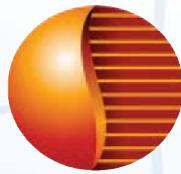


STRUCTURAL
MONITORING
S Y S T E M S
plc

ARBN 106 307 322

ANNUAL REPORT
2005



**STRUCTURAL
MONITORING
SYSTEMS**
plc

CORPORATE DIRECTORY

BOARD OF DIRECTORS

Air Marshal Sir John Walker KCB, CBE, AFC, FRAeS
Non Executive Chairman

Mark Vellacott BSc, CEng, MSc, MBA, FRAeS
Managing Director

Robin Dean B.Ec
Non Executive Director

David Forsyth B.E. Grad Dip, FRAeS
Non Executive Director

Tony Brennan CA
Non Executive Director

COMPANY SECRETARY

Colin R McDonald CA

REGISTERED AND COPORATE OFFICE

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Osborne Park, Western Australia, 6017
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UNITED KINGDOM OFFICE & SHARE REGISTER

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United Kingdom
Tel: +44 1233 666 795
Fax: +44 1233 646 840

SHARE REGISTRY

Advanced Share Registry Services
PO Box 1156
Nedlands, Western Australia 6892

Tel: + 618 9389 8033
Fax: + 618 9389 7871

Website www.advancedshare.com.au
Email: admin@advancedshare.com.au

AUDITORS

PKF (UK) LLP
Accountants and business advisors
Pannell House, Park Street, Guildford
Surrey, GU1 4HN
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STOCK EXCHANGE LISTING

Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
Code: SMN

STRUCTURAL MONITORING SYSTEMS PLC WEBSITE

www.smsystems.com.au

STRUCTURAL MONITORING SYSTEMS PLC MAILING ADDRESS

PO Box 2067
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Western Australia 6018

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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).



**STRUCTURAL
MONITORING
SYSTEMS**
plc

CHAIRMAN'S REPORT

During our first year of being listed on the Australian Stock Exchange, Structural Monitoring Systems plc has made significant progress in the commercialisation of its Comparative Vacuum Monitoring technology. Agreements are in place with both Airbus and The Boeing Company that provide a firm basis for the development of our business in the civil aircraft sector.

Mark Vellacott was appointed Chief Executive Officer in November 2004 charged with the management and strategic development of the Company. He brings to the company an experience in management from the aerospace and defence industry. Mark was appointed to the Board of Directors in the position of Managing Director in June 2005.

I thank Robin Dean on your behalf for his leadership and development of the Company over the last five years as Chief Executive Officer. Now, as a non-executive director his experience, advice and guidance continue to be of value to the Company.

In addition to the raising of \$5 million during the initial public offering in August 2004, the Company has subsequently raised an additional \$3.2 million by a placement of 10% of fully paid-up shares at 12c each to Orbis Capital Limited and associated parties together with a placement of fully paid-up shares also at 12c each to institutional investor clients of KTM Ltd.

The attraction of institutional investors is an important development in the next stage of the Company's growth and these placements demonstrate a vote of confidence in the progress we are making in bringing CVM™ to the marketplace. The Orbis investment brings to the Company a cornerstone investor with a long-term view and I am delighted to have their support.

In addition to the substantial progress on the technology development and qualification programs with both Airbus and Boeing, our military aircraft programs are progressing strongly, in particular with the UK and Pakistani Air Forces.

Programmes with military aircraft operators include installations of CVM™ sensors on the Australian Defence Force Black Hawk helicopters and P-3C Orion maritime patrol aircraft; the Republic of Singapore Air Force A-4 Sky Hawks and their S211 jet trainer aircraft; Royal Navy Sea King helicopters, the Royal Air Force Nimrod maritime patrol and Harrier attack aircraft; and the US Navy H-53 helicopters.

The Company's first phase contract with the Pakistan Air Force announced in May 2005 is particularly noteworthy as the Company will act as the prime contractor delivering a full range of structural integrity analysis, monitoring and testing services for their FT-5 trainer aircraft, Mirage 3 fighter aircraft and C-130 transport aircraft.

With the progress made on the validation and qualification of CVM™ on both commercial and military aircraft the Company is well positioned to achieve its strategic objective of providing CVM™ applications for fleets of aircraft. The Company is holding discussions with aircraft manufacturers, operators and regulators in the US and Europe to achieve this aim.

Despite a focus on reducing operational costs and a slight reduction in overall staff numbers during 2005, the substantial progress achieved owes much to the motivation and professionalism of all our staff members. I would like to thank them for their dedication and loyalty.

Sir John Walker
Chairman

Australian Office

Unit 5, 15 Walters Drive Osborne Park, WA 6017
Telephone: +61 8 9204 4844 - Fax +61 8 9204 4866

United Kingdom Office

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ARBN 106 307 322

A public limited liability company incorporated under the laws of England and Wales.



BOARD OF DIRECTORS AT 30 JUNE 2004

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, thank them for their professionalism and hard work in taking the Company forward, and look forward to an exciting and challenging year

Mark Vellacott



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 16 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 16 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	2,462,000	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. See note 17 for option exercise prices and latest date of exercise.

Director	Salary & 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.

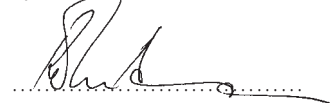
Donations

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

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of SMS %	Options issued in the period 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



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.

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 Registered Auditors

Guildford, UK
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
		4,940,856	26,098,777
Current assets			
Debtors	13	1,342	117,643
Cash at bank and on hand		47,704	-
		49,046	117,643
Creditors: amounts falling due within one year	14	(68,022)	(109,880)
Net current (liabilities) / assets		(18,976)	7,763
Net assets		4,921,880	26,106,540
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	(26,164,699)	(428,042)
Equity shareholders' funds		4,921,880	26,106,540

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.

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.

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



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	-	-

NOTE 5. TAXATION (CONTINUED)

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
TOTAL DIRECTOR'S EMOLUMENTS	581,242	608,757

NOTE 6. EMPLOYEE INFORMATION (CONTINUED)

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).

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	-	-
	(23,783,475)	(4,433,821)	176,569,471	97,076,350	(0.1347)	(0.046)

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	20,868,694	125,000	1,760,616	22,754,310
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	2,240,692	125,000	1,760,616	4,126,308

NOTE 9. INTANGIBLE FIXED ASSETS (CONTINUED)

	Goodwill arising on consolidation \$	Technology licence \$	Patents \$	Total \$
IMPAIRMENT PROVISION				
Charged in the year and at 30 June 2005	18,628,002	-	-	18,628,002
NET BOOK VALUE AT 30 JUNE 2005	-	-	-	-
NET BOOK VALUE AT 30 JUNE 2004	19,671,438	12,500	139,394	19,823,332

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

NOTE 10. TANGIBLE FIXED ASSETS (CONTINUED)**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

NOTE 11. INVESTMENTS**The Company**

	Shares in subsidiary undertaking	Loan to subsidiary undertaking	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	24,285,234	4,920,040	29,405,274
IMPAIRMENT			
Charged in the year and at 30 June 2005	(24,285,234)	-	(24,485,234)
	-	4,920,040	4,920,040

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%

NOTE 11. INVESTMENTS (CONTINUED)

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	-	-
	23,682	65,219	-	-

NOTE 13. DEBTORS

	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
	263,772	290,181	1,342	117,643

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

	2005 Number	2004 Number	2005 \$	2004 \$
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:

On 31 July 2004 the Company issued 20,000,000 Ordinary Shares at 25 cents each.

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.

The impact on share capital and share premium account was as follows:

	Number of Shares	Share Price \$	Share Capital \$	Share Premium \$	Total \$
Issue for IPO	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

NOTE 17. OPTIONS OVER SHARES OF STRUCTURAL MONITORING SYSTEMS PLC

The following movements on options outstanding arose during the year ended 30 June 2005:

Listed options		
Opening balance at 1 July 2004		42,179,622
Exercised during the year ended 30 June 2005		-
Granted during the year ended 30 June 2005		20,000,000
Outstanding options at 30 June 2005		62,179,622
Exercise price	20 cents	
Exercise period	Up to and including 30 April 2007	
Unlisted options		
Opening balance at 1 July 2004		-
Exercised during the year ended 30 June 2005		-
Granted during the year ended 30 June 2005		10,000,000
Outstanding options at 30 June 2005		10,000,000
Exercise price	25 cents	
Exercise period	Up to and including 31 December 2009	

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)

**NOTE 18. RESERVES (CONTINUED)****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 CVM™ 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)

NOTE 21. ANALYSIS OF CASH FLOWS

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

NOTE 22. ANALYSIS OF NET FUNDS

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

NOTE 23. RELATED PARTY TRANSACTIONS**Services**

- 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 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.



NOTE 23. RELATED PARTY TRANSACTIONS (CONTINUED)

- 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.

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.

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.

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.



ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 28 September 2005.

(a) Distribution of CDI securities

	CDI Securities		Options 30/04/07	
	Number of holders	Number of shares	Number of holders	Number of shares
1 - 1,000	28	3,293	56	29,143
1,001 - 5,000	120	506,637	64	183,745
5,001 - 10,000	231	2,020,313	126	1,144,562
10,001 - 100,000	702	28,335,618	189	7,228,898
100,001 and over	257	174,095,699	89	54,593,274
	1,340	204,948,236	523	63,179,622

The number of CDI security holders holding less than a marketable parcel of CDI securities are:

84 194,457

(b) Substantial shareholders

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

Holder	Number of shares
Tulip Bay Pty Ltd	12,318,346

The Company is also aware that Orbis Capital Limited, a company incorporated in the British Virgin Islands, is a substantial shareholder holding 19,800,000 shares.

(c) Twenty largest CDI holders (ASX Code: SMN)

The names of the twenty largest holders of quoted CDI securities are:

Holder	Number of shares	% of CDI Securities
1 HSBC Custody Nominees (Australia) Ltd	20,800,000	10.2%
2 Tulip Bay Pty Ltd	12,318,346	6.0%
3 UBS Nominees Pty Ltd <Prime Broking A/C>	5,799,562	2.8%
4 Densley Holdings Pty Ltd <The Densley A/C>	4,665,600	2.3%
5 Professional Holdings Pty Ltd	4,665,600	2.3%
6 Irrewarra Investments Pty Ltd <ST2 A/C>	4,658,166	2.3%
7 Capital Technologies Pty Ltd	3,742,000	1.8%
8 Kenneth Frank Clements <Malloy Island Superfund A/C>	3,472,941	1.7%
9 Rodney William Duggan <Duggan Family A/C>	3,000,000	1.5%
10 James Howieson	2,520,748	1.2%
11 Bond Street Custodians Limited <MXR – WN0125 A/C>	2,500,000	1.2%
12 Yosef Albert Nader	2,141,231	1.0%
13 Simon Marais	2,133,333	1.0%
14 Rhys Jones	2,000,000	1.0%
15 Anthony Alder & Catherine Alder <The Alder Superannuation Fund A/C>	1,775,652	0.9%
16 SI-AM Trading Co & Grant Robinson	1,775,130	0.9%
17 Landmark Constructions Pty Ltd <Meyer Shircore Unit S/F A/C>	1,775,130	0.9%
18 Pasco Nominees Pty Ltd	1,775,130	0.9%
19 ANZ Nominees Pty Ltd <Cash Income A/C>	1,765,146	0.9%
20 Alan Raymond Reed	1,760,000	0.9%
	85,043,715	41.5%

(d) Twenty largest Option holders (ASX Code: SMNO)

The names of the twenty largest holders of quoted options are:

Holder	Number of shares	% of CDI Securities
1 UBS Nominees Pty Ltd <Prime Broking A/C>	12,270,958	19.4%
2 Rodney William Duggan <Duggan Family A/C>	3,250,000	5.1%
3 ANZ Nominees Limited <Cash Income A/C>	2,369,024	3.7%
4 Yosef Albert Nader	1,916,670	3.0%
5 Chau Capital Pty Ltd	1,673,180	2.6%
6 Gaffney Consultants Ltd	1,624,888	2.6%
7 Abdul Mohsen Hamad Almarzooq	1,388,890	2.2%
8 First Island Nominees (Guernsey) Limited	1,388,890	2.2%
9 Golden Words Pty Ltd	1,198,410	1.9%
10 Custodial Services Ltd	1,043,588	1.7%
11 Silvero Pty Ltd <Nigam & Associates Super Fund A/C>	1,000,000	1.6%
12 Howieson Pty Ltd <The Howieson Family A/C>	815,000	1.3%
13 Dalwick Pty Ltd <Coombes Family A/C>	800,000	1.3%
14 Pritdown Pty Ltd	785,004	1.2%
15 Gary Kenneth Robertson <GK Robertson Super Fund A/C>	755,275	1.2%
16 Hsieu Mei Chang Chien	750,000	1.2%
17 Silver Rock Pty Ltd	732,000	1.2%
18 Brian Wilkie & Susan Wilkie	694,445	1.1%
19 David Schwartz	599,205	1.0%
20 Topsfield Pty Ltd	599,205	1.0%
	35,869,258	56.8%

(e) Voting rights

All ordinary shares have attached a voting right of one vote per fully paid ordinary share. The same voting rights will be attached to ordinary shares that issue when options are exercised.

(f) Restricted securities

The Company has issued the following restricted securities and securities subject to restriction agreements:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Ordinary fully paid	30,144,601	16 August 2006
Options 30 April 2007	840,576	16 August 2006
Options 31 December 2009 (unquoted)	10,000,000	16 August 2006

(g) Unquoted options

There are ten million unquoted options on issue with an expiry date of 31 December 2009 and an exercise price of 25 cents.

Persons holding 20% or more of the unquoted options are:

Holder	Number of options
Vickie McGrouther	4,500,000
Keith Kerridge	4,500,000

There are one million unquoted options on issue with an expiry date of 30 April 2007 and an exercise price of 20 cents.

Persons holding 20% or more of the unquoted options are:

Holder	Number of options
Western Aero Services Pty Ltd <Schoonens Family A/C>	1,000,000

CORPORATE GOVERNANCE

The Company is committed to implementing high standards of corporate governance. In determining what those high standards should be the Company has turned to the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. The Company's practices are largely consistent with those ASX guidelines. Consistency with the guidelines is being implemented on an ongoing basis, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, such policies or committees have been identified.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

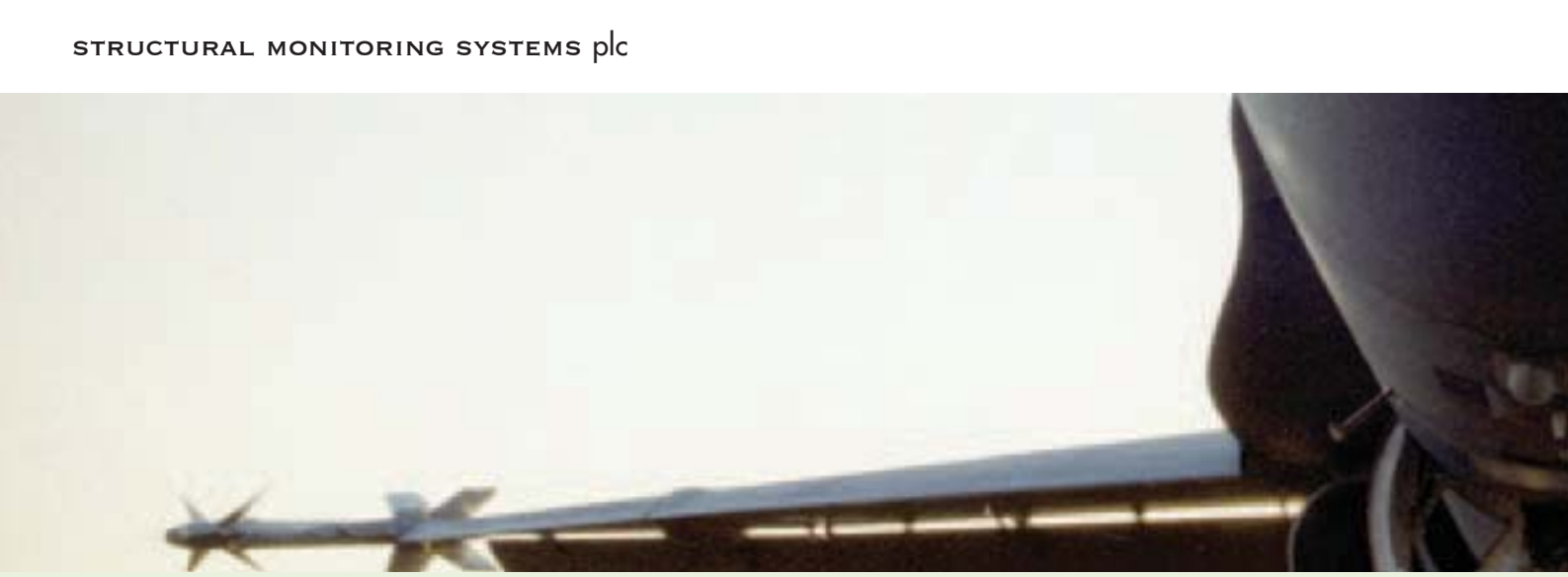
To illustrate where the Company has addressed the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at "http://www.asx.com.au/about/CorporateGovernance_AA2.shtm"

Recommendation	Section	
Recommendation 1.1	Functions of the Board and Management	1.1
Recommendation 2.1	Independent Directors	1.2
Recommendation 2.2	Independent Chairman	1.2
Recommendation 2.3	Role of the Chairman and CEO	1.2
Recommendation 2.4	Establishment of Nomination Committee	2.3
Recommendation 2.5	Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1	Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2	Company Security Trading Policy	1.4.9
Recommendation 3.3	Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1	Attestations by CEO and CFO	1.4.11
Recommendation 4.2	Establishment of Audit Committee	2.1
Recommendation 4.3	Structure of Audit Committee	2.1.2
Recommendation 4.4	Audit Committee Charter	2.1
Recommendation 4.5	Reporting on Principle 4	2.1
Recommendation 5.1	Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2	Reporting on Principle 5	1.4.4
Recommendation 6.1	Communications Strategy	1.4.8
Recommendation 6.2	Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1	Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2	Attestations by CEO and CFO	1.4.11
Recommendation 7.3	Reporting on Principle 7	2.1.3
Recommendation 8.1	Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1	Remuneration Policies	2.2.4
Recommendation 9.2	Establishment of Remuneration Committee	2.2
Recommendation 9.3	Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4	Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5	Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1	Company Code of Conduct	3

1. Board of Directors

1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.



In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it intends to develop a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Mr A Brennan, Mr D Forsyth, Mr R J Dean and Sir John Walker are Non-Executive Directors. Mr D Forsyth and Sir John Walker are also independent directors as they meet the Company's criteria for independence as set out below.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr A Brennan is a Non-Executive Director of the Company and does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.

Mr R Dean is a Non-Executive Director of the Company and does not meet the Company's criteria for independence. However, his experience and knowledge of the Company makes his contribution to the Board such that it is appropriate for him to remain on the Board.



1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without limiting this general role of the Board, the principal functions and responsibilities of the Board include the following.

- **Leadership of the Organisation:** Overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- **Strategy Formulation:** To set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- **Overseeing Planning Activities:** The development of the Company's strategic plan.
- **Shareholder Liaison:** Ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- **Monitoring, Compliance and Risk Management:** The development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- **Company Finances:** Approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- **Human Resources:** Appointing, and, where appropriate, removing the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- **Ensuring the Health, Safety and Well-being of Employees:** In conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the safety and well-being of all employees.
- **Delegation of Authority:** Delegating appropriate powers to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities will be contained in a Board Charter that will be adopted and implemented for the financial year ending 30 June 2006, a copy of which will be available for inspection at the Company's registered office.

1.4 Board Policies

1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Where possible this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via the ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and
- requesting that the external auditor be represented at the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

1.4.9 Trading in Company Shares

Due to the size of the Company, the Board does not consider it appropriate to implement a Share Trading Policy. Rather, it reminds directors, officers and employees of the prohibition in the Corporations Act 2001 concerning trading in the Company's securities when in possession of "inside information".

1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process will be conducted in accordance with a Board Charter that will be adopted and implemented for the financial year ending 30 June 2005. The objective of this evaluation will be to provide best practice corporate governance to the Company.

1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report.

2. Board Committees**2.1 Audit Committee**

As at the date of this report the Board has an Audit Committee comprising Mr A T Brennan (Director), Mr R J Dean (Director) and Mr C R McDonald (CFO/Company Secretary) and a representative from the Perth office of PKF. Below is a summary of the role and responsibilities of an Audit Committee.

2.1.1 Role

The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting.

As at the date of this report the Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the Board.

A Charter for the Audit Committee has been adopted.

2.1.2 Responsibilities

As at the date of this report the full Board of the Company each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

As the whole Board only consists of five (5) members and only two are considered to be independent, it is not possible for the Audit Committee to have a majority of independent directors and it would not be efficient for the Audit Committee to be comprised solely by directors.

As at the date of this report the full Board of the Company is responsible for establishing policies on risk oversight and management.

2.2 Remuneration Committee**2.2.1 Role**

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

As the whole Board consists of five (5) members, the Company does not have a remuneration committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.2.2 Responsibilities

The responsibilities of a Remuneration Committee, or the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

2.2.3 Remuneration Policy**2.2.3.1 Senior Executive Remuneration Policy**

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, the Company's policy regarding the remuneration of senior executive is that remuneration may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;



- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in an option scheme approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

The value of options, if granted to senior executives, will be calculated using the Black and Scholes method.

The objective of this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors and are also eligible to participate in equity schemes of the Company. Non-Executive Directors do not receive performance based bonuses.

Superannuation contributions are made on behalf of Non-Executive Directors where there is a statutory obligation to do so.

2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

2.3 Nomination Committee

2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

As the whole Board consists of four (4) members, the Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

3. Company Code Of Conduct

The Board has decided against the implementation of a code of conduct as it does not believe that it is in the best interests of its employees or other stakeholders to have what purports to be an exhaustive code of conduct. The Board feels that such a code may be too prescriptive and not allow the employees the discretion they need to best serve the Company's stakeholders.

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