENT EVENTS

The company will pay a fully franked final dividend on 23 September 2005 of \$5,097,297.

One of the company's subsidiaries, Proclaim Software Pty Ltd, is in the process of being wound up, by way of Members' Voluntary Liquidation. This is expected to be completed by the end of September 2005. The operations of Proclaim Software Pty Ltd have been transferred to the parent entity and the Proclaim One (Technology One Property Management) product will continue to be offered by the company. The wind up of Proclaim is being completed for administrative reasons only.

NOTE 31. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Technology One is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Technology One's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Technology One prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project teams; (b) potential amendments to AIFRSs and interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

Note	CONSOLIDATED		PARENT	
	30/06/05** \$000	01/07/04* \$000	30/06/05** \$000	01/07/04* \$000
Total equity under AGAAP	38,500	36,956	34,923	33,704
Adjustments to retained earnings (net of tax)				
Write-back of goodwill amortisation (i)	596	—	—	—
Write-back of FOREX loss on translation (ii)	105	—	—	—
Total equity under AIFRS	39,201	36,956	34,923	33,704

* This column represents the adjustments as at the date of transition to AIFRS.

** This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.

(i) Under AASB 3 *Business Combinations*, goodwill is not amortised but instead is subject to impairment testing on an annual basis or upon the occurrence of triggers which may indicate a potential impairment. Under AGAAP, the group amortises goodwill over its useful life but not exceeding 20 years. Technology One has elected not to apply AASB 3 retrospectively and hence, prior year amortisation would not be written-back as at the date of transition.

(ii) Under AASB 121 *The Effects of Changes of Foreign Exchange Rates*, the temporal method of translation is no longer allowed. All Technology One subsidiaries were integrated, and thus used this method of foreign currency translation. All translation exchange differences must now be recorded in a separate component of equity rather than through the profit and loss statement.

NOTES TO THE FINANCIAL STATEMENTS

(continued)

NOTE 31. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (continued)

(b) Reconciliation of net profit under AGAAP to that under AIFRS

Year Ended 30 June 2005	Note	CONSOLIDATED \$000	PARENT \$000
Net profit as reported under AGAAP		10,280	9,955
Write-back of goodwill amortisation	(i)	596	—
Write-back of FOREX loss on translation	(ii)	105	—
Net profit under AIFRS		<u>10,981</u>	<u>9,955</u>

- (i) Under AASB 3 *Business Combinations*, goodwill is not permitted to be amortised but instead is subject to annual impairment testing. Currently, Technology One amortise goodwill over its useful life but not exceeding 20 years. Under the new policy, amortisation would no longer be charged, but goodwill would be written down to the extent it is impaired. See also Note 31(a)(i) above.
- (ii) Under AASB 121 *The Effects of Changes of Foreign Exchange Rates*, all translation exchange differences must now be recorded in a separate component of equity rather than through the profit and loss statement.

(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

(d) Currently known future impacts of AIFRS

From 1 July 2005 the company will be required to apply fair value accounting to financial assets held for sale. As the financial assets are held for sale any changes in the fair value of the asset will be recorded in equity until the disposal of the asset. At 1 July 2005 assets with a carrying value of \$2,000,000 had a fair value of \$2,023,600. At 1 July 2005 this will result in an increase to the recorded value of these assets by \$23,600 and a corresponding increase in equity.

(e) Other Potential changes that have not been quantified on transition

AASB 112 *Income Taxes*, requires Technology One to use a balance sheet liability method, rather than the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. Management has yet to determine the impact, if any, resulting from the formation of a consolidated tax group. This may result in the recognition of a deferred tax asset or liability resulting from the allocation of tax asset values.

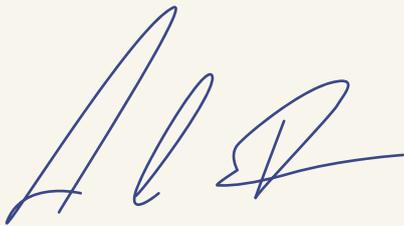
DIRECTORS' DECLARATION

In the opinion of the Directors:

- (a) the financial statements and associated notes comply with the Accounting Standards and *Corporations Regulations 2001*;
- (b) the financial statements and notes give a true and fair view of the financial position of the company as at 30 June 2005 and of their performance for the year then ended;
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (d) the financial statements and notes are in accordance with the *Corporations Act 2001*.

This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the *Corporations Act 2001* for the financial period ending 30 June 2005.

Made in accordance with a resolution of the Directors.

A handwritten signature in blue ink, appearing to read 'ADRIAN DI MARCO', written in a cursive style.

ADRIAN DI MARCO
(Executive Chairman)

Brisbane

26 August 2005

AUDITOR INDEPENDENCE DECLARATION



■ 1 Eagle St
Brisbane QLD 4000
Australia
PO Box 7878
Waterfront Place
Brisbane QLD 4001

■ Tel 61 7 3011 3333
Fax 61 7 3011 3100
DX 165 Brisbane

Auditor's Independence Declaration to the Directors of Technology One Limited

In relation to our audit of the financial report of Technology One Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Stubbins'.

Partner

26 August 2005

INDEPENDENT AUDIT REPORT



■ 1 Eagle St
Brisbane QLD 4000
Australia

■ PO Box 7878
Waterfront Place
Brisbane QLD 4001

■ Tel
Fax
DX

61 7 3011 3333
61 7 3011 3100
165 Brisbane

INDEPENDENT AUDIT REPORT TO MEMBERS OF TECHNOLOGY ONE 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 Technology One Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 and the additional disclosures.

AUDIT APPROACH

We conducted an independent audit of the financial report in order to express an opinion on it 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 and the additional disclosures are 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*, including compliance with Accounting Standards in Australia, 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:

1. examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
2. 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Technology One Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Technology One Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Russell F. Banham
Partner
Brisbane
26 August 2005

SHAREHOLDER INFORMATION

Substantial Shareholders as at 31 August 2005

NAME	NUMBER OF ORDINARY SHARES
JL Mactaggart Holdings Pty Ltd	75,872,500
Masterbah Pty Ltd	70,372,500

Distribution of Shareholdings as at 31 August 2005

SIZE OF HOLDING	ORDINARY SHAREHOLDERS
1 to 1,000	306
1,001 to 5,000	1,737
5,001 to 10,000	1,524
10,001 to 100,000	2,085
100,001 and over	134
Total shareholders	5,786
Number of ordinary Shareholders with a less than marketable parcel	146

Voting Rights

All ordinary shares issued by Technology One Limited carry one vote per share without restriction.

Twenty Largest Shareholders as at 31 August 2005

SHAREHOLDER NAME	ORDINARY SHARES NUMBER	%
1 JL Mactaggart Holdings Pty Ltd	75,872,500	25.34
2 Masterbah Pty Ltd	70,372,500	23.50
3 Westpac Custodian Nominees Ltd	6,353,096	2.12
4 JP Morgan Nominees Australia Ltd	5,786,359	1.93
5 Queensland Investment Corporation	5,644,009	1.88
6 Sandhurst Trustees Ltd (Aust Ethical Equities)	4,930,641	1.65
7 ANZ Nominees Limited (Cash Income A/c)	4,374,401	1.46
8 Citicorp Nominees Pty Ltd (CFS Developing Companies)	3,855,419	1.29
9 Sandhurst Trustees Ltd (Aust Ethical Large Company A/c)	3,145,709	1.05
10 Citicorp Nominees Pty Ltd	3,119,839	1.04
11 ARGO Investments Ltd	2,550,000	0.85
12 National Nominees Ltd	2,238,166	0.75
13 Clahsen Enterprises Pty Ltd	1,800,000	0.60
14 Sandhurst Trustees Ltd (Aust Ethical Balanced A/c)	1,606,249	0.54
15 Dintan Pty Ltd	1,089,534	0.36
16 Citicorp Nominees Pty Ltd (CFS WSLE Imputation Fund)	1,032,676	0.34
17 Charles Douglas Sheardown	900,000	0.30
18 Government Superannuation Office (State Super Fund)	813,196	0.27
19 Anne Barbara Stewart	725,393	0.24
20 Norema Pty Ltd	720,000	0.24

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Adrian Di Marco
Ron McLean
John Mactaggart
Syd Larwill
Kevin Blinco

COMPANY SECRETARY

David Orchard

AUSTRALIAN BUSINESS NUMBER

84 010 487 180

REGISTERED OFFICE

Technology One
Technology One R&D Centre
Ground Floor
67 High Street
Toowong Queensland 4066 Australia
www.TechnologyOneCorp.com

BRANCH OFFICES

Brisbane
Sydney
Melbourne
Canberra
Hobart
Adelaide
Perth
Kuala Lumpur
Auckland
Wellington

AUDITOR

Ernst & Young
Waterfront Place
1 Eagle Street
Brisbane Queensland 4000
www.ey.com.au

LAWYER

McCullough Robertson
Level 12, 66 Eagle Street
Brisbane Queensland 4000
www.mccullough.com.au

SHARE REGISTRY

ASX Perpetual Locked Bag A14
Sydney NSW 1235
Tel: 02 8280 7454
Fax: 02 9287 0303
www.asxperpetual.com.au

Please note that ASX Perpetual Registrars Limited (ASX Perpetual) will be changing its name to Link Market Services Limited (Link). Over coming months, you can expect ASX Perpetual branded communications to gradually be replaced by Link branded communications. All current ASX Perpetual website and email addresses, as well as all telephone numbers and postal addresses, will remain in use during a transition period. ASX Perpetual are confident that the transition will be seamless and without impact to our shareholders.

STOCK EXCHANGE LISTING

Australian Stock Exchange

FINANCIAL CALENDAR

Distribute 2005 Annual Report

23 September 2005

Payment date for 2005 final dividend

23 September 2005

Annual General Meeting

4 November 2005

Announcement of half year results for 2006

24 February 2006

Shares quotes ex-dividend for 2006 interim dividend

6 March 2006

Record date for 2006 interim dividend

10 March 2006

Distribute 2006 half year results report

24 March 2006

Payment date for 2006 interim dividend

24 March 2006

Announcement of full year results for 2006

25 August 2006

GLOSSARY OF TERMS

\$

Australian dollars

ADF

Application Development Framework

ASX

Australian Stock Exchange

Best of Breed

Application software with specialist core functionality in one area

Board

The Board of Directors of Technology One Limited

Company

Technology One Limited

CI

Connected Intelligence

Corporations Law

Corporations Law of Australia

Directors

Directors of Technology One Limited

GST

Goods and Services Tax

Options

The option to purchase shares at a future date

Organic growth

Growth initiated through existing resources (not acquisitions)

Methodologies

Technology One's standards, procedures and business systems

R&D

Research and Development

Release

A particular version of application software

P/E

Price Earnings Ratio



technologyone
business software solutions

THE TECHNOLOGY ONE DIFFERENCE

The Power of One: One-stop accountability in business software solutions.

At Technology One, we develop, market, sell, implement and support our own world class software...a one stop solution... no passing the buck.

The Technology One Difference is that we do not just sell products, services or technology, but that we deliver complete working solutions to our clients, taking total responsibility for the success of each and every client's investment in our solutions.

Developed by Technology One, our award winning applications are world best solutions that have achieved outstanding success in the marketplace.

Our solutions are based on leading edge, state of the art technology and are backed up by an aggressive research and development (R&D) program to ensure they continue to meet our clients' requirements now and in the future.

Technology One does not use third party organisations to implement our solutions. Our solutions are implemented directly by us or in conjunction with partner companies that have made a substantial commitment to our products.

When a client invests in a Technology One solution they have a direct relationship with us, the software developer, and our team of highly dedicated and experienced consultants who have a deep knowledge of our solutions and direct access to our R&D team.

The Technology One Difference guarantees that our Clients will realise significant benefits from their investment in our solutions both now and into the future. Their new system will be delivered on time, and to budget, working correctly the first time.

One