

STRUCTURAL MONITORING SYSTEMS PLC

Annual Report - 2005

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Important Notices

Structural Monitoring Systems plc (the Company) is incorporated in the United Kingdom under the laws of England and Wales.

The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisitions of shares (including substantial holdings and takeovers).

BOARD OF DIRECTORS AT 30 JUNE 2005

Sir John Walker (age 69). Former Air Marshal who retired after a 41 year distinguished career with the Royal Air Force in the UK. He held a number of commands both in the UK and abroad and prior to retirement he was Chief of Defence Intelligence and Deputy Chairman of the national Joint Intelligence Committee. He was appointed Knight Commander of the Bath early in 1992 and was selected a fellow of the Royal Aeronautical Society later that year. More recently he was Special Advisor to the House of Commons Defence Committee. He is author of three books and has written for the technical press specialising in Air Power, Command and Leadership. He provides Structural Monitoring Systems with important expertise in relation to the development of the military applications of the Company's technology.

David Forsyth (age 53). Mr Forsyth has extensive experience in the maintenance of aircraft over many years. He holds a Bachelor of Aeronautical Engineering from the University of New South Wales, a Graduate Diploma of Industrial Engineering from the University of New South Wales and is a fellow of the Royal Aeronautical Society. Mr Forsyth had over a 30 year career with Qantas Airways Limited with many responsibilities, and his final position before retirement was Executive General Manager Aircraft Operations where he was responsible for all flight operations, engineering and maintenance and operations co-ordination covering 8,000 staff.

Anthony Thomas Brennan (age 48). Mr Brennan has extensive experience in the management of a number of Australian public companies over the past 15 years, including roles as the Managing Director of Mount Edon Gold Mines (Aust) Ltd and Kilkenny Gold N.L. He is Executive Chairman of Tomahawk Energy Limited, and non-executive chairman of Gleneagle Gold Limited and Red Fork Energy Limited, all ASX-listed companies. A Chartered Accountant by profession with a career of more than 25 years, he was previously a partner in HLB Mann Judd, a nationally affiliated accounting firm and has extensive experience in financial management.

Robin John Dean (age 55). Mr Dean has extensive experience in management, corporate and investment banking, having held the position as the Head of Project Finance at Bankwest (1989 – 1995). Mr Dean was also Chief Executive of St Barbara Mines Ltd from 1995 – 1997. At that time, the company was a successful Australian gold miner with market capitalisation in excess of \$250 million and with 300 employees. Mr Dean has also held prior corporate finance positions with Westchester Corporate Finance and Westpac Banking Corporation. Mr Dean holds a Bachelor of Economics from the University of Western Australia.

Mark William George Vellacott (age 44)

Mr Vellacott joined the company as Chief Executive Officer in November 2004 and was appointed Managing Director by the Board on 15 June 2005.

Mr Vellacott has an impressive record in the aerospace industry with BAE Systems where he was Head of Engineering Technology, Corporate Development base in Adelaide from 1998 to 2001. His last position before joining the Company was Technical Director, Asia Pacific Space Centre, based in Sydney.

In 1998 Mr Vellacott worked for British Aerospace PLC Head Office Engineering in the UK on strategic investment and planning issues. Mr Vellacott originally joined British Aerospace Military Aircraft in 1980, and completed a B.Sc in Aeronautical Engineering in 1986; an M.Sc in Systems Engineering in 1988 and his MBA in 1998. He was elected a Fellow of the Royal Aeronautical Society in 2000.

Mr Vellacott is primarily responsible for the day to day management of the SMS Group and the commercialisation of the CVMTM technology and overall strategic development of the company. He brings a depth of experience in management, dealing with the largest Companies in the aerospace industry as well as with Governments around the world.

MANAGING DIRECTOR'S REPORT

Since the last annual report of the Company a number of major milestones have been achieved and substantial progress has been made towards the strategic objective of CVM™ being universally adopted as a leading structural health monitoring sensor technology for civil and military aircraft. These developments have been underpinned by key agreements with major manufacturers in the aerospace industry.

The Company commenced a program with Boeing, the Federal Aviation Administration (FAA), airline operators and research organisations in the US to qualify CVM™ technology for inclusion in the Boeing Standard Practices Manual (SPM). The aim of this program is to qualify CVM™ technology for a range of applications across the Boeing civil aircraft fleets.

The experience and results generated under earlier activities with Boeing, the FAA and US airlines have been included into the SPM program, enabling the qualification of CVM™ to be concluded by the second-half of 2006.

In August 2005 the Company entered into a commercial licence with The Boeing Company which establishes commercial terms for CVM™ systems to be manufactured, certified, sold and distributed by SMS to the operators of Boeing commercial aircraft. The agreement also gives the Company access to Boeing proprietary information.

Boeing engineers are currently conducting a review of all existing Service Bulletins and Airworthiness Directives across the entire fleet of Boeing commercial aircraft to identify applications for the Company's CVM™ sensor technology.

In June 2005 the Company entered into a Joint Development Agreement (JDA) with Airbus for the development of CVM™ for an in-flight structural health monitoring system to be ready for Airbus aircraft by the end of 2007. This marks a major step in acceptance of CVM™ technology by a large aircraft manufacturer.

Significant progress has been made on the initial phase of the Airbus JDA, an additional 135 CVM™ sensors were installed during August 2005 on the A380 Full Scale Fatigue Test (FSFT) airframe in Germany.

Discussions are also in progress between a large US airline and Airbus for retrofit application of CVM™ technology for a high cost and frequency inspection on the A300 series of Airbus aircraft.

The Company has been focusing on the application of the CVM™ technology for metal structures. More recently we have been conducting a series of development activities to demonstrate the benefits of using CVM™ technology for composite structures. Aircraft manufacturers are increasingly using composites in aircraft to reduce weight.

As a result of the success of the composite development program, Airbus has recently asked SMS to provide CVM™ sensors and instrumentation for application on an experimental fuselage made of composite material at their principal composite manufacturing facility in Spain. The program has the potential to open up a very wide range of additional applications over and above those that already exist in metal aircraft structures.

The Company together with an Australian aerospace engineering company has completed the first stage of the contract with the Pakistan Air Force (PAF) which we announced in May 2005. Under the contract the Company delivered a full range of structural integrity analysis, monitoring and testing services for their FT5 Jet Trainer, Mirage Fighter and C-130 transport fleet of aircraft. Following on from Stage one the Company has submitted proposals to the PAF for additional activities to be conducted under this contract and for a further substantial program of work.

The provision of a full structural integrity engineering service by the Company developed for the PAF was

a major innovation and has created strong interest from a number of other countries operating aging military aircraft that do not have this engineering capability.

Developments in the United Kingdom during the year included the installation of CVM™ systems on Royal Navy's Sea King helicopters under a trial program with the objective of moving onto an entire fleet application. The Company has also installed CVM™ systems on the Royal Air Force's Nimrod aircraft which was a significant development for the Company as this installation was not a trial but will become the sole means of performing the particular structural integrity inspection on this aircraft.

The Company is currently working with both Australian and UK military aircraft airworthiness authorities to have CVM™ qualified for use by fleets from early 2006.

The Company has also been active in the automotive industry where we are working with PBR of Melbourne to adapt CVM™ to meet their requirements for high rate brake caliper structural fatigue tests for quality control. This work has the potential to lead to high volume supplies of CVM™ sensors for PBR and other automotive component supply companies.

2006 promises to be a very exciting year for the Company with:

- having CVM™ technology qualified for inclusion into the Boeing Standard Practices Manual, and to have an initial set of CVM™ application sensor and instrumentation products available for retrofit and monitoring for the Boeing aircraft fleet;
- qualification of CVM™ technology for military aircraft usage endorsed by Australian, UK and US military airworthiness authorities, and CVM™ applications and instrumentation available for retrofit and monitoring of military aircraft fleets;
- to complete CVM™ system development activities for the Airbus JDA to enable the qualification program of CVM™ for an in-flight realtime structural health monitoring system to be completed by the end of 2007;
- to work with Airbus and airlines to identify retrofit applications for CVM™ for existing Airbus aircraft to reduce maintenance costs;
- to move CVM™ into the area of monitoring the integrity of composite fibre components on aircraft; and
- to further develop our capability of providing a complete service of structural integrity analysis, monitoring and testing services provided this year to the Pakistan Air Force for similar opportunities with other military aircraft operators.

The focus is now on sales, marketing and product delivery. We are currently recruiting staff to reflect this important change in the growth of the Company and expect to make significant announcements in the near future.

I would like to congratulate our people for the successes that we have achieved over the last year, and thank them for their professionalism and hard work in taking the Company forward, and look forward to an exciting and challenging year

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the group for the year ended 30 June 2005.

Principal activities

The principal activities of the Group during the year were the development and commercialisation of its intellectual property for products used in testing and monitoring the structural integrity of materials that are subject to operational stress and fatigue in structures such as aircraft, ships, rolling stock and power plants.

Review of business and future developments

The company listed on the Australian Stock Exchange (ASX) on 11 August 2004.

On 2 June 2005, the Company announced an agreement with Airbus to jointly develop CVM™ technology for in-flight structural health monitoring of Airbus aircraft.

On 10 August 2005, the Company announced a commercial licence agreement with The Boeing Company. These agreements place the Company in a strong position for the commercialisation of CVM™ technology on both existing and future large commercial aircraft.

The capital raised during the year and after the year end places the Company in a strong position to pursue the commercialisation of the Comparative Vacuum Monitoring (CVM™) technology.

Significant Events

On 11 August 2004, Structural Monitoring Systems Plc was admitted to the Official List of the ASX. As part of the Listing process, a prospectus dated 30 June 2004 was issued to raise \$5,000,000 less costs. The offer closed on 22 July 2004 and on 31 July 2004 the Company issued 20,000,000 shares at 25 cents per share with one free attaching option exercisable at 20 cents until 30 April 2007 per share issued, on 31 July 2004.

On 16 December 2004 the Company issued 138,889 Ordinary shares at an issue price of 18 cents each to Equilateral Limited as consideration for pre-IPO costs.

Events Occurring after the Balance Sheet Date

On 10 August 2005, the Company announced a commercial licence agreement with The Boeing Company. This agreement places the Company in a strong position for the commercialisation of CVM™ technology on both existing and future large commercial aircraft.

On 2 September 2005, the Company issued 19,800,000 Ordinary shares at 12 cents each to Orbis Capital Limited to raise \$2,376,000. On the same day a further 1,033,333 Ordinary shares were issued at 12 cents each to another sophisticated investor to raise a further \$124,000.

On 8 September 2005, the Company issued 5,833,335 Ordinary shares at 12 cents each to institutional investors through KTM Capital raising \$700,000.

On 13 September 2005, the Company issued 1 million options exercisable at 20 cents each on or before 30 April 2007 to Western Aero Services Pty Ltd, a party related to a consultant, Mr Peter Schoonens. These options are provided in lieu of consultancy services and as an incentive to Mr Schoonens. The options are unlisted and will only be listed and tradable upon the signing of a license agreement with Airbus.

On 15 September 2005 the Company initiated a Share Purchase Plan whereby existing shareholders were given the opportunity to subscribe for up to \$5,000 worth of shares at 12 cents each. As at 28 September 2005, an amount of \$208,000 had been raised.

Results and dividend

The operating loss, after income tax, for the year was \$23,783,475 (2004: \$4,433,821). No dividends were proposed or paid during the financial year.

The directors reviewed the carrying values of goodwill on consolidation and the investment in the wholly owned subsidiary Structural Monitoring Systems Limited at 30 June 2005. It was decided that the values would be treated as fully impaired, as discounted net cash flow calculations that would support a higher valuation are not able to be reliably estimated due to a lack of historical cashflows and difficulties in determining the size of future revenues. This resulted in a charge to the consolidated operating loss of \$18,628,002 for the impairment in value of goodwill on consolidation, and a charge to the Company's operating loss of \$24,485,234 for the impairment of the value of the investment.

Research and development expenditure

The Company has continued to invest in research and development during the year incurring costs of \$1,420,990 (2004: \$1,422,022) which have been written off to the profit and loss account.

Share Capital

The impact on share capital and share premium account of the major share issues in the year was as follows:

	Number of Shares	Share Price \$	Share Capital \$	Share Premium \$	Total \$
Issue to Private Investors	20,000,000	0.25	2,574,000	2,426,000	5,000,000
Issue to Equilateral Limited	138,889	0.18	18,063	7,062	25,125
Costs of Issues				(473,128)	(473,128)
			2,592,063	1,959,934	4,551,997

Substantial Interests

Notification has been received by the Company and maintained in its Register of Substantial Share Interests, as required under the Australian Corporations Act 2001, that Tulip Bay Pty Ltd holds 12,318,346 Ordinary Shares, 6.01% of the company's issued capital as at the date of this report.

The Company is also aware that HSBC Custody Nominees (Australia) Limited holds 19,800,000 shares in a beneficial capacity for Orbis Capital Limited, a company registered in the British Virgin Islands, which represents 9.66% of the Company's issued capital as at the date of this report.

Directors

Directors' remuneration and interests in the Company are as follows:

Director	Date appointed	Ordinary shares	Percentage of total issued shares of SMS %	Options issued in the year and remaining in issue at 30 June 2005
J R Walker	17 September 2003	100,000	0.005	100,000
R J Dean	21 July 2003	4,765,600	2.33	-
A T Brennan	21 July 2003	1,798,013	0.09	1,798,013
D A Forsyth	29 April 2004	400,000	0.02	400,000
M W G Vellacott	15 June 2005	-	-	-
Total		7,063,613	2.445	2,298,013

See note 17 for exercise price and latest date of exercise.

Director	Salary and Wages \$	Pension Contributions \$	Total \$
J R Walker	148,223	-	148,223
R J Dean	231,250	12,863	244,113
A T Brennan (Via Wall Street Nominees Pty Ltd)	65,000	8,775	73,775
D A Forsyth	35,158	-	35,158
M W G Vellacott	18,758	1,688	20,446
Total	498,389	23,326	521,715

International Financial Reporting Standards

The Group will be required to prepare its first IFRS compliant financial reports for the half year ended 31 December 2005 and for the year ended 30 June 2006. As such, Note 26 provides an outline of the key areas where accounting policies are expected to change on the adoption of IFRS.

Creditor Payment Policy

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2006. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2005, the Group's trade creditors represented 32 days' purchases.

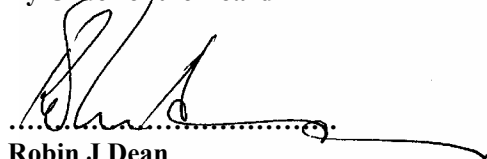
Donations

During the year to 30 June 2005, the Group made no charitable donations.

Appointment of Auditors

On 23 May 2005, PKF transferred their business to PKF (UK) LLP, a limited liability partnership. Under section 26(5) of the Companies Act 1989, the company consented to extend the audit appointment to PKF (UK) LLP from 23 May 2005. Accordingly, the audit report has been signed in the name of PKF (UK) LLP and a resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming annual general meeting.

By Order of the Board



Robin J Dean

Director

29 September 2005

STATEMENT OF THE RESPONSIBILITIES OF THE DIRECTORS

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report is prepared in accordance with company law in the United Kingdom.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

We have audited the financial statements of Structural Monitoring Systems plc for the year ended 30 June 2005 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Managing Director's Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC (continued)**Opinion**

In our opinion the financial statements give a true and fair view of the state of the company's and the group's affairs as at 30 June 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PKF (UK) LLP

Guildford, UK

Registered Auditors

Date 29 September 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT
For the Year ended 30 June 2005

	Note	2005 \$	2004 \$
Turnover	2	543,543	85,682
Cost of sales		67,486	52,626
Gross profit		476,057	33,056
Administrative expenses		(4,751,989)	(3,156,539)
Impairment of goodwill on consolidation	9	(18,628,002)	-
Amortisation of goodwill on consolidation	9	(1,043,435)	(1,406,307)
Operating loss	3	(23,947,369)	(4,529,790)
Other interest receivable and similar income	4	163,894	95,969
Loss on ordinary activities before taxation		(23,783,475)	(4,433,821)
Tax charge on ordinary activities	5	-	-
Retained loss on ordinary activities after taxation for the year ended 30 June 2005	18	(23,783,475)	(4,433,821)
All amounts relate to continuing activities.			
Basic loss per share	7	(0.135)	(0.048)
Diluted loss per ordinary share	7	(0.135)	(0.046)

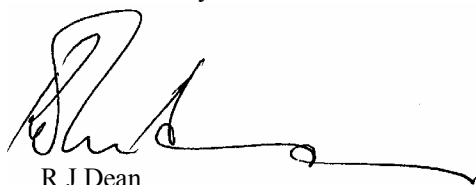
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the Year ended 30 June 2005

	Note	Year Ended 30 June 2005 \$	Period to 30 June 2004 \$
Consolidated loss after taxation	2	(23,783,475)	(4,433,821)
Currency translation differences		(487,480)	162,112
Total recognised losses since the last annual report		(24,270,955)	(4,271,709)

CONSOLIDATED BALANCE SHEET
30 June 2005

	Note	2005	2004
		\$	\$
Fixed assets			
Intangible assets	9	-	19,823,332
Tangible assets	10	358,709	384,539
		358,709	20,207,871
Current assets			
Stocks	12	23,682	65,219
Debtors	13	263,772	290,181
Cash at bank and in hand		2,592,737	2,721,722
		2,880,191	3,077,122
Creditors: amounts falling due within one year	14	(694,985)	(1,022,120)
Net current assets		2,185,206	2,055,002
Net assets		2,543,915	22,262,873
Capital and share reserves			
Called up share capital	16	21,327,114	18,735,051
Share premium account	18	9,759,465	7,799,531
Profit and loss account	18	(28,542,664)	(4,271,709)
Equity shareholders' funds		2,543,915	22,262,873

The financial statements were approved by the Board of Directors on 29 September 2005 and were signed on its behalf by:

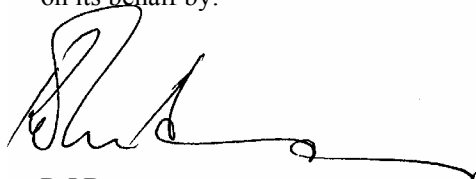


R J Dean
Director

COMPANY BALANCE SHEET
30 June 2005

	Note	2005 \$	2004 \$
Fixed assets			
Tangible assets	10	20,816	22,622
Investments	11	4,920,040	26,076,155
		<u>4,940,856</u>	<u>26,098,777</u>
Current assets			
Debtors	13	1,342	117,643
Cash at bank and on hand		47,704	-
		<u>49,046</u>	<u>117,643</u>
Creditors: amounts falling due within one year	14	<u>(68,022)</u>	<u>(109,880)</u>
Net current (liabilities) / assets		(18,976)	7,763
Net assets		<u>4,921,880</u>	<u>26,106,540</u>
Capital and share reserves			
Called up capital	16	21,327,114	18,735,051
Share premium account	18	9,759,465	7,799,531
Profit and loss account	18	<u>(26,164,699)</u>	<u>(428,042)</u>
Equity shareholders' funds		<u>4,921,880</u>	<u>26,106,540</u>

The financial statements were approved by the Board of Directors on 29 September 2005 and were signed on its behalf by:



R J Dean
 Director

CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 30 June 2005

	Note	2005 \$	2004 \$
Net outflow from operating activities	20	(4,781,137)	(2,132,835)
Returns on investments	21	163,894	95,969
Net capital expenditure and financial investment	21	(113,577)	(242,929)
Acquisitions	21	-	2,952,169
Cash inflow before financing		(4,730,820)	672,374
Financing	21	4,551,997	2,049,348
(Decrease)/increase in cash	22	(178,823)	2,721,722

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2005	2004
Net funds at beginning of the year		2,721,722	-
(Decrease)/increase in cash in the year		(178,823)	2,721,722
Effects of exchange rate changes on cash		49,838	-
Net funds at 30 June 2005	22	2,592,737	2,721,722

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

For the Year ended 30 June 2005

	Note	2005	2004
Opening balance		22,262,873	-
Total losses for the year ended 30 June 2005		(24,270,955)	(4,271,709)
Issue of shares	16	2,592,063	18,735,051
Share premium on issue of shares (net of expenses of issue)	16	1,959,934	7,799,531
Equity shareholders' funds at 30 June 2005		2,543,915	22,262,873

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 30 June 2005

NOTE 1. STATEMENT OF ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the historical cost convention and applicable Accounting Standards in the United Kingdom.

A summary of the more important Group accounting policies is set out below.

a) Basis of preparation

Unless otherwise stated all amounts are stated in Australian dollars, being the functional currency of the group. The exchange rate at the balance sheet date was £1:\$2.37, and the average for the year was £1:\$2.47.

The Company's loss for this year was \$25,736,657 (2004: \$590,154), which includes an impairment in the carrying value of the investment in its subsidiary undertaking of \$24,485,234. A separate profit and loss account for the parent has not been presented as permitted by Section 230(2) of the Companies Act 1985.

b) Basis of consolidation

The consolidated financial statements include the results of the Company and its subsidiary undertaking on an acquisition accounting basis. The results of the subsidiary undertaking acquired during the previous year are included in the consolidated profit and loss account and consolidated cash flow statement from the date of acquisition.

c) Turnover

Turnover, which excludes GST (Goods and Services Tax is the Australian equivalent of UK Value Added Tax), value added tax and trade discounts, represents the invoiced value of goods and services supplied during the year.

d) Intangible fixed assets

Goodwill arising on consolidation consists of the excess of the purchase price over the fair value of the net assets of the subsidiary undertaking at the date of acquisition. Goodwill on consolidation has been capitalised as a fixed asset. At 30 June 2005 the value of goodwill on consolidation was written down to nil, by means of a full impairment provision.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned, commencing on the first day of the month after being brought into use. The principal annual rates used for this purpose are Plant, equipment, and other assets 6.66% - 40%.

Leasehold buildings and improvements are written off over the period of the lease.

f) Stocks

Stocks are stated at the lower of cost and net realisable value.

g) Research and development expenditure

Research and development expenditure is written off to the profit and loss account as incurred.

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 1. STATEMENT OF ACCOUNTING POLICIES (continued)

h) Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is more likely than not they will be recovered.

i) Foreign currency

Assets and liabilities in foreign currencies are translated into Australian dollars at rates of exchange ruling at the end of the financial period. Transactions denominated in foreign currency are translated into Australian dollars at the exchange rates prevailing at the date of the transaction. All foreign exchange differences arising on transactions are taken to the profit and loss account in the year in which they arise.

j) Employee Entitlements

Provision is made for long service and annual leave payable to employees on the basis of relevant statutory requirements or contractual entitlements applicable in Australia.

k) Pensions

The company is below the threshold requiring it to maintain a Stakeholder Pension for its UK employees and there is no equivalent legislation in Australia. Accordingly, the group does not maintain a pension fund for its employees or directors. However, statutory NI payments of 12.8% are made on behalf of English employees and statutory payments of 9% are contributed on behalf of Australian employees.

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 2. SEGMENTAL ANALYSIS – TURNOVER

Turnover for 2005 is generated only from continuing operations.

	Group 2005	Group 2004
	\$	\$
Geographic Analysis by Origin:		
UK/Europe	76,175	-
Australasia	467,368	85,682
	543,543	85,682
Geographic Analysis by Destination:		
UK/Europe	302,260	85,682
Australasia	241,283	-
	543,543	85,682

Business Analysis

The Group operates predominantly in one industry, being Structural Health Monitoring.

An analysis of loss before tax and net assets is given below:

	Loss before tax 2005	Loss before tax 2004	Net assets 2005	Net assets 2004
	\$	\$	\$	\$
Geographical Analysis:				
UK/Europe	(763,943)	(590,153)	1,840	30,385
Australasia	(3,348,095)	(2,646,412)	2,542,075	22,232,488
Goodwill	(19,671,437)	(1,197,256)	-	-
	(23,783,475)	(4,433,821)	2,543,915	22,262,873

**Notes to the financial statements
For The Year ended 30 June 2005**

NOTE 3. OPERATING LOSS

	Group 2005	Group 2004
	\$	\$
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets	136,600	69,430
Impairment of intangible assets	18,628,002	-
Amortisation of intangible assets	1,195,330	1,406,307
Group audit fees	100,764	19,000
Non audit fees:		
Corporate advice	11,988	7,050
Taxation advice	48,355	34,831
Research and development expenditure	1,420,990	1,422,022
Operating lease rentals: Premises	92,700	48,277
Net foreign exchange losses	147,100	27,595
Export market development grant	(52,078)	(67,460)

NOTE 4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Group 2005	Group 2004
	\$	\$
Interest received	163,894	95,969

Interest was received at a floating rate averaging 4.05% during the year.

NOTE 5. TAXATION

a) Current taxation

	Group 2005	Group 2004
	\$	\$
Australian corporation tax on losses for the year	-	-

b) Factors affecting tax charge for the year

The tax assessed for the year is lower than the standard rate of corporate tax in Australia of 30%.

The differences are explained below:

Loss on ordinary activities before tax	(23,783,475)	(4,433,821)
Tax on loss on ordinary activities before tax at standard rate of 30%	(7,135,043)	(1,330,146)
Effects of:		
Expenses not deductible for tax purposes	5,791,361	435,396
Future income tax benefit not brought to account		
- Timing difference	62,290	-
- Tax losses attributable to foreign operations	186,860	-
- Augmentation of tax losses	1,094,532	894,750
Current taxation for the year	-	-

Notes to the financial statements
For The Year ended 30 June 2005

c) Factors that may affect future tax charges

The Group has tax losses available to be carried forward for offset against the future taxable profits amounting to approximately \$18.6 million (2004 : \$15.7 million). These tax losses will reduce the tax charge of future years until the relevant companies achieve sufficient taxable profits to utilise the losses. No deferred tax asset in respect of these losses, which would amount to \$5.6 million (2004 : \$4.7 million), has been recognised as there is currently insufficient certainty as to the timing by which the asset will be recovered.

NOTE 6. EMPLOYEE INFORMATION

	Group 2005 No	Group 2004 No
The average number of employees (including executive directors) during the year was:		
Administration/corporate	4	5
Business development and marketing	2	3
Production and technology development	18	17
TOTAL NUMBER OF EMPLOYEES	24	25
	2005 \$	2004 \$
Group employment costs – all employees including directors:		
Aggregate gross wages and salaries	2,182,607	1,477,912
Employer's national insurance contributions and compulsory superannuation	236,661	135,424
TOTAL DIRECT COSTS OF EMPLOYMENT	2,419,268	1,613,336
Director's emoluments		
Aggregate emoluments	556,841	557,600
Pension contributions	24,401	51,157
	581,242	608,757

The aggregate emoluments for the highest paid director was \$244,113 (2004: \$229,166). Contributions paid to superannuation plans in respect of the highest paid director were \$12,863 (2004: \$20,625).

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 7. EARNINGS PER ORDINARY SHARE

Basic earnings per share ("EPS") is calculated by dividing the earnings loss attributable to shareholders of \$23,783,475 (2004: (\$4,433,821)) by the weighted average number of shares in issue during the year of 176,569,471 (2004: 92,916,168).

For calculation of diluted EPS, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary Shares. The options in issue at 30 June 2005 are not considered to be dilutive and therefore basic and diluted earnings per share are the same for 2005. The 2004 position is shown below;

	Loss 2005	Loss 2004	Shares No. 2005	Shares No. 2004	Per share amount 2005	Per share amount 2004
	\$	\$			\$	\$
Earnings attributable to ordinary shareholders	(23,783,475)	(4,433,821)	176,569,471	92,916,168	(0.1347)	(0.048)
Effect of dilutive share options	-	-	-	4,160,182	-	-
	<u>(23,783,475)</u>	<u>(4,433,821)</u>	<u>176,569,471</u>	<u>97,076,350</u>	<u>(0.1347)</u>	<u>(0.046)</u>

NOTE 8. LOSS IN HOLDING COMPANY

A loss of \$25,249,177 (2004: \$590,154) has been dealt with in the accounts of the Company. This includes an impairment in the carrying value of the subsidiary undertaking of \$24,485,234. As permitted by Section 230 of the Companies Act 1985, the Company has not published a separate profit and loss account in these financial statements.

NOTE 9. INTANGIBLE FIXED ASSETS

The Group 2005

	Goodwill arising on consolidation \$	Technology licence \$	Patents \$	Total \$
COST				
At 1 July 2004 and 30 June 2005	<u>20,868,694</u>	<u>125,000</u>	<u>1,760,616</u>	<u>22,754,310</u>
ACCUMULATED AMORTISATION				
Opening balance	1,197,256	112,500	1,621,222	2,930,978
Amortisation for year	1,043,436	12,500	139,394	1,195,330
AT 30 JUNE 2005	<u>2,240,692</u>	<u>125,000</u>	<u>1,760,616</u>	<u>4,126,308</u>
IMPAIRMENT PROVISION				
Charged in the year and at 30 June 2005	<u>18,628,002</u>	-	-	<u>18,628,002</u>
NET BOOK VALUE AT 30 JUNE 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET BOOK VALUE AT 30 JUNE 2004	<u>19,671,438</u>	<u>12,500</u>	<u>139,394</u>	<u>19,823,332</u>

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 9. INTANGIBLE FIXED ASSETS (cont.)

In accordance with UK Financial Reporting Standard Number 10, Goodwill and Intangible Assets, the directors are required to undertake an impairment review of goodwill at 30 June 2005. Where the carrying value of goodwill exceeds its recoverable value (higher of net realisable value and value in use), the amount of goodwill should be written down to reflect its true value. As such, at 30 June 2005, the directors have written down the value of goodwill on consolidation to Nil.

NOTE 10. TANGIBLE FIXED ASSETS

The Group 2005

	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$
COST			
Opening balance	532,615	98,259	630,874
Additions	115,088	9,368	124,456
Disposals	(27,672)	-	(27,672)
AT 30 JUNE 2005	620,031	107,627	727,658
DEPRECIATION			
Opening balance	196,091	50,244	246,335
Charge for the year	106,251	30,349	136,600
Eliminated on Disposal	(13,986)	-	(13,986)
AT 30 JUNE 2005	288,356	80,593	368,949
NET BOOK VALUE AT 30 JUNE 2005	331,675	27,034	358,709
NET BOOK VALUE AT 30 JUNE 2004	336,524	48,015	384,539

The Company 2005

	Plant and equipment	Leasehold improvements	Total
	\$	\$	\$
COST			
Opening balance	24,670	-	24,670
Additions	2,949	-	2,949
At 30 June 2005	27,619	-	27,619
DEPRECIATION			
Opening Balance	2,048	-	2,048
Charge for the year	4,755	-	4,755
At 30 June 2005	6,803	-	6,803
NET BOOK VALUE AT 30 JUNE 2005	20,816	-	20,816
NET BOOK VALUE AT 30 JUNE 2004	22,622	-	22,622

**Notes to the financial statements
For The Year ended 30 June 2005**

NOTE 11. INVESTMENTS

The Company

	Shares in subsidiary undertakin g \$	Loan to subsidiary undertakin g \$	Total 2005 \$
At 1 July 2004	24,485,234	1,590,921	26,076,155
Additions during year	-	3,329,119	3,329,119
At 30 June 2005	<u>24,285,234</u>	<u>4,920,040</u>	<u>29,405,274</u>
IMPAIRMENT			
Charged in the year and at 30 June 2005	(24,285,234)	-	(24,485,234)
	<u>-</u>	<u>4,920,040</u>	<u>4,920,040</u>

Included in the consolidation is the following subsidiary:

Subsidiary and Activity	Class of Share	Percentage held at 30 June 2005
Structural Monitoring Systems Ltd (Registered in Australia) Development and commercialisation of CVM™ technology	Ordinary Shares	100%

The directors have reviewed the carrying value of the investment in the subsidiary undertaking. The directors have taken the view that, at this stage of the development of the CVM™ technology, the potential revenues which may be obtained from that technology and the costs to be incurred in bringing the technology to market are difficult to reliably estimate.

For this reason, in order to comply with UK Financial Reporting Standards, the directors have decided to state the investment at Nil value. This has resulted in an impairment charge to the operating results of the Company of \$24,485,234.

NOTE 12. STOCKS

	Group 2005 \$	Group 2004 \$	Company 2005 \$	Company 2004 \$
Work in progress	19,500	38,416	-	-
Finished goods and goods for resale	4,182	26,803	-	-
	<u>23,682</u>	<u>65,219</u>	<u>-</u>	<u>-</u>

NOTE 13. DEBTORS

AMOUNTS FALLING DUE WITHIN ONE YEAR	Group 2005 \$	Group 2004 \$	Company 2005 \$	Company 2004 \$
Trade debtors	-	65,417	-	-
Other debtors	102,308	71,287	1,342	7,574
Other prepayments and accrued income	161,464	153,477	-	110,069
	<u>263,772</u>	<u>290,181</u>	<u>1,342</u>	<u>117,643</u>

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 14. CREDITORS

	Group 2005	Group 2004	Company 2005	Company 2004
	\$	\$	\$	\$
AMOUNTS FALLING DUE WITHIN ONE YEAR				
Trade creditors	199,781	506,842	-	86,635
Other creditors	8,917	50,512	8,917	15,151
Social security and other taxes	86,993	35,766	-	-
Accruals and deferred income	272,656	328,836	-	8,094
Employee entitlements	126,638	100,164	59,105	-
	694,985	1,022,120	68,022	109,880

NOTE 15. OPERATING LEASE COMMITMENTS

	Land and buildings 2005	Land and buildings 2004
	\$	\$
Annual commitments under operating leases expiring: Within one year	72,700	64,167

NOTE 16. CALLED UP SHARE CAPITAL

The number of authorised, allotted, called up and fully paid shares is as follows:

	2005 Number	2004 Number	2005 GBP	2004 GBP
Authorised				
Ordinary Shares of 5p each	500,000,000	280,000,000	25,000,000	14,000,000
Allotted, called up and fully paid			\$	\$
Ordinary Shares of 5p each	178,281,568	158,142,679	21,327,114	18,735,051

The following changes in the issued share capital arose during the year:

1. On 31 July 2004 the Company issued 20,000,000 Ordinary Shares at 25 cents each.
2. On 16 December 2004 the Company issued 138,889 Ordinary Shares at an issue price of 18 cents each to Equilateral Limited as consideration for pre-IPO costs.

**Notes to the financial statements
For The Year ended 30 June 2005**

NOTE 18. RESERVES

The Group

	Share Premium Account 2005	Share Premium Account 2004	Profit and Loss Account 2005	Profit and Loss Account 2004
	\$	\$	\$	\$
Opening balance at 1 July 2004	7,799,531	-	(4,271,709)	-
Premium on shares issued (net of expenses)	1,959,934	7,799,531	-	-
Currency translation difference	-	-	(487,480)	162,112
Retained loss for the year	-	-	(23,783,475)	(4,433,821)
AT 30 JUNE 2005	9,759,465	7,799,531	(28,542,664)	(4,271,709)

The Company

	Share Premium Account 2005	Share Premium Account 2004	Profit and Loss Account 2005	Profit and Loss Account 2004
	\$	\$	\$	\$
Opening balance at 1 July 2004	7,799,531	-	(428,042)	-
Premium on shares issued (net of expenses)	1,959,934	7,799,531	-	-
Currency translation difference	-	-	(487,480)	162,112
Retained (loss) for the year	-	-	(25,249,177)	(590,154)
AT 30 JUNE 2005	9,759,465	7,799,531	(26,164,699)	(428,042)

NOTE 19. FINANCIAL COMMITMENT

The Company's subsidiary undertaking has entered into an environmental testing programme of CVMtm technology. Under the agreement, the subsidiary has expenditure commitments of up to \$116,291 plus GST over the period from 1 July 2005 to 30 June 2006.

NOTE 20. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating loss to net cash inflow from operating activities

	Group 2005	Group 2004
	\$	\$
Operating loss	(23,947,369)	(4,529,790)
Depreciation and amortisation	1,331,930	1,475,737
Loss on sale of tangible fixed assets	2,807	9,711
(Decrease)/Increase in creditors	(327,135)	816,951
Decrease/(Increase) in debtors	26,409	(27,263)
Increase in stocks	41,537	(40,293)
Exchange differences	(537,318)	162,112
Impairment of goodwill on consolidation	18,628,002	-
OPERATING CASH OUTFLOWS	(4,781,137)	(2,132,835)

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 21. ANALYSIS OF CASH FLOWS

	Group 2005	Group 2004
	\$	\$
Returns on investments and servicing of finance		
Interest received	<u>163,894</u>	<u>95,969</u>
Capital expenditure and financial investment		
Fixed assets	(114,968)	(252,353)
Proceeds from sale of equipment	1,391	9,424
	<u>(113,577)</u>	<u>(242,929)</u>
Acquisitions		
Cash acquired on acquisitions	<u>-</u>	<u>2,952,169</u>
Financing		
Issue of ordinary shares by Company	5,025,125	2,493,239
Issue costs	(473,128)	(443,891)
	<u>4,551,997</u>	<u>2,049,348</u>

NOTE 22. ANALYSIS OF NET FUNDS

	30 June 2005	30 June 2004
	\$	\$
Cash	2,592,737	2,721,722
Total net funds	<u>2,592,737</u>	<u>2,721,722</u>

NOTE 23. RELATED PARTY TRANSACTIONS

Services

- 1) On 29 November 1999, Structural Monitoring Systems Ltd entered into an agreement to acquire the patent and intellectual property rights of Tulip Bay Pty Ltd, which is a substantial shareholder. Mr L S Brajkovich is a director of Tulip Bay Pty Ltd and resigned as a director of Structural Monitoring Systems Pty Ltd on 14 December 2004.

Under the terms of the agreement, Structural Monitoring Systems Ltd will pay Tulip Bay Pty Ltd an annual royalty, being the greater of 3% of the payments received by the Company from the grant of licences to use the SMS technology plus 3% of the gross invoice price received by the Company from the sale of the SMS technology (less the cost of goods sold and certain other nominated costs) and \$60,000, adjusted for movements in the Cost of Living Index.

During the year ended 30 June 2005, Structural Monitoring Systems Ltd incurred a royalty expense of \$72,155 pursuant to the terms and conditions of the technology agreement. In 2004, the royalty expense was \$70,405, of which \$24,172 was recognised in the Group operating loss; the balance being in respect of the period prior to the acquisition of Structural Monitoring Systems Ltd.

- 2) On 26 May 2003, Structural Monitoring Systems Ltd entered into a Consultancy Agreement with Wall Street Nominees Pty Ltd for the provision of Mr A T Brennan's services as an executive director. Under the agreement, a consultancy fee of \$20,000 plus GST per calendar month was payable to Wall Street Nominees Pty Ltd. The payments made during the year are included in the director's report. The term of the agreement was for a period of two years expiring on 26 May 2005 unless otherwise mutually agreed between Wall Street Nominees Pty Ltd and the Company.

**Notes to the financial statements
For The Year ended 30 June 2005**

NOTE 23. RELATED PARTY TRANSACTIONS (cont.)

Structural Monitoring Systems Ltd and Mr Brennan agreed that, from the date of admission of Structural Monitoring Systems plc to the official list of the ASX, the consultancy fee would be reduced to \$120,000 per annum for the remainder of the contract. The Company successfully listed on the ASX on 16 August 2004, from which date Mr Brennan moved into a non-executive role. From 1 November 2004 the payments were reduced by mutual agreement to a non-executive director's standard rate of \$2,500 per month.

NOTE 24. SUBSEQUENT EVENTS

On 10 August 2005, the Company announced a commercial licence agreement with The Boeing Company. This agreement places the Company in a strong position for the commercialisation of CVM™ technology on both existing and future large commercial aircraft.

On 2 September 2005 the Company issued 19,800,000 Ordinary shares at 12 cents each to Orbis Capital Limited to raise \$2,376,000. On the same day a further 1,033,333 Ordinary shares were issued at 12 cents each to another sophisticated investor to raise a further \$124,000.

On 8 September 2005 the Company issued 5,833,335 Ordinary shares at 12 cents each to institutional investors through KTM Capital raising \$700,000.

On 13, September 2005, the Company issued 1 million options exercisable at 20 cents each on or before 30 April 2007 to Western Aero Services Pty Ltd, a party related to a consultant, Mr Peter Schoonens. These options are provided in lieu of consultancy services and as an incentive to Mr Schoonens. The options are unlisted and will only be listed and tradable upon the signing of a licence agreement with Airbus.

On 15 September 2005 the Company initiated a Share Purchase Plan whereby existing shareholders were given the opportunity to subscribe for up to \$5,000 worth of shares at 12 cents each. As at 28 September 2005, an amount of \$208,000 had been raised.

NOTE 25 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank and cash balances, and various items such as trade debtors and trade creditors which arise directly from its operations.

The Group does not trade in financial instruments and has taken advantage of the exemption contained in UK Financial Reporting Standard 13 to exclude short-term debtors and creditors from the disclosures relating to financial instruments.

At 30 June 2005, the Group had net funds of \$2,592,737 all of which was held in current accounts. An amount of \$1,431,305 was held in a current account bearing interest at a rate of 4.8% and \$933,790 was held in a Great British Pounds Currency Account bearing interest at a rate of 2.25%. The remaining net funds were held in current accounts that do not bear interest.

At 30 June 2005 the Group had no overdraft facilities.

The Group's principal exposure to exchange rate fluctuations arises in the translation of cash held in Great British Pounds. The Group has some transaction risk as some transactions are in currencies other than Australian dollars. The group does not make use of foreign currency hedges to manage currency transaction risk.

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 26 IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

Structural Monitoring Systems plc will be required to prepare its first IFRS-compliant financial reports for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of IFRS.

(a) Taxation

On transition to IFRS the income tax balances will be calculated based on the “balance sheet approach”, replacing the “income statement approach” applied under the current accounting policy. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability for accounting purposes and its tax base. No impact has been identified on the consolidated or parent entity’s statement of financial position or performance as a result of this change in approach.

(b) Share based Payments

Under IFRS 2 *Share Based Payments*, Structural Monitoring Systems plc is required to recognise an expense for all equity-based remuneration, including options issued to employees under their Employee Option Scheme. The expense is determined by reference to the fair value of the equity instruments issued.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation. The company has not issued any options to director/employees for the year ended 30 June 2005, therefore there will be no impact on the consolidated or parent entity’s statement of financial position or performance as a result of this change in approach.

(c) Intangible Assets

Under IAS 138 *Intangible Assets*, intangibles acquired which have finite useful lives must be amortised over their useful lives. Internally generated costs related to research activities and items similar in substance may not be recognised as assets. Development costs can be capitalised when they meet certain criteria. All expenditure on research must be expensed when it is incurred. No impact has been identified on the consolidated or parent entity’s statement of financial position or performance as a result of this change in approach, as the company currently expenses all research costs. Management have decided to write off all development costs as and when incurred.

(d) Impairment of Assets

Under IAS 136 *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of its net disposal value and its value in use, determined by the present value of the future cash flows it is expected to generate. This will result in a change in the Company’s current accounting policy, which determines recoverable amount of an asset on the basis of undiscounted cash flows. No impact has been identified on the consolidated or parent entity’s statement of financial position or performance as a result of additional write-downs for impairment.

(e) Foreign currency

Financial statements of foreign operations

Under current UK GAAP, assets and liabilities in foreign currencies are translated into Australian dollars at rates of exchange ruling at the end of the financial period. Transactions denominated in foreign currency are translated into Australian dollars at the exchange rates prevailing at the date of the transaction. All foreign exchange differences arising on transactions are taken to the profit and loss account in the year in which they arise.

Notes to the financial statements
For The Year ended 30 June 2005

NOTE 26 IMPACT OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS
(cont.)

Under IFRS each entity under the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses are translated to Australian dollars at the exchange rates approximating the exchange rates at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its subsidiaries.