



STRUCTURAL
MONITORING
SYSTEMS
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STRUCTURAL MONITORING SYSTEMS PLC
(ABN 94 067 556 245)

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2005

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CORPORATE DIRECTORY

Board of Directors

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

Tony Brennan B.Bus, CA
Non Executive Director

Robin Dean B.Ec
Non Executive Director

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

Mark Vellacott MBA, MSc, CEng, FRAeS
Managing Director

Company Secretary

Colin McDonald CA

Registered and Corporate Office

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Osborne Park
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Facsimile: +61 8 9204 4866
Email: sms@smsystems.com.au
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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).

Share Registry

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PO Box 1156
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Western Australia 6009
Telephone: +61 8 9389 8033
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Auditors

PKF (UK) LLP
Registered auditors
Pannell House, Park Street, Guildford,
Surrey, GU1 4HN

Telephone: +44 1483 564646
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Ashford
Kent TN23 1PF
United Kingdom
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Stock Exchange Listing

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

ASX Codes:

Shares (CDI's) SMN
Options SMNO

Directors' Report

Your Directors submit their report for the half-year ended 31 December 2005.

DIRECTORS

The names of the Company's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Air Marshal Sir John Walker KCB, CBE, AFC, FRAeS (Non-executive Chairman)
Anthony Thomas Brennan B.Bus CA
Robin John Dean B.Ec
David Forsyth B.E. Grad Dip, FRAeS
Mark Vellacott MBA, MSc, CEng, FRAeS (Managing Director)

REVIEW AND RESULTS OF OPERATIONS

The consolidated entity incurred a loss for the half-year of \$1,423,811. Net cash outflows from operating activities totalled \$2,162,415.

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 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. The Company issued 2,712,465 shares to raise \$325,495.

The Company was offered a grant of \$2,983,537 under the Australian government's Commercial Ready grant program. The first payment of approximately \$308,000 has been received in February 2006.

Qualification activities continued with the Australian Defence Force, Boeing, the FAA and US airlines, and the laboratory-based program is now in its final stage.

Signed in accordance with a resolution of the Directors.



Mark Vellacott
Director
Perth, Western Australia
10 March 2006

**Condensed Consolidated Income Statement
For The Half-Year Ended 31 December 2005**

	Note	2005 \$	6 months to 31 Dec 2004 \$
Continuing operations			
Sales		982,004	253,067
Cost of sales		(284,972)	(35,514)
Gross profit		697,032	217,553
Other revenues from ordinary activities	2	366,665	94,893
Administrative & corporate expenses		(990,071)	(2,283,935)
Marketing expenses		(226,913)	(482,723)
Occupancy expenses		(48,288)	(45,963)
Research and development expenses		(1,222,236)	(1,308,142)
Selling expenses		-	(15,151)
Loss from ordinary activities before income tax expense		(1,423,811)	(3,823,468)
Income tax relating to ordinary activities		-	-
Net loss		(1,423,811)	(3,823,468)
Net loss attributable to outside equity interest		-	-
Net loss attributable to members of Structural Monitoring Systems Plc		(1,423,811)	(3,823,468)
Total changes in equity other than those resulting from transactions with owners as owners		(1,423,811)	(3,823,468)
Basic loss per share (cents per share)		(0.72)	(2.19)

The options on issue are anti-dilutive under IAS and therefore diluted and undiluted EPS are the same

**Condensed Consolidated Statement of Total Recognised Gains and Losses
For the Half-Year Ended 31 December 2005**

Consolidated loss after taxation		(1,423,811)	(3,823,468)
Currency translation differences		(20,929)	-
Total recognised losses since 1 July 2005	5	(1,444,740)	(3,823,468)

The accompanying notes form part of these financial statements.

**Condensed Consolidated Balance Sheet
Half -Year Ended 31 December 2005**

	As at 31 December 2005 \$	As at 30 June 2005 \$
Current assets		
Cash and cash equivalents	3,816,959	2,592,737
Inventories, at cost	12,300	23,682
Trade and other receivables	945,487	263,772
Total current assets	4,774,746	2,880,191
Non-current assets		
Plant and equipment	364,625	358,709
Total non-current assets	364,625	358,709
Total assets	5,139,371	3,238,900
Current liabilities		
Trade and other payables	371,208	481,354
Provision – employee entitlements	199,203	213,631
Total current liabilities	570,411	694,985
NET ASSETS	4,568,960	2,543,915
Equity		
Called up share capital	24,841,678	21,327,114
Share premium account	9,691,094	9,759,465
Option account	23,592	-
Accumulated losses	(29,987,404)	(28,542,664)
TOTAL EQUITY	4,568,960	2,543,915

The accompanying notes form part of these financial statements.

**Condensed Consolidated Statement of Cash Flows
For The Half-Year Ended 31 December 2005**

	2005	Six months to
	\$	31 Dec 2004
	\$	\$
Cash flows from operating activities		
Receipts from customers	527,104	150,365
Payments to suppliers and employees	(2,776,069)	(3,125,489)
Other revenue received	86,550	94,893
Net cash outflows from operating activities	<u>(2,162,415)</u>	<u>(2,880,231)</u>
Cash flows from investing activities		
Purchase of plant and equipment	(59,560)	(84,817)
Net cash outflows from investing activities	<u>(59,560)</u>	<u>(84,817)</u>
Net cash outflow before financing	<u>(2,221,975)</u>	<u>(2,965,048)</u>
Cash flows from financing activities		
Proceeds from issue of shares	3,525,500	5,000,000
Payment of share issue costs	(79,303)	(343,608)
Net cash inflows from financing activities	<u>3,446,197</u>	<u>4,656,392</u>
Net increase in cash held	1,224,222	1,691,344
Add opening cash brought forward	2,592,737	2,721,722
Effects of exchange rate changes on cash	-	(83,653)
Closing Cash Carried Forward	<u>3,816,959</u>	<u>4,329,413</u>

The accompanying notes form part of these financial statements.

**Condensed Consolidated Statement Of Changes In Equity
For The Half-Year Ended 31 December 2005**

**Condensed Consolidated Statement of Changes in Equity
At 31 December 2004**

Consolidated	Issued capital	Retained earnings	Share Premium Reserve	Option Reserve	Total Equity
At 1 July 2004	18,735,051	(4,271,709)	7,799,531	-	22,262,873
Profit/(loss) for the period	-	(3,823,468)	-	-	(3,823,468)
Total income / expense for the period	-	(3,823,468)	-	-	(3,823,468)
Issues of shares	2,591,438	-	-	-	2,591,438
Premium on shares issued (net of expenses)	-	-	1,959,934	-	1,959,934
At 31 December 2004	21,326,489	(8,095,177)	9,759,465		22,990,777

**Condensed Consolidated Statement of Changes in Equity
At 31 December 2005**

Consolidated	Issued capital	Retained earnings	Share Premium Reserve	Option Reserve	Total Equity
At 1 July 2005	21,327,114	(28,542,664)	9,759,465	-	2,543,915
Total income and expense for the period recognised directly in equity	-	(20,929)	-	-	(20,929)
Profit/(loss) for the period	-	(1,402,882)	-	-	(1,402,882)
Total income / expense for the period	-	(1,423,811)	-	-	(1,423,811)
Issues of shares	3,514,564	-	10,936	-	3,525,500
Cost of share issues	-	-	(79,307)	-	(79,307)
Cost of share based payment	-	-	-	23,592	23,592
At 31 December 2005	24,841,678	(29,987,404)	9,691,094	23,592	4,568,960

The accompanying notes form part of these financial statements

Notes to the Half-Year Financial Statements

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of the half-year financial report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report

The half-year consolidated financial report should be read in conjunction with the annual Financial Report of the Company as at 30 June 2005, which was prepared in accordance with the historical cost convention and applicable Accounting Standards in the United Kingdom.

It is also recommended that the half-year financial report be considered together with any public announcements made by the Company and its controlled entities during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(b) Statement of Compliance

This is the first half-year financial report prepared in accordance with AASB 134 Interim Financial Statements. There has been no impact on comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 and therefore no restatement was necessary. A summary of the significant accounting policies of the Group under IFRS are disclosed in the notes below.

(c) Share-based Payment Transactions

The Company provides to employees (including directors) of the Group incentives in the form of an Employee Share Option Plan.

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The value is determined using the Black-Scholes option valuation method.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant directors or employees become fully entitled to the award (“vesting date”).

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(d) 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 income statement in the year in which they arise.

All amounts shown in these financial statements are stated in Australian dollars.

(e) Research and development expenditure

Research and development expenditure is written off to the profit and loss account as incurred as the Company believes that this is the most prudent accounting treatment.

Notes continued
31 December 2005

	2005	2004
	\$	\$
2. LOSS FROM ORDINARY ACTIVITIES		
Loss from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
(i) Other revenues from ordinary activities		
Interest – other corporations	84,250	94,893
Commercial Ready grant funding receivable	280,115	-
Insurance refund	2,300	-
	<hr/>	<hr/>
	366,665	94,893
	<hr/>	<hr/>

3. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, no contingent assets or contingent liabilities have arisen.

4. SUBSEQUENT EVENTS

No matter or circumstance has arisen since the end of the half year end that has significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

Notes continued
31 December 2005

5. SEGMENT ANALYSIS

Turnover for the half-year ended 31 December 2004 in respect of continuing operations

	UK/Europe	Australasia	Consolidated
	\$	\$	\$
Geographical Analysis by Origin:			
Sales to customers outside the consolidated entity	-	253,067	253,067
	<u>-</u>	<u>253,067</u>	<u>253,067</u>
Geographical Analysis by Destination:			
Sales to customers outside the consolidated entity	223,742	29,325	253,067
	<u>223,742</u>	<u>29,325</u>	<u>253,067</u>

The consolidated entity operates predominantly in one industry, being Structural Health Monitoring. An analysis of the loss before tax is given below:

	UK/Europe	Australasia	Consolidated
	\$	\$	\$
Result	(676,291)	(2,103,742)	(2,780,033)
Amortisation of goodwill (subsidiary only)			(1,043,435)
Consolidated entity loss from ordinary activities before income tax			<u>(3,823,468)</u>

SEGMENT ANALYSIS

Turnover for the half-year ended 31 December 2005 in respect of continuing operations

	UK/Europe	Australasia	Consolidated
	\$	\$	\$
Geographical Analysis by Origin:			
Sales to customers outside the consolidated entity	109,105	872,899	982,004
	<u>109,105</u>	<u>872,899</u>	<u>982,004</u>
Geographical Analysis by Destination:			
Sales to customers outside the consolidated entity	466,656	515,348	982,004
	<u>466,656</u>	<u>515,348</u>	<u>982,004</u>

The consolidated entity operates predominantly in one industry, being Structural Health Monitoring. An analysis of the loss before tax is given below:

	UK/Europe	Australasia	Consolidated
	\$	\$	\$
Result	(282,852)	(1,140,959)	(1,423,811)
Amortisation of goodwill (subsidiary only)			-
Consolidated entity loss from ordinary activities before income tax			<u>(1,423,811)</u>

Directors' Declaration

In accordance with a resolution of the Directors of Structural Monitoring Systems Plc, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half-year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mark Vellacott
Director
Perth, Western Australia
10 March 2006

Independent Review Report

To Members Of

STRUCTURAL MONITORING SYSTEMS PLC

A.B.N. 94 067 556 245

Scope

We have reviewed the financial report of Structural Monitoring Systems plc for the half-year ended 31 December 2005 as set out on pages 3 to 9. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with Accounting Standard AASB 134 which requires that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with AASB 134 "Interim Financial Reporting" and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to enquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing and therefore provides a lower level of assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the financial report.

Review Statement

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

- (a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
 - ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001.
- (b) other mandatory professional reporting requirements in Australia.



PKF (UK) LLP

Dated at Guildford, UK this 8th day of March 2006

The Directors
Structural Monitoring Systems plc
Unit 5
15 Walters Drive
Osborne Park
Perth
Western Australia 6017

Our ref: MB/KJH

8 March 2006

Dear Sirs

**AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF
STRUCTURAL MONITORING SYSTEMS PLC**

As lead engagement partner for the review of the half year financial report of Structural Monitoring Systems plc for the six months ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

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

Yours faithfully



Michael Bridge
Partner
PKF (UK) LLP
Guildford UK

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A list of members' names is open to inspection at Farringdon Place, 20 Farringdon Road, London EC1M 3AP, the principal place of business and registered office. PKF (UK) LLP is authorised and regulated by the Financial Services Authority for investment business activities. The PKF International Association is an association of legally independent firms.