

Appendix 4E

Preliminary final Report

Name of Entity	Structural Monitoring Systems plc
ABRN	106 307 322
Year Ended	30 June 2006
Previous Corresponding Reporting Period	30 June 2005

Results for Announcement to the Market

		\$'000	Percentage increase/(decrease) over previous corresponding period
Revenue from ordinary activities		1,129	108%
Profit / (loss) from ordinary activities after tax attributable to members		(3,770)	-84%
Net profit / (loss) for the period attributable to members		(3,770)	-84%
Dividends (distributions)	Amount per security	Franked amount per security	
Final Dividend	It is Not proposed to pay –Dividends		
Interim Dividend	It is not proposed to pay Dividends		
Record date for determining entitlements to the dividends (if any)		Not Applicable	
Brief explanation of any of the figures reported above necessary to enable the figures to be understood:			
<u>Consolidated Results</u>			
<ul style="list-style-type: none">• The Group incurred a loss from ordinary activities of \$23.783 million for the 12 months ended 30 June 2005, which included a charge of \$19.671 million for the impairment of intangible assets. There were no similar writedowns for the year ended 30 June 2006.• A comparison of the year's profit results before amortisation and writeoff of intangibles with last year's results shows that the loss of \$3.770 million is 8.3% lower than the adjusted loss in the year ended 30 June 2005 of \$4.112 million.			

Dividends

Date the dividend is payable	Not Applicable
Record date to determine entitlement to the dividend	Not Applicable
Amount per security	-c
Total dividend	-c
Amount per security of foreign sourced dividend or distribution	-c
Details of any dividend reinvestment plans in operation	Not Applicable
The last date for receipt of an election notice for participation in any dividend reinvestment plans	Not Applicable

Statement of Financial Performance

See attached

Statement of Financial Position

See attached

Statement of Cash flows

See attached

Statement of Retained Earnings

See attached

Net Tangible Assets per Security

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	1.29c	1.43c

Details of Entities over which Control has been Gained or Lost during the Period

Name of entity (or group of entities)	Not Applicable
Date control gained	Not Applicable
Consolidated profit / (loss) from ordinary activities since the date in the current period on which control was acquired	Not Applicable
Profit / (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	Not Applicable

Details of Associates and Joint Venture Entities

Name of Entity	Percentage Held		Share of Net Profit	
	Current Period	Previous Period	Current Period	Previous Period
Not Applicable				
Aggregate Share of Net Profits				

Significant Information Relating to the Entity's Financial Performance

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Foreign Entities Accounting Framework

For foreign entities provide details of which accounting standards have been adopted (e.g. International Accounting Standards)

The financial report complies with United Kingdom Accounting Standards, which include equivalents to International Financial Reporting Standards ("IFRS").


Commentary on the Results for the Period

A comparison of this years result excluding last year's intangible asset writedowns would have resulted in a 8% decrease in the loss from 2005. Revenues increased 108% on last year.

This report is based on accounts which are in the process of being audited.

Attachments Forming Part of Appendix 4E

Attachment #	Details
1	Condensed Consolidated Financial Statements
2	

Signed By (Director /Company Secretary)	
Print Name	Colin McDonald
Date	13 September 2006

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED	
		2006	2005
		\$	\$
Continuing Operations			
Revenue			
Sale of goods		1,128,650	543,543
Finance income	4(c)	158,859	163,894
		<u>1,287,509</u>	<u>707,437</u>
Cost of Sales		<u>(470,948)</u>	<u>(67,486)</u>
Gross profit		816,561	639,951
Other Income	4(a)	997,430	52,078
Impairment charges		-	(19,671,437)
Depreciation charges		(142,737)	(136,600)
Occupancy expenses		(91,230)	(88,982)
Marketing expenses		(618,644)	(804,742)
Research and development expenses		(2,875,511)	(2,297,091)
Selling expenses		(15,058)	(10,106)
Administrative expenses		(1,829,369)	(1,462,236)
Loss from continuing operations before finance charges and income tax		(3,758,558)	(23,779,165)
Finance charges	4 (b)	(11,556)	(4,310)
Income tax expense		-	-
Loss after tax and finance charges from continuing operations		(3,770,114)	(23,783,475)
Loss attributable to members of the parent		(3,770,114)	(23,783,475)
Earnings per share (cents per share)	5		
- basic for profit from continuing operations		(0.0186)	(0.1347)
The options on issue are anti-dilutive under IAS and therefore diluted and undiluted EPS are the same			

Balance Sheet

AS AT 30 JUNE 2006

	Notes	CONSOLIDATED	
		2006	2005
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,762,052	2,592,737
Trade and other receivables		390,236	102,308
Inventories		58,409	23,682
Prepayments		145,533	161,464
Total Current Assets		3,356,230	2,880,191
Non-Current Assets			
Property, plant and equipment		319,637	358,709
Total Non-current assets		319,637	358,709
TOTAL ASSETS		3,675,867	3,238,900
LIABILITIES			
Current Liabilities			
Trade and other payables		843,397	586,841
Provisions		150,615	108,144
Total Current Liabilities		994,012	694,985
TOTAL LIABILITIES		994,012	694,985
NET ASSETS		2,681,855	2,543,915
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	7	24,841,678	21,327,114
Share premium account	7	9,691,094	9,759,465
Accumulated losses		(31,987,410)	(28,217,296)
Other reserves	7	136,493	(325,368)
TOTAL EQUITY		2,681,855	2,543,915

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	CONSOLIDATED	
		2006	2005
		\$	\$
Cash flows from operating activities			
Receipts from customers		827,093	521,593
Payments to suppliers and employees		(5,186,930)	(5,302,730)
Receipt of government grants		968,358	-
Interest received		158,859	163,894
Other		29,072	-
Net cash flows from/(used in) operating activities	6	<u>(3,203,548)</u>	<u>(4,617,243)</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		3,182	1,391
Purchase of property, plant and equipment		(102,305)	(114,968)
Net cash flows from/(used in) investing activities		<u>(99,123)</u>	<u>(113,577)</u>
Cash flows from financing activities			
Proceeds from issue of shares	7	3,446,197	4,551,997
Loan to subsidiary		-	-
Other		-	-
Net cash flows from/(used in) financing activities		<u>3,446,197</u>	<u>4,551,997</u>
Net increase/(decrease) in cash and cash equivalents		143,526	(178,823)
Net foreign exchange differences		25,789	49,838
Cash and cash equivalents at beginning of year		<u>2,592,737</u>	<u>2,721,722</u>
Cash and cash equivalents at end of year	6	<u><u>2,762,052</u></u>	<u><u>2,592,737</u></u>

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Statement Of Changes In Equity

FOR THE YEAR ENDED 30 JUNE 2006

CONSOLIDATED

At 1 July 2004

Currency translation differences

Profit/(loss) for the year

Issue of shares

At 30 June 2005

Currency translation differences

Profit/(loss) for the year

Issue of share capital

Cost of share issues

Cost of share based payments

At 30 June 2006

	Issued capital	Accumulated loss	Share Premium Reserve Note 7	Other Reserves Note 7	Total
At 1 July 2004	18,735,051	(4,433,821)	7,799,531	162,112	22,262,873
Currency translation differences	-	-	-	(487,480)	(487,480)
Profit/(loss) for the year	-	(23,783,475)	-	-	(23,783,475)
Issue of shares	2,592,063	-	1,959,934	-	4,551,997
At 30 June 2005	21,327,114	(28,217,296)	9,759,465	(325,368)	2,543,915
Currency translation differences	-	-	-	418,609	418,609
Profit/(loss) for the year	-	(3,770,114)	-	-	(3,770,114)
Issue of share capital	3,514,564		10,936	-	3,525,500
Cost of share issues			(79,307)		(79,307)
Cost of share based payments				43,252	43,252
At 30 June 2006	24,841,678	(31,987,410)	9,691,094	136,493	2,681,855

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

1 CORPORATE INFORMATION

Structural Monitoring Systems Plc is a company limited by shares incorporated in the United Kingdom whose shares are publicly traded on the Australian stock exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Companies Act 1985 and applicable United Kingdom Accounting Standards. The financial report has also been prepared on a historical cost basis.

(b) Statement of compliance

The financial report complies with United Kingdom Accounting Standards, which include equivalents to International Financial Reporting Standards ('IFRS'). Compliance with IFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on IFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of IFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report are detailed in Note 2 (s) below.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Structural Monitoring Systems Plc and its subsidiaries as at 30 June each year ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the Group.

(d) Foreign currency translation

The presentation currency of the group is Australian dollars (\$AUD). The functional currency of Structural Monitoring Systems Plc is pounds sterling and the functional currency of its Australian subsidiary is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

As at the reporting date the assets and liabilities of the parent company are translated into the presentation currency of Structural Monitoring Systems Plc at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. The exchange difference arising on translation is taken directly to a separate component of equity.

(e) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

The principal annual rates used for this purpose are 6.66% - 40% for plant, equipment and other assets.

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

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(f) Intangible Assets

(i) *Goodwill*

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

(ii) *Research and development costs*

Research and development costs are expensed as incurred.

(g) Recoverable amount of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Recoverable amount of assets (continued)

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(h) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials - purchase cost on a first-in, first-out basis; and
Finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(i) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(j) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Share-based payment transactions

The Group provides to employees (including executive directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for rights over shares ('equity-settled transactions').

There is currently one plan in place to provide these benefits, the Employee Share Option Plan (ESOP), which provides benefits to directors and employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Structural Monitoring Systems Plc ('market conditions').

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 employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

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

(m) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(n) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(o) Income tax

Deferred income 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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(q) 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.

(r) 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.

(s) Impact of adoption of AIFRS

There were no impacts of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles ("AGAAP").

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

3 SEGMENT INFORMATION

The Group's primary reporting format is geographical segments. The Group does not report by business segment as it is involved in one segment only, the development and commercialisation of its structural health monitoring technology.

Geographical segments

The Group's geographical segments are determined by the location of the Group's assets and operations.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2006 and 2005

	<i>Australia</i>	<i>UK/Europe</i>	<i>Total</i>
Year ended 30 June 2006			
Revenue			
Sales to external customers	1,001,881	126,769	1,128,650
Finance income	158,082	777	158,859
Other revenues from external parties	997,430	-	997,430
Revenue from continuing operations	2,157,393	127,546	2,284,939
Inter-segment sales	-	-	-
Segment revenue	2,157,393	127,546	2,284,939
Sales revenue by customer location			
Australia	31,300	-	31,300
Asia	515,347	-	515,347
Europe	455,234	126,769	582,003
Total revenue	1,001,881	126,769	1,128,650
Result			
Segment result	(3,179,353)	(590,761)	(3,770,114)
Unallocated expenses	-	-	-
Loss before tax	(3,179,353)	(590,761)	(3,770,114)
Income tax expense	-	-	-
Loss for the year	(3,179,353)	(590,761)	(3,770,114)
Assets and liabilities			
Segment assets	3,652,515	23,352	3,675,867
Unallocated assets	-	-	-
Total assets	3,652,515	23,352	3,675,867
Segment liabilities	917,976	76,036	994,012
Unallocated liabilities	-	-	-
Total liabilities	917,976	76,036	994,012
Other segment information			
Capital expenditure	96,199	-	96,199
Depreciation	138,291	4,755	142,737
Year ended 30 June 2005			
Revenue			
Sales to external customers	467,368	76,175	543,543
Finance income	163,103	791	163,894
Other revenues from external parties	52,078	-	52,078
Revenue from continuing operations	682,549	76,966	759,515
Inter-segment sales	-	-	-
Segment revenue	682,549	76,966	759,515

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	<i>Australia</i>	<i>UK/Europe</i>	<i>Total</i>
Sales revenue by customer location			
Australia	241,283	-	241,283
Asia	-	-	-
Europe	226,085	76,175	302,260
Total sales revenue	467,368	76,175	543,543
Assets and liabilities			
Segment assets	3,169,038	69,862	3,238,900
Unallocated assets	-	-	-
Total assets	3,169,038	69,862	3,238,900
Segment liabilities	626,963	68,022	694,985
Unallocated liabilities	-	-	-
Total liabilities	626,963	68,022	694,985
Other segment information			
Capital expenditure	121,507	2,949	124,456
Depreciation	131,845	4,755	136,600
Impairment	-	19,671,438	19,671,438

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

4 REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>	
	<i>2006</i>	<i>2005</i>
	\$	\$
<hr/>		
(a) Other income		
AusIndustry Ready Grant	968,358	-
Export Market Development Grant	-	52,078
Insurance Refund	29,072	
	<u>997,430</u>	<u>52,078</u>
An AusIndustry Commercial Ready grant has been received to assist with commercialisation and marketing of the CVM technology.		
(b) Finance costs		
Interest Expense	11,556	4,310
	<u>11,556</u>	<u>4,310</u>
(c) Finance income		
Bank interest receivable	<u>158,859</u>	<u>163,894</u>
(d) Depreciation, amortisation and foreign exchange differences included in income statement		
Included in cost of sales:		
Depreciation	142,737	136,600
Impairment of intangible assets	-	19,671,438
Amortisation of intangible assets	-	151,894
Net foreign exchange differences	<u>(25,789)</u>	<u>147,100</u>
(e) Lease payments and other expenses included in income statement		
Included in administrative expenses:		
Minimum lease payments - operating lease	<u>77,315</u>	<u>72,700</u>
(f) Employee benefits expense		
Wages and Salaries	2,328,647	2,182,607
Workers' compensation costs	22,193	21,910
Superannuation costs	199,044	236,661
Expense of share-based payments	31,186	-
	<u>2,581,070</u>	<u>2,441,178</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

REVENUES AND EXPENSES (continued)

	<i>CONSOLIDATED</i>	
	<i>2006</i>	<i>2005</i>
	\$	\$
<hr/>		
(g) Research and development costs		
Research and development costs charged	<u>2,599,751</u>	<u>2,297,019</u>

5 EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	<i>CONSOLIDATED</i>	
	<i>2006</i>	<i>2005</i>
	\$	\$
Net loss attributable to equity holders from continuing operations	(3,770,114)	(23,783,475)
	<i>Number of</i>	<i>Number of</i>
	<i>shares</i>	<i>Shares</i>
Weighted average number of ordinary shares for basic earnings per share	202,161,487	176,519,262
Effect of dilution:		
Share options	74,842,203	69,632,622
Adjusted weighted average number of ordinary shares for diluted earnings per share	277,003,690	246,151,884

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

6 CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2006	2005
	\$	\$
Cash at bank and in hand	2,762,052	2,592,737
Cash at bank and in hand earns interest at floating rates based on daily bank rates.		

Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	2,762,052	2,592,737
	2,762,052	2,592,737

Reconciliation from the net loss after tax to the net cash flows from operations

Net Loss	(3,770,114)	(23,783,475)
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Adjustments for:

Depreciation and amortisation	142,737	288,495
Impairment losses	-	19,671,437
Net (profit)/loss on disposal of plant and equipment	-	2,807
Writeoffs and adjustments in carrying value of plant and equipment	(7,468)	-
Currency translation	392,771	(537,318)
Share options expensed	43,252	-

Changes in assets and liabilities

(increase)/decrease in inventories	(31,744)	41,537
(increase)/decrease in trade and other receivables	(251,866)	26,409
(increase)/decrease in prepayments	15,957	-
(decrease)/increase in trade and other payables	262,927	(327,135)
Net cash from operating activities	(3,203,548)	(4,617,243)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

7 ISSUED CAPITAL AND RESERVES

	<i>CONSOLIDATED</i>	
	<i>2006</i>	<i>2005</i>
	\$	\$
<i>Ordinary Shares</i>		
Issued and fully paid	24,841,678	21,327,114
	<i>Shares on</i>	<i>\$</i>
	<i>Issue</i>	
<i>Movement in ordinary shares on the issue</i>		
At 1 July 2004	158,142,679	18,735,051
Issued on 31 July 2004 for cash	20,000,000	2,574,000
Issued on 16 December 2004 as consideration for pre-IPO costs	138,889	18,063
At 1 July 2005	178,281,568	21,327,114
Issued on 2 September 2005 for cash	20,833,333	2,500,000
Issued on 8 September 2005 for cash	5,833,335	700,000
Issued on 15 September 2005 for cash pursuant to Share Purchase Plan	2,712,465	314,564
At 30 June 2006	207,660,701	24,841,678
<i>Share Premium Reserve</i>		
Share Premium Reserve	9,691,097	9,759,465
	<i>Shares on</i>	<i>\$</i>
	<i>Issue</i>	
<i>Movement in Share Premium Reserve</i>		
At 1 July 2004	158,142,679	7,799,531
Issue for IPO 31 July 2004	20,000,000	2,426,000
Issue as consideration IPO costs 16 December 2004	138,889	7,062
Cost of issues		(473,128)
At 1 July 2005	178,281,568	9,759,465
Placement 2 September 2005	20,833,333	-
Placement 8 September 2005	5,833,335	-
Share Purchase Plan 15 September 2005	2,712,465	10,936
Cost of issues		(79,307)
At 30 June 2006	207,660,701	9,691,094
<i>Option Reserve</i>	<i>\$</i>	<i>\$</i>
Option Reserve	43,252	-
	<i>Unlisted</i>	
	<i>Options</i>	
	<i>Issued</i>	<i>\$</i>
At 1 July 2005	9,000,000	-
Issued to employees through ESOP	4,139,000	31,186
Issued to consultant as performance incentive	1,000,000	12,066
	14,139,000	43,252
<i>Listed Options</i>		
At 1 July 2004	42,179,622	-
Granted during the year to 30 June 2005	20,000,000	-
Outstanding options at 30 June 2005	62,179,622	-
Outstanding listed options at 30 June 2006	62,179,622	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2006

7 ISSUED CAPITAL AND RESERVES (continued)

The company has a share option schemes under which options to subscribe for the company's shares have been granted to directors and employees.

Other Reserves

CONSOLIDATED

	Share Premium Reserve \$	Option Reserve \$	Currency translation reserve \$	Total \$
At 1 July 2004	7,799,531	-	162,112	7,961,643
Issue of shares	2,433,062	-	-	2,433,062
Currency translation differences	-	-	(487,480)	(487,480)
Cost of share issues	(473,128)	-	-	(473,128)
At 30 June 2005	9,759,465	-	(325,368)	9,434,097
Share issues	10,936	-	-	10,936
Cost of share issues	(79,307)	-	-	(79,307)
Currency translation differences	-	-	418,609	418,609
Issues of options pursuant to Employee Option Scheme	-	31,186	-	31,186
Issue of option to consultants as performance incentive	-	12,066	-	12,066
As at 30 June 2006	9,691,094	43,252	93,241	9,827,587

Nature and purpose of reserves

Share premium reserve

The share premium reserve is used to record increments in the value of share issues when the issue price per share is greater than the par value of 5 pence per share. Costs of the issues are written off against the reserve.

Option reserve

The option reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration, or to other parties in lieu of cash compensation.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

