

Adacel Technologies Limited

ABN 15 079 672 281

Financial Report, Directors' Report, Auditor's Report & Additional Information

30 June 2005



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DIRECTORS' REPORT

Your Directors submit their report on the consolidated entity consisting of Adacel Technologies Limited and the entities it controlled at the end of, or during the year ended 30 June 2005.

DIRECTORS

The names and details of the Directors of Adacel Technologies Limited in office during the whole of the financial year and up to the date of this report are:

Julian Beale (Chairman)
Kevin Courtney
Silvio Salom
David Smith
Alex Waislitz
Peter Landos (alternate for Mr Alex Waislitz).

Mr Ian Shiers was a Director from the beginning of the financial year until 30 July 2004.

INFORMATION ON DIRECTORS

Julian Beale BE (Syd), MBA (Harvard)
Non-Executive Chairman

Appointed as an independent non-executive Director in June 2003. Mr Beale has extensive international business and capital markets experience and a background in private and public companies at both Board and management level. Mr Beale held senior positions in a range of Australian companies including English Electric and Esso Australia (now Exxon) and was Managing Director of a resources group with interests in petroleum production, pipelines and minerals. He also established a plastics processing company in Melbourne and was a key participant in the successful transition of Moldflow, a developer of software for injection moulding machines, to the United States NASDAQ capital market. Mr Beale was also a member of the Federal Parliament for 11 years from 1984 as the Member for Deakin and later Bruce. During this time he held many Shadow Ministerial portfolios. Mr Beale does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Silvio Salom BEng (Electrical)
Managing Director

Managing Director of Adacel Technologies Limited since incorporation in October 1997, Managing Director and founder of the predecessor Adacel Pty Ltd from establishment in 1987. Mr Salom has extensive experience in the strategic and operational management of hi-tech companies with particular expertise in information technology related to the manufacturing, environmental, defence, transport, multimedia and telecommunications industry sectors. Mr Salom does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

Alex Waislitz BEc (Mon), LLB (Mon)
Non-Executive Director

Non-executive Director since August 2003. Mr Waislitz is Executive Chairman of the Thorney Investment Group. He has extensive business experience, and is a director of various Pratt Group and Visy Board companies. Mr Waislitz is a Director of Collingwood Football Club. Mr Waislitz is a Director of McPhersons Limited, a position he has held since March 1998.

Peter Landos BEco (ANU)
Alternate to Mr Waislitz

Non-executive Director alternate to Mr Waislitz since August 2003. Mr Landos is an Investment Manager with the Thorney Investment Group. He joined Thorney in 2000 after five years at Macquarie Bank Limited. Mr Landos is an alternate Director to Mr Waislitz on the McPhersons Limited Board, a position Mr Landos has held since July 2003. Mr Landos is also a Director of Biological Wool Harvesting Holding Company Limited, which is an unlisted public company.

DIRECTORS' REPORT

Kevin Courtney FCA, FAICD

Non-Executive Director

Independent non-executive Director since October 1998. Mr Courtney is a chartered accountant and a former regional managing partner of Ernst & Young. He is a Director of MLC Nominees Pty Ltd, National Markets Group Limited and National Australia Superannuation Pty Ltd, members of the National Australia Bank group of companies. He is Chairman of Adacel's audit committee. Mr Courtney has been a Commissioner of the City of Melbourne and a Director of Connect.com.au, the internet service provider sold to AAPT Telecommunications Ltd. He has been Chair of the audit committees of the Victorian Workcover Authority, the Sunraysia Rural Water Authority and the National Competition Council. Mr Courtney is a Director of the DOXA Social Club assisting underprivileged youth. Mr Courtney was a director of Melbourne IT Limited from October 1999 until his retirement in April 2003.

David Smith BE (Electronics)

Non-Executive Director

Non-executive Director since July 2000 and prior to that date an executive director from incorporation in October 1997. Mr Smith was a senior executive of the company and has extensive experience in software development, project and operations management in the military, aviation and transport domains. Mr Smith does not currently hold and has not held directorships in other listed companies at any time in the 3 years immediately before the end of the financial year.

COMPANY SECRETARY

Errol Turner CPA, FCIS, MAICD, B Bus (Accounting)

Mr Turner was appointed Chief Financial Officer and Company Secretary of Adacel Technologies Limited in December 2000. Mr Turner has an extensive background in financial and commercial management in internationally focused technology companies and large diversified Australian companies. Prior to joining Adacel, Mr Turner was CFO and Company Secretary of an ASX-listed entity and has previously held senior financial management positions.

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were simulation and software applications and services. There were no significant changes in the nature of the consolidated entity's activities during the year, other than described in the review of operations.

EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share	(12.1) cents
Diluted earnings/(loss) per share	(12.1) cents

DIVIDENDS

No dividends were paid or are proposed to be paid for the year.

DIRECTORS' REPORT

REVIEW OF OPERATIONS

Summary

Adacel Technologies Limited reduced its group losses in the year ended 30 June 2005 as the company consolidated its operations following the restructuring initiatives of 2004.

The pre-tax loss for year to 30 June 2005 was \$8,394,000 (previously \$22,878,000) and the after-tax loss was \$9,150,000 (previously \$23,451,000).

The 2005 result reflects:

- the impact of delays in the timing of expected air traffic control simulation contracts;
- one-off adjustments reflecting cost over-runs on historical projects;
- provisions for further restructuring in North America; and
- a provision against future contract costs.

Revenues

Group revenues of \$38,426,000 in the 2005 financial year were 33 per cent lower than in the prior year as a result of:

- the exit of businesses in the group restructuring of 2004;
- delays to expected contract awards; and
- completion of the major component of a large program in the 2004 year.

Earnings

The EBITDA loss (Earnings Before Interest Tax Depreciation and Amortisation) was reduced to \$6,493,000 from \$11,217,000 previously. Amortisation and depreciation expense for 2005 was \$1,487,000 compared with \$2,769,000 previously. In the 2004 year, additional accelerated depreciation and write-offs totalled \$8,573,000.

Finance costs were \$414,000 (previously \$319,000) and tax expense was \$756,000 (previously \$573,000).

Cash

Group operations used \$3,184,000 in cash during the 2005 year while the Non Renounceable Rights Issue raised \$6,097,000, and together with other items total net cash inflow for the year was \$2,631,000. The company is continuing to operate within existing cash, operational cash flows and available bank facilities.

Group Operations

Management efforts during the year were on consolidating the group's operations following the restructuring of 2004. The company continued to focus on the North American based global aviation and defence simulation and control operations.

During the year the company reviewed and strengthened the North American management team with the appointment in July 2004 of a CEO North America and appointment of a CFO North America in January 2005. The North American business units were restructured to improve operational focus and further action was taken towards the end of the financial year to reduce organisational costs. This is expected to generate savings in the 2006 financial year and beyond. Reflecting the increased North American operational focus, the company transferred its main banking facility to the Royal Bank of Canada.

Adacel continued to consolidate its industry leadership position during the year, although North American revenues were lower due to the delayed contracts and the completion of the main part of the major US Air Force contract in the prior year. The company continued to win new and repeat business in North America and internationally during the year from major organisations such as Airbus, the US Air Force, the US Federal Aviation Administration and Lockheed Martin.

Adacel's Air Traffic Management operations continued to perform well, with the company now working with Lockheed Martin on the FAA's En Route Air Modernization program as well as the FAA's Oceanic modernization program.

The company further advanced its strategy of taking existing products and technology into closely associated segments such as the flight simulator and homeland defence markets.

In Australia, the company continued to focus on immediate and medium term opportunities in aviation and defence programs.

Additional comments on the company's operations are included in the 2005 Annual Report. Shareholders will be updated on developments at the Annual General Meeting.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs during the current year, except as noted in the review of operations.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2005. Since the end of the year, 23,000 options have been issued and 34,000 options have lapsed.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Looking to the 2006 financial year, we expect that earnings will be assisted by market growth, our leaner structure, our industry leading position and increasing annuity revenues as well as revenues from contracts delayed into this year.

In the medium term, Adacel's markets will be assisted by North American aviation and defence authorities' plans to increase procurement programs for Air Traffic Control simulators.

The large base of Adacel systems in use and our ongoing air traffic management activity not only give the company a strong presence in our markets, but also give us a base for increased recurrent revenue flows from upgrades and ongoing services. In addition, the strategy of taking our products into associated markets provides further opportunity for expansion.

With the group restructuring of 2004, the consolidation of operations in 2005 and Adacel's industry leadership, we expect the company to be in a position to take advantage of the emerging market opportunities in 2006 and beyond.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Managing Director reports to the Board on any environmental and regulatory issues at each Directors meeting. There are no matters that the Board considers need to be reported in this report.

DIRECTORS' REPORT

SHARES UNDER OPTION

Details of unissued ordinary shares in Adacel Technologies Limited under option at the date of this report are as follows:

Plan	Number	Expiry Date	Exercise Price
Staff Share Option Plan	877,000	11 May 2006	\$1.44
Staff Share Option Plan	11,000	19 July 2006	\$1.62
Staff Share Option Plan	28,000	1 November 2006	\$1.05
Staff Share Option Plan	100,000	12 November 2006	\$1.05
Staff Share Option Plan	134,000	25 February 2007	\$1.02
Staff Share Option Plan	100,000	25 February 2007	\$1.00
Staff Share Option Plan	336,000	5 April 2007	\$0.91
Staff Share Option Plan	500,000	2 May 2007	\$0.90
Staff Share Option Plan	88,000	5 July 2007	\$0.89
Staff Share Option Plan	49,000	4 October 2007	\$0.66
Staff Share Option Plan	200,000	11 November 2007	\$0.58
Staff Share Option Plan	58,000	10 January 2008	\$0.81
Staff Share Option Plan	100,000	25 February 2008	\$1.00
Staff Share Option Plan	73,000	4 April 2008	\$0.71
Staff Share Option Plan	62,000	4 July 2008	\$0.75
Staff Share Option Plan	27,000	3 October 2008	\$0.75
Staff Share Option Plan	31,000	9 January 2009	\$0.85
Staff Share Option Plan	100,000	25 February 2009	\$1.00
Staff Share Option Plan	71,000	2 April 2009	\$0.66
Staff Share Option Plan	61,000	4 July 2009	\$0.45
Staff Share Option Plan	7,000	1 October 2009	\$0.39
Staff Share Option Plan	1,250,000	1 October 2009	\$0.60
Staff Share Option Plan	2,000	7 January 2010	\$0.31
Staff Share Option Plan	500,000	17 January 2010	\$0.60
Staff Share Option Plan	17,000	1 April 2010	\$0.33
Staff Share Option Plan	23,000	1 July 2010	\$0.26
Chairman's Options	300,000	12 September 2008	\$0.61
Options – Tranche 1 Capital Raising	1,821,494	16 March 2006	\$1.00
Options – Tranche 2 Capital Raising	2,185,792	16 March 2006	\$1.00
	<u>9,112,286</u>		

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate except in exercising the relevant options.

DIRECTORS' REPORT

Staff Share Option Plan

The Staff Share Option Plan was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors can issue options (up to 10% of the company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and exercise periods. The options are issued for no consideration from Directors or employees. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for the options on issue are one of the following:

- (a) Set time periods are achieved (the anniversary dates); and

On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options. Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

- (b) Set time periods are achieved.

- (c) The company's share price is greater than or equal to the exercise price plus a pre agreed amount for a period of 10 consecutive days; and for a period of 90 days thereafter, the average share price is greater than or equal to the exercise price plus a pre agreed amount. Once this price threshold is achieved, a subsequent fall in company's share price will not affect the right to exercise the options.

- (d) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise.

Chairman's Options

Options issued to the Chairman were issued on 30 November 2004 following approval by the shareholders at the Annual General Meeting on the 19 November 2004. The options were issued as part of remuneration for acting as the non-executive chairman of the Board. 50% of the options vest immediately on issue and the remaining 50% vest on 12 September 2005. The options are not listed. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is \$0.61, payable immediately on exercise. The expiry date of these options is 12 September 2008.

Options – Tranche 1 & 2 Capital Raising

Options issued under Tranche 1 and 2 of the Capital Raising were approved by the shareholders at the Extraordinary General Meeting on the 23 May 2003. Each option was granted for free and was issued on the basis of four options for every nine shares issued under the capital raising of the same date. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is \$1.00, payable immediately on exercise. The expiry date of these options is 16 March 2006.

SHARES ISSUED AS A RESULT OF THE EXERCISE OF OPTIONS

During the year ended 30 June 2005 and since that date until the date of this report, no ordinary shares of Adacel Technologies Limited were issued on the exercise of options granted.

INSURANCE OF DIRECTORS AND OFFICERS

During the year the company paid a premium on a Directors and Officers Liability Insurance Policy. This policy covers Directors and Officers of the company and the consolidated entity. In accordance with normal commercial practices under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of the premiums are confidential.

DIRECTORS' REPORT

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A. Principles used to determine the nature and amount of remuneration
- B. Details of remuneration
- C. Service agreements
- D. Share-based compensation

A. Principles used to determine the nature and amount of remuneration

The Adacel Board has determined policies in relation to the remuneration of directors and executives, as follows:

Non-executive Directors

Non-executive Directors are remunerated by fixed annual fees, superannuation, and from time-to-time may also be issued share options in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in general meeting and was last set at \$300,000 per annum at the 1999 Annual General Meeting.

Non-executive Directors may also, in view of the company's size and resources, from time-to-time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at general meeting. These options would be issued separately to the Adacel Staff Share Option Plan and with conditions that were designed to provide a link with company share price performance.

Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the company's constitution, remuneration of the Managing Director and Executive Directors, subject to other provisions in any contract between these executives and the company, may be by way of fixed salary or participation in the profits of the company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the company secretary, may be remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Managing Director and the Board. Criteria to be met may include group and/ or business unit profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short term incentives are aligned with the interests of shareholders in the current period.

To provide long term incentives, senior executives may also participate in the Adacel Staff Share Option plan. The options are issued with conditions to help ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

The overall level of executive reward takes into account the performance of the company over a number of years, with greater emphasis given to the current year. Over the past 5 years, the company's earnings and share price performance have been disappointing and accordingly, the increase in the remuneration of executives and the payment of bonuses have been minimal.

Short Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration is dependent on the satisfaction of various performance conditions.

For the year ended 30 June 2005, the performance conditions included financial targets (primarily new orders, revenue, earnings and cash generation) and other strategic and milestone criteria. Under the incentive scheme, budget earnings must be achieved prior to any bonus payments being made. For the year ended 30 June 2005, no performance based bonuses were paid.

These performance criteria were chosen to provide an incentive the executives in the consolidated entity to generate earnings and grow shareholder wealth.

DIRECTORS' REPORT

B. Details of remuneration

Details of the nature and amount of each element of the emoluments of each Director of Adacel Technologies Limited, each of the five most highly remunerated executive officers of consolidated entity, and the one executive officer of the company for the financial year are as follows:

Directors of Adacel Technologies Limited

2005	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Julian Beale (Non Executive Chairman)	30,000	—	—	2,700	27,431	—	60,131
Mr Kevin Courtney (Non Executive)	30,000	—	—	2,700	—	—	32,700
Mr Silvio Salom (Managing Director)	290,130	—	12,652	11,585	—	—	314,367
Mr Ian Shiers ⁽¹⁾ (formerly Group Chief Operating Officer and Executive Director)	62,200	—	—	965	5,621	—	68,786
Mr David Smith (Non Executive)	30,000	—	—	2,700	—	—	32,700
Mr Alex Waislitz (Non Executive)	30,000	—	—	2,700	—	—	32,700
Mr Peter Landos (alternate to Mr Waislitz)	—	—	—	—	—	—	—
Total	472,330	—	12,652	23,350	33,052	—	541,384

⁽¹⁾ Cash salary and fees includes an amount of \$33,856 for unused annual leave entitlements paid out at the date of ceasing to be a director and employee of the company.

Other executives of Adacel Technologies Limited

2005	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Errol Turner (Group Chief Financial Officer and Company Secretary)	201,885	—	—	6,758	—	63,858	272,501
Total	201,885	—	—	6,758	—	63,858	272,501

DIRECTORS' REPORT

Other executives of the consolidated entity

2005	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Mark Creasap (Vice President – US Simulation & Training – North America)	191,540	–	–	5,146	–	–	196,686
Mr Yves Gosselin (formerly Vice President – Simulation – North America)	185,787	–	–	9,067	–	169,969	364,823
Mr Lionel Léveillé (President – International Operations, General Manager Canada)	254,574	–	–	11,367	–	287,972	553,913
Mr Fred Sheldon (Chief Executive Officer – North America)	292,698	–	–	8,176	–	–	300,874
Mr Errol Turner (Group Chief Financial Officer and Company Secretary)	201,885	–	–	6,758	–	63,858	272,501
Total	1,126,484	–	–	40,514	–	521,799	1,688,797

Cash bonuses and options

For each cash bonus and grant of options included in the above tables, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses or grant of options are payable in future years.

Name	Cash bonus		Options	
	Paid %	Forfeited %	Vested %	Forfeited %
Mr Julian Beale	–	–	50%	–
Mr Mark Creasap	–	100%	–	–
Mr Yves Gosselin	–	100%	–	100%
Mr Lionel Léveillé	–	100%	–	–
Mr Silvio Salom	–	100%	–	–
Mr Fred Sheldon	–	100%	–	–
Mr Ian Shiers	–	100%	–	–

DIRECTORS' REPORT

C. Service agreements

Remuneration and other terms of employment for the Managing Director, Chief Operations Officer & Executive Director and the specified executives are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Mr Silvio Salom (Managing Director)

- A written employment agreement is currently not in place, however, it is in the process of being agreed.
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$301,715.
- Access to a motor vehicle, which is leased by the company, for business and private use.
- No performance-related cash bonus was paid during the financial year.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Ian Shiers (formerly Group Chief Operating Officer and Executive Director)

- Effective 30 July 2004, Mr Shiers' ongoing employment contract was terminated.
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$29,309. In addition, an amount of \$33,856 for unused annual leave entitlements was paid out at the date of ceasing to be a Director and employee of the company.
- Payment of a termination benefit on early termination by the employer, other than for gross misconduct, equal to one times base salary and superannuation. Termination benefits were expensed in the year ended 30 June 2004.
- Provision of performance-related cash bonuses up to \$150,000. No performance-related cash bonus was paid during the financial year.
- Participation, when eligible, in the Staff Share Option Plan. The Board of Directors resolved that Mr Shiers' options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

Mr Mark Creasap (Vice President – US Simulation and Training – North America)

- Term of agreement – ongoing. Effective 28 September 2004, Mr Creasap was promoted to the position of Vice President – US Simulation and Training – North America.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$196,686.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Yves Gosselin (formerly Vice President – Simulation – North America)

- Effective 30 June 2005, Mr Gosselin's ongoing employment contract was terminated.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$194,854.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement. An amount of \$169,969 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan. At termination date, Mr Gosselin's options issued under the Staff Share Option Plan lapsed.

Mr Lionel Léveillé (President – International Operations, General Manager Canada)

- On 29 June 2005, notice was given to Mr Léveillé advising him that his ongoing employment contract would be terminated on 31 December 2006.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2005 of \$265,941.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 1.5 times base salary, superannuation and medical/health insurance. An amount of \$287,972 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Fred Sheldon (Chief Executive Officer – North America)

- Term of agreement – ongoing. Commenced employment on 19 July 2004.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2005 of \$300,874.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and superannuation.
- Provision of performance-related cash bonuses (up to 45% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

DIRECTORS' REPORT

Mr Errol Turner (Group Chief Financial Officer and Company Secretary)

- Effective 31 January 2005, Mr Turner's ongoing employment contract was terminated; however, Mr Turner continues to provide services to the company as a contractor.
- Base salary and fees, inclusive of superannuation, for the year ended 30 June 2005 of \$208,643.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement. An amount of \$63,858 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Participation, when eligible, in the Staff Share Option Plan. The Board of Directors resolved that Mr Turner's options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

D. Share-based compensation

Further details relating to options are set out below:

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 1046 Director and Executive Disclosures by Disclosing Entities of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Directors of Adacel Technologies Limited

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B–D \$
Mr Julian Beale	45.6%	\$31,320	—	—	\$31,320
Mr Kevin Courtney	—	—	—	—	—
Mr Silvio Salom	—	—	—	—	—
Mr Ian Shiers	8.2%	\$10,057	—	—	\$10,057
Mr David Smith	—	—	—	—	—
Mr Alex Waislitz	—	—	—	—	—
Mr Peter Landos (alternate to Mr Waislitz)	—	—	—	—	—

Other executives of Adacel Technologies Limited

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B–D \$
Mr Errol Turner	—	—	—	—	—

Other executives of the consolidated entity

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B–D \$
Mr Mark Creasap	—	—	—	—	—
Mr Yves Gosselin	—	—	—	—	—
Mr Lionel Léveillé	—	—	—	—	—
Mr Fred Sheldon	—	—	—	—	—
Mr Errol Turner	—	—	—	—	—

DIRECTORS' REPORT

DIRECTORS INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the Directors in the shares and options of Adacel Technologies Limited were:

Adacel Technologies Limited (ATL)		
	Fully paid ordinary shares 2005	Ordinary shares under option 2005
Mr Julian Beale	1,816,867	445,719
Mr Kevin Courtney	—	—
Mr Silvio Salom	14,496,659	74,000
Mr David Smith	10,060,558	—
Mr Alex Waislitz	—	—
Mr Peter Landos (alternate to Mr Waislitz)	—	—
	26,374,084	519,719

Mr Alex Waislitz is the Executive Chairman of the Thorney Investment Group. A member of the Thorney Investment Group, namely Thorney Holdings Pty Ltd, is a major shareholder of Adacel Technologies Limited. As at the date of this report, Thorney Holdings Pty Ltd holds 28,107,712 fully paid ordinary shares in Adacel Technologies Limited and 3,132,971 ordinary shares under option.

Invia Custodian Pty Ltd is a custodial entity which holds 1,980,070 fully paid ordinary shares in Adacel Technologies Limited for the Thorney Investment Group as nominee, as at the date of this report.

SHARE OPTIONS GRANTED TO DIRECTORS AND THE FIVE MOST HIGHLY REMUNERATED OFFICERS

Details of options granted over unissued ordinary shares in Adacel Technologies Limited during or since the end of the year to any Directors, any of the five most highly remunerated officers of the consolidated entity, or the one officer of the company as part of their remuneration were as follows:

Directors of Adacel Technologies Limited (ATL)				
	Options granted	Exercise price	Expiry date	Vesting date
Mr Julian Beale	300,000	\$0.61	12 September 2008	50% – 30 November 2004 (being the date of issue) 50% – 12 September 2005
Mr Kevin Courtney	—	—	—	—
Mr Silvio Salom	—	—	—	—
Mr Ian Shiers	37,000	\$0.45	4 July 2009	100% – 4 July 2006
Mr David Smith	—	—	—	—
Mr Alex Waislitz	—	—	—	—
Mr Peter Landos (alternate to Mr Waislitz)	—	—	—	—

Executive Officers of Adacel Technologies Limited				
	Options granted	Exercise price	Expiry date	Vesting date
Mr Errol Turner	—	—	—	—

DIRECTORS' REPORT

Executive Officers of the Consolidated Entity

	Options granted	Exercise price	Expiry date	Vesting date
Mr Mark Creasap	—	—	—	—
Mr Yves Gosselin	—	—	—	—
Mr Lionel Léveillé	—	—	—	—
Mr Fred Sheldon	1,250,000	\$0.60	1 October 2009	100% – 1 October 2004 (being the date of issue) *
Mr Errol Turner	—	—	—	—

* The conditions precedent to the options vesting also includes the company's share price achieving pre agreed levels in the future.

DIRECTORS' MEETINGS

The numbers of meetings of the company's Board of Directors and of each Board committee held during the year and the number of meetings attended by each Director were as follows:

	Meetings of Directors		Meetings of Committees					
	Board		Audit		Remuneration		Nominations	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Julian Beale	13	13	3	3	—	—	1	1
Mr Kevin Courtney	13	10	3	1	—	—	1	1
Mr Silvio Salom	13	13	*	*	*	*	1	1
Mr Ian Shiers	1	1	*	*	*	*	1	1
Mr David Smith	13	12	*	*	*	*	1	1
Mr Alex Waislitz	13	7	3	—	—	—	1	1
Mr Peter Landos	13	6	3	3	—	—	1	—
(alternate to Mr Waislitz — attending at times of Mr Waislitz's absence)								

* Denotes that the Director is not a member of the relevant committee.

As at the date of this report, the company has an Audit Committee, a Remuneration Committee and a Nominations Committee of the Board of Directors.

The members of the Audit Committee are Mr Kevin Courtney, Mr Julian Beale and Mr Alex Waislitz. The Chairman of the Audit Committee is Mr Kevin Courtney.

The members of the Remuneration Committee are Mr Julian Beale, Mr Kevin Courtney and Mr Alex Waislitz. The Chairman of the Remuneration Committee is Mr Julian Beale.

The members of the Nominations Committee are all members of the Board of Directors. The Chairman of the Nominations Committee is Mr Julian Beale.

REGISTERED OFFICE

As at the date of this report, the address of the company's registered office is:

240 Bay Street
Brighton, Victoria, 3186
Australia

DIRECTORS' REPORT

NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed to ensure they do not impact the impartiality and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 16.

	CONSOLIDATED	
	2005 \$	2004 \$
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:		
Assurance services		
<i>(a) Audit services</i>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	147,900	206,300
Related practices of PricewaterhouseCoopers Australian firm	332,511	116,500
Total remuneration for audit services	480,411	322,800
<i>(b) Other assurance services</i>		
PricewaterhouseCoopers Australian firm		
AIFRS related services	50,100	5,000
Other services	—	4,800
Related practices of PricewaterhouseCoopers Australian firm	—	—
Total remuneration for other assurance services	50,100	9,800
Total remuneration for assurance services	530,511	332,600
Taxation services		
PricewaterhouseCoopers Australian firm		
Tax compliance services, including review of company income tax returns, international tax consulting and tax advice on group structuring	152,920	156,200
Related practices of PricewaterhouseCoopers Australian firm	51,835	61,100
Total remuneration for taxation services	204,755	217,300

DIRECTORS' REPORT

ROUNDING

The amounts contained in this report and in the financial report have been rounded off to the nearest thousand dollars, or in some cases to the nearest dollar, under the option available to the company under Australian Securities & Investment Commission Class Order 98/0100. The company is an entity to which the Class Order applies.

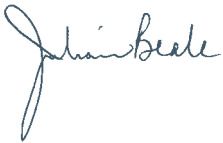
PROCEEDINGS ON BEHALF OF THE COMPANY

No person has made any application under section 237 of the Corporations Act 2001.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Adacel Technologies Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the Corporate Governance Statement section of this annual report.

Signed in accordance with a resolution of the Directors.



Julian Beale
Chairman

Melbourne, 28 September 2005



Silvio Salom
Managing Director

AUDITOR'S INDEPENDENCE DECLARATION



PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77

Website: www.pwc.com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999

AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Adacel Technologies Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Adacel Technologies Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'SC Bannatyne'.

SC Bannatyne
Partner
PricewaterhouseCoopers

Melbourne
28 September 2005

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW).

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005	Notes	CONSOLIDATED		ATL	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities					
Sales revenue	2	37,195	55,576	750	5,109
Other revenue	2	1,231	2,006	4,387	6,607
Total revenue from ordinary activities		38,426	57,582	5,137	11,716
Expenses from ordinary activities, excluding borrowing costs	3	(46,406)	(80,141)	(14,666)	(35,525)
Borrowing costs expense	3	(414)	(319)	(503)	(456)
Profit/(loss) from ordinary activities before income tax		(8,394)	(22,878)	(10,032)	(24,265)
Income tax (expense)/benefit relating to ordinary activities	4	(756)	(573)	—	(698)
Profit/(loss) from ordinary activities after income tax		(9,150)	(23,451)	(10,032)	(24,963)
Net profit/(loss) attributable to members of Adacel Technologies Limited	20	(9,150)	(23,451)	(10,032)	(24,963)
Net exchange differences on translation of financial report of foreign controlled entities	20	(804)	(1,120)	—	—
Total revenues, expenses and valuation adjustments attributable to members of Adacel Technologies Limited recognised directly in equity		(804)	(1,120)	—	—
Total changes in equity other than those resulting from transactions with owners as owners		(9,954)	(24,571)	(10,032)	(24,963)
Earnings/(loss) per share		Cents	Cents		
Basic earnings/(loss) per share	27	(12.1)	(35.6)		
Diluted earnings/(loss) per share	27	(12.1)	(35.6)		

The above Statements of Financial Performance should be read in conjunction with the accompanying notes.

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2005	Notes	CONSOLIDATED		ATL	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets	21	4,002	1,311	888	—
Receivables	5	10,929	18,404	25	342
Accrued revenue	6	2,830	3,428	246	262
Inventories	7	758	7,317	—	—
Other financial assets	8	639	104	35	40
Other assets	9	616	917	222	521
Total current assets		19,774	31,481	1,416	1,165
Non-current assets					
Receivables	5	—	—	3,316	5,803
Accrued revenue	6	176	264	176	264
Property, plant and equipment	10	877	1,354	—	—
Intangible assets	11	3,701	4,567	3,701	4,567
Deferred tax assets	12	—	1,368	—	—
Other financial assets	8	—	—	14	6,997
Total non-current assets		4,754	7,553	7,207	17,631
Total assets		24,528	39,034	8,623	18,796
Current liabilities					
Bank overdraft	21	4,826	4,354	—	4,415
Payables	13	8,080	20,879	1,539	3,129
Advance payments from customers	14	2,898	1,941	1	18
Current tax liabilities	15	185	146	—	—
Other interest bearing liabilities	16	20	58	12	47
Provisions	17	1,146	191	156	191
Total current liabilities		17,155	27,569	1,708	7,800
Non-current liabilities					
Payables	13	509	418	264	298
Interest bearing liabilities	16	115	169	115	160
Deferred tax liabilities	18	—	184	—	—
Provisions	17	268	356	268	335
Total non-current liabilities		892	1,127	647	793
Total liabilities		18,047	28,696	2,355	8,593
Net assets		6,481	10,338	6,268	10,203
Equity					
Capital contributed equity	19	79,200	73,103	79,200	73,103
Reserves	20	(3,245)	(2,441)	10	10
Retained profits/(accumulated losses)	20	(69,474)	(60,324)	(72,942)	(62,910)
Total equity		6,481	10,338	6,268	10,203

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2005	Notes	CONSOLIDATED		ATL	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Receipts from customers		47,870	56,827	1,253	5,265
Payments to suppliers and employees		(49,216)	(69,485)	(5,219)	(13,692)
Interest received		65	16	62	12
Payments for development expenditure		(1,362)	(3,758)	—	(571)
Income tax paid		(127)	(125)	—	—
Tax credits refunded		—	1,396	—	—
Borrowing costs		(414)	(327)	(405)	(317)
Net cash flows from/(used in) operating activities	21	(3,184)	(15,456)	(4,309)	(9,303)
Cash flows from investing activities					
Payments for property, plant and equipment		(183)	(310)	(25)	(11)
Proceeds from sale of plant and equipment		27	65	27	62
Proceeds from /(payment for) for deposits		(35)	181	4	98
Payments for investments		—	(53)	—	(53)
Proceeds from sale of businesses		—	250	—	250
Net cash flows from/(used in) investing activities		(191)	133	6	346
Cash flows from financing activities					
Proceeds from shares issued		6,506	—	6,506	—
Repayment of over-subscriptions in share purchase plan		—	(198)	—	(198)
Share issue costs		(409)	(2)	(409)	(2)
Repayment of borrowing		(91)	(63)	(80)	(53)
Loans (to)/from controlled entities		—	—	3,589	2,792
Net cash flows from/(used in) financing activities		6,006	(263)	9,606	2,539
Net increase/(decrease) in cash held		2,631	(15,586)	5,303	(6,418)
Cash at the beginning of the financial year		(3,043)	12,254	(4,415)	2,003
Effects of exchange rate changes on cash		(412)	289	—	—
Cash at the end of the financial year	21	(824)	(3,043)	888	(4,415)
Financing arrangements	33				
Non-cash financing and investing activities	22				

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all the entities controlled by Adacel Technologies Limited ("company", "parent" or "ATL") as at 30 June 2005 and the results of all controlled entities for the year then ended. Adacel Technologies Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

A controlled entity is any entity controlled by Adacel Technologies Limited. Control exists where Adacel Technologies Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Adacel Technologies Limited to achieve the objectives of Adacel Technologies Limited.

(b) Intellectual property

Intellectual property consists of the cost of developing core intellectual property in relation to computer software systems. Intellectual property is carried at cost and is amortised on a straight-line basis over the periods of their expected benefit. The Board has established a process to review the value of the company's intellectual property assets, on a timely basis, for recoverable amount assessment purposes. During the year ended 30 June 2004, the company reassessed the useful life from 15 years to 5 years.

(c) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise.

(d) Research & development expenditure

Costs incurred on core research and development projects are deferred to future periods to the extent that they are expected beyond any reasonable doubt to be recoverable.

Development costs are charged to work in progress (inventory) where the expected benefits will be derived directly from existing contracts. These costs are charged to the statement of financial performance as research and development expenses in proportion to the expected contract revenues for the relevant period.

Costs that are not deferred are charged as expenses in the period in which they are incurred.

(e) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Goodwill is brought to account on the basis described in note 1(c).

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Foreign currencies

(i) Translation of foreign currency transactions

Foreign currency transactions are initially converted into Australian currency at the rate of exchange at the date of the transaction.

Amounts payable and receivable at the balance date that are denominated in foreign currencies are converted to Australian currency at the rates of exchange at the end of the financial year.

All resulting exchange differences arising on settlement or re-statement are recorded as revenue or expense by the entity.

(ii) Translation of financial reports of overseas operations

For foreign controlled entities that are self-sustaining, their accounts are translated to Australian currency using the current method. Under this method, assets and liabilities are translated at rates of exchange current at balance date, while revenues and expenses are translated at the average rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve. Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are recognised as revenues or expenses in the reporting period in which the exchange rates change. On incorporation of the foreign operation into the consolidated entity's financial report, the exchange differences, together with any income tax expense/revenue arising from such differences, is eliminated against the foreign currency translation reserve.

For foreign controlled entities that are integrated with the company, that is they are financially and operationally dependent on the company, their accounts are translated to Australian currency using the temporal method. Under this method, non-monetary assets and liabilities and equity items, including revenues and expenses, are translated using historic rates of exchange, and monetary assets and liabilities are translated using rates of exchange current at the reporting date. Any resulting exchange differences are recorded as revenue or expense by the entity.

(iii) Hedging

Hedging is undertaken in order to reduce possible adverse financial effects of movements in exchange rates. Exchange differences on foreign currency monetary items hedging foreign currency exposures are recorded as revenue or expense by the entity in the reporting period in which the exchange rates change.

(g) Income tax

The consolidated entity adopts the liability method of tax-effect accounting, whereby the income tax expense shown in the Statement of Financial Performance is based upon the operating profit/(loss) before income tax adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of operating profit before income tax and taxable income are brought to account as either a provision for deferred income tax or an asset described as future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits in relation to timing differences are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Income tax payable represents the amount of income tax expected to be remitted to various tax authorities.

Tax consolidation legislation

Adacel Technologies Limited and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2002.

The entities are currently in the process of entering into a tax sharing agreement.

As a consequence, Adacel Technologies Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing arrangement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing arrangement are recognised as a component of income tax expense/(revenue).

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash and subject to insignificant risk of change in value, net of outstanding bank overdrafts.

(i) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(j) Trade and other receivables

All trade and other debtors are recognised at the amounts receivable as they are generally due for settlement no more than 30 days from the date of recognition.

Accrued revenue represents revenue that has been recognised, but which has not been invoiced to the customer at balance date.

Collectibility of trade and other debtors is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(k) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in future for goods and services received. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Investments

Investments in securities, other than controlled entities in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable. Controlled entities are accounted for in the consolidated financial statements as set out in note 1(a).

Where the carrying amount of an investment is greater than its recoverable amount, the investment is written down to its recoverable amount.

(m) Inventories

Work in progress and finished goods are stated at the lower of cost and net realisable value.

Costs deferred to work in progress comprise direct materials and direct labour. These costs are charged as expenses when the related revenue is recognised.

(n) Recoverable amount of non current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Property, plant and equipment

(i) Cost

Property, plant and equipment is carried at cost, less, where applicable, any accumulated depreciation or amortisation. The costs of fixed assets constructed within the consolidated entity include the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

(ii) Depreciation and amortisation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity, commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used during the 2005 and 2004 financial years for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Amortisation Rate
Buildings	2.5%
Leasehold improvements	20%
Motor vehicles	25%
Computers and office equipment	25–50%
Furniture and fittings	10%
Leased plant and equipment	15–25%

(p) Leases

(i) Finance leases

Leases of non-current assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised on a straight-line basis over their estimated useful lives, where it is likely that the consolidated entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

(ii) Operating leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(q) Revenue recognition

Revenue from the sale of product is recognised when the product has been dispatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or the customer.

Revenue from the provision of services is recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where the outcome of a contract to provide services cannot be reliably estimated, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

For fixed price contracts, the stage of completion is measured by reference to:

- (a) the milestones within the contract that have been completed by the company or economic entity and have been accepted by the customer,
- (b) the labour costs incurred to date as a percentage of total estimated labour costs, or
- (c) the total costs incurred to date as a percentage of total estimated costs.

The method used is selected on the basis of that which best represents services performed and is dependent upon the nature of the contract.

Grants are recognised as income at the time at which expenditure to which the grant relates is incurred.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Advance payments from customers

Advance payments from customers represent amounts invoiced to customers in excess of the amount of revenue recognised on contracts. Services for these contracts will be rendered and revenue will be recognised in future periods.

(s) Employee benefits

(i) Wages and salaries, and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Contributions are made by the consolidated entity to a defined contribution employees superannuation fund and are charged as expenses when incurred. Amounts outstanding at balance date are recognised in other creditors.

(iv) Ownership based remuneration scheme

Ownership-based remuneration is provided to employees via the company's Staff Share Option Plan. Information relating to this plan is set out in note 24.

No accounting entries are made in relation to the issue of options until the options are exercised, at which time the amounts receivable from the employees are recognised in the statement of financial position as share capital.

(v) Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Employee benefits (continued)

(vi) Termination benefits

Liabilities for termination benefits, not in connection with the acquisition of an entity or operation, are recognised when a detailed plan for the terminations has been developed and a valid expectation has been raised in those employees affected that the terminations will be carried out. The liabilities for termination benefits are recognised in other creditors unless the amount or timing of the payments is uncertain, in which case they are recognised as provisions.

Liabilities for termination benefits expected to be settled within 12 months are measured at the amounts expected to be paid when they are settled. Amounts expected to be settled more than 12 months from the reporting date are measured as the estimated cash outflows, discounted using market yields at the reporting date on national government bonds with terms of maturity and currency that match, as closely as possible, the estimated future payments, where the effect of the discounting is material.

(vii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in the employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(t) Restructuring costs

Liabilities arising directly from undertaking a restructuring program, not in connection with the acquisition of an entity or operations, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the restructuring activities or making a detailed announcement such that affected parties are in no doubt the restructuring program will proceed.

Liabilities for the cost of restructuring entities or operations acquired are recognised as at the date of acquisition of an entity, or part thereof, if the main features of the restructuring are planned and there is a demonstrable commitment to the restructuring at the acquisition date and this is supported by a detailed plan developed within three months of the acquisition or prior to the completion of the financial report, if earlier.

The cost of restructurings provided for, other than related employee termination benefits, is the estimated cash flows, having regard to the risks of the restructuring activities, discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Liabilities for employee termination benefits associated with restructurings are brought to account on the basis described in the accounting policy note for employee benefits (note 1(s)(vi)). Liabilities for costs of restructurings and related employee termination benefits are disclosed in aggregate where the restructuring occurs as a consequence of an acquisition.

Reversals of part or all of a provision for restructuring relating to an acquisition because the costs are no longer expected to be incurred as planned, are adjusted against the goodwill or discount on acquisition. The adjusted carrying amounts of goodwill or non-monetary assets are amortised or depreciated from the date of the reversal.

(u) Service warranties

Provision is made for the estimated liability on all solutions and products still under warranty at balance date. The amount of the provision is determined having regard to the service warranty experience and the risks of the warranty obligations. The provision is not discounted to its present value as the effect of discounting is not material.

(v) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due.

(w) Security deposits

Security deposits are carried at the amounts paid to suppliers in relation to contract performance for the rental of offices. Security deposits are refundable following successful performance of contractual obligations.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Share capital

Share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of shares are recognised directly in equity as a reduction of the proceeds received.

(y) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the profit/(loss) from ordinary activities after related income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of ordinary shares assumed to have been issued for no consideration in relation to potentially dilutive shares.

(z) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived from the contract are less than the unavoidable costs of meeting the obligations under that contract, and only after any impairment losses to assets dedicated to that contract have been recognised. The provision recognised is based on the excess of the estimated cash flows to meet the unavoidable costs under the contract over the estimated cash flows to be received in relation to the contract, having regard to the risks of the activities relating to the contract. The net estimated cash flows are discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

(aa) Web site costs

Costs relating to the company's website are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit.

(ab) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS (AIFRS) will first be reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out in note 34.

(ac) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
2. REVENUE				
Revenues from operating activities				
Revenue from sales of services and systems	37,195	55,515	750	5,109
Revenue from sales of product	—	61	—	—
	37,195	55,576	750	5,109
Revenue from outside the operating activities				
Interest	65	16	2,733	2,721
Royalties	—	—	283	929
Management fee	—	—	1,344	2,837
Proceeds from sale of business	34	58	—	58
Proceeds from sale of property, plant and equipment	27	65	27	62
Grant income	1,105	1,867	—	—
	1,231	2,006	4,387	6,607
Total revenue from ordinary activities	38,426	57,582	5,137	11,716
3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES				
The operating profit/(loss) before income tax includes the following net gains and expenses:				
(a) Expenses from ordinary activities				
Materials and consumables	12,087	24,295	52	342
Labour expense – research & development	2,708	6,409	—	554
Labour expense – writeoff of work-in-progress	—	1,316	—	—
Labour expense – other activities	23,809	24,893	2,009	7,272
Sub-total labour expense	26,517	32,618	2,009	7,826
Other expenses from ordinary activities – research & development	77	817	—	17
Other expenses from ordinary activities – sales & marketing	941	1,776	10	124
Other expenses from ordinary activities – general & administration	5,477	8,617	1,512	3,390
Sub-total other expenses from ordinary activities	6,495	11,210	1,522	3,531
Provision for diminution of investments and loans	34	179	10,208	14,779
Written down value of property, plant and equipment sold	—	64	—	62
Sale of business – carrying value of net assets sold	—	—	—	—
Net foreign exchange loss/(gain)	(214)	433	(16)	34
Depreciation and amortisation expenses (note 3 (b))	1,487	11,342	891	8,951
Total expenses from ordinary activities before borrowing costs	46,406	80,141	14,666	35,525
Borrowing costs	414	319	503	456
Total expenses from ordinary activities	46,820	80,460	15,169	35,981

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES (CONTINUED)				
(b) Other expenses disclosure				
Amortisation of intangibles				
Goodwill	—	1,618	—	1,109
Intellectual property	866	6,785	866	5,824
	866	8,403	866	6,933
Depreciation/amortisation of property, plant & equipment				
Leasehold improvements	17	391	—	377
Furniture, fittings and equipment	598	2,396	25	1,492
Motor vehicles	6	3	—	—
Equipment under finance lease	—	149	—	149
	621	2,939	25	2,018
	1,487	11,342	891	8,951
Included in the prior year amounts of depreciation and amortisation is accelerated depreciation and amortisation, which is set out in note 3(d).				
Bad and doubtful debts – trade debtors	(130)	85	(130)	85
Operating lease rental	1,683	1,992	372	682
Research and development costs	2,785	7,226	—	571
Provision for diminution of intercompany loans	—	—	3,191	14,600
Provision for diminution of investments	34	179	7,017	179
(c) Net gains				
Net gain on disposal of businesses	34	58	34	58
Net gain on disposal of property, plant & equipment	27	1	27	—
(d) Profit/(loss) from ordinary activities before income tax expense includes the following. This disclosure is relevant in explaining the financial performance of Adacel Technologies Limited and the consolidated entity.				
Accelerated depreciation and amortisation:				
Amortisation of goodwill	—	1,551	—	1,063
Amortisation of intellectual property	—	5,852	—	4,958
Depreciation of plant & equipment	—	1,170	—	1,122
	—	8,573	—	7,143

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
4. INCOME TAX				
(a) Income tax reconciliation				
The income tax expense/(benefit) for the financial year differs from the amount calculated on the result. The differences are reconciled as follows:				
Profit/(loss) from ordinary activities before income tax	(8,394)	(22,878)	(10,032)	(24,265)
Income tax calculated at applicable tax rates	(2,468)	(7,100)	(3,010)	(7,280)
Tax effect of permanent differences				
Research and development concession	—	(55)	—	(31)
Amortisation of goodwill	—	333	—	333
Amortisation of intellectual property	—	289	—	—
Provision for diminution of investments	11	54	2,105	54
Provision for diminution of intercompany receivables	—	—	958	4,380
Canadian Federal and Provincial income tax credits	(861)	(1,810)	—	—
Non-deductible interest	358	479	—	—
Non-deductible royalties	436	—	—	—
Other items (net)	(261)	191	(3)	62
Total permanent differences	(317)	(519)	3,060	4,798
Income tax adjusted for permanent differences	(2,785)	(7,619)	50	(2,482)
Current year tax losses not brought to account	1,257	2,199	478	1,050
Reversal of previously booked tax losses	103	1,111	—	—
Current and prior year timing differences not brought to account or reversed	2,290	5,972	(528)	2,453
Net loss attributable to change in income tax rates	—	90	—	—
Foreign exchange impact on tax balances	(70)	12	—	—
Income tax under/(over) provided in prior years	(86)	(1,308)	—	(323)
Other items	47	116	—	—
Income tax expense/(benefit) attributable to profit/(loss) from ordinary activities before impact of tax consolidation	756	573	—	698
Profit/(loss) from ordinary activities before income tax expense/benefit – tax consolidated group (excluding parent entity)			(1,193)	(3,819)
Income tax calculated at tax rate			(358)	(1,146)
Tax effect of permanent differences				
Research and development concession			—	(24)
Amortisation of intellectual property			—	289
Other items (net)			—	8
Total permanent differences			—	273
Income tax adjusted for permanent differences			(358)	(873)
Current year tax losses not brought to account			407	869
Current and prior year timing differences not brought to account or reversed			(49)	40
Income tax expense/(benefit) – tax consolidated group (excluding parent entity)			—	36
Net deferred tax liabilities of tax consolidated group entities assumed on implementation of tax consolidation			—	(36)
Income tax expense/(benefit)	756	573	—	698

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
4. INCOME TAX (CONTINUED)				
(b) Tax losses				
Future income tax benefit is shown in note 12 and discloses that part attributable to timing differences and tax losses carried forward.				
The Directors estimate that the additional potential future income tax benefit at 30 June 2005 in respect of tax losses not brought to account is:	1,061	1,367	—	—

This benefit for tax losses will only be obtained if:

- (i) The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deduction for the losses to be realised, and
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(c) Tax consolidation legislation

Adacel Technologies Limited and its wholly-owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2002. The accounting policy on implementation of the legislation is set out in note 1(g). The impact on the income tax expense/benefit for the year is disclosed in the tax reconciliation above.

Deferred tax assets and liabilities transferred to Adacel Technologies Limited by wholly-owned entities on the date of the implementation of the legislation and any future dates, were transferred for no consideration.

The entities are currently in the process of entering into a tax sharing and funding agreement. Under the terms of this agreement, the wholly owned entities reimburse Adacel Technologies Limited for any current income tax payable by Adacel Technologies Limited arising in respect of their activities. The reimbursements are payable at the same time as the associated income tax liability falls due and have therefore been recognised as a current-tax related receivable by Adacel Technologies Limited. In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned entities in the case of a default by Adacel Technologies Limited.

(d) Franking balance

Adacel Technologies Limited and its Australian controlled entities have not paid Australian income tax. Accordingly there is a nil balance in the franking account of the company.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
5. RECEIVABLES				
Current				
Trade debtors	10,066	18,319	165	711
Provision for doubtful debts	(140)	(369)	(140)	(369)
	9,926	17,950	25	342
Tax receivable	1,003	454	—	—
	10,929	18,404	25	342
Non Current				
Amounts receivable from controlled entities	—	—	39,820	39,116
Provision for non-recovery of amounts loaned to controlled entities	—	—	(36,504)	(33,313)
	—	—	3,316	5,803
6. ACCRUED REVENUE				
Current				
Accrued revenue	2,830	3,428	246	262
Non Current				
Accrued revenue	176	264	176	264
7. INVENTORIES				
Current				
Work-in-progress on contracts – at cost	758	7,317	—	—
8. OTHER FINANCIAL ASSETS				
Current				
Sundry debtors	583	81	16	17
Security deposits	56	23	19	23
	639	104	35	40
Non Current				
Shares in controlled entities (unlisted) – at cost	—	—	6,997	6,997
Provision for diminution	—	—	(6,983)	—
	—	—	14	6,997
Shares in other entities (unlisted) – at cost	14,546	14,512	14,546	14,512
Provision for diminution	(14,546)	(14,512)	(14,546)	(14,512)
	—	—	—	—
	—	—	14	6,997

(a) Interests in controlled entities

Name of entity	Country of Incorporation	Class of Shares	2005 % held	2004 % held
Adacel Multimedia Pty Ltd	Australia	Ordinary	100	100
Rami Logistics Pty Ltd	Australia	Ordinary	100	100
Brightstar Consulting Services Pty Ltd	Australia	Ordinary	100	100
Adacel Inc.	Canada	Ordinary	100	100
Adacel Technologies (Europe) Ltd	UK	Ordinary	100	100
Adacel Technologies Holdings Inc	USA	Ordinary	100	100
Adacel Technologies Inc	USA	Ordinary	100	100
Adacel Systems Inc	USA	Ordinary	100	100

NOTES TO FINANCIAL STATEMENTS

8. OTHER FINANCIAL ASSETS (CONTINUED)

(b) Interests in other entities

Adacel Technologies Limited holds approximately a 47% interest in Logo Media Inc, a company established in the USA for the purpose of Machine Language Translation. The principal activities of the company are internet language translation services. ATL does not have significant influence or control over Logo Media Inc. As at 30 June 2005 the cost of this investment was \$14,050,000 (2004: \$14,050,000).

Adacel Technologies Ltd also has an investment in IT&T Skills Exchange Pty Ltd for a cost of \$150,000 (2004: \$150,000) and an investment in Smart Internet Technology CRC for a cost of \$346,000 (2004: \$312,000). Adacel Technologies Ltd has less than 20% holding in both these entities and does not have control or significant influence.

All of the interests in other entities described above have been fully provided for.

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
9. OTHER ASSETS				
Current				
Prepayments	616	917	222	521
10. PROPERTY, PLANT AND EQUIPMENT				
Non Current				
Leasehold improvements				
At cost	765	776	—	573
Provision for amortisation	(702)	(694)	—	(573)
	63	82	—	—
Total leasehold improvements	63	82	—	—
Furniture, fittings and equipment				
At cost	7,200	7,648	1,582	4,357
Provision for depreciation	(6,400)	(6,397)	(1,582)	(4,357)
	800	1,251	—	—
Motor vehicles				
At cost	27	29	—	—
Provision for depreciation	(13)	(8)	—	—
	14	21	—	—
Equipment under finance lease				
At cost	170	196	170	196
Provision for amortisation	(170)	(196)	(170)	(196)
	—	—	—	—
Total plant and equipment	814	1,272	—	—
Total property, plant and equipment				
At cost	8,162	8,649	1,752	5,126
Provision for depreciation and amortisation	(7,285)	(7,295)	(1,752)	(5,126)
Total written down value	877	1,354	—	—

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED	ATL
	2005 \$'000	2005 \$'000
10. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)		
Reconciliations		
Reconciliations of each class of property, plant and equipment at the beginning and end of the current financial year are as follows:		
Leasehold improvements		
Carrying amount at 1 July	82	—
Additions	—	—
Disposals	—	—
Amortisation expense	(17)	—
Foreign currency exchange differences	(2)	—
Carrying amount at 30 June	63	—
Furniture, fittings and equipment		
Carrying amount at 1 July	1,251	—
Additions	187	25
Disposals	—	—
Depreciation expense	(598)	(25)
Foreign currency exchange differences	(40)	—
Carrying amount at 30 June	800	—
Motor vehicles		
Carrying amount at 1 July	21	—
Depreciation expense	(6)	—
Foreign currency exchange differences	(1)	—
Carrying amount at 30 June	14	—
Equipment under finance lease		
Carrying amount at 1 July	—	—
Disposals	—	—
Amortisation expense	—	—
Carrying amount at 30 June	—	—

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
11. INTANGIBLE ASSETS				
Non Current				
Goodwill at cost	3,604	3,610	1,607	1,607
Provision for amortisation	(3,604)	(3,610)	(1,607)	(1,607)
	—	—	—	—
Intellectual property:				
Core intellectual property at cost	21,037	21,233	13,376	13,376
Provision for amortisation	(17,336)	(16,666)	(9,675)	(8,809)
	3,701	4,567	3,701	4,567
Purchased intellectual property at cost	919	919	919	919
Provision for amortisation	(919)	(919)	(919)	(919)
	—	—	—	—
	3,701	4,567	3,701	4,567
	3,701	4,567	3,701	4,567
12. DEFERRED TAX ASSETS				
Non Current				
Future income tax benefit:				
Timing differences	—	910	—	—
Tax losses	—	458	—	—
	—	1,368	—	—
13. PAYABLES				
Current				
Trade & other creditors and accruals	8,080	20,879	1,539	3,129
Non Current				
Trade & other creditors and accruals	509	418	264	298
14. ADVANCE PAYMENTS FROM CUSTOMERS				
Current				
Advance payments from customers	2,898	1,941	1	18
15. CURRENT TAX LIABILITIES				
Current				
Income tax payable	185	146	—	—
16. OTHER INTEREST-BEARING LIABILITIES				
Current				
Finance lease liabilities – secured	20	58	12	47
Non Current				
Finance lease liabilities – secured	115	169	115	160

The finance lease liability is a hire purchase creditor and is secured against the assets being leased.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
17. PROVISIONS				
Current				
Employee benefits	64	99	64	99
Other	1,082	92	92	92
	1,146	191	156	191
Non Current				
Employee benefits	268	356	268	335
Movements in provisions				
Movements in each class of provision during the financial year, other than employee benefits are set out below.				
<i>Contract loss provision</i>				
Carrying amount at the beginning of the year	—		—	
Provision recognised	990		—	
Carrying amount at the end of the year	990		—	
<i>Rebates</i>				
Carrying amount at the beginning of the year	92		92	
Carrying amount at the end of the year	92		92	
18. DEFERRED TAX LIABILITIES				
Non Current				
Deferred income tax liability	—	184	—	—
19. CONTRIBUTED EQUITY				
(a) Share capital				
Capital/contributed equity – issued (comprises 87,528,524 ordinary shares fully paid (2004: 65,843,273))	79,200	73,103	79,200	73,103

(b) Movements in ordinary share capital

Date	Details	Number of Shares	Issue Price	\$'000
30 June 2003	Balance	65,843,273		73,105
	Less : transaction costs arising on share issues			(2)
30 June 2004	Balance	65,843,273		73,103
19 January 2005	Non Renounceable Rights Issue	21,685,251	\$0.30	6,506
	Less : transaction costs arising on share issues			(409)
30 June 2005	Balance	87,528,524		79,200

19. CONTRIBUTED EQUITY (CONTINUED)

(c) Share options

- (i) At the end of the year there were 4,816,000 unissued ordinary shares under the Staff Share Option Plan.
- (ii) At the end of the year there were 1,821,494 unissued ordinary shares under the Tranche 1 Capital Raising.
- (iii) At the end of the year there were 2,185,792 unissued ordinary shares under the Tranche 2 Capital Raising.
- (iv) At the end of the year there were 300,000 unissued ordinary shares issued to the chairman of the Board of Directors following approval by the shareholders at the Annual General Meeting on the 19 November 2004.

(d) Terms and conditions of ordinary shares

Ordinary shares have the right to receive dividends as declared and in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(e) Terms and conditions of share options

Staff Share Option Plan Options

The terms and conditions of the options issued under the Staff Share Option Plan are disclosed in note 24.

Chairman's Options

Options issued to the Chairman were issued on 30 November 2004 following approval by the shareholders at the Annual General Meeting on the 19 November 2004. The options were issued as part of remuneration for acting as the non-executive chairman of the Board. 50% of the options vest immediately on issue and the remaining 50% vest on 12 September 2005. The options are not listed. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is \$0.61, payable immediately on exercise. The expiry date of these options is 12 September 2008. As at 30 June 2005 these options have not been exercised.

Options – Tranche 1 & 2 Capital Raising

Options issued under Tranche 1 and 2 of the Capital Raising were approved by the shareholders at the Extraordinary General Meeting on the 23 May 2003. Each option was granted for free and was issued on the basis of four options for every nine shares issued under the capital raising of the same date. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price is \$1.00, payable immediately on exercise. The expiry date of these options is 16 March 2006. As at 30 June 2005 these options have not been exercised.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
20. RESERVES AND RETAINED PROFITS				
Retained profits/(accumulated losses)	(69,474)	(60,324)	(72,942)	(62,910)
Reserves				
Asset revaluation reserve	10	10	10	10
Foreign currency translation reserve	(3,255)	(2,451)	—	—
	(3,245)	(2,441)	10	10
(a) Retained profits/(Accumulated losses)				
Balance at the beginning of the year	(60,324)	(36,873)	(62,910)	(37,947)
Net profit/(loss) attributable to members of Adacel Technologies Limited	(9,150)	(23,451)	(10,032)	(24,963)
Balance at the end of the year	(69,474)	(60,324)	(72,942)	(62,910)
(b) Asset revaluation reserve				
<i>(i) Nature and purpose of reserve</i>				
The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances as permitted by law.				
<i>(ii) Movements in reserve</i>				
Balance at the beginning and end of the year	10	10	10	10
(c) Foreign currency translation reserve				
<i>(i) Nature and purpose of reserve</i>				
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.				
<i>(ii) Movements in reserve</i>				
Balance at the beginning of the year	(2,451)	(1,331)	—	—
Gain/(loss) on translation of overseas controlled entities	(804)	(1,120)	—	—
Balance at the end of the year	(3,255)	(2,451)	—	—

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
21. CASH FLOW INFORMATION				
(a) Reconciliation of operating profit/(loss) from ordinary activities after income tax to net cash flows from operating activities				
Operating profit/(loss) from ordinary activities after income tax	(9,150)	(23,451)	(10,032)	(24,963)
Non-cash items				
Depreciation and amortisation (including writedowns)	1,487	11,342	891	8,951
Net (profit)/loss on sale of businesses	(34)	(58)	—	(58)
Net (profit)/loss on sale of plant and equipment	(27)	(1)	(27)	—
Provision for doubtful debts	(130)	85	(130)	85
Provision for diminution of investments	34	179	7,017	179
Provision for non-recovery of intercompany loans	—	—	3,191	14,600
Net exchange differences	(214)	433	(16)	34
Changes in assets and liabilities				
(Increase)/decrease in trade receivables and accrued revenue	8,378	(870)	550	1,321
(Increase)/decrease in other receivables and other assets	(1,048)	530	1	(8)
(Increase)/decrease in inventory	6,191	(456)	—	—
(Increase)/decrease in prepayments	283	(68)	299	(184)
(Increase)/decrease in deferred tax assets and liabilities and tax payable	1,180	1,408	—	692
(Increase)/decrease in investments	(34)	(126)	(34)	(126)
Increase/(decrease) in trade and other creditors	(12,013)	(3,660)	(1,607)	(1,690)
Increase/(decrease) in employee benefits provisions	(122)	(404)	(101)	(377)
Increase/(decrease) in other provisions	978	(244)	(1)	(250)
Increase/(decrease) in advanced payments from customers	1,057	(95)	(17)	(268)
(Increase)/decrease in intercompany loans	—	—	(4,293)	(7,241)
Net cash flow from/(used in) operating activities	(3,184)	(15,456)	(4,309)	(9,303)
(b) Reconciliation of cash				
Cash balance at the end of the financial year comprises:				
Cash on hand	4,002	1,311	888	—
Bank overdraft	(4,826)	(4,354)	—	(4,415)
	(824)	(3,043)	888	(4,415)
(c) Bank overdraft facility				
Refer to note 33 for a summary of the bank facilities as at 30 June 2005.				
(d) Businesses disposed				
Details of the sale of businesses are as follows:				
Consideration received or receivable:				
Cash	—	—	—	—
Employee benefits/liabilities assumed by the purchaser	34	58	—	58
	34	58	—	58
Carrying amount of net assets sold	—	—	—	—
Profit on sale before related income tax	34	58	—	58
Income tax	—	—	—	—
Profit on sale after related income tax	34	58	—	58

NOTES TO FINANCIAL STATEMENTS

22. NON-CASH FINANCING AND INVESTING ACTIVITIES

There were no non-cash financing or investments activities during the years ended 30 June 2005 and 2004.

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
23. EXPENDITURE COMMITMENTS				
(a) Operating leases expenditure commitments				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,244	1,561	48	260
Later than one year and not later than 5 years	2,536	3,682	58	219
Later than 5 years	—	—	—	—
Commitments not recognised in the financial statements	3,780	5,243	106	479
The above operating lease commitments are for the rental of offices and for various office and computer equipment.				
(b) Finance leases expenditure commitments				
Commitments in relation to finance leases are payable as follows:				
Within one year	33	76	21	60
Later than one year and not later than 5 years	126	194	126	181
Later than 5 years	—	—	—	—
Total minimum lease payments	159	270	147	241
Future finance charges	(24)	(43)	(20)	(34)
Total lease liabilities	135	227	127	207
Representing lease liabilities for:				
Current (note 16)	20	58	12	47
Non-current (note 16)	115	169	115	160
Total lease liabilities	135	227	127	207

The above finance lease commitments are for various office and computer equipment and a motor vehicle.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
24. EMPLOYEE BENEFITS				
(a) Employee benefit liabilities				
The aggregate employee benefit liability is comprised of:				
Other creditors – current (note 13)	1,603	2,121	149	774
Other creditors – non-current (note 13)	509	418	264	298
Provisions – current (note 17)	64	99	64	99
Provisions – non-current (note 17)	268	356	268	335
	<u>2,444</u>	<u>2,994</u>	<u>745</u>	<u>1,506</u>

(b) Staff Share Option Plan

The Staff Share Option Plan was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, Directors can issue options (up to 10% of the company's issued capital) to eligible employees. The Directors have the discretion as to the number of options to be issued and exercise periods. The options are issued for no consideration from Directors or employees. The options are not listed. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Staff Share Option Plan options may be issued with conditions precedent to the options vesting. The conditions precedent for the options on issue are one of the following:

- (i) Set time periods are achieved (the anniversary dates); and
On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options. Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.
- (ii) Set time periods are achieved.
- (iii) The company's share price is greater than or equal to the exercise price plus a pre agreed amount for a period of 10 consecutive days; and for a period of 90 days thereafter, the average share price is greater than or equal to the exercise price plus a pre agreed amount. Once this price threshold is achieved, a subsequent fall in company's share price will not affect the right to exercise the options.
- (iv) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

In the event of the resignation, redundancy or termination of employment of an option holder, the options issued under the Staff Share Option Plan lapse immediately, unless the Directors, at their absolute discretion, determine otherwise.

During the year ended 30 June 2005 no options were exercised, 1,860,000 options were issued and 321,000 options lapsed.

Future issues to eligible employees will be made quarterly. There are currently 164 employees eligible under the plan.

NOTES TO FINANCIAL STATEMENTS

24. EMPLOYEE BENEFITS (CONTINUED)

(c) Options issued under the Adacel Technologies Limited Staff Share Option Plan

Plan	Exercise Price \$	No of Options on Issue at 1 July 2004	Issued	Exercised	Lapsed	No of Options on Issue at 30 June 2005	Issue Date	Expiry Date
Staff Share Option Plan	\$1.44	959,000	—	—	(81,000)	878,000	11 May 2001	11 May 2006
Staff Share Option Plan	\$1.62	11,000	—	—	—	11,000	19 July 2001	19 July 2006
Staff Share Option Plan	\$1.05	42,000	—	—	(14,000)	28,000	1 November 2001	1 November 2006
Staff Share Option Plan	\$1.05	100,000	—	—	—	100,000	12 November 2001	12 November 2006
Staff Share Option Plan	\$1.02	155,000	—	—	(19,000)	136,000	25 February 2002	25 February 2007
Staff Share Option Plan	\$1.00	100,000	—	—	—	100,000	25 February 2002	25 February 2007
Staff Share Option Plan	\$0.91	418,000	—	—	(81,000)	337,000	5 April 2002	5 April 2007
Staff Share Option Plan	\$0.90	500,000	—	—	—	500,000	2 May 2002	2 May 2007
Staff Share Option Plan	\$0.89	120,000	—	—	(32,000)	88,000	5 July 2002	5 July 2007
Staff Share Option Plan	\$0.66	65,000	—	—	(13,000)	52,000	4 October 2002	4 October 2007
Staff Share Option Plan	\$0.58	200,000	—	—	—	200,000	11 November 2002	11 November 2007
Staff Share Option Plan	\$0.81	86,000	—	—	(26,000)	60,000	10 January 2003	10 January 2008
Staff Share Option Plan	\$1.00	100,000	—	—	—	100,000	25 February 2003	25 February 2008
Staff Share Option Plan	\$0.71	79,000	—	—	(4,000)	75,000	4 April 2003	4 April 2008
Staff Share Option Plan	\$0.75	93,000	—	—	(31,000)	62,000	4 July 2003	4 July 2008
Staff Share Option Plan	\$0.75	36,000	—	—	(1,000)	35,000	3 October 2003	3 October 2008
Staff Share Option Plan	\$0.85	39,000	—	—	(7,000)	32,000	9 January 2004	9 January 2009
Staff Share Option Plan	\$1.00	100,000	—	—	—	100,000	25 February 2004	25 February 2009
Staff Share Option Plan	\$0.66	74,000	—	—	(1,000)	73,000	2 April 2004	2 April 2009
Staff Share Option Plan	\$0.45	—	71,000	—	(8,000)	63,000	4 July 2004	4 July 2009
Staff Share Option Plan	\$0.39	—	16,000	—	(1,000)	15,000	1 October 2004	1 October 2009
Staff Share Option Plan	\$0.60	—	1,250,000	—	—	1,250,000	1 October 2004	1 October 2009
Staff Share Option Plan	\$0.31	—	5,000	—	(2,000)	3,000	7 January 2005	7 January 2010
Staff Share Option Plan	\$0.60	—	500,000	—	—	500,000	17 January 2005	17 January 2010
Staff Share Option Plan	\$0.33	—	18,000	—	—	18,000	1 April 2005	1 April 2010
		3,277,000	1,860,000	—	(321,000)	4,816,000		

Total number of options that have met the conditions precedent as described in note 24(b), and as a result have vested as at 30 June 2005 is 593,500.

	CONSOLIDATED		ATL	
	Number 2005	Number 2004	Number 2005	Number 2004
(d) Employee numbers				
Number of employees at 30 June	164	196	7	22

(e) Market price of shares

The market price of Adacel Technologies Limited shares, as at 30 June 2005 was \$0.28.

25. CONTINGENT LIABILITIES

As at 30 June 2005, the parent entity, Adacel Technologies Limited, will continue to provide financial support to subsidiaries that are in a net liability position. The impact of the deficiencies have been accounted for in the accounts of Adacel Technologies Limited.

Guarantees of \$2,202,520 (2004 : \$569,596) have been given to banks and customers in relation to contract warranty and performance and in relation to rental of properties.

In the process of prosecuting a claim against one of its debtors, a counterclaim was lodged against the company during a previous year. The company has denied liability and is vigorously defending the action and believes that the likelihood of any significant liability is remote. At balance date, the counterclaim has been discontinued. The debtor is now in liquidation.

26. EVENTS OCCURRING AFTER REPORTING DATE

There were no significant events subsequent to balance date.

Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2005. Since the end of the year, 23,000 options have been issued and 34,000 options have lapsed.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED	
	2005	2004
27. EARNINGS PER SHARE		
Basic earnings/(loss) per share (cents per share)	(12.1)	(35.6)
Diluted earnings/(loss) per share (cents per share)	(12.1)	(35.6)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	75,646,195	65,843,273
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	75,646,195	65,843,273
Conversions, calls, subscription or issues after 30 June 2005: Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2005. Since the end of the year, 23,000 options have been issued and 34,000 options have lapsed.		
	CONSOLIDATED	
	2005 \$'000	2004 \$'000
Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Net profit / (loss) from ordinary activities after income tax	(9,150)	(23,451)
Earnings used in calculating basic earnings per share	(9,150)	(23,451)
Diluted earnings per share		
Net profit / (loss) from ordinary activities after income tax	(9,150)	(23,451)
Earnings used in calculating diluted earnings per share	(9,150)	(23,451)

Information regarding the classification of securities

(a) Staff Share Option Plan

Staff Share Option Plan options are considered to be potential ordinary shares but have not been included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. They have not been included in the determination of either basic earnings or diluted earnings per share for the years ended 30 June 2005 and 2004. Details of the options are set out in note 24.

(b) Chairman's Options

The Chairman's options are considered to be potential ordinary shares but have not been included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. They have not been included in the determination of either basic earnings or diluted earnings per share for the year ended 30 June 2005. The options were issued during the year ended 30 June 2005. Details of the options are set out in note 19.

(c) Tranche 1 and 2 Capital Raising Options

Tranche 1 and 2 options are considered to be potential ordinary shares but have not been included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. They have not been included in the determination of either basic earnings or diluted earnings per share for the years ended 30 June 2005 and 2004. Details of the options are set out in note 19.

(d) Non-Executive Director Option Plan

Non-Executive Director Option Plan options are considered to be potential ordinary shares but have not been included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. They have not been included in the determination of either basic earnings or diluted earnings per share for the year ended 30 June 2004. These options lapsed as at 30 June 2004.

(e) Third Party Options

Third party options are considered to be potential ordinary shares but have not been included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. They have not been included in the determination of either basic earnings or diluted earnings per share for the year ended 30 June 2004. These options lapsed as at 30 June 2004.

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Directors

The following persons were Directors of Adacel Technologies Limited during the financial year:

Chairman – non-executive

Mr Julian Beale

Executive directors

Mr Silvio Salom (Managing Director)

Mr Ian Shiers – resigned effective 30 July 2004

Non-executive directors

Mr Kevin Courtney

Mr David Smith

Mr Alex Waislitz

Mr Peter Landos – alternate to Mr Alex Waislitz.

Since 30 June 2005, no changes have occurred.

(b) Executives (other than Directors) with the greatest authority for strategic direction and management

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position	Employer
Mr Seth Brown	Chief Financial Officer – North America	Adacel Systems Inc
Mr Mark Creasap	Vice President – US Simulation & Training – North America	Adacel Systems Inc
Mr Yves Gosselin	Vice President – Simulation – North America	Adacel Inc
Mr William Lang	Vice President – Senior Vice President – Air Traffic Management & International Operation and General Manager – Canada	Adacel Inc
Mr Lionel Léveillé	President – International Operations, General Manager Canada	Adacel Inc
Mr Gary Pearson	Vice President – Advanced Programs – North America	Adacel Inc
Mr Fred Sheldon	Chief Executive Officer – North America	Adacel Systems Inc
Mr Errol Turner	Group Chief Financial Officer and Company Secretary	Adacel Technologies Limited

Mr Yves Gosselin, Mr William Lang, Mr Lionel Léveillé and Mr Errol Turner were specified executives during the whole of the current and prior financial years.

Effective 30 June 2005, Mr Yves Gosselin's employment contract was terminated. On 29 June 2005, Mr Lionel Léveillé was given notice advising him that his employment contract would be terminated on 31 December 2006.

Effective 28 September 2004, Mr Mark Creasap and Mr Gary Pearson were promoted to positions within the consolidated entity that have been classified as "specified executives". Mr Fred Sheldon commenced employment within the consolidated entity on 19 July 2004. Mr Seth Brown commenced employment within the consolidated entity on 17 January 2005.

On 1 July 2005, Mr Georges Ata was promoted to the position of Vice President – Engineering & Operations – North America. On 6 September 2005, Mr Steve Piller commenced employment as Senior Vice-President – Business Development of Adacel's North American operations. Both these positions have been classified as "specified executives".

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Remuneration of directors and executives

(i) Principles used to determine the nature and amount of remuneration for directors and executives

The Adacel Board has determined policies in relation to the remuneration of directors and executives, as follows:

Non-executive Directors

Non-executive Directors are remunerated by fixed annual fees, superannuation, and from time-to-time may also be issued share options in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in general meeting and was last set at \$300,000 per annum at the 1999 Annual General Meeting.

Non-executive Directors may also, in view of the company's size and resources, from time-to-time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at general meeting. These options would be issued separately to the Adacel Staff Share Option Plan and with conditions that were designed to provide a link with company share price performance.

Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the company's constitution, remuneration of the Managing Director and Executive Directors, subject to other provisions in any contract between these executives and the company, may be by way of fixed salary or participation in the profits of the company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the company secretary, may be remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Managing Director and the Board. Criteria to be met may include group and/ or business unit profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short term incentives are aligned with the interests of shareholders in the current period.

To provide long term incentives, senior executives may also participate in the Adacel Staff Share Option plan. The options are issued with conditions to help ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

The overall level of executive reward takes into account the performance of the company over a number of years, with greater emphasis given to the current year. Over the past 5 years, the company's earnings and share price performance have been disappointing and accordingly, the increase in the remuneration of executives and the payment of bonuses have been minimal.

Short Term Incentives

For a number of the executives in the consolidated entity, an element of their remuneration is dependent on the satisfaction of various performance conditions.

For the year ended 30 June 2005, the performance conditions included financial targets (primarily new orders, revenue, earnings and cash generation) and other strategic and milestone criteria. Under the incentive scheme, budget earnings must be achieved prior to any bonus payments being made. For the year ended 30 June 2005, no performance based bonuses were paid.

These performance criteria were chosen to provide an incentive the executives in the consolidated entity to generate earnings and grow shareholder wealth.

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(ii) Details of remuneration

Details of the remuneration of each director of Adacel Technologies Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Adacel Technologies Limited

2005	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Julian Beale	30,000	—	—	2,700	27,431	—	60,131
Mr Kevin Courtney	30,000	—	—	2,700	—	—	32,700
Mr Silvio Salom	290,130	—	12,652	11,585	—	—	314,367
Mr Ian Shiers (1)	62,200	—	—	965	5,621	—	68,786
Mr David Smith	30,000	—	—	2,700	—	—	32,700
Mr Alex Waislitz (2)	30,000	—	—	2,700	—	—	32,700
Mr Peter Landos (alternate to Mr Waislitz)	—	—	—	—	—	—	—
Total	472,330	—	12,652	23,350	33,052	—	541,384

⁽¹⁾ Cash salary and fees includes an amount of \$33,856 for unused annual leave entitlements paid out at the date of ceasing to be a director and employee of the company.

⁽²⁾ As at 30 June 2005, director's fees in relation to the financial years ended 30 June 2005 and 2004 totalling \$68,125 have not yet been paid.

2004	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Julian Beale	39,167	—	—	3,525	—	—	42,692
Sir Roderick Carnegie	14,535	—	—	—	—	—	14,535
Ms Kerry Adby	11,846	—	—	1,066	—	—	12,912
Mr Kevin Courtney	39,167	—	—	3,525	—	—	42,692
Mr Silvio Salom	290,718	—	14,305	11,002	—	—	316,025
Mr Ian Shiers	340,714	35,000	—	11,002	57,271	351,716	795,703
Mr David Smith	39,167	—	—	3,525	—	—	42,692
Mr Alex Waislitz	32,500	—	—	2,925	—	—	35,425
Mr Peter Landos (alternate to Mr Waislitz)	—	—	—	—	—	—	—
Total	807,814	35,000	14,305	36,570	57,271	351,716	1,302,676

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Specified executives of the consolidated entity

2005	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Seth Brown	102,087	40,204	—	3,417	8,790	—	154,498
Mr Mark Creasap	191,540	—	—	5,146	—	—	196,686
Mr Yves Gosselin	185,787	—	—	9,067	—	169,969	364,823
Mr William Lang	180,375	—	—	8,796	—	—	189,171
Mr Lionel Léveillé	254,574	—	—	11,367	—	287,972	553,913
Mr Gary Pearson	164,708	—	—	8,120	—	—	172,828
Mr Fred Sheldon	292,698	—	—	8,176	—	—	300,874
Mr Errol Turner	201,885	—	—	6,758	—	63,858	272,501
Total	1,573,654	40,204	—	60,847	8,790	521,799	2,205,294

2004	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees \$	Cash bonus \$	Non monetary \$	Super annuation \$	Options \$	Termination benefits \$	Total \$
Mr Yves Gosselin	175,857	—	—	8,624	—	—	184,481
Mr William Lang	170,001	—	—	8,359	—	—	178,360
Mr Lionel Léveillé	248,018	—	—	11,145	—	—	259,163
Mr Russell Meacham ⁽¹⁾	249,056	—	—	13,014	—	119,347	381,417
Mr Errol Turner	265,714	—	—	11,002	5,448	—	282,164
Total	1,108,646	—	—	52,144	5,448	119,347	1,285,585

⁽¹⁾ Cash salary and fees includes an amount of \$27,903 for unused annual leave entitlements paid out at the date of ceasing to be an employee of the company.

(iii) Service agreements

Remuneration and other terms of employment for the Managing Director, Chief Operations Officer & Executive Director and the specified executives are formalised in service agreements. The major provisions of the agreements relating to remuneration are set out below.

Mr Silvio Salom (Managing Director)

- A written employment agreement is currently not in place, however, it is in the process of being agreed.
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$301,715.
- Access to a motor vehicle, which is leased by the company, for business and private use.
- No performance-related cash bonus was paid during the financial year.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Ian Shiers (formerly Group Chief Operating Officer)

- Effective 30 July 2004, Mr Shiers' ongoing employment contract was terminated.
- Base salary, inclusive of superannuation, for the year ended 30 June 2005 of \$29,309. In addition, an amount of \$33,856 for unused annual leave entitlements was paid out at the date of ceasing to be a Director and employee of the company.
- Payment of a termination benefit on early termination by the employer, other than for gross misconduct, equal to one times base salary and superannuation. Termination benefits were expensed in the year ended 30 June 2004.
- Provision of performance-related cash bonuses up to \$150,000. No performance-related cash bonus was paid during the financial year.
- Participation, when eligible, in the Staff Share Option Plan. The Board of Directors resolved that Mr Shiers' options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Mr Seth Brown (Chief Financial Officer – North America)

- Term of agreement – ongoing. Commenced employment on 17 January 2005.
- Base salary, signing bonus, superannuation, medical/health insurance and other benefits for the year ended 30 June 2005 of \$145,708.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and superannuation.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Mark Creasap (Vice President – US Simulation and Training – North America)

- Term of agreement – ongoing. Effective 28 September 2004, Mr Creasap was promoted to the position of Vice President – US Simulation and Training – North America.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$196,686.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Yves Gosselin (formerly Vice President – Simulation)

- Effective 30 June 2005, Mr Gosselin's ongoing employment contract was terminated.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$194,854.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement. An amount of \$169,969 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan. At termination date, Mr Gosselin's options issued under the Staff Share Option Plan lapsed.

Mr William Lang (Senior Vice President – Air Traffic Management & International Operations and General Manager – Canada)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$189,171.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to a minimum of 0.5 time base salary, superannuation and medical/health insurance.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Lionel Léveillé (Senior Vice President – Air Traffic Management & International Operations and General Manager – Canada)

- On 29 June 2005, notice was given to Mr Léveillé advising him that his ongoing employment contract would be terminated on 31 December 2006.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2005 of \$265,941.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 1.5 time base salary, superannuation and medical/health insurance. An amount of \$287,972 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Gary Pearson (Vice President – Advanced Programs – North America)

- Term of agreement – ongoing. Effective 28 September 2004, Mr Pearson was promoted to the position of Vice President – Advanced Programs – North America.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2005 of \$172,828.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement.
- Provision of performance-related cash bonuses (up to 40% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Mr Fred Sheldon (Chief Executive Officer – North America)

- Term of agreement – ongoing. Commenced employment on 19 July 2004.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2005 of \$300,874.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months base salary and superannuation.
- Provision of performance-related cash bonuses (up to 45% of base salary). No such bonus was paid during the year ended 30 June 2005.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Errol Turner (Group Chief Financial Officer and Company Secretary)

- Effective 31 January 2005, Mr Turner's ongoing employment contract was terminated; however, Mr Turner continues to provide services to the company as a contractor.
- Base salary and fees, inclusive of superannuation, for the year ended 30 June 2005 of \$208,643.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to an amount agreed to between the parties to the employment agreement. An amount of \$63,858 has been expensed for the year ended 30 June 2005 being for the termination benefit payable on early termination by the employer.
- Participation, when eligible, in the Staff Share Option Plan. The Board of Directors resolved that Mr Turner's options issued under the Staff Share Option Plan would not lapse upon termination of his employment contract.

(iv) Share-based compensation – options

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Vesting conditions	Date exercisable from
<i>Staff Share Option Plan</i>					
2 May 2002	2 May 2007	\$0.90	\$0.45	(b)	2 May 2005
4 July 2004	4 July 2009	\$0.45	\$0.27	(a)	4 July 2006
17 January 2005	17 January 2010	\$0.60	\$0.10	(c)	–
<i>Chairman's Options</i>					
30 November 2004	12 September 2008	\$0.61	\$0.10	None	30 November 2004 and 12 September 2005

The conditions precedent for the options set out above are as follows:

- (a) Set time periods are achieved (the anniversary dates); and

On the anniversary date or any subsequent date, the weighted average sale price of all ordinary shares in the capital of the company sold on ASX during the 5 trading days immediately preceding that date or any subsequent date is determined to be at least 15% higher on an annual compound basis than the exercise price of the options (Hurdle Share Price). Once this price threshold is achieved, a subsequent fall in the company's share price will not affect the right to exercise the options.

- (b) Set time periods are achieved.

- (c) The achievement of the fiscal year EBITDA as set forth in the Board approved annual budget.

The Staff Share Option Plan is described in note 24 and the Chairman's Options are described in note 19.

The service and performance criteria used to determine the amount of the options granted as remuneration are set out note 28(c)(i).

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(d) Equity instrument disclosures relating to directors and executives

(i) Options provided as remuneration

Details of options over ordinary shares in the company provided as remuneration to each Director of Adacel Technologies Limited and each of the specified executives of the consolidated entity are set out below. When exercisable, each option is convertible into one ordinary share of Adacel Technologies Limited.

Directors of Adacel Technologies Limited

Name	Number of options granted during the year	Number of options vested during the year
Mr Julian Beale	300,000	150,000
Mr Kevin Courtney	—	—
Mr Silvio Salom	—	—
Mr Ian Shiers	—	—
Mr David Smith	—	—
Mr Alex Waislitz	—	—
Mr Peter Landos	—	—

Specified executives of the consolidated entity

Name	Number of options granted during the year	Number of options vested during the year
Mr Seth Brown	500,000	—
Mr Mark Creasap	—	—
Mr Yves Gosselin	—	—
Mr William Lang	—	—
Mr Lionel Léveillé	—	—
Mr Gary Pearson	—	—
Mr Fred Sheldon	1,250,000	—
Mr Errol Turner	—	—

(ii) Shares provided on exercise of remuneration options

During the year, no ordinary shares in the company were provided as a result of the exercise of remuneration options.

(iii) Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of Adacel Technologies Limited and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below.

Directors of Adacel Technologies Limited

Name	Balance at the start of the year	Granted during the year as remune- ration	Exercised during the year	Ceased to be a director during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercisable at the reporting date	Vested and unexercis- able at the reporting date
Mr Julian Beale	145,719	300,000	—	—	445,719	295,719	295,719	—
Mr Kevin Courtney	—	—	—	—	—	—	—	—
Mr Silvio Salom	74,000	—	—	—	74,000	—	—	—
Mr Ian Shiers	537,000	37,000	—	(574,000)	—	—	—	—
Mr David Smith	—	—	—	—	—	—	—	—
Mr Alex Waislitz	—	—	—	—	—	—	—	—
Mr Peter Landos	—	—	—	—	—	—	—	—

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Specified executives of the consolidated entity

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Ceased to be an employee during the year	Balance at the end of the year	Vested at the reporting date	Vested and exercisable at the reporting date	Vested and unexercisable at the reporting date
Mr Seth Brown	—	500,000	—	—	500,000	—	—	—
Mr Mark Creasap	16,000	—	—	—	16,000	—	—	—
Mr Yves Gosselin	44,000	—	—	(44,000)	—	—	—	—
Mr William Lang	44,000	—	—	—	44,000	—	—	—
Mr Lionel Léveillé	374,000	—	—	—	374,000	—	—	—
Mr Gary Pearson	8,000	—	—	—	8,000	—	—	—
Mr Fred Sheldon	—	1,250,000	—	—	1,250,000	—	—	—
Mr Errol Turner	500,000	—	—	—	500,000	70,000	70,000	—

(iv) Share holdings

The number of ordinary shares in the company held during the financial year by each Director of Adacel Technologies Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

Directors of Adacel Technologies Limited

Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Ceased to be a director during the year	Balance at the end of the year
Mr Julian Beale	910,078	—	—	906,789	—	—	1,816,867
Mr Kevin Courtney	—	—	—	—	—	—	—
Mr Silvio Salom	10,852,493	—	—	3,644,166	—	—	14,496,659
Mr Ian Shiers	—	—	—	—	—	—	—
Mr David Smith	7,774,939	—	—	2,285,619	—	—	10,060,558
Mr Alex Waislitz	—	—	—	—	—	—	—
Mr Peter Landos	—	—	—	—	—	—	—

Specified executives of the consolidated entity

Name	Balance at the start of the year	Granted during the year as remuneration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Ceased to be an employee during the year	Balance at the end of the year
Mr Seth Brown	—	—	—	—	—	—	—
Mr Mark Creasap	—	—	—	—	—	—	—
Mr Yves Gosselin	3,750	—	—	—	—	(3,750)	—
Mr William Lang	—	—	—	—	—	—	—
Mr Lionel Léveillé	—	—	—	—	—	—	—
Mr Gary Pearson	—	—	—	—	—	—	—
Mr Fred Sheldon	—	—	—	100,000	—	—	100,000
Mr Errol Turner	—	—	—	—	—	—	—

NOTES TO FINANCIAL STATEMENTS

28. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(e) Loans to directors and executives

During the financial year, no loans were made, guaranteed or secured by Adacel Technologies Limited or any of its subsidiaries to any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities. No such loans remain outstanding as at 30 June 2005 (2004 : nil).

(f) Other transactions with directors and executives

During the financial year, no transactions were entered into between Adacel Technologies Limited or any of its subsidiaries and any director of Adacel Technologies Limited or any of the specified executives of the consolidated entity, including their personally-related entities; other than those set out below. At 30 June 2005, there are no payable or receivable balances outstanding relating to other transactions.

During the prior financial year, the company entered into an agreement with Sir Roderick Carnegie to provide management consultancy services for a 12 month period following his resignation as a Director of the company. The fee attributable to this agreement is \$87,000. For the year ended 30 June 2005, an amount of \$18,367 (2004 : \$68,633) relating to this agreement has been expensed to the profit and loss account.

Mr Alex Waislitz is the Executive Chairman of the Thorney Investment Group. A member of the Thorney Investment Group, namely Thorney Holdings Pty Ltd, is a major shareholder of Adacel Technologies Limited. During the year ended 30 June 2005, Thorney Holdings Pty Ltd acquired on-market 122,000 ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. In addition, during the year ended 30 June 2005, Thorney Holdings Pty Ltd acquired 11,936,463 ordinary shares in Adacel Technologies Limited as part of the Non Renounceable Rights Issue undertaken by the company. As at 30 June 2005, Thorney Holdings Pty Ltd holds 28,107,712 ordinary shares in Adacel Technologies Limited (2004: 16,049,249).

Invia Custodian Pty Ltd is a custodial entity which holds a number of shares for the Thorney Investment Group as nominee. During the year ended 30 June 2005, Invia Custodian Pty Ltd acquired on-market 210,516 ordinary shares in Adacel Technologies Limited on normal commercial terms and conditions. In addition, during the year ended 30 June 2005, Invia Custodian Pty Ltd acquired 442,389 ordinary shares in Adacel Technologies Limited as part of the Non Renounceable Rights Issue undertaken by the company. As at 30 June 2005, Invia Custodian Pty Ltd holds 1,980,070 ordinary shares in Adacel Technologies Limited (2004: 1,327,165).

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
29. AUDITORS' REMUNERATION				
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:				
Assurance services				
<i>(a) Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the Corporations Act 2001	147,900	206,300	147,900	206,300
Related practices of PricewaterhouseCoopers Australian firm	332,511	116,500	—	—
Total remuneration for audit services	480,411	322,800	147,900	206,300
<i>(b) Other assurance services</i>				
PricewaterhouseCoopers Australian firm				
AIFRS related services	50,100	5,000	50,100	5,000
Other services	—	4,800	—	4,800
Related practices of PricewaterhouseCoopers Australian firm	—	—	—	—
Total remuneration for other assurance services	50,100	9,800	50,100	9,800
Total remuneration for assurance services	530,511	332,600	198,000	216,100
Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns, international tax consulting and tax advice on group structuring	152,920	156,200	152,920	156,200
Related practices of PricewaterhouseCoopers Australian firm	51,835	61,100	—	—
Total remuneration for taxation services	204,755	217,300	152,920	156,200

NOTES TO FINANCIAL STATEMENTS

30. RELATED PARTIES

(a) Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 28.

(b) Wholly-owned group

All transactions between Adacel Technologies Limited and its controlled entities were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on the intercompany loans during the year was 8.6% (2004: 8.3%). Trade payables and receivables are interest free.

Transactions between Adacel Technologies Limited and other entities in the wholly-owned group during the years ended 30 June 2005 and 2004 consisted of:

- (i) loans advanced to wholly owned subsidiaries by Adacel Technologies Limited
- (ii) loans repaid to wholly owned subsidiaries by Adacel Technologies Limited
- (iii) interest charged on the above loans
- (iv) royalty charges by Adacel Technologies Limited
- (v) technical services fees charged by Adacel Technologies Limited
- (vi) management fees charged by Adacel Technologies Limited
- (vii) provision of labour services by Adacel Technologies Limited
- (viii) transactions between Adacel Technologies Limited and its wholly-owned Australian controlled entities under the accounting tax sharing agreement described in note 4.

	ATL	
	2005 \$'000	2004 \$'000
Aggregate amounts included in the determination of profit/(loss) from ordinary activities before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest income	2,671	2,709
Interest expense	98	149
Provision for non-recovery of amounts loaned to controlled entities	3,191	14,600
Provision for diminution of investments in controlled entities	6,983	—
Aggregate amounts receivable from entities in the wholly-owned group at balance date:		
Receivables (non-current) – amounts loaned to controlled entities	39,820	39,116
Receivables (non-current) – provision for non-recovery of amounts loaned to controlled entities	(36,504)	(33,313)
	3,316	5,803

(c) Controlling entities

Adacel Technologies Limited, incorporated in Australia, is the ultimate Australian parent entity and the ultimate controlling entity.

(d) Ownership interest in related parties

Interests held in related parties are disclosed in note 8 – Other financial assets.

NOTES TO FINANCIAL STATEMENTS

31. SEGMENT INFORMATION

Primary reporting – geographical segments

	Notes	Australia (including UK)		North America	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from external customers		1,971	6,673	35,224	48,903
Intersegment revenues		163	1,023	–	–
Total sales revenue		2,134	7,696	35,224	48,903
Other revenue		39	65	1,105	1,867
Total segment revenue	2	2,173	7,761	36,329	50,770
Segment result prior to the following items:		(126)	(3,904)	(3,604)	(1,958)
Profit/(loss) on disposed businesses		34	58	–	–
Redundancies		(76)	(1,162)	(626)	(372)
Writeoff of work-in-progress		–	–	–	(1,316)
Accelerated amortisation/depreciation of intangibles – goodwill, intellectual property & fixed assets		–	(942)	–	(488)
Royalties due to parent entity		–	–	(283)	(929)
Segment result		(168)	(5,950)	(4,513)	(5,063)
Corporate office costs		–	–	–	–
Management fees		(659)	(1,483)	(1,183)	(2,086)
Interest on funds advanced – intergroup		(1,497)	(1,304)	(1,076)	(1,256)
Borrowing costs – external		(4)	–	(5)	–
Profit/(loss) from ordinary activities before income tax		(2,328)	(8,737)	(6,777)	(8,405)
Income tax (expense)/benefit					
Profit/(loss) from ordinary activities after income tax					
Segment assets		1,655	1,138	21,675	36,312
Unallocated assets					
Eliminations					
Total assets					
Segment liabilities		46,440	43,585	31,919	39,391
Unallocated liabilities					
Eliminations					
Total liabilities					
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		–	18	162	302
Depreciation and amortisation expense	3	21	1,726	575	1,316
Other non-cash expenses		64	118	–	–

NOTES TO FINANCIAL STATEMENTS

Corporate Office		Intersegment Eliminations		Total	
2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
—	—	—	—	37,195	55,576
—	—	(163)	(1,023)	—	—
—	—	(163)	(1,023)	37,195	55,576
87	74	—	—	1,231	2,006
87	74	(163)	(1,023)	38,426	57,582
—	—	—	—	—	—
—	—	—	(156)	(3,730)	(6,018)
—	—	—	—	34	58
(91)	(410)	—	163	(793)	(1,781)
—	—	—	—	—	(1,316)
—	(7,143)	—	—	—	(8,573)
283	929	—	—	—	—
192	(6,624)	—	7	(4,489)	(17,630)
(3,491)	(4,929)	—	—	(3,491)	(4,929)
1,842	3,569	—	—	—	—
2,573	2,560	—	—	—	—
(405)	(319)	—	—	(414)	(319)
711	(5,743)	—	7	(8,394)	(22,878)
—	—	—	—	(756)	(573)
—	—	—	—	(9,150)	(23,451)
32,706	40,313	—	—	56,036	77,763
—	—	—	—	—	1,368
—	—	—	—	(31,508)	(40,097)
—	—	—	—	24,528	39,034
5,214	9,384	—	—	83,573	92,360
—	—	—	—	135	227
—	—	—	—	(65,661)	(63,891)
—	—	—	—	18,047	28,696
25	11	—	—	187	331
891	8,300	—	—	1,487	11,342
(25)	(77)	—	—	39	41

NOTES TO FINANCIAL STATEMENTS

31. SEGMENT INFORMATION (CONTINUED)

Secondary reporting – business segments	Notes	Simulation		Software Engineering	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from external customers		20,151	37,350	17,044	18,226
Intersegment revenue		6	–	143	–
Total revenue		20,157	37,350	17,187	18,226
Other revenue		1,108	1,874	36	58
Total segment revenue	2	21,265	39,224	17,223	18,284
Segment assets		22,528	36,500	762	574
Unallocated assets					
Total assets					
Acquisitions of property, plant & equipment, intangibles & other non-current segment assets		162	320	–	–

(a) Description of geographical segments

The consolidated entity was organised during the 2005 and 2004 financial years on a global basis into the following geographical areas:

- North America – servicing the US and Canada as well as global markets in air traffic control simulation and air traffic management software and services.
- Australia (including UK) – servicing the Australian domestic market as well as international markets for software development services and simulation e-learning solutions.

(b) Description of business segments

The consolidated entity was organised during the 2005 and 2004 financial years on a global basis into the following business areas:

- Simulation – encompassing defence and aviation simulation, simulation e-learning, and services and support.
- Software Engineering – encompassing Oceanic air traffic management systems, and real time software and systems development.

NOTES TO FINANCIAL STATEMENTS

Corporate Office		Intersegment Eliminations		Total	
2005	2004	2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
—	—	—	—	37,195	55,576
—	—	(149)	—	—	—
—	—	(149)	—	37,195	55,576
87	74	—	—	1,231	2,006
87	74	(149)	—	38,426	57,582
32,706	40,313	(31,468)	(39,721)	24,528	37,666
				—	1,368
				24,528	39,034
25	11	—	—	187	331

(c) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the segment reporting standard, AASB 1005 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis.

Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets net of related provisions. While most of the assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors and employee entitlements.

(d) Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

NOTES TO FINANCIAL STATEMENTS

32. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective weighted average interest rates of financial assets and financial liabilities, are as follows:

		Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total		Weighted average interest rate			
	Notes	2005	2004	1 year or less		Over 1 to 5 years		More than 5 years		2005	2004	2005	2004	2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
<i>(i) Financial assets</i>																	
Cash	21	4,002	1,311	—	—	—	—	—	—	—	—	4,002	1,311	4.9	4.2		
Trade debtors	5	—	—	—	—	—	—	—	—	9,926	17,950	9,926	17,950	—	—		
Tax receivable	5	—	—	—	—	—	—	—	—	1,003	454	1,003	454	—	—		
Accrued revenue	6	—	—	—	—	—	—	—	—	3,006	3,692	3,006	3,692	—	—		
Sundry debtors	8	—	—	—	—	—	—	—	—	583	81	583	81	—	—		
Security deposits	8	—	—	—	—	—	—	—	—	56	23	56	23	—	—		
Total financial assets		4,002	1,311	—	—	—	—	—	—	14,574	22,200	18,576	23,511				
<i>(ii) Financial liabilities</i>																	
Bank overdraft	21	4,826	4,354	—	—	—	—	—	—	—	—	4,826	4,354	11.2	8.3		
Trade creditors and accrued expenses	13	—	—	—	—	—	—	—	—	8,589	21,297	8,589	21,297	—	—		
Income tax liabilities	15	—	—	—	—	—	—	—	—	185	146	185	146	—	—		
Finance lease liabilities	16	—	—	20	58	115	169	—	—	—	—	135	227	7.0	7.0		
Total financial liabilities		4,826	4,354	20	58	115	169	—	—	8,774	21,443	13,735	26,024				

(b) Net fair values

The net fair values of financial assets and liabilities are equivalent to their carrying amounts as shown in the Statement of Financial Position. The carrying amount approximates fair value because of their short term to maturity. No financial assets or liabilities are readily traded on organised markets.

(c) Off balance sheet derivative instruments – forward exchange contracts

Adacel Technologies Limited and certain of its controlled entities are parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. At 30 June 2005 the company had no outstanding contracts. At the end of the previous financial year ended 30 June 2004 the company had one outstanding contract to sell US Dollars and buy \$10,973 Australian Dollars at an exchange rate of 0.7143, the maturity date for the contract being 15 July 2004.

(d) Credit risk exposure

The credit risk on financial assets of the consolidated entity which have been recognised on the Statement of Financial Position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts. The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors.

NOTES TO FINANCIAL STATEMENTS

	CONSOLIDATED		ATL	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
33. FINANCING ARRANGEMENTS				
Bank facilities				
Overdraft	11,847	4,600	—	4,600
Guarantees	1,494	400	—	400
Credit card	109	25	—	25
Tape negotiation authority	—	600	—	500
Cheque cashing authority	—	6	—	5
	13,450	5,631	—	5,530
Bank facilities used at balance date				
Overdraft	4,826	4,354	—	4,415
Guarantees	440	336	—	8
Credit card	—	—	—	—
Tape negotiation authority	—	—	—	—
Cheque cashing authority	—	6	—	5
	5,266	4,696	—	4,428
Bank facilities unused at balance date				
Overdraft	7,021	246	—	185
Guarantees	1,054	64	—	392
Credit card	109	25	—	25
Tape negotiation authority	—	600	—	500
Cheque cashing authority	—	—	—	—
	8,184	935	—	1,102

During the year ended 30 June 2005, the group experienced an operating loss. During January 2005, the company raised approximately \$6.1 million (net of costs) in a non renounceable rights issue.

During the year the company entered into a new banking relationship with The Royal Bank of Canada. Subsequent to year end, the bank has agreed to provide the company a facility for up to \$5 million Canadian Dollars. Access to the facility is governed by pre-agreed covenants with the bank and is repayable on demand. The facility is secured by a fixed and floating charge over the assets and undertakings of Adacel Inc (Canadian operating entity) and by a \$1.5 million Canadian Dollars security deposit. Adacel Technologies Limited (the parent entity) and the other North American entities (being Adacel Systems Inc, Adacel Technologies Holdings Inc and Adacel Technologies Inc) have also agreed to provide a guarantee to the bank for the facility.

The directors have reviewed the size and terms of the facility and are satisfied that the operating plans and budgets for the period of 12 months from the date of signing this financial report will provide sufficient cash flows, that together with the facility, will be adequate for the company's requirements.

NOTES TO FINANCIAL STATEMENTS

34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to International Accounting Standards Board (IASB) interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has established a project team to manage the transition to AIFRS. The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimated impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are described below. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Explanation of the impacts on the statement of financial performance and statement of financial position

(a) Income tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005 there would have been no material adjustment to the parent entity's or consolidated entity's tax balances.

(b) Equity-based compensation benefits

Under AASB 2 Share-based Payment, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees and directors after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, the parent entity's and consolidated entity's opening accumulated losses at 30 June 2005 would have been \$66,000 higher, with a corresponding increase in the share-based payment reserve. For the year ended 30 June 2005, the parent entity's and consolidated entity's employee benefits expense would have been \$147,000 higher, with a corresponding increase in the net movement in the share-based payment reserve.

NOTES TO FINANCIAL STATEMENTS

34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

(c) Financial instruments

The group will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the group to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 132, the current classification of financial instruments issued by entities in the consolidated entity would not change.

AASB 139 is likely to have the following impacts:

(i) Classification and measurement of financial assets and liabilities

Under AASB 139, financial assets held by entities in the consolidated entity will be classified as either at fair value through profit or loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

Under AASB 139, investments in:

- non-traded equity securities and debentures will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised; and
- loans and receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost, using the effective interest rate method.

This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount, with changes recognised in profit or loss.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

(ii) Embedded derivatives

Under AASB 139, embedded derivatives shall be separated from the host contract and accounted for as a derivative under this Standard.

This will result in a change to the current accounting policy, under which embedded derivatives are not accounted for separately from the host contract.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

(d) Foreign currency translation reserve: cumulative translation differences

On the initial application of AIFRS, the Group will elect to apply the exemption in AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve will be deemed to be zero at the date of transition to AIFRS.

As a result of this exemption, the balance of the foreign currency translation reserve of the consolidated entity at 30 June 2005 will decrease by \$2,451,000. Accumulated losses will increase by this amount.

NOTES TO FINANCIAL STATEMENTS

34. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (CONTINUED)

(e) Translation of financial reports of overseas operations

Under existing GAAP, a foreign subsidiary of the group has been classified as an integrated operation and as such the resulting exchange differences arising on conversion of the foreign entities financial statements to Australian dollars have been recognised in the statement of financial performance.

Under AIFRS, AASB 121 The Effects of Changes in Foreign Exchange Rates does not distinguish between foreign operations that are integrated and those that are self-sustaining. Rather, each entity must identify its functional currency by giving consideration to the determining factors as listed in that standard. These factors include both primary considerations as well as additional secondary factors that might further provide evidence of an entity's functional currency. The factors that resulted in the classification of these operations under AGAAP are given less weight than others under AIFRS.

Under AIFRS, the functional currency of the foreign entity has been determined to be other than Australian dollars. On conversion of the foreign entities financial statements to Australian dollars, the resulting exchange differences arising shall be recognised as a separate component of equity.

In addition, the exchange differences arising on a monetary item that forms part of a reporting entity's net investment in the foreign operation shall be recognised initially in a separate component of the consolidated entity's equity and subsequently recognised in profit or loss on disposal of the net investment.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated entity's expenses from ordinary activities would have increased by \$539,000 and the foreign currency translation reserve would have decreased by the same amount.

(f) Revenue disclosures in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the current Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the parent entity's and consolidated entity's revenue from ordinary activities would have been \$27,000 lower and the parent entity's and consolidated entity's other income would have been \$27,000 higher. For the year ended 30 June 2005, the parent entity's and consolidated entity's carrying amount of non-current assets sold disclosed as an expense in the statement of financial performance is \$nil as the assets disposed had been fully depreciated.

(g) Reclassification of other income

Under AIFRS, foreign exchange gains and government grants are classified as other income. This is in contrast to the current Australian GAAP treatment under which such items are classified as revenue.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated entity's revenue from ordinary activities would have been \$1,105,000 lower and consolidated entity's other income would have been \$1,105,000 higher.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 17 to 62 are in accordance with the Corporations Act 2001, including:

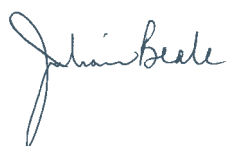
(i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; 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.

The Directors have been given the declarations by the managing director and the chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Directors.



Julian Beale
Chairman

Melbourne, 28 September 2005



Silvio Salom
Managing Director

INDEPENDENT AUDIT REPORT



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Independent audit report to the members of Adacel Technologies Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of Adacel Technologies Limited (the Company) and the Adacel Technologies Limited Group (defined below) for the financial year ended 30 June 2005 included on Adacel Technologies Limited's web site. The Company's directors are responsible for the integrity of the Adacel Technologies Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion the financial report of Adacel Technologies Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Adacel Technologies Limited and the Adacel Technologies Limited Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Adacel Technologies Limited (the company) and the Adacel Technologies Limited Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Liability limited by a scheme approved under Professional Standards Legislation

INDEPENDENT AUDIT REPORT

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows. We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.



PricewaterhouseCoopers



SC Bannatyne
Partner

Melbourne
28 September 2005

SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Ltd. and not shown elsewhere in this report is as follows.

The information is complete up to 19 September 2005.

(a) Equity security holders

(i) Top 20 largest holders of quoted ordinary shares

	Fully Paid Ordinary Shares		Substantial Shareholdings No. of shares held
	Top 20 Shareholders No. of shares held	% held	
Thorney Holdings Pty Ltd	27,945,046	31.93	30,087,782
Tricom Nominees Pty Ltd (LPG A/C) – Mr Silvio Salom	13,453,178	15.37	14,496,659
Mr David Wallace Smith	9,718,083	11.10	10,060,558
Citicorp Nominees Pty Limited (CFS Developing Companies A/C)	1,980,549	2.26	
Invia Custodian Pty Limited (Black A/C)	1,980,070	2.26	
Kildrummie Pastoral Co Pty Ltd	1,337,800	1.53	
Mr James Douglas Carnegie (James Carnegie Family A/C)	880,000	1.01	
Coalwell Pty Ltd	796,182	0.91	
Obena Ridge Pty Limited	676,775	0.77	
Mr Anthony Mark Van Der Steeg	659,727	0.75	
D&D Nominees Pty Ltd	612,583	0.70	
Obena Ridge Pty Limited	595,095	0.68	
Russell Professional Consulting Services P/L (I&G Russell Super Fund A/C)	585,051	0.67	
Mr Brian Hennessey	545,764	0.62	
Valwren Pty Limited (WFIT Account)	500,000	0.57	
Aznarob Pty Ltd	460,934	0.53	
Russell Professional Consulting Services P/L (Russell Family A/C)	446,191	0.51	
Westpac Custodian Nominees Limited	416,177	0.48	
Mr Thomas James Hannaford	400,000	0.46	
Boydenwell Pty Ltd	342,475	0.39	
	64,331,680	73.50	

SHAREHOLDER INFORMATION

(ii) Unquoted options over ordinary shares

Plan	Number	Expiry Date	Exercise Price	Number Of Holders
Staff Share Option Plan	877,000	11 May 2006	\$1.44	45
Staff Share Option Plan	11,000	19 July 2006	\$1.62	4
Staff Share Option Plan	28,000	1 November 2006	\$1.05	8
Staff Share Option Plan	100,000	12 November 2006	\$1.05	1
Staff Share Option Plan	134,000	25 February 2007	\$1.02	15
Staff Share Option Plan	100,000	25 February 2007	\$1.00	1
Staff Share Option Plan	336,000	5 April 2007	\$0.91	49
Staff Share Option Plan	500,000	2 May 2007	\$0.90	1
Staff Share Option Plan	88,000	5 July 2007	\$0.89	7
Staff Share Option Plan	49,000	4 October 2007	\$0.66	21
Staff Share Option Plan	200,000	11 November 2007	\$0.58	1
Staff Share Option Plan	58,000	10 January 2008	\$0.81	27
Staff Share Option Plan	100,000	25 February 2008	\$1.00	1
Staff Share Option Plan	73,000	4 April 2008	\$0.71	20
Staff Share Option Plan	62,000	4 July 2008	\$0.75	12
Staff Share Option Plan	27,000	3 October 2008	\$0.75	12
Staff Share Option Plan	31,000	9 January 2009	\$0.85	16
Staff Share Option Plan	100,000	25 February 2009	\$1.00	1
Staff Share Option Plan	71,000	2 April 2009	\$0.66	18
Staff Share Option Plan	61,000	4 July 2009	\$0.45	13
Staff Share Option Plan	7,000	1 October 2009	\$0.39	3
Staff Share Option Plan	1,250,000	1 October 2009	\$0.60	1
Staff Share Option Plan	2,000	7 January 2010	\$0.31	2
Staff Share Option Plan	500,000	17 January 2010	\$0.60	1
Staff Share Option Plan	17,000	1 April 2010	\$0.33	7
Staff Share Option Plan	23,000	1 July 2010	\$0.26	9
Chairman's Options	300,000	12 September 2008	\$0.61	1
Options – Tranche 1 Capital Raising	1,821,494	16 March 2006	\$1.00	12
Options – Tranche 2 Capital Raising	2,185,792	16 March 2006	\$1.00	14
	<u>9,112,286</u>			

(b) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
	Ordinary Shares	
	Shares	Options
100,001 and over	54	13
10,001 to 100,000	439	31
5,001 to 10,000	357	23
1,001 to 5,000	786	103
1 to 1,000	337	7
	<u>1,973</u>	<u>177</u>

There were 491 holders of less than marketable parcel of ordinary shares.

(c) Voting rights

- (i) All ordinary shares (whether fully paid or not) carry one vote per share without restriction.
- (ii) All options have no voting rights.

CORPORATE GOVERNANCE STATEMENT 30 JUNE 2005

This statement outlines the main corporate governance practices of Adacel. The framework for Adacel's company policies and procedures was established through the company's 'Adacel Management Practices', which were issued in 1998. These have been reviewed since then and, some policies and procedures have been revised and others added. During the 2004 financial year, management and the Board reviewed and in some cases revised or added to these policies in light of the ASX Corporate Governance Council (Council) best practice recommendations for good corporate governance. Unless otherwise stated, Adacel's corporate governance practices outlined in this statement were in place throughout the 2005 year and comply with the Council's best practice recommendations.

As recognised by the Council, corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimised. There is no single model of good corporate governance. For Adacel, what constitutes good corporate governance will evolve with our changing circumstances and will be tailored to meet those circumstances.

Adacel's Corporate Governance Statement follows the framework of the ASX Corporate Governance Council's ten principles for Corporate Governance.

1.0 Role of the Board and Management

Council Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management

The Board of Directors

The Board of Directors of Adacel Technologies Limited is responsible for the corporate governance of the consolidated entity, including the establishment of strategic direction, goals for management and monitoring the achievement of those goals.

The Board is responsible for guiding and monitoring the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board reviews with management areas of significant identified business risk and oversees management arrangements to adequately manage those risks.

To ensure that the Board is well equipped to discharge its responsibilities it has established practices for the nomination and selection of directors, referred to under section 2 of this statement, and for the operation of the Board, referred to below.

The responsibility for the operation and administration of the company is delegated, by the Board, to the Managing Director and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Managing Director and the executive management team.

Whilst at all times the Board retains full responsibility for guiding and monitoring the company, in discharging its stewardship it makes use of sub-committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

To this end the Board has established the following committees, details of which are included later in this Corporate Governance Statement:

- Audit Committee;
- Remuneration Committee; and
- Nomination Committee, comprising the whole Board.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

- Board approval of strategic plans designed to meet stakeholders' needs and manage business risk;
- Ongoing development of strategic plans and approving initiatives and strategies designed to ensure the continued growth and success of the entity; and
- Implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

CORPORATE GOVERNANCE STATEMENT 30 JUNE 2005

Other functions reserved to the Board include:

- Approval of the annual and half-yearly financial reports;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Ensuring that any significant risks that arise are identified, assessed, appropriately managed and monitored; and
- Reporting to shareholders.

Details of the matters delegated to the Board are posted on our website (www.adacel.com).

Managing Director and Senior Management

The Managing Director's role is to develop and agree with the Board the corporate strategy and vision and to oversee implementation of the strategy and management of the company to achieve the agreed vision in accordance with the strategies, policies and programs set by the Board.

The Managing Director will not have to retire as a Director by rotation or stand for reappointment as a Director in accordance with the constitution.

Responsibilities include

- Formulating and reviewing, with the Board, the vision and strategy and developing actions and plans to achieve the vision and implement the strategy. Reporting to the Board on the progress against those plans.
- Appointing a management team and negotiating terms and conditions for approval by the Remuneration Committee or the Board. Providing leadership to and overseeing the senior management team, ensuring employees are properly instructed to achieve a safe workplace and ensuring compliance with laws and company policies and that a high level of ethical behaviour is expected.
- Reporting to the Board on various matters, including all matters requiring review or approval, significant changes to the risk profile, certification (with the CFO) to the Board on the fairness of the financial statements and adequacy of policies as regards risk management, monthly reporting on performance of businesses and continual education of directors on the company, its business environment and relevant changes of law.
- Acting within delegated authority levels for capital expenditure, sale of assets, appointment and termination of executives.
- All other matters necessary for the day-to-day management of the company and not reserved for the Board.

The Chief Executive Officer North America's role is to develop, agree with the Board and implement the strategy for development of the North American-based aviation and defence simulation and air traffic control operations of the company in accordance with the strategies, policies and programs set by the Board. It was announced in May 2005 that as part of the progressive focus of the company on the North American-based operations, the CEO North America would report to the Board.

The CEO North America will provide leadership and direction of the North American-based executive team responsible for the company's day-to-day operations, with a strong emphasis on profitability and cash management, coupled with an emphasis on teamwork, communications, customer satisfaction, and continued quality improvement and ensuring the highest standards of integrity.

2.0 Board structure

Council Recommendation 2.1: A majority of the board should be independent directors

Composition of the Board

Under the company's Constitution, the Board is to be comprised of not less than three nor more than ten Directors. This number may be increased where it is felt that additional expertise is required in specific areas, or where an outstanding candidate emerges. The Board currently numbers five and an Alternate Director.

The Board comprises a majority of non-executive Directors but does not currently have a majority of independent Directors. This is a departure from the ASX Corporate Governance Council recommendation 2.1.

The Board believes that the interests of the shareholders are best served by

- Directors having the appropriate skills and experience, and providing a mix of industry, technical, financial, capital markets and business skills and contacts;
- A number of directors being independent, as defined in the Council corporate governance guidelines. The independence of each Director is reviewed by the Board against these Council Independence guidelines and materiality thresholds. Materiality for these purposes is determined on both quantitative and qualitative bases. A shareholding over 5%, or a contractual relationship amounting to more than 5% of annual turnover of the company or 5% of the individual Director's net worth is considered material for these purposes. The independence of each Director is noted in the profile of Directors in the Directors' Report in the Annual Report and on the company website;
- Various significant parties that have supported the development of the company being represented on the Board.

CORPORATE GOVERNANCE STATEMENT 30 JUNE 2005

Consequently, at various times there may not be a majority of the directors classified being independent. However, all Directors, both non-executive and executive, acknowledge the need to act in good faith in the interests of all shareholders. The Board has a specific Code of Conduct for Directors and senior management (referred to in Section 3.0 of this Statement). As part of this, where any director has a material personal interest in a matter, the director will not be permitted to be present during discussions or to vote on the matter. The enforcement of this requirement should ensure that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent directors. The Board will review its governance structures, including the level of independent Directors as the company develops and changes to ensure that it continues to meet effective governance for the circumstances of the company.

The names of Directors in office and their term in office at the date of this statement, and their standing as executive or non-executive and independent, are given in the Directors Report contained in the Annual Report and on the Board of Directors page of Adacel's website.

Independence of Chairman

Council Recommendation 2.2: The chairperson should be an independent director

Adacel's Chairman is an independent non-executive Director.

Roles of Chairman and CEO

Council Recommendation 2.3: The roles of chairperson and chief executive officer should not be exercised by the same individual

The roles of Chairman and the Managing Director are not exercised by the same individual.

Access to independent professional advice

Council Recommendation 2.5: Other matters requiring disclosure

Each Director has the right to seek a reasonable level of independent professional advice on matters concerning the company at the company's expense.

Nomination Committee

Council Recommendation 2.4: The board should establish a nomination committee

In consideration of the size of the company and the Board, in December 2003, Directors resolved that the Board as a whole would comprise a Nomination Committee. The members of the Nomination Committee during the year and their attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

In this role, the Board as Nomination Committee:

- Reviews the structure, size and composition of the Board;
- Identifies, considers and selects candidates with appropriate capabilities, to fill Board vacancies when they arise;
- Ensures candidates have adequate time available to fulfil their role as a director;
- Undertakes or arranges for annual performance evaluation of the Board, its committees and directors; and
- Reviews the:
 - continuation of the chairman after the initial term of appointment and subsequent re-appointments
 - re-election of directors who retire by rotation
 - membership of committees.

The charter of the Nomination Committee is posted on the company's website.

Procedure for the selection and appointment of directors

Council Recommendation 2.5: Other matters requiring disclosure

If the need for a new Board member is identified, the Board in its role as Nomination Committee, may initiate a search or nominate eligible candidates, who are interviewed by the Chairman and considered by the Board. The Board then appoints the most suitable candidate, who must stand for election at the next general meeting of the shareholders. New Directors are provided with a letter of appointment setting out their responsibilities and rights.

Adacel's procedure for the selection and appointment of directors is posted on the company's web site.

Policy on appointment of directors and Board composition

Council Recommendation 2.5: Other matters requiring disclosure

The Adacel Board has a policy on the appointment of directors and the composition of the Board. The policy is posted on the company's website.

3.0 Ethical and responsible decision-making

Code of Conduct for Directors and senior managers

Council Recommendation 3.1: Establish a code of conduct to guide directors, CEO, CFO and other key executives

Adacel has a formal Ethics Policy for employees and a specific Code of Conduct for Directors and Senior Managers (being the Managing Director and senior managers reporting the Managing Director). The Code of Conduct has the commitment of the directors and senior management to ensure practices are operating that are necessary to maintain confidence in the company's integrity, and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Under the Code of Conduct, the directors and senior management are expected to:

- Act honestly and in good faith;
- Exercise due care and diligence in fulfilling the functions of office;
- Use their powers to act in the best interests of the company as a whole;
- Avoid conflicts and make full disclosure of any possible conflicts of interest;
- Comply with the law;
- Directors are obliged to be independent in judgement and ensure all reasonable steps are taken to be satisfied as to the soundness of Board decisions; and
- Encourage the reporting and investigating of unlawful and unethical behaviour.

Adacel's Code of Conduct is posted on the company's web site.

Trading in Adacel securities

Council Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers and employees

The company has a policy concerning the trading in the company's securities by Directors, senior managers and employees. In summary, Directors, senior managers and employees must not deal in Adacel securities when they are in possession of insider information. Directors and senior managers must not trade during the "trading blackout" beginning at the end of the Half Year and Full Year reporting period until the release to the ASX of the Financial Results for the relevant period. Directors are expected to discuss the matter with the Chairman and senior executives are expected to discuss the matter with the Managing Director.

Details of Adacel's trading policy are posted on our web site.

4.0 Integrity in financial reporting

Corporate Reporting

Council Recommendation 4.1: Chief executive officer and chief financial officer to sign a certificate regarding financial reports giving a true and fair view and are in accordance with accounting standards

The Managing Director and Chief Financial Officer have made the following certifications to the Board:

- That the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the company and are in accordance with the relevant accounting standards; and
- All reasonable steps have been undertaken to ensure that the above statement is founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

The company adopted this reporting structure in regard to the 2004 financial year and all subsequent reports.

Audit Committee

Council Recommendation 4.2 and 4.4: The board should establish an audit committee and have an audit committee charter

The Board has an Audit Committee that reports to the Board.

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Company and to advise on financial information prepared for use by the Board or for inclusion in financial statements.

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The responsibilities of the Audit Committee include:

- Reviewing audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with the auditors and ensuring that the annual statutory audits are conducted in an effective manner;
- Monitoring management efforts to improve continuously the quality of the accounting function;
- Reviewing the half-year and annual reporting and financial statements prior to lodgement of those documents with the Australian Stock Exchange and to make the necessary recommendations to the Board for the approval of these documents;
- Providing the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports;
- Recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement the scope and quality of the audit;
- Assessing the attention being given by management to matters likely to impact on the financial performance of the Company, including monitoring of compliance with laws and regulations and monitoring and control of business risks;
- Management information and other systems of internal control and risk management; and
- Ethical policies and practices for corporate conduct are in place and being adhered to.

The auditors, the Chief Financial Officer and the company Managers are invited to the Audit Committee meetings at the discretion of the Committee.

The Audit Committee charter is posted on the company's web site.

Composition of Audit Committee

Council Recommendation 4.3: Structure the audit committee so that it consists of only non-executive directors, a majority of independent directors, an independent chairperson (who is not chairperson of the board) and at least three members

The Company's Audit Committee comprises:

- Only non-executive directors;
- A majority of independent directors;
- An independent chairperson, who is not chairperson of the Board; and
- At least three members.

The members of the Audit Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report.

External Auditors

Council Recommendation 4.4: Other matters – Procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners

The Board, with the involvement of the Audit Committee, has established procedures in relation to the external auditor selection and appointment and for discussing with the auditor the rotation of the lead partner. Procedures for the selection and appointment of external auditors and rotation of engagement partners are posted on the company's web site.

5.0 Timely and balanced disclosures

Council Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior level for that compliance

Continuous Disclosure

The Company has written policies and procedures on information disclosure. The focus of these procedures is on continuous disclosure of any information concerning the company that a reasonable person would expect to have a material effect on the price of the Company's securities and improving access to information for all investors.

The company has nominated the Company Secretary and the Group Manager Corporate Affairs & Strategy Support to be responsible for communications with the Australian Stock Exchange. This role includes:

- Overseeing compliance with the continuous disclosure requirements in the ASX Listing Rules;
- Overseeing and coordinating information disclosure to the ASX, shareholders, analysts, brokers, the media and the public; and
- Educating Directors and staff on the company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

Price sensitive information is publicly released through the ASX before disclosing it to analysts or others outside the company. Further dissemination to investors through the ASX website and other information providers is also managed through the stock exchange.

Information is posted on the company's website as soon as practicable after the stock exchange confirms an announcement has been made, with the aim of making the information accessible to the widest audience.

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Procedures have also been developed for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market. Procedures are also in place to respond to market rumours or leaks.

The policy on continuous disclosure is posted on the company's web site.

6.0 Rights of shareholders

Shareholder communication and participation

Council Recommendation 6.1: Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the state of affairs of the company. Information is communicated to shareholders through: the annual report, the interim report, disclosures made to the Australian stock exchange, notices and explanatory memoranda of annual and extraordinary general meetings, the annual general meeting, occasional letters to shareholders where appropriate, and the company's website, www.adacel.com, which has a dedicated investor relations section.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates of company matters.

The Board encourages full participation of shareholders at the annual general meeting to ensure a high level of accountability and identification with the company's strategy and goals. Important issues are presented to the shareholders as single resolutions.

Auditor presence at AGM

Council Recommendation 6.2: Request the external auditor to attend 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 requires the lead audit partner or their partner delegate to attend each annual general meeting of the company and to be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

7.0 Recognising and managing risk

Risk management

Council Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management

The Board oversees policies on risk assessment and management and has delegated certain responsibilities in these matters to the Audit Committee. The company has established policies and procedures to identify, assess and manage critical areas of financial and operating risk. The company's Risk Management policy is posted on the company's website.

Managing Director and CFO certification

Council Recommendation 7.2: The chief executive officer and chief financial officer should state to the board in writing; 1) the statement given in accordance with company practice 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; 2) the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

At the time the Board considers the draft half year and full year financial statements and reports, the Managing Director and Chief Financial Officer are required to provide a signed certificate that the statements and reports are founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board, and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

The company adopted this reporting structure in regard to the 2004 financial year report and all subsequent reports.

These statements are included in the policy on CEO and CFO certification referred to in Section 4.0 of this Corporate Governance Statement.

8.0 Enhancing performance

Council Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives

Performance Assessment

The Board as Nomination Committee undertook a self assessment in May 2005 of its collective performance, the performance of the Chairman and of its Committees. This is an annual process. Management are invited to contribute to this appraisal process. The assessment of the performance of individual Directors is undertaken by the Chairman who meets privately with each Director to discuss this assessment.

Descriptions of the process for performance assessment for the Board and senior executives are available on the website.

New Directors are provided with a letter of appointment setting out the company's expectations, their responsibilities, rights and terms and conditions of their employment.

By way of induction, new Directors meet with the Company Secretary, Managing Director and the Chairman. These briefings cover the operation of the Board and its Committees and financial, strategic, operations and risk management issues.

9.0 Remuneration of Directors and senior executives

Remuneration practice

Council Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand: (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance

The Adacel Board has determined policies in relation to the remuneration of directors and executives, as follows:

Non-executive Directors

Non-executive Directors are remunerated by fixed annual fees, superannuation, and from time-to-time may also be issued share options in place of higher cash fees.

The level of annual Directors' fees is reviewed by the Remuneration Committee and the Board, taking into account a number of factors, including the range of Directors' fees paid in the market, and the company's costs and operating performance. The maximum total for annual fees for Directors is approved from time to time by shareholders in general meeting and was last set at \$300,000 per annum at the 1999 Annual General Meeting.

Non-executive Directors may also, in view of the company's size and resources, from time-to-time be issued options as part of their remuneration in place of a higher cash fee. Options would be issued after consideration by the Remuneration Committee and the Board and subject to shareholder approval at general meeting. These options would be issued separately to the Adacel Staff Option Plan and with conditions that were designed to provide a link with company share price performance.

Directors are not paid additional fees for work on Board committees and are not entitled to a retirement benefit.

Senior Executives

Under the company's constitution, remuneration of the Managing Director and Executive Directors, subject to other provisions in any contract between these executives and the company, may be by way of fixed salary or participation in the profits of the company but may not be by way of commission on or percentage of operating revenue. Other senior executives, including the company secretary, may be remunerated by fixed salary and performance based bonuses. Remuneration packages will generally be set to be competitive to both retain executives and attract experienced executives to the company.

Where packages comprise a fixed element and variable incentive components, the variable components will depend on company and personal performance. Short term incentives may include annual cash incentives on meeting specific profit and performance criteria that has been agreed to in plans set with the Managing Director and the Board. Criteria to be met may include group and/ or business unit profit performance and personal Key Performance Indicators. The amount of the incentive will depend upon the extent that the measure is exceeded. These conditions help to ensure that the short term incentives are aligned with the interests of shareholders in the current period.

To provide long term incentives, senior executives may also participate in the Adacel Staff Share Option plan. The options are issued with conditions to help ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

The total costs of Director and Senior Manager remuneration packages, including the fair value of options, is listed in the Directors Report and Financial Statements in the Annual Report.

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Remuneration Committee

Council Recommendation 9.2: The board should establish a remuneration committee

The Board has established a remuneration committee. The role of the Remuneration Committee is to review and make recommendations to the Board on remuneration packages and practices applicable to the Managing Director, senior executives and Directors themselves. This role also includes responsibility for share option schemes incentive performance packages and retirement and termination entitlements. Remuneration levels are competitively set to attract the most qualified and experienced Directors and senior executives. The Remuneration Committee may obtain independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year and attendance at meetings of the Committee are disclosed in the Directors' Report in the Annual Report

The Remuneration Committee charter is posted on our web site.

Non-executive Director remuneration

Council Recommendation 9.3: Clearly distinguish the structure of non-executives directors' remuneration from that of executives

The Adacel Board has determined that non-executive directors will be remunerated differently from executives in the following ways:

- Non-executive directors will receive fees in the form of cash fees and statutory superannuation;
- Non-executive directors may be issued options as approved by shareholders, but will not participate in the Adacel Staff Share Option plan or receive bonus payments; and
- Non-executive directors will not receive retirement benefits other than superannuation.

Equity-based remuneration

Council Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders

The Adacel Board has determined that executives will only participate in equity-based plans where the plan has been approved by shareholders, and participation in a benefit is subject to share price performance measures of the company being met.

Retirement benefits

Council Recommendation 9.5: Other matters (if applicable) – Disclose the existence and terms of any schemes for retirement benefits, other than statutory superannuation, for non-executive directors

Non-executive Directors do not receive retirement benefits other than statutory superannuation.

10.0 Recognising the legitimate interests of stakeholders

Council Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders

Code of Conduct

The Adacel Board has established a code of conduct for all employees, called Adacel's Ethics Policy, to assist in maintaining integrity, ethics and sound business practices. Employees are advised of the company's ethics and other management policies and procedures, which are posted on the company's intranet.

The purposes of this Ethics Policy are to:

- Ensure compliance with all relevant legislation;
- Fulfil the reasonable expectations of the communities in which the company operates, by acknowledging the rights of various stakeholders;
- Enhance the reputation of the company with its stakeholders;
- Improve the performance of the company;
- Inform employees of the Board's expectations of them, including the obligations of raising and pursuing concerns of non-compliance or unethical behaviour; and
- Assist in achieving the company vision.

The company's ethics policy is posted on the website.

