Adacel Technologies Limited

ABN 15 079 672 281

Financial Report, Directors' Report, Audit Report and Additional Information 2004

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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 2004.

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:

Mr Julian Beale
Mr Kevin Courtney
Mr Silvio Salom
Mr David Smith

Mr Alex Waislitz, and his alternate Mr Peter Landos, were appointed Director and alternate Director respectively on 29 August 2003 and continue in office at the date of this report.

Sir Roderick Carnegie was a Director and Chairman from the beginning of the financial year until his retirement on 12 September 2003.

Mr Julian Beale was appointed Chairman on 12 September 2003 and continues in office at the date of this report.

Ms Kerry Adby was a Director from the beginning of the financial year until her retirement on 16 October 2003.

Mr Ian Shiers was a Director from the beginning of the financial year until his retirement on 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.

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.

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 McPhersons Limited and Collingwood Football Club.

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.

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.

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.

Ian Shiers

Executive Director

Chief Operating Officer of Adacel Technologies Limited from May 2002 to 30 July 2004 and executive Director from September 2002 to 30 July 2004. Mr Shiers has extensive Australian and international experience in managing the operations of companies in a global environment. Mr Shiers previously held a number of senior executive positions with Polaroid Corporation, most recently based in Boston, USA as Executive Vice President in charge of global operations. He was also a member of the senior management team of Telstra Corporation, including as the Managing Director of Mobiles and the Business and Government Unit business unit. Mr Shiers was also formerly a Vice President with Motorola Inc USA and a senior executive with Unisys Corporation, where he was Australian Managing Director and later Vice President Marketing for the European business. Mr Shiers is non-executive Chairman of Lako Pacific Limited. He is a member of the UK Institute of Directors, the Australian Institute of Company Directors, the Australian Institute of Marketing, and an Alumni of the Stanford University Graduate School of Business.

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	(35.6) cents
Diluted earnings/(loss) per share	(35.6) cents

Dividends

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

Review of Operations

Summary

The 2004 financial year was a disappointing period for the company. The operating result before tax and one-off adjustments was a loss of $11,266,000 caused largely by the losses in the non-core businesses prior to closure, the adverse impact of the appreciating Australian dollar and timing delays associated with anticipated contracts. The net after-tax group loss was $23,451,000 after allowing for restructuring costs and the write down of intangible and other balance sheet items, which totalled $11,612,000.

The company moved to complete the restructuring of the group by exiting the last of the loss-making non-core operations and strengthening Adacel's strategic focus. Adacel is now focused exclusively on simulation and control for the aviation and defence markets, with its primary operations in North America servicing global markets. The actions taken also significantly reduced the operating cost base.

The company continued to be successful in its core international markets in 2004, with numerous major procurements, including a $27 million simulation order from the US Air Force, a $21 million order from Lockheed Martin and a contract for work on Portugal's Oceanic system. Adacel further extended its simulation product range with the launch of the ARTT Tower simulation system.

Adacel also advanced its strategy of taking existing technology into adjacent markets with its selection by Lockheed Martin to supply voice-based cockpit automation systems for the global F-35 Joint Strike Fighter program, the first for a US aircraft.

Operating Result

Revenues

Group operating revenues of $55,576,000 in the twelve months ended 30 June 2004 were lower than the previous year (2003 $92,580,000).

The reduction in operating revenues reflected a number of factors, including:

- The sale and exit of some businesses in 2003 ($10,225,000 impact).
- Reduced new business generation by the Australian operations combined with the progressive restructuring of these operations during the year.
- The translation impact of the stronger Australian dollar (approx. $8,000,000 impact).
- Delays in anticipated contract awards in 2004 financial year.

Earnings

After expensing $7,226,000 in product development (previously $6,725,000), amortisation and depreciation before adjustments of $2,769,000 (previously $2,958,000) and finance costs of $319,000 (previously $242,000), the operating loss prior to one-off adjustments was $11,266,000 (2003 $2,854,000 loss).

One off adjustments

The restructuring costs and write off of intangible items comprised:

- Write downs and accelerated depreciation and amortisation of $9,889,000 (2003 $2,283,000). This consisted of intellectual property, goodwill, work in progress and fixed assets.
- Redundancies and costs of business closures of $1,781,000 (2003 $1,536,000).
- Net profit on disposed businesses and premises of $58,000 (2003 $892,000).

Net earnings

After one-off adjustments and tax expense of $573,000 (2003 tax benefit $2,113,000), the net after-tax loss for the year was $23,451,000 (2003 $3,668,000).

Cash

Cash usage during the period reflected the cash effect of the operating loss, timing impacts of receipts and payments, differences in profit recognition and cash flows and the cash impact of closure of businesses and redundancies. Operating activities used $15,456,000 in cash (2003 $566,000).

Strategic Initiatives

The over-riding objective of the strategic restructure has been to focus the company exclusively on simulation and control for aviation and defence. The initiatives undertaken also improved Adacel's operating base. The exit of non-core operations, cost reductions in North America and integration of e-learning simulation into North America are largely complete. Corporate overheads have been substantially reduced and are being moved to North America. Across the group, the initiatives implemented reduce staff numbers from around 310 at June 2003 to around 180 at December 2004.

Markets and Operations

With the completion of restructuring, Adacel's operations are now primarily based in North America, where our largest market is located, and from where the company services customers throughout the world.

Through the restructuring, the company is focused on simulation and control for the aviation and defence markets where Adacel has an established global competitive position.

During 2004, the company continued to hold this competitive market position, winning new contracts and repeat business from long standing customers.

Operationally, the company significantly reduced its cost base while investing to build a position in adjacent market segments. The company also added to its management capability for its key market with the appointment in July of Frederick L. Sheldon as Chief Executive Officer of the North American operations.

These actions strengthen Adacel's position in its markets and enable the company to leverage its existing technology and customer relationships to address adjacent market segments.

Additional comments on the company's operations are included in the 2004 Annual Report. Shareholders will be updated on developments at the Annual General Meeting.

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.

Likely Developments and Expected Results of Operations

With the restructuring largely complete, Adacel is now clearly focussed on its core international markets of simulation and control for aviation and defence. The company will continue to consolidate its strong position and use this to build a presence in adjacent segments.

The recent appointment of Fred Sheldon as CEO for North America will further strengthen the management capability of our business.

On the basis of the actions taken, we look ahead into 2005 with cautious optimism.

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.

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	951,000	11 May 2006	$1.44
Staff Share Option Plan	11,000	19 July 2006	$1.62
Staff Share Option Plan	40,000	1 November 2006	$1.05
Staff Share Option Plan	100,000	12 November 2006	$1.05
Staff Share Option Plan	138,000	25 February 2007	$1.02
Staff Share Option Plan	100,000	25 February 2007	$1.00
Staff Share Option Plan	411,000	5 April 2007	$0.91
Staff Share Option Plan	500,000	2 May 2007	$0.90
Staff Share Option Plan	115,000	5 July 2007	$0.89
Staff Share Option Plan	65,000	4 October 2007	$0.66
Staff Share Option Plan	200,000	11 November 2007	$0.58
Staff Share Option Plan	67,000	10 January 2008	$0.81
Staff Share Option Plan	100,000	25 February 2008	$1.00
Staff Share Option Plan	79,000	4 April 2008	$0.71
Staff Share Option Plan	90,000	4 July 2008	$0.75
Staff Share Option Plan	36,000	3 October 2008	$0.75
Staff Share Option Plan	37,000	9 January 2009	$0.85
Staff Share Option Plan	100,000	25 February 2009	$1.00
Staff Share Option Plan	74,000	2 April 2009	$0.66
Staff Share Option Plan	70,000	4 July 2009	$0.45
Options - Tranche 1 Capital Raising	1,821,494	15 March 2006	$1.00
Options - Tranche 2 Capital Raising	2,185,792	15 March 2006	$1.00
	7,291,286		

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.

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 and their exercise price is $1.00, payable immediately on exercise.

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. These options are issued for no consideration from Directors or employees.

Generally, Staff Share Option Plan options are issued with two conditions precedent. The options vest when:

- 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.

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.

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2004 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' and Executives' Emoluments

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 the consolidated entity and each of the three executive officers of the company for the financial year are as follows:

Directors of Adacel Technologies Limited

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

During the year, the Directors reviewed their remuneration and agreed to reduce annual non-executive director fees by 25%.

* Sir Roderick Carnegie, Ms Kerry Adby and Mr Ian Shiers are no longer Directors as at the date of this report.

Other executives of Adacel Technologies Limited

2004	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super-annuation $	Options $	Termination benefits $	Total $
Mr Russell Meacham	249,056 *	–	–	13,014	–	119,347	381,417
Mr Errol Turner	265,714	–	–	11,002	5,448	–	282,164
Mr Steve Wylie	127,778	–	–	3,667	–	150,858	282,303
Total	642,548	–	–	27,683	5,448	270,205	945,884

* Includes an amount of $27,903 for unused annual leave entitlements paid out at date of termination.

Other executives of the consolidated entity

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 Lionel Léveillé	248,018	–	–	11,145	–	–	259,163
Mr Russell Meacham	249,056 *	–	–	13,014	–	119,347	381,417
Mr Errol Turner	265,714	–	–	11,002	5,448	–	282,164
Mr Steve Wylie	127,778	–	–	3,667	–	150,858	282,303
Total	1,066,423	–	–	47,452	5,448	270,205	1,389,528

* Includes an amount of $27,903 for unused annual leave entitlements paid out at date of termination.

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 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 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. These options are issued at not less than the market price at time of appointment or grant (based on the volume weighted price in the five days prior). All options that have been issued under the Staff Share Option Plan are required to meet a share price hurdle of 15% compound growth per year before exercise, which can only take place no earlier than one year after the grant. These conditions help to ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

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	Ordinary shares under option
	2004	**2004**
Mr Julian Beale	910,078	145,719
Mr Kevin Courtney	–	–
Mr Silvio Salom	10,852,493	74,000
Mr David Smith	7,774,939	–
Mr Alex Waislitz	–	–
Mr Peter Landos (alternate to Mr Waislitz)	–	–
	19,537,510	219,719

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 any of the three officers 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	–	–	–	–
Sir Roderick Carnegie	–	–	–	–
Ms Kerry Adby	–	–	–	–
Mr Kevin Courtney	–	–	–	–
Mr Silvio Salom	–	–	–	–
Mr Ian Shiers	37,000	$0.75	4 July 2008	4 July 2005
	37,000	$0.45	4 July 2009	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 Russell Meacham	–	–	–	–
Mr Errol Turner	200,000	$0.58	11 November 2007	11 November 2003 – 35%
				11 November 2004 – 35%
				11 November 2005 – 30%
Mr Steve Wylie	–	–	–	–

Executive Officers of the Consolidated Entity

	Options granted	Exercise price	Expiry date	Vesting date
Mr Yves Gosselin	–	–	–	–
Mr Lionel Léveillé	100,000	$1.00	25 February 2009	25 August 2004 – 50%
				25 February 2005 – 50%
	37,000	$0.66	2 April 2009	2 April 2005 – 50%
				2 April 2006 – 50%
Mr Russell Meacham	–	–	–	–
Mr Errol Turner	200,000	$0.58	11 November 2007	11 November 2003 – 35%
				11 November 2004 – 35%
				11 November 2005 – 30%
Mr Steve Wylie	–	–	–	–

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					
			Audit		Remuneration		Nominations	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Mr Julian Beale	16	15	2	2	2	2	1	1
Sir Roderick Carnegie (retired 12 September 2003)	3	3	1	1	–	–	–	–
Ms Kerry Adby (retired 16 October 2003)	6	6	2	2	–	–	–	–
Mr Kevin Courtney	16	14	3	3	2	2	1	1
Mr Silvio Salom	16	16	*	*	*	*	1	1
Mr Ian Shiers	16	16	*	*	*	*	1	1
Mr David Smith	16	16	*	*	*	*	1	1
Mr Alex Waislitz (appointed 29 August 2003)	14	9	1	1	2	1	1	1
Mr Peter Landos (alternate to Mr Waislitz, attending at times of Mr Waislitz's absence, appointed 29 August 2003)	14	5	1	–	2	1	1	–

* 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, Sir Roderick Carnegie (until his retirement on 12 September 2003), Mr Julian Beale (from his appointment on 12 September 2003), Ms Kerry Adby (until her retirement on 16 October 2003) and Mr Alex Waislitz (from his appointment on 16 October 2003). The Chairman of the Audit Committee is Mr Kevin Courtney.

The members of the Remuneration Committee are Sir Roderick Carnegie (until his retirement on 12 September 2003), Mr Julian Beale (from his appointment on 12 September 2003), Mr Kevin Courtney, Ms Kerry Adby (until her retirement on 16 October 2003) and Mr Alex Waislitz (from his appointment on 16 October 2003). The Chairman of the Remuneration Committee was Sir Roderick Carnegie (until his retirement on 12 September 2003) and Mr Julian Beale (from his appointment on 12 September 2003).

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:
250 Bay Street
Brighton, Victoria, 3186
Australia

Effective 1 October 2004, the company is relocating and its new registered office will be:
240 Bay Street
Brighton, Victoria, 3186
Australia

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, 29 September 2004

Silvio Salom
Managing Director
Melbourne, 29 September 2004

FOR THE YEAR ENDED 30 JUNE 2004	Notes	CONSOLIDATED		ATL	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
REVENUE FROM ORDINARY ACTIVITIES					
Sales revenue	2	**55,576**	92,580	**5,109**	21,444
Other revenue	2	**2,006**	4,425	**6,607**	14,687
TOTAL REVENUE FROM ORDINARY ACTIVITIES		**57,582**	97,005	**11,716**	36,131
Borrowing costs expense	3	**(319)**	(242)	**(456)**	(242)
Expenses from ordinary activities, excluding borrowing costs	3	**(80,141)**	(102,544)	**(35,525)**	(44,953)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**(22,878)**	(5,781)	**(24,265)**	(9,064)
Income tax (expense)/benefit relating to ordinary activities	5	**(573)**	2,113	**(698)**	(890)
PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX		**(23,451)**	(3,668)	**(24,963)**	(9,954)
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF ADACEL TECHNOLOGIES LIMITED	26	**(23,451)**	(3,668)	**(24,963)**	(9,954)
Net exchange differences on translation of financial report of foreign controlled entities	26	**(1,120)**	(877)	**–**	–
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF ADACEL TECHNOLOGIES LIMITED RECOGNISED DIRECTLY IN EQUITY		**(1,120)**	(877)	**–**	–
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		**(24,571)**	(4,545)	**(24,963)**	(9,954)
EARNINGS/(LOSS) PER SHARE		**Cents**	Cents		
Basic earnings/(loss) per share	33	**(35.6)**	(6.8)		
Diluted earnings/(loss) per share	33	**(35.6)**	(6.8)		

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

AS AT 30 JUNE 2004	Notes	CONSOLIDATED		ATL	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
CURRENT ASSETS					
Cash assets	27	**1,311**	12,254	**–**	2,003
Receivables	6	**18,404**	19,652	**342**	1,469
Accrued sales	7	**3,692**	2,143	**526**	805
Inventories	8	**7,317**	5,831	**–**	–
Other financial assets	9	**104**	668	**40**	380
Other assets	10	**917**	881	**521**	337
TOTAL CURRENT ASSETS		**31,745**	41,429	**1,429**	4,994
NON-CURRENT ASSETS					
Receivables	11	**–**	–	**5,803**	15,954
Inventories	12	**–**	2,052	**–**	–
Property, plant and equipment	13	**1,354**	4,104	**–**	2,069
Intangible assets	14	**4,567**	13,008	**4,567**	11,500
Deferred tax assets	15	**1,368**	2,498	**–**	692
Other financial assets	16	**–**	–	**6,997**	6,997
TOTAL NON-CURRENT ASSETS		**7,289**	21,662	**17,367**	37,212
TOTAL ASSETS		**39,034**	63,091	**18,796**	42,206
CURRENT LIABILITIES					
Bank overdraft	27	**4,354**	–	**4,415**	–
Payables	17	**21,297**	24,634	**3,427**	5,312
Advance payments from customers	18	**1,941**	1,980	**18**	286
Current tax liabilities	19	**146**	–	**–**	–
Other interest bearing liabilities	20	**58**	124	**47**	46
Provisions	21	**444**	770	**444**	770
TOTAL CURRENT LIABILITIES		**28,240**	27,508	**8,351**	6,414
NON-CURRENT LIABILITIES					
Interest bearing liabilities	22	**169**	214	**160**	214
Deferred tax liabilities	23	**184**	–	**–**	–
Provisions	24	**103**	458	**82**	410
TOTAL NON-CURRENT LIABILITIES		**456**	672	**242**	624
TOTAL LIABILITIES		**28,696**	28,180	**8,593**	7,038
NET ASSETS		**10,338**	34,911	**10,203**	35,168
EQUITY					
Capital contributed equity – issued	25	**73,103**	68,105	**73,103**	68,105
Capital contributed equity – to be issued	25	**–**	5,000	**–**	5,000
Reserves	26	**(2,441)**	(1,321)	**10**	10
Retained profits/(accumulated losses)	26	**(60,324)**	(36,873)	**(62,910)**	(37,947)
TOTAL EQUITY		**10,338**	34,911	**10,203**	35,168

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

FOR THE YEAR ENDED 30 JUNE 2004	Notes	CONSOLIDATED		ATL	
		2004	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**56,827**	85,897	**5,265**	21,969
Payments to suppliers and employees		**(69,485)**	(79,467)	**(13,692)**	(29,070)
Interest received		**16**	97	**12**	97
Payments for development expenditure		**(3,758)**	(7,860)	**(571)**	(1,626)
Income tax paid		**(125)**	–	**–**	–
Tax credits refunded		**1,396**	1,009	**–**	–
Borrowing costs		**(327)**	(242)	**(317)**	(242)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	27(a)	**(15,456)**	(566)	**(9,303)**	(8,872)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		**(310)**	(2,309)	**(11)**	(818)
Proceeds from sale of plant and equipment		**65**	–	**62**	–
Proceeds from sale of land and buildings		**–**	3,179	**–**	3,179
Proceeds from /(payment for) for deposits		**181**	(78)	**98**	5
Payments for investments		**(53)**	(133)	**(53)**	(133)
Proceeds from sale of businesses		**250**	650	**250**	650
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**133**	1,309	**346**	2,883
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from shares issued or to be issued		**–**	7,575	**–**	7,575
Repayment of over-subscriptions in share purchase plan		**(198)**	–	**(198)**	
Share issue costs		**(2)**	(511)	**(2)**	(511)
Proceeds from borrowings		**–**	202	**–**	179
Loans (to)/from controlled entities		**–**	–	**2,792**	(1,376)
Repayment of borrowing		**(63)**	(38)	**(53)**	(38)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(263)**	7,228	**2,539**	5,829
NET INCREASE/(DECREASE) IN CASH HELD		**(15,586)**	7,971	**(6,418)**	(160)
Cash at the beginning of the financial year		**12,254**	4,370	**2,003**	2,163
Effects of exchange rate changes on cash		**289**	(87)	**–**	–
CASH AT THE END OF THE FINANCIAL YEAR	27(b)	**(3,043)**	12,254	**(4,415)**	2,003

Financing arrangements	39
Non-cash financing and investing activities	28

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

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 2004 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 the company reassessed the recoverable amount of intellectual property acquired from Adacel Pty Ltd and decided to accelerate the amortisation by $4,958,000. In addition, the company reassessed the useful life from 15 years to 5 years. At 30 June 2004 the written down value of this intellectual property is $4,567,000.

During the year the company reassessed the useful life of intellectual property relating to simulation learning and decided to accelerate the amortisation by $894,000. At 30 June 2004 the written down value of this intellectual property is $Nil.

(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.

During the year the company reassessed the useful life of goodwill acquired from Adacel Pty Ltd and decided to accelerate the amortisation by $1,063,000. At 30 June 2004 the written down value of this intellectual property is $Nil.

During the year the company reassessed the useful life of goodwill relating to the North American operation and decided to accelerate the amortisation by $488,000. At 30 June 2004 the written down value of this intellectual property is $Nil.

(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).

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.

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 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).

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 sales 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.

(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 2004 and 2003 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%

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 costs incurred to date as a percentage of total estimated costs, where the costs included in the calculation reflect services performed, or
(b) the milestones within the contract that have been completed by the company or economic entity and have been accepted by the customer.

The method used is dependent upon the nature of the contract.

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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 various company employee option plans. Information relating to these schemes is set out in note 30.

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 on 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(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 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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(z) 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.

(aa) 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 will issue AASB equivalents to IFRS, and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These pronouncements will be known as Australian International Financial Reporting Pronouncements (AIFRPs). The adoption of AIFRPs will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

To date the group has undertaken a high level analysis of the AIFRPs that it expects may have a material impact on the company and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 First-time Adoption of Australian International Financial Reporting Pronouncements. Some of these choices are still being analysed to determine the most appropriate accounting policy for the Group.

As a result of the analysis undertaken to date, it is anticipated that the following significant changes to the Group's existing accounting policies will be required:

(i) Income tax

Under the Australian equivalent to IAS 12 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.

(ii) Equity-based compensation benefits

Under the Australian equivalent to IFRS 2 Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received.

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

(iii) Financial instruments

Under the Australian equivalent to IAS 39 Financial Instruments: Recognition and Measurement there may be major impacts as a result of financial assets held by the company being subject to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to AIFRPs, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to AIFRPs on the Group's financial position and reported results.

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
2. REVENUE				
Revenues from operating activities				
Revenue from sales of services and systems	**55,515**	92,103	**5,109**	21,024
Revenue from sales of product	**61**	477	**–**	420
	55,576	92,580	**5,109**	21,444
Revenue from outside the operating activities				
Interest	**16**	97	**2,721**	1,970
Royalties	**–**	–	**929**	5,800
Management fee	**–**	–	**2,837**	2,703
Proceeds from sale of business	**58**	1,294	**58**	1,294
Proceeds from sale of property, plant and equipment	**65**	2,890	**62**	2,890
Grant income	**1,867**	114	**–**	–
Other revenue	**–**	30	**–**	30
	2,006	4,425	**6,607**	14,687
Total revenue from ordinary activities	**57,582**	97,005	**11,716**	36,131

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
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	**24,295**	31,117	**342**	1,157
Labour expense – research & development	**6,409**	6,624	**554**	2,530
Labour expense – writeoff of work-in-progress	**1,316**	–	**–**	–
Labour expense – other activities	**24,893**	41,895	**7,272**	19,887
Sub-total labour expense	**32,618**	48,519	**7,826**	22,417
Other expenses from ordinary activities – research & development	**817**	101	**17**	40
Other expenses from ordinary activities – sales & marketing	**1,776**	2,341	**124**	457
Other expenses from ordinary activities – general & administration	**8,617**	10,966	**3,390**	6,496
Sub-total other expenses from ordinary activities	**11,210**	13,408	**3,531**	6,993
Provision for diminution of investments and loans	**179**	133	**14,779**	8,397
Written down value of property, plant and equipment sold	**64**	1,693	**62**	1,693
Sale of business – carrying value of net assets sold (including sale costs and redundancy costs)	**–**	1,577	**–**	1,577
Net foreign exchange loss/(gain)	**433**	856	**34**	(14)
Depreciation and amortisation expenses (refer note 3(b))	**11,342**	5,241	**8,951**	2,733
Total expenses from ordinary activities before borrowing costs	**80,141**	102,544	**35,525**	44,953
Borrowing costs	**319**	242	**456**	242
Total expenses from ordinary activities	**80,460**	102,786	**35,981**	45,195
(b) Other expenses disclosure				
Amortisation of intangibles*				
Goodwill	**1,618**	1,227	**1,109**	160
Intellectual property	**6,785**	1,798	**5,824**	974
	8,403	3,025	**6,933**	1,134
Depreciation/amortisation of property plant & equipment*				
Buildings on freehold land	**–**	28	**–**	28
Leasehold improvements	**391**	111	**377**	85
Furniture, fittings and equipment	**2,396**	2,021	**1,492**	1,433
Motor vehicles	**3**	3	**–**	–
Equipment under finance lease	**149**	53	**149**	53
	2,939	2,216	**2,018**	1,599
	11,342	5,241	**8,951**	2,733

*Included in these amounts is accelerated depreciation and amortisation, which is set out in note 3(d).

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES CONTINUED				
(b) Other expenses disclosure continued				
Bad and doubtful debts – trade debtors	**85**	99	**85**	99
Operating lease rental	**1,992**	2,296	**682**	1,019
Research and development costs	**7,226**	6,725	**571**	2,570
Provision for diminution of intercompany loans	**–**	–	**14,600**	8,264
Provision for diminution of investments	**179**	133	**179**	133
Net loss on disposal of business	**–**	283	**–**	283
(c) Net gains				
Net gain on disposal of businesses	**58**	–	**58**	–
Net gain on disposal of property, plant & equipment	**1**	1,197	**–**	1,197
The net gain on disposal of property, plant & equipment in 2003 includes the following revenue and expense on sale of land and buildings:				
Revenue – cash consideration		2,890		2,890
Expense – written down value of land and buildings sold plus incidental costs		(1,693)		(1,693)
Gain on sale		1,197		1,197
(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**	959	**1,063**	–
Amortisation of intellectual property	**5,852**	788	**4,958**	101
Depreciation of plant & equipment	**1,170**	536	**1,122**	536
	8,573	2,283	**7,143**	637

	CONSOLIDATED	ATL
	2003	2003
	$'000	$'000

4. DISCONTINUING OPERATIONS

On 31 March 2003, the Enterprise Services division (formerly Brightstar) was sold and is reported in this financial report as a discontinuing operation. Set out below is financial information relating to the discontinued operations as it impacts the comparative year ended 30 June 2003. There were no results from the discontinued operation included in the results for the year ended 30 June 2004.

Financial performance information for the nine months ended 31 March 2003

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Revenue from ordinary activities, excluding sale of the division	10,227	10,227
Revenue from the sale of the division	1,294	1,294
Total revenue from ordinary activities	11,521	11,521
Expenses from ordinary activities, excluding the carrying amount of net assets of the division sold and costs of sale	12,641	12,641
Carrying amount of net assets of the division sold	1,247	1,247
Other costs of sale (including associated redundancy costs)	330	330
Other redundancy costs	521	521
Total expenses from ordinary activities	14,739	14,739
Loss from ordinary activities before related income tax	(3,218)	(3,218)
Income tax	–	–
Net loss	(3,218)	(3,218)

Carrying amount of assets and liabilities sold:

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Goodwill – written down value	1,037	1,037
Furniture, fittings and equipment – written down value	327	327
Other provisions	(117)	(117)
Net assets	1,247	1,247

The carrying amount of net assets sold is detailed above. The assets and liabilities of the business that were not sold remained with the company and consolidated entity and are being settled in the ordinary course of business.

Details of the sale of the division are as follows:

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Consideration received or receivable:		
Cash	900	900
Employee benefits/liabilities assumed by the purchaser	394	394
	1,294	1,294
Carrying amount of net assets sold	1,247	1,247
Other costs of sale (including redundancy costs)	330	330
Loss on sale before related income tax	(283)	(283)
Income tax	–	–
Loss on sale after related income tax	(283)	(283)

Cash flow information for the nine months ended 31 March 2003

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Net cash inflow/(outflow) from operating activities	(2,119)	(2,119)
Net cash inflow/(outflow) from investing activities	616	616
Net cash inflow/(outflow) from financing activities	–	–
Net increase/(decrease) in cash generated by the division	(1,503)	(1,503)

	CONSOLIDATED	ATL
	2003	2003
	$'000	$'000

4. DISCONTINUING OPERATIONS CONTINUED

The Regional Software Centre was closed on 30 June 2003 and is reported in this financial report as a discontinuing operation. Set out below is financial information relating to the discontinued operations as it impacts the comparative year ended 30 June 2003. There were no results from the discontinued operation included in the results for the year ended 30 June 2004.

Financial performance information for the year ended 30 June 2003

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Revenue from ordinary activities	441	441
Total revenue from ordinary activities	441	441
Expenses from ordinary activities, excluding redundancy costs	2,029	2,029
Redundancy costs	142	142
Total expenses from ordinary activities	2,171	2,171
Loss from ordinary activities before related income tax	(1,730)	(1,730)
Income tax	–	–
Net loss	(1,730)	(1,730)

Carrying amount of assets and liabilities of discontinuing business:

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Cash	1	1
Receivables	86	86
Other financial assets	1	1
Furniture, fittings and equipment – written down value	1	1
Total assets	89	89
Payables	197	197
Provisions	304	304
Intergroup payables	1,990	1,990
Total liabilities	2,491	2,491
Net assets	(2,402)	(2,402)

Cash flow information for the year ended 30 June 2003

	CONSOLIDATED 2003 $'000	ATL 2003 $'000
Net cash inflow/(outflow) from operating activities	(1,294)	(1,294)
Net cash inflow/(outflow) from investing activities	(2)	(2)
Net cash inflow/(outflow) from financing activities	–	–
Net increase/(decrease) in cash generated by the division	(1,296)	(1,296)

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
5. 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	**(22,878)**	(5,781)	**(24,265)**	(9,064)
Income tax calculated at applicable tax rates	**(7,100)**	(1,662)	**(7,280)**	(2,719)
Tax effect of permanent differences				
Research and development concession	**(55)**	–	**(31)**	–
Deductible write off of intellectual property	**–**	(189)	**–**	–
Amortisation of goodwill	**333**	356	**333**	48
Amortisation of intellectual property	**289**	279	**–**	32
Provision for diminution of investments	**54**	40	**54**	40
Provision for diminution of intercompany receivables	**–**	–	**4,380**	2,479
Loss on sale of business	**–**	87	**–**	87
Canadian Federal and Provincial income tax credits	**(1,810)**	(1,711)	**–**	–
Non-deductible interest	**479**	138	**–**	–
Other items (net)	**191**	52	**62**	79
Total permanent differences	**(519)**	(948)	**4,798**	2,765
Income tax adjusted for permanent differences	**(7,619)**	(2,610)	**(2,482)**	46
Current year tax losses not brought to account	**2,199**	1,701	**1,050**	–
Reversal of previously booked tax losses	**1,111**	1,850	**–**	848
Recognition of previously unbooked tax losses	**–**	(1,093)	**–**	–
Current and prior year timing differences not brought to account	**5,972**	–	**2,453**	–
Net loss attributable to change in income tax rates	**90**	10	**–**	–
Foreign exchange impact on tax balances	**12**	96	**–**	–
Income tax under/(over) provided in prior years	**(1,308)**	(2,067)	**(323)**	(4)
Other items	**116**	–	**–**	–
Income tax expense/ (benefit) attributable to profit from ordinary activities before impact of tax consolidation	**573**	(2,113)	**698**	890
Profit/(loss) from ordinary activities before income tax expense/benefit – tax consolidated group (excluding parent entity)			**(3,819)**	–
Income tax calculated at tax rate			**(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			**(873)**	–
Current year tax losses not brought to account			**869**	–
Current and prior year timing differences not brought to account			**40**	–
Income tax under/(over) provided in prior years			**–**	–
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)**	–
Adjustment to deferred tax balances on implementation of tax consolidation			**–**	–
Compensation received from tax consolidated group entities			**–**	–
Income tax expense/(benefit)	**573**	(2,113)	**698**	890

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
5. INCOME TAX CONTINUED				
(b) Tax losses				
Future income tax benefit is shown in note 15 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 2004 in respect of tax losses not brought to account is:	**1,367**	7,362	**–**	1,031

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.

The Directors' estimate of the potential future income tax benefit as at 30 June 2004 in respect of tax losses not brought to account has decreased significantly from 30 June 2003. The Directors do not believe it is appropriate to include tax losses relating to Australian and UK entities because of the restructure that took place during the year ended 30 June 2004.

(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, are 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.

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
6. RECEIVABLES (CURRENT)				
Trade debtors	**18,319**	19,027	**711**	1,753
Provision for doubtful debts	**(369)**	(284)	**(369)**	(284)
	17,950	18,743	**342**	1,469
Tax receivable	**454**	909	**–**	–
	18,404	19,652	**342**	1,469
7. ACCRUED SALES (CURRENT)				
Accrued sales	**3,692**	2,143	**526**	805
8. INVENTORIES (CURRENT)				
Work-in-progress on contracts – at cost	**7,317**	5,831	**–**	–
9. OTHER FINANCIAL ASSETS (CURRENT)				
Sundry debtors	**81**	464	**17**	259
Security deposits	**23**	204	**23**	121
	104	668	**40**	380
10. OTHER ASSETS (CURRENT)				
Prepayments	**917**	881	**521**	337
11. RECEIVABLES (NON-CURRENT)				
Amounts receivable from controlled entities	**–**	–	**39,116**	34,667
Provision for non-recovery of amounts loaned to controlled entities	**–**	–	**(33,313)**	(18,713)
	–	–	**5,803**	15,954
12. INVENTORIES (NON-CURRENT)				
Work-in-progress on contracts – at cost	**–**	2,052	**–**	–

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
13. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)				
Leasehold improvements				
At cost	**776**	728	**573**	608
Provision for amortisation	**(694)**	(331)	**(573)**	(220)
	82	397	**–**	388
Total leasehold improvements	**82**	397	**–**	388
Furniture, fittings and equipment				
At cost	**7,648**	7,930	**4,357**	4,636
Provision for depreciation	**(6,397)**	(4,384)	**(4,357)**	(3,109)
	1,251	3,546	**–**	1,527
Motor vehicles				
At cost	**29**	11	**–**	–
Provision for depreciation	**(8)**	(4)	**–**	–
	21	7	**–**	–
Equipment under finance lease				
At cost	**196**	209	**196**	209
Provision for amortisation	**(196)**	(55)	**(196)**	(55)
	–	154	**–**	154
Total plant and equipment	**1,272**	3,707	**–**	1,681
Total property, plant and equipment				
At cost	**8,649**	8,878	**5,126**	5,453
Provision for depreciation and amortisation	**(7,295)**	(4,774)	**(5,126)**	(3,384)
Total written down value	**1,354**	4,104	**–**	2,069

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	**397**	**388**
Additions	**85**	**–**
Disposals	**(11)**	**(11)**
Amortisation expense	**(391)**	**(377)**
Foreign currency exchange differences	**2**	**–**
Carrying amount at 30 June	**82**	**–**
Furniture, fittings and equipment		
Carrying amount at 1 July	**3,546**	**1,527**
Additions	**229**	**11**
Disposals	**(48)**	**(46)**
Depreciation expense	**(2,396)**	**(1,492)**
Foreign currency exchange differences	**(80)**	**–**
Carrying amount at 30 June	**1,251**	
Motor vehicles		
Carrying amount at 1 July	**7**	**–**
Additions	**17**	**–**
Depreciation expense	**(3)**	**–**
Carrying amount at 30 June	**21**	**–**
Equipment under finance lease		
Carrying amount at 1 July	**154**	**154**
Disposals	**(5)**	**(5)**
Amortisation expense	**(149)**	**(149)**
Carrying amount at 30 June	**–**	**–**

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
14. INTANGIBLE ASSETS (NON-CURRENT)				
Goodwill at cost	**3,610**	3,645	**1,607**	1,607
Provision for amortisation	**(3,610)**	(1,991)	**(1,607)**	(498)
	–	1,654	**–**	1,109
Intellectual property:				
Core intellectual property at cost	**21,233**	21,871	**13,376**	13,376
Provision for amortisation	**(16,666)**	(10,517)	**(8,809)**	(2,985)
	4,567	11,354	**4,567**	10,391
Purchased intellectual property at cost	**919**	919	**919**	919
Provision for amortisation	**(919)**	(919)	**(919)**	(919)
	–	–	**–**	–
	4,567	11,354	**4,567**	10,391
	4,567	13,008	**4,567**	11,500
15. DEFERRED TAX ASSETS (NON-CURRENT)				
Future income tax benefit:				
Timing differences	**910**	1,031	**–**	692
Tax losses	**458**	1,467	**–**	–
	1,368	2,498	**–**	692
16. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Shares in controlled entities (unlisted) – at cost	**–**	–	**6,997**	6,997
Shares in other entities (unlisted) – at cost	**14,512**	14,333	**14,512**	14,333
	14,512	14,333	**21,509**	21,330
Provision for diminution of investments	**(14,512)**	(14,333)	**(14,512)**	(14,333)
	–	–	**6,997**	6,997

(a) Interests in controlled entities

Name of entity	Country of Incorporation	Class of Shares	**2004 % held**	2003 % 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

(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 2004 the cost of this investment was $14,050,000 (2003: $14,050,000).

Adacel Technologies Ltd also has an investment in IT&T Skills Exchange Pty Ltd for a cost of $150,000 (2003: $150,000) and an investment in Smart Internet Technology CRC for a cost of $312,000 (2003: $133,000). 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	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
17. PAYABLES (CURRENT)				
Trade and other creditors and accruals	**21,297**	24,634	**3,427**	5,312
18. ADVANCE PAYMENTS FROM CUSTOMERS (CURRENT)				
Advance payments from customers	**1,941**	1,980	**18**	286
19. CURRENT TAX LIABILITIES (CURRENT)				
Income tax payable	**146**	–	**–**	–
20. OTHER INTEREST-BEARING LIABILITIES (CURRENT)				
Secured				
Finance lease liabilities (note 29)	**58**	75	**47**	46
	58	75	**47**	46
Unsecured				
Other loans	**–**	49	**–**	–
	–	49	**–**	–
	58	124	**47**	46

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

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
21. PROVISIONS (CURRENT)				
Employee benefits (note 30)	**352**	428	**352**	428
Other	**92**	342	**92**	342
	444	770	**444**	770

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits are set out below.

	Rebates	**Restructuring provision – discontinuing operation**
	$'000	**$'000**
Consolidated – 2004		
Current		
Carrying amount at start of year	92	250
Transfer to Payables	–	(250)
Carrying amount at end of year	92	–
Parent entity – 2004		
Current		
Carrying amount at start of year	92	250
Transfer to Payables	–	(250)
Carrying amount at end of year	92	–

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
22. INTEREST-BEARING LIABILITIES (NON-CURRENT)				
Secured				
Finance lease liabilities (note 29)	**169**	214	**160**	214

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

23. DEFERRED TAX LIABILITIES (NON-CURRENT)				
Deferred income tax liability	**184**	–	**–**	–
24. PROVISIONS (NON-CURRENT)				
Employee benefits (note 30)	**103**	458	**82**	410

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
25. CONTRIBUTED EQUITY				
(a) Share capital				
Capital/contributed equity – issued (comprises 65,843,273 ordinary shares fully paid (2003: 57,591,941))	**73,103**	68,105	**73,103**	68,105
Capital/contributed equity – to be issued (comprises Nil ordinary shares fully paid (2003: 8,251,332))	**–**	5,000	**–**	5,000
	73,103	73,105	**73,103**	73,105

The 8,251,332 shares not issued at 30 June 2003 were issued during the financial year ended 30 June 2004.

(b) Movements in ordinary share capital

Date	Details	Number of Shares	Issue Price	$'000
30 June 2002	Balance	53,119,030		66,042
17 October 2002	Employee Benefit Plan options exercised	75,000	$0.20	15
2 December 2002	Employee Benefit Plan options exercised	215,850	$0.20	43
6 March 2003	Employee Benefit Plan options exercised	6,750	$0.20	1
6 March 2003	Vendor options exercised	76,950	$0.20	15
9 May 2003	Tranche 1 Capital Raising	4,098,361	$0.61	2,500
30 June 2003	Tranche 2 Capital Raising	4,918,035	$0.61	3,000
30 June 2003	Share Purchase Plan	3,333,297	$0.60	2,000
	Less : transaction costs arising on share issues			(511)
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

(c) Share options

(i) At the end of the year there were 3,277,000 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.

(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

Options issued under Tranche 1 and 2 of the Capital Raising Option Plan 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 and their exercise price is $1.00, payable immediately on exercise. The expiry date of these options is 16 March 2006. As at 30 June 2004 these options have not been exercised.

Options issued on 1 July 2002 (Third Party Options), totalling 125,000, were issued with an exercise price of $0.80 and an expiry date of 30 June 2004. No options were exercised during the current or prior financial years. At 30 June 2004, the options lapsed.

Terms and conditions of the Staff Share Option Plan and the Non Executive Director Share Option Plan are disclosed in note 30.

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
26. RESERVES AND RETAINED PROFITS				
Retained profits/(accumulated losses)	**(60,324)**	(36,873)	**(62,910)**	(37,947)
Reserves				
Asset revaluation reserve	**10**	10	**10**	10
Foreign currency translation reserve	**(2,451)**	(1,331)	**–**	–
	(2,441)	(1,321)	**10**	10
(a) Retained profits/(Accumulated losses)				
Balance at beginning of year	**(36,873)**	(33,205)	**(37,947)**	(27,993)
Net profit/(losses) attributable to members of Adacel Technologies Limited	**(23,451)**	(3,668)	**(24,963)**	(9,954)
Balance at end of year	**(60,324)**	(36,873)	**(62,910)**	(37,947)

(b) Asset revaluation reserve

(i) Nature and purpose of reserve
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.

(ii) Movements in reserve

Balance at beginning and end of year	**10**	10	**10**	10

(c) Foreign currency translation reserve

(i) Nature and purpose of reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

(ii) Movements in reserve

Balance at beginning of year	**(1,331)**	(454)	**–**	–
Gain/(loss) on translation of overseas controlled entities	**(1,120)**	(877)	**–**	–
Balance at end of year	**(2,451)**	(1,331)	**–**	–

27. CASH FLOW INFORMATION

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
(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	**(23,451)**	(3,668)	**(24,963)**	(9,954)
Non-cash items				
Depreciation and amortisation (including writedowns)	**11,342**	5,241	**8,951**	2,733
Net (profit)/loss on sale of businesses	**(58)**	283	**(58)**	283
Net profit on sale of land and buildings	**–**	(1,175)	**–**	(1,175)
Net (profit)/loss on sale of plant and equipment	**(1)**	(22)	**–**	(22)
Provision for doubtful debts	**85**	99	**85**	99
Provision for diminution of investments	**179**	133	**179**	133
Provision for non-recovery of intercompany loans	**–**	–	**14,600**	8,264
Net exchange differences	**433**	21	**34**	–
Changes in assets and liabilities				
(Increase) / decrease in trade receivables and accrued sales	**(870)**	(9,601)	**1,321**	775
(Increase) / decrease in other receivables and other assets	**530**	(393)	**(8)**	(257)
(Increase) / decrease in inventory	**(456)**	(786)	**–**	–
(Increase) / decrease in prepayments	**(68)**	(166)	**(184)**	(171)
(Increase) / decrease in deferred tax balances and tax payable	**1,408**	(819)	**692**	1,206
(Increase) / decrease in investments	**(126)**	–	**(126)**	–
Increase / (decrease) in trade and other creditors	**(3,660)**	9,097	**(1,690)**	(1,205)
Increase / (decrease) in employee benefits provisions	**(404)**	347	**(377)**	(445)
Increase / (decrease) in other provisions	**(244)**	(156)	**(250)**	225
Increase / (decrease) in advanced payments from customers	**(95)**	999	**(268)**	48
(Increase) / decrease in intercompany loans	**–**	–	**(7,241)**	(9,409)
Net cash flow from/(used in) operating activities	**(15,456)**	(566)	**(9,303)**	(8,872)
(b) Reconciliation of cash				
Cash balance at the end of the financial year comprises:				
Cash on hand	**1,311**	12,254	**–**	2,003
Bank overdraft	**(4,354)**	–	**(4,415)**	–
	(3,043)	12,254	**(4,415)**	2,003

(c) Bank overdraft facility

Refer to note 39 for a summary of the bank facilities as at 30 June 2004.

	CONSOLIDATED	ATL
	2004	2004
	$'000	$'000
27. CASH FLOW INFORMATION CONTINUED		
(d) Businesses disposed		
Details of the sale of businesses during the year ended 30 June 2004 are as follows:		
Consideration received or receivable:		
Cash	–	–
Employee benefits/liabilities assumed by the purchaser	58	58
	58	58
Carrying amount of net assets sold	–	–
Profit on sale before related income tax	58	58
Income tax	–	–
Profit on sale after related income tax	58	58

Details of material businesses disposed during the year ended 30 June 2003 are disclosed in note 4.

28. NON-CASH FINANCING AND INVESTING ACTIVITIES

There were no non-cash financing or investments activities during the years ended 30 June 2004 and 2003.

	CONSOLIDATED		ATL	
	2004	2003	2004	2003
	$'000	$'000	$'000	$'000
29. 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	1,561	1,464	260	554
Later than one year and not later than 5 years	3,682	2,516	219	588
Later than 5 years	–	89	–	–
Commitments not recognised in the financial statements	5,243	4,069	479	1,142

The above operating lease commitments are for the rental of offices and for various office and computer equipment.

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	ATL 2004 $'000	ATL 2003 $'000
(b) Finance leases expenditure commitments				
Commitments in relation to finance leases are payable as follows:				
Within one year	76	75	60	60
Later than one year and not later than 5 years	194	257	181	240
Later than 5 years	–	–	–	–
Total minimum lease payments	270	332	241	300
Future finance charges	(43)	(43)	(34)	(40)
Total lease liabilities	227	289	207	260
Representing lease liabilities for				
Current	58	75	47	46
Non-current (note 20)	169	214	160	214
Total lease liabilities (note 22)	227	289	207	260

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

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
30. EMPLOYEE BENEFITS				
(a) Employee benefit liabilities				
The aggregate employee benefit liability is comprised of:				
Other creditors (note 17)	**2,539**	2,890	**1,072**	1,273
Provisions - current (note 21)	**352**	428	**352**	428
Provisions - non-current (note 24)	**103**	458	**82**	410
	2,994	3,776	**1,506**	2,111

(b) Staff Share Option Plan

This 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. These options are issued for no consideration from Directors or employees. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Generally, options are issued with two conditions precedent. The options will vest when:

- 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.

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

During the year ended 30 June 2004 no options were exercised, 566,000 options were issued, 639,000 options lapsed.

Future issues to eligible employees will be made quarterly. There are currently 196 employees eligible under the plan.

(c) Non-Executive Directors Share Option Plan

This plan was approved by the shareholders at the Annual General Meeting on the 15 November 2000. Under this plan, the Non-Executive Directors were issued with 30,000 options. The options were issued with an exercise price of $2.19 and an expiry date of 30 June 2004. The options were issued for no consideration from Directors. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately prior to the date of the 2000 Annual General Meeting.

During the year ended 30 June 2004 no options were exercised. On 30 June 2004, the options lapsed.

(d) Employee Benefit Plan

On the incorporation of the company, the vendors were issued with 8,400,000 options (vendor options). From this amount, an employee share option plan was created under which permanent employees were offered a total of 3,750,000 options. These options were issued for no consideration, and constituted an offer to acquire fully paid ordinary shares in the company for 20 cents per share. The options were exercisable subject to the company's share price achieving a hurdle growth rate of 25% per annum compound since listing on 27 February 1998.

Employee Benefit Plan options were offered in three tranches:

- Series 1, representing 50% of the options issued with an acceptance date of 27 February 1999
- Series 2 representing 25% of the options issued with an acceptance date after 27 February 2000 and,
- Series 3 representing 25% of the options issued with an acceptance date after 27 February 2001.

30. EMPLOYEE BENEFITS CONTINUED

(d) Employee Benefit Plan continued

During the year ended 30 June 2003, 22 employees exercised 297,600 options. The 1,014,450 Employee Benefit Plan options unexercised at 6 March 2003 lapsed.

Employee Benefit Plan options exercised during the financial year ended 30 June 2003 and number of shares issued to employees on the exercise of the options are as follows:

		CONSOLIDATED	ATL
Exercise date	Fair value of shares at issue date	2003 Number	2003 Number
17 October 2002	$0.60	75,000	75,000
2 December 2002	$0.81	215,850	215,850
6 March 2003	$0.72	6,750	6,750
		297,600	297,600

The fair value of shares issued on the exercise of options is the weighted average price at which the company's shares were traded on the Australian Stock Exchange on the day prior to the exercise of the options. The aggregate proceeds received by the company and the consolidated entity from the exercise of options issued under the Employee Benefit Plan during the year ended 30 June 2003 was $59,520.

(e) Options issued under the Adacel Technologies Limited Staff Share Option Plan and Non-Executive Directors Share Option Plan

Plan	Exercise Price$	No of Options on Issue at 1 July 2003	Issued	Exercised	Lapsed	No of Options on Issue at 30 June 2004	Issue Date	Expiry Date
Non-Executive Director Option Plan	$2.19	60,000	–	–	(60,000)	–	15 November 2000	30 June 2004
Staff Share Option Plan	$1.44	1,091,000	–	–	(132,000)	959,000	11 May 2001	11 May 2006
Staff Share Option Plan	$1.62	61,000	–	–	(50,000)	11,000	19 July 2001	19 July 2006
Staff Share Option Plan	$1.05	133,000	–	–	(91,000)	42,000	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	197,000	–	–	(42,000)	155,000	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	574,000	–	–	(156,000)	418,000	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	177,000	–	–	(57,000)	120,000	5 July 2002	5 July 2007
Staff Share Option Plan	$0.66	91,000	–	–	(26,000)	65,000	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	125,000	–	–	(39,000)	86,000	10 January 2003	11 January 2008
Staff Share Option Plan	$1.00	100,000	–	–	–	100,000	25 February 2003	25 February 2008
Staff Share Option Plan	$0.71	101,000	–	–	(22,000)	79,000	4 April 2003	4 April 2008
Staff Share Option Plan	$0.75	–	108,000	–	(15,000)	93,000	4 July 2003	4 July 2008
Staff Share Option Plan	$0.75	–	41,000	–	(5,000)	36,000	3 October 2003	3 October 2008
Staff Share Option Plan	$0.85	–	43,000	–	(4,000)	39,000	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	–	–	74,000	2 April 2004	2 April 2009
		3,410,000	566,000	–	(699,000)	3,277,000		

Total number of options that have met the conditions precedent as described in note 30(b), and as a result have vested as at 30 June 2004 is 99,500.

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000	ATL 2004 $'000	ATL 2003 $'000
30. EMPLOYEE BENEFITS CONTINUED				
(f) Employee numbers				
Number of employees at 30 June	**196**	310	**22**	128

(g) Market price of shares

The market price of Adacel Technologies Limited shares, as at 30 June 2004 was $0.46.

31. CONTINGENT LIABILITIES

As at 30 June 2004, 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 $569,596 (2003: $773,547) 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 it is unlikely that any significant liability will arise. At balance date, the counterclaim has been discontinued. The debtor is now in liquidation.

32. 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 2004. Since the end of the year, 71,000 options have been issued and 64,000 options have lapsed.

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000
33. EARNINGS PER SHARE		
Basic earnings/(loss) per share (cents per share)	**(35.6)**	(6.8)
Diluted earnings/(loss) per share (cents per share)	**(35.6)**	(6.8)
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**65,843,273**	53,968,254
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**65,843,273**	53,968,254

Conversions, calls, subscription or issues after 30 June 2004:

Holders of option certificates have not exercised any options to acquire ordinary shares since 30 June 2004. Since the end of the year, 71,000 options have been issued and 64,000 options have lapsed.

	CONSOLIDATED 2004 $'000	CONSOLIDATED 2003 $'000
Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Net profit / (loss) from ordinary activities after income tax	**(23,451)**	(3,668)
Earnings used in calculating basic earnings per share	**(23,451)**	(3,668)
Diluted earnings per share		
Net profit / (loss) from ordinary activities after income tax	**(23,451)**	(3,668)
Earnings used in calculating diluted earnings per share	**(23,451)**	(3,668)

33. EARNINGS PER SHARE CONTINUED

Information regarding the classification of securities

(a) Employee Benefit Plan
For the year ended 30 June 2003, Employee Benefit Plan options were considered to be potential ordinary shares but were not included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. The options were not included in the determination of basic earnings per share. These options lapsed as at 6 March 2003.

(b) Vendor Option Plan
For the year ended 30 June 2003, Vendor Option Plan options were considered to be potential ordinary shares but were not included in the determination of diluted earnings per share, because their inclusion would decrease the net loss per share. The options were not been included in the determination of basic earnings per share. These options lapsed as at 6 March 2003.

(c) 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. Details of the options are set out in notes 25 and 30.

(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. Details of the options are set out in notes 25 and 30.

(e) 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. Details of the options are set out in note 25.

(f) 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. Details of the options are set out in note 25.

34. 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 (appointed a Non-executive Director on 24 June 2003 and Chairman on 12 September 2003)

Sir Roderick Carnegie (retired as Chairman on 12 September 2003)

Executive directors

Mr Silvio Salom (Managing Director)

Mr Ian Shiers (Chief Operating Officer)

Non-executive directors

Mr Kevin Courtney

Mr David Smith

Mr Alex Waislitz (appointed on 29 August 2003)

Mr Peter Landos – alternate to Mr Alex Waislitz (appointed on 29 August 2003)

Ms Kerry Adby (retired on 16 October 2003).

Since 30 June 2004, the following changes have occurred:

- Effective 30 July 2004, Mr Ian Shiers resigned as Chief Operating Officer and as a Director.

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

The following persons were the five 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 Yves Gosselin	Vice President - Simulation	Adacel Inc
Mr William Lang	Vice President - Air Traffic Management	Adacel Inc
Mr Lionel Léveillé	President / CEO – Air Traffic Systems	Adacel Inc
Mr Russell Meacham	General Manager – Advanced Software Engineering	Adacel Technologies Limited
Mr Errol Turner	Chief Financial Officer and Company Secretary	Adacel Technologies Limited

All of the above persons were specified executives during the whole of the current and prior financial years, except for Mr Russell Meacham who ceased employment with the group on 30 June 2004.

Since 30 June 2004, the following changes to the specified executives have occurred:

- Effective 19 July 2004, Mr Frederick Sheldon, was appointed as Chief Executive Officer – North America.

34. 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 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.

During the year, the Directors reviewed their remuneration levels and agreed to reduce annual non-executive director fees by 25%.

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 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. These options are issued at not less than the market price at time of appointment or grant (based on the volume weighted price in the five days prior). All options that have been issued under the Staff Share Option Plan are required to meet a share price hurdle of 15% compound growth per year before exercise, which can only take place no earlier than one year after the grant. These conditions help to ensure that the remuneration of senior executives is aligned with the long term interests of shareholders.

34. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(c) Remuneration of directors and executives continued

(ii) Details of remuneration

Details of the remuneration of 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 in the following tables.

Directors of Adacel Technologies Limited

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

* Sir Roderick Carnegie, Ms Kerry Adby and Mr Ian Shiers are no longer Directors as at the date of this report.

Total remuneration of directors of Adacel Technologies Limited for the year ended 30 June 2003 is set out below. Information for individual directors is not shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities.

2003	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super-annuation $	Options $	Termination benefits $	Total $
Total	839,600	–	8,100	39,937	57,115	–	944,752

Specified executives of the consolidated entity

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	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

* Includes an amount of $27,903 for unused annual leave entitlements paid out at date of termination.

Total remuneration of specified executives for the year ended 30 June 2003 is set out below. Information for individual specified executives is not shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities.
In some cases, different individuals are included than those specified in the year ended 30 June 2004.

2003	Primary			Post-employment	Equity	Other	
Name	Cash salary and fees $	Cash bonus $	Non monetary $	Super-annuation $	Options $	Termination benefits $	Total $
Total	1,141,883	43,466	–	51,550	9,392	–	1,246,291

34. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(c) Remuneration of directors and executives continued

(iii) Service agreements

Remuneration and other terms of employment for the Managing Director, Chief Financial Officer 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 2004 of $301,720.
- Access to a motor vehicle, which was 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 (Chief Operating Officer)

- Term of agreement – ongoing.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $351,716.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to one times base salary and superannuation. Effective 30 July 2004, Mr Shiers' employment contract was terminated. An amount of $351,716 has been expensed for the year ended 30 June 2004.
- Provision of performance-related cash bonuses (up to $150,000). For the year ended 30 June 2004, a bonus of $35,000 was earned.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Yves Gosselin (Vice President – Simulation)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2004 of $184,481.
- 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 25% of base salary). No such bonus was paid during the year ended 30 June 2004.
- Participation, when eligible, in the Staff Share Option Plan.

Mr William Lang (Vice President - Air Traffic Management)

- Term of agreement – ongoing.
- Base salary, superannuation and medical/health insurance benefits for the year ended 30 June 2004 of $178,360.
- 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 60% of base salary). No such bonus was paid during the year ended 30 June 2004.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Lionel Léveillé (President / CEO – Air Traffic Systems)

- Term of agreement – ongoing.
- Base salary, superannuation, medical/health insurance and other benefits for the year ended 30 June 2004 of $259,163.
- 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.
- Provision of performance-related cash bonuses (up to 100% of base salary). No such bonus was paid during the year ended 30 June 2004.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Russell Meacham (General Manager – Advanced Software Engineering)

- Term of agreement – ongoing.
- Base salary, inclusive of superannuation and the payout of unused annual leave, for the year ended 30 June 2004 of $262,070.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 50% of base salary and superannuation. Effective 30 June 2004, Mr Meacham's employment contract was terminated. An amount of $119,347 has been expensed for the year ended 30 June 2004.
- Participation, when eligible, in the Staff Share Option Plan.

Mr Errol Turner (Chief Financial Officer and Company Secretary)

- Term of agreement – ongoing.
- Base salary, inclusive of superannuation, for the year ended 30 June 2004 of $276,716.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to four weeks base salary and superannuation.
- Participation, when eligible, in the Staff Share Option Plan.

34. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(c) Remuneration of directors and executives continued

(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	Hurdle share price	Date exercisable from
Staff Share Option Plan					
11 May 2001	11 May 2006	$1.44	$0.54	*	11 May 2003
11 May 2001	11 May 2006	$1.44	$0.54	*	11 May 2002 and 11 May 2003
11 May 2001	11 May 2006	$1.44	$0.54	*	11 May 2002, 11 May 2003 and 11 May 2004
25 February 2002	25 February 2007	$1.02	$0.38	*	25 February 2004
25 February 2002	25 February 2007	$1.00	$0.38	*	25 August 2002 and 25 February 2003
5 April 2002	5 April 2007	$0.91	$0.34	*	5 April 2004
5 April 2002	5 April 2007	$0.91	$0.34	*	5 April 2003 and 5 April 2004
2 May 2002	2 May 2005	$0.90	$0.34	None	2 May 2005
11 November 2002	11 November 2007	$0.58	$0.21	*	11 November 2003, 11 November 2004 and 11 November 2005
25 February 2003	25 February 2008	$1.00	$0.35	*	25 August 2003 and 25 February 2004
4 April 2003	4 April 2008	$0.71	$0.25	*	4 April 2004 and 4 April 2005
4 July 2003	4 July 2008	$0.75	$0.27	*	4 July 2005
25 February 2004	25 February 2009	$1.00	$0.37	*	25 August 2004 and 25 February 2005
4 April 2004	4 April 2009	$0.66	$0.25	*	4 April 2005 and 4 April 2006
4 July 2004	4 July 2009	$0.45	$0.17	*	4 July 2006
Non Executive Director Share Option Plan					
15 November 2000	30 June 2004	$2.19	$0.68	None	1 July 2001

* Hurdle share price details are set out in note 30.

Options are granted under the Staff Share Option Plan and the Non-executive Director Share Option Plan. These plans are described in note 30.

The service and performance criteria used to determine the amount of the options granted as remuneration are set out note 34(c)(i).

34. 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 five 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

	Number of options granted during the year	Number of options vested during the year
Mr Julian Beale	–	–
Sir Roderick Carnegie	–	–
Ms Kerry Adby	–	–
Mr Kevin Courtney	–	–
Mr Silvio Salom	–	–
Mr Ian Shiers	37,000	–
Mr David Smith	–	–
Mr Alex Waislitz	–	–
Mr Peter Landos	–	–

Specified executives of the consolidated entity

	Number of options granted during the year	Number of options vested during the year
Mr Yves Gosselin	–	–
Mr William Lang	–	–
Mr Lionel Léveillé	137,000	–
Mr Russell Meacham	–	–
Mr Errol Turner	200,000	70,000

(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

	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes 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 Julian Beale	145,719	–	–	–	145,719	145,719	145,719	–
Sir Roderick Carnegie	–	–	–	–	–	–	–	–
Ms Kerry Adby	30,000	–	–	(30,000)	–	–	–	–
Mr Kevin Courtney	30,000	–	–	(30,000)	–	–	–	–
Mr Silvio Salom	74,000	–	–	–	74,000	–	–	–
Mr Ian Shiers	500,000	37,000	–	–	537,000	–	–	–
Mr David Smith	–	–	–	–	–	–	–	–
Mr Alex Waislitz	–	–	–	–	–	–	–	–
Mr Peter Landos	–	–	–	–	–	–	–	–

34. DIRECTOR AND EXECUTIVE DISCLOSURES CONTINUED

(d) Equity instrument disclosures relating to directors and executives continued

(iii) Option holdings continued

Specified executives of the consolidated entity

	Balance at the start of the year	Granted during the year as remune-ration	Exercised during the year	Other changes 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 Yves Gosselin	44,000	–	–	–	44,000	–	–	–
Mr William Lang	44,000	–	–	–	44,000	–	–	–
Mr Lionel Léveillé	237,000	137,000	–	–	374,000	–	–	–
Mr Russell Meacham	22,000	–	–	(22,000)	–	–	–	–
Mr Errol Turner	300,000	200,000	–	–	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 five specified executives of the consolidated entity, including their personally-related entities, are set out below.

Directors of Adacel Technologies Limited

	Balance at the start of the year	Granted during the year as remune-ration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Other changes during the year	Balance at the end of the year
Mr Julian Beale	910,078	–	–	–	–	–	910,078
Sir Roderick Carnegie	1,337,800	–	–	–	–	(1,337,800)	–
Ms Kerry Adby	46,136	–	–	–	–	(46,136)	–
Mr Kevin Courtney	–	–	–	–	–	–	–
Mr Silvio Salom	10,852,493	–	–	–	–	–	10,852,493
Mr Ian Shiers	–	–	–	–	–	–	–
Mr David Smith	7,774,939	–	–	–	–	–	7,774,939
Mr Alex Waislitz	–	–	–	–	–	–	–
Mr Peter Landos	–	–	–	–	–	–	–

Specified executives of the consolidated entity

	Balance at the start of the year	Granted during the year as remune-ration	Received during the year on the exercise of options	Acquisitions during the year	Disposals during the year	Other changes during the year	Balance at the end of the year
Mr Yves Gosselin	3,750	–	–	–	–	–	3,750
Mr William Lang	–	–	–	–	–	–	–
Mr Lionel Léveillé	–	–	–	–	–	–	–
Mr Russell Meacham	–	–	–	–	–	–	–
Mr Errol Turner	–	–	–	–	–	–	–

34. 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 five specified executives of the consolidated entity, including their personally-related entities. No such loans remain outstanding as at 30 June 2004.

(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 five specified executives of the consolidated entity, including their personally-related entities; other than those set out below. At 30 June 2004, there are no payable or receivable balances outstanding relating to other transactions.

During the 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 2004, an amount of $68,633 relating to this agreement has been expensed to the profit & loss account.

Mr Alex Waislitz was appointed a Director on 29 August 2003. 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 2004 and subsequent to Mr Alex Waislitz's appointment as a Director, Thorney Holdings Pty Ltd acquired on-market 1,975,000 ordinary shares in Adacel Technologies Limited at $0.60 per share on normal commercial terms and conditions. As at 30 June 2004, Thorney Holdings Pty Ltd holds 16,049,249 ordinary shares in Adacel Technologies Limited (2003: 14,074,249).

Invia Custodian Pty Ltd, a related body corporate of Thorney Holdings Pty Ltd, holds 1,327,165 ordinary shares in Adacel Technologies Limited (2003: 1,327,165).

35. AUDITORS' REMUNERATION

	CONSOLIDATED		ATL	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers – Australian firm				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**206,300**	236,000	**206,300**	236,000
Other accounting services	**9,800**	–	**9,800**	–
Total audit and other accounting services	**216,100**	236,000	**216,100**	236,000
Taxation	**156,200**	262,000	**156,200**	262,000
Legal	**–**	79,000	**–**	79,000
Total remuneration	**372,300**	577,000	**372,300**	577,000
Related practices of PricewaterhouseCoopers Australian firm (including overseas PricewaterhouseCoopers firms)				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**116,500**	120,000	**–**	–
Total audit and other accounting services	**116,500**	120,000	**–**	–
Taxation	**61,100**	73,000	**–**	–
Total remuneration	**177,600**	193,000	**–**	–

36. RELATED PARTIES

(a) Directors and specified executives
Disclosures relating to directors and specified executives are set out in note 34.

(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 long term loans during the year was 8.3% (2003: 8.0%). 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 2004 and 2003 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 5.

	ATL	
	2004	2003
	$'000	$'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	**2,709**	1,873
Interest expense	**149**	–
Provision for non-recovery of amounts loaned to controlled entities	**14,600**	8,264
Aggregate amounts receivable from entities in the wholly-owned group at balance date:		
Receivables (non-current) – amounts loaned to controlled entities	**39,116**	34,667
Receivables (non-current) – provision for non-recovery of amounts loaned to controlled entities	**(33,313)**	(18,713)
	5,803	15,954

(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 16 – Other financial assets (non-current).

37. SEGMENT INFORMATION

Primary reporting – geographical segments

	Notes	Australia (including UK)		Discontinued Operations		Total Australia and Discontinued Operations	
		2004	2003	**2004**	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000	**$'000**	$'000
Revenue from external customers		**6,673**	14,111	**–**	10,225	**6,673**	24,336
Intersegment revenues		**1,023**	1,390	**–**	435	**1,023**	1,825
Total sales revenue		**7,696**	15,501	**–**	10,660	**7,696**	26,161
Other revenue		**65**	119	**–**	1,302	**65**	1,421
Total segment revenue	2	**7,761**	15,620	**–**	11,962	**7,761**	27,582
Segment result prior to the following items:		**(3,904)**	(2,720)	**–**	(1,756)	**(3,904)**	(4,476)
Profit/(loss) on disposed businesses		**58**	–	**–**	(283)	**58**	(283)
Redundancies		**(1,162)**	(490)	**–**	(663)	**(1,162)**	(1,153)
Other costs of business closure		**–**	–	**–**	(250)	**–**	(250)
Writeoff of work-in-progress		**–**	–	**–**	–	**–**	–
Accelerated amortisation/depreciation of intangibles – goodwill, intellectual property & fixed assets		**(942)**	(1,747)	**–**	(536)	**(942)**	(2,283)
Profit on sale of premises		**–**	–	**–**	–	**–**	–
Royalties due to parent entity		**–**	–	**–**	–	**–**	–
Segment result		**(5,950)**	(4,957)	**–**	(3,488)	**(5,950)**	(8,445)
Corporate office costs		**–**	–	**–**	–	**–**	–
Management fees		**(1,483)**	(2,943)	**–**	(1,460)	**(1,483)**	(4,403)
Interest on funds advanced – intergroup		**(1,304)**	(992)	**–**	–	**(1,304)**	(992)
Borrowing costs - external		**–**	–	**–**	–	**–**	–
Profit/(loss) from ordinary activities before income tax		**(8,737)**	(8,892)	**–**	(4,948)	**(8,737)**	(13,840)
Income tax (expense)/benefit							
Profit/(loss) from ordinary activities after income tax							
Segment assets		**1,138**	6,547	**–**	3,063	**1,138**	9,610
Unallocated assets							
Eliminations							
Total assets							
Segment liabilities		**43,585**	27,380	**–**	16,924	**43,585**	44,304
Unallocated liabilities							
Eliminations							
Total liabilities							
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets		**18**	794	**–**	36	**18**	830
Depreciation and amortisation expense	3	**1,726**	3,505	**–**	1,143	**1,726**	4,648
Other non-cash expenses		**118**	231	**–**	283	**118**	514

North America		Corporate Office Costs		Intersegment Eliminations		Total	
2004	2003	**2004**	2003	**2004**	2003	**2004**	2003
$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
48,903	68,244	**–**	–	**–**	–	**55,576**	92,580
–	–	**–**	–	**(1,023)**	(1,825)	**–**	–
48,903	68,244	**–**	–	**(1,023)**	(1,825)	**55,576**	92,580
1,867	114	**74**	2,890	**–**	–	**2,006**	4,425
50,770	68,358	**74**	2,890	**(1,023)**	(1,825)	**57,582**	97,005
(1,958)	9,930	**–**	–	**(156)**	33	**(6,018)**	5,487
–	–	**–**	–	**–**	–	**58**	(283)
(372)	–	**(410)**	(133)	**163**	–	**(1,781)**	(1,286)
–	–	**–**	–	**–**	–	**–**	(250)
(1,316)	–	**–**	–	**–**	–	**(1,316)**	–
(488)	–	**(7,143)**	–	**–**	–	**(8,573)**	(2,283)
–	–	**–**	1,175	**–**	–	**–**	1,175
(929)	(5,800)	**929**	5,800	**–**	–	**–**	–
(5,063)	4,130	**(6,624)**	6,842	**7**	33	**(17,630)**	2,560
–	–	**(4,929)**	(8,099)	**–**	–	**(4,929)**	(8,099)
(2,086)	(1,480)	**3,569**	5,883	**–**	–	**–**	–
(1,256)	(881)	**2,560**	1,873	**–**	–	**–**	–
–	–	**(319)**	(242)	**–**	–	**(319)**	(242)
(8,405)	1,769	**(5,743)**	6,257	**7**	33	**(22,878)**	(5,781)
						(573)	2,113
						(23,451)	(3,668)
36,312	42,777	**40,313**	58,046	**–**	–	**77,763**	110,433
						1,368	2,498
						(40,097)	(49,840)
						39,034	63,091
39,391	37,088	**9,384**	2,543	**–**	–	**92,360**	83,935
						227	289
						(63,891)	(56,044)
						28,696	28,180
302	1,479	**11**	–	**–**	–	**331**	2,309
1,316	593	**8,300**	–	**–**	–	**11,342**	5,241
–	–	**(77)**	(1,175)	**–**	–	**41**	(661)

37. SEGMENT INFORMATION CONTINUED

Secondary reporting – business segments

	Notes	Simulation		Software Engineering		Discontinued Operations	
		2004 $'000	2003 $'000	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
Revenue from external customers		**37,350**	54,200	**18,226**	28,155	**–**	10,225
Intersegment revenue		**–**	–	**–**	288	**–**	435
Total revenue		**37,350**	54,200	**18,226**	28,443	**–**	10,660
Other revenue		**1,874**	203	**58**	30	**–**	1,302
Total segment revenue	2	**39,224**	54,403	**18,284**	28,473	**–**	11,962
Segment assets		**36,500**	41,343	**574**	7,491	**–**	3,063
Unallocated assets							
Total assets							
Acquisitions of property, plant & equipment, intangibles & other non-current segment assets		**320**	1,491	**–**	782	**–**	36

(a) Description of geographical segments

The consolidated entity was organised during the 2004 and 2003 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.
- Discontinued Operations - comprises the Enterprise Services business (formerly Brightstar) that was sold effective 31 March 2003 and the Regional Software Centre business that was closed on 30 June 2003.

(b) Description of business segments

The consolidated entity was organised during the 2004 and 2003 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.
- Discontinued Operations - comprises the Enterprise Services business (formerly Brightstar) that was sold effective 31 March 2003 and the Regional Software Centre business that was closed on 30 June 2003.

Corporate Office		Intersegment Eliminations		Total	
2004	2003	**2004**	2003	**2004**	2003
$'000	$'000	**$'000**	$'000	**$'000**	$'000
–	–	**–**	–	**55,576**	92,580
–	–	**–**	(723)	**–**	–
–	–	**–**	(723)	**55,576**	92,580
74	2,890	**–**	–	**2,006**	4,425
74	2,890	**–**	(723)	**57,582**	97,005
40,313	58,046	**(39,721)**	(49,350)	**37,666**	60,593
				1,368	2,498
				39,034	63,091
11	–	**–**	–	**331**	2,309

(c) Accounting policies
Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and the revised 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.

(e) Change in segment basis
Under the strategy announced at its Annual General Meeting in November 2002, the company restructured its operations during the year to 30 June 2003. Following the sale and closure of some operations and the restructuring of some activities, the company's operations are conducted through two geographically based business units, Australia and North America. With the restructure and the exit of enterprise services-oriented activities, the company is focused on two lines of business, Simulation and Software Engineering.

38. 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: 1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total		Weighted average interest rate	
	Notes	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
		$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**%**	%
(i) Financial assets															
Cash	27	**1,311**	12,254	**–**	–	**–**	–	**–**	–	**–**	–	**1,311**	12,254	**4.2**	3.9
Trade debtors	6	**–**	–	**–**	–	**–**	–	**–**	–	**17,950**	19,652	**17,950**	19,652	**–**	–
Tax receivable	6	**–**	–	**–**	–	**–**	–	**–**	–	**454**	909	**454**	909	**–**	–
Accrued sales	7	**–**	–	**–**	–	**–**	–	**–**	–	**3,692**	2,143	**3,692**	2,143	**–**	–
Sundry debtors	9	**–**	–	**–**	–	**–**	–	**–**	–	**81**	464	**81**	464	**–**	–
Security deposits	9	**–**	–	**–**	–	**–**	–	**–**	–	**23**	204	**23**	204	**–**	–
Total financial assets		**1,311**	12,254	**–**	–	**–**	–	**–**	–	**22,200**	23,372	**23,511**	35,626		
(ii) Financial liabilities															
Bank overdraft	27	**4,354**	–	**–**	–	**–**	–	**–**	–	**–**	–	**4,354**	–	**8.3**	–
Trade creditors and accrued expenses	17	**–**	–	**–**	–	**–**	–	**–**	–	**18,758**	21,744	**18,758**	21,744	**–**	–
Advanced payments from customers	18	**–**	–	**–**	–	**–**	–	**–**	–	**1,941**	1,980	**1,941**	1,980	**–**	–
Income tax liabilities	19	**–**	–	**–**	–	**–**	–	**–**	–	**146**	–	**146**	–	**–**	–
Other loans	20	**–**	–	**–**	–	**–**	–	**–**	–	**–**	49	**–**	49	**–**	–
Finance lease liabilities	20,22	**–**	–	**58**	75	**169**	214	**–**	–	**–**	–	**227**	289	**7.0**	8.0
Total financial liabilities		**4,354**	–	**58**	75	**169**	214	**–**	–	**20,845**	23,773	**25,426**	24,062		

(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 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. In the previous financial year ended 30 June 2003 the company had six contracts to sell US Dollars and buy $839,580 Australian Dollars at an average exchange rate of 0.6615, the maturity dates for the various contracts range from 2 July 2003 to 3 September 2003.

(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.

39. FINANCING ARRANGEMENTS

	CONSOLIDATED		ATL	
	2004	2003	**2004**	2003
	$'000	$'000	**$'000**	$'000
Bank facilities				
Overdraft	**4,600**	5,270	**4,600**	5,270
Guarantee	**400**	730	**400**	730
Tape negotiation authority	**600**	1,700	**500**	1,700
MasterCard	**25**	200	**25**	200
Cheque cashing authority	**6**	15	**5**	15
	5,631	7,915	**5,530**	7,915
Bank facilities used at balance date				
Overdraft	**4,354**	–	**4,415**	–
Guarantee	**336**	221	**8**	221
Tape negotiation authority	**–**	–	**–**	–
MasterCard	**–**	–	**–**	–
Cheque cashing authority	**6**	6	**5**	6
	4,696	227	**4,428**	227
Bank facilities unused at balance date				
Overdraft	**246**	5,270	**185**	5,270
Guarantee	**64**	509	**392**	509
Tape negotiation authority	**600**	1,700	**500**	1,700
MasterCard	**25**	200	**25**	200
Cheque cashing authority	**–**	9	**–**	9
	935	7,688	**1,102**	7,688

The group's existing banking facility is a multi option facility for up-to a maximum of $5,000,000. Access to the facility is governed by pre-agreed covenants with the bank. The facility is secured by a fixed and floating charge over all the assets and undertakings of the group. The group has recently entered into an agreement with the bank to extend the term of the facility until 30 September 2005.

During the year ended 30 June 2004, the group experienced an operating loss and a significant cash outflow. Various restructuring initiatives have been undertaken to drive improved performance in the 2005 and future financial years. These actions include exiting non-core Australian operations, cost reductions in North America and integration of e-learning simulation into North America.

Given the completion of the above initiatives and a review of the cash flow forecasts for the period of 12 months from the date of signing the financial statements, the directors are confident that the group will be able to manage its operations through the generation of working capital and within the banking facility described above.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 11 to 55:

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

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows for the year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Julian Beale

Chairman

Silvio Salom

Managing Director

Melbourne, 29 September 2004

PRICEWATERHOUSECOOPERS

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) for the financial year ended 30 June 2004 included on the Adacel Technologies Limited 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 Group (defined below) as at 30 June 2004, and of their performance for the year ended on that date, and
- 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 Group (the consolidated entity), for the year ended 30 June 2004. 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.

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.

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.

When this audit report is included in an Annual Report, 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
Melbourne, 29 September 2004

SC Bannatyne, Partner
Melbourne, 29 September 2004

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 17 September 2004.

(a) Equity security holders

(i) Top 20 largest holders of quoted ordinary shares

	Fully Paid Ordinary Shares		
	Top 20 Shareholders		Substantial Shareholdings
	No. of shares held	% held	No. of shares held
Thorney Holdings Pty Ltd	16,049,249	24.37	17,376,414
Mr Silvio Salom	10,089,883	15.32	10,852,493
Mr David Wallace Smith	7,518,083	11.42	7,774,939
Citicorp Nominees Pty Limited (CFS Developing Companies Account)	1,980,549	3.01	
Kildrummie Pastoral Co Pty Ltd	1,337,800	2.03	
Invia Custodian Pty Ltd (Black Account)	1,327,165	2.02	
Permanent Trustee Australia Limited (GRE0001 Account)	1,098,877	1.67	
Citicorp Nominees Pty Limited	873,474	1.33	
Coalwell Pty Ltd	597,136	0.91	
JP Morgan Nominees Australia Limited	559,837	0.85	
Mr Brian Hennessey	545,764	0.83	
Obena Ridge Pty Limited	507,581	0.77	
Russell Professional Consulting Services Pty Ltd (Russell Family Account)	491,854	0.75	
Westpac Custodian Nominees Limited	417,177	0.63	
Valwren Pty Ltd (WFIT Account)	368,000	0.56	
ANZ Nominees Limited	340,930	0.52	
AZNANOB Pty Ltd	339,450	0.52	
Donand Pty Ltd	286,667	0.44	
Southern Cross Management Group Pty Ltd	286,667	0.44	
Boydenwell Pty Ltd	256,856	0.39	
	45,272,999	68.78	

(a) Equity security holders continued

(ii) Unquoted options over ordinary shares

Plan	Number	Expiry Date	Exercise Price	Number of Holders
Staff Share Option Plan	951,000	11 May 2006	$1.44	52
Staff Share Option Plan	11,000	19 July 2006	$1.62	4
Staff Share Option Plan	41,000	1 November 2006	$1.05	12
Staff Share Option Plan	100,000	12 November 2006	$1.05	1
Staff Share Option Plan	138,000	25 February 2007	$1.02	17
Staff Share Option Plan	100,000	25 February 2007	$1.00	1
Staff Share Option Plan	411,000	5 April 2007	$0.91	57
Staff Share Option Plan	500,000	2 May 2007	$0.90	1
Staff Share Option Plan	116,000	5 July 2007	$0.89	11
Staff Share Option Plan	65,000	4 October 2007	$0.66	27
Staff Share Option Plan	200,000	11 November 2007	$0.58	1
Staff Share Option Plan	67,000	10 January 2008	$0.81	31
Staff Share Option Plan	100,000	25 February 2008	$1.00	1
Staff Share Option Plan	79,000	4 April 2008	$0.71	24
Staff Share Option Plan	90,000	4 July 2008	$0.75	17
Staff Share Option Plan	36,000	3 October 2008	$0.75	17
Staff Share Option Plan	37,000	9 January 2009	$0.85	19
Staff Share Option Plan	100,000	25 February 2009	$1.00	1
Staff Share Option Plan	74,000	2 April 2009	$0.66	20
Staff Share Option Plan	70,000	4 July 2009	$0.45	18
Options - Tranche 1 Capital Raising	1,821,494	15 March 2006	$1.00	12
Options - Tranche 2 Capital Raising	2,185,792	15 March 2006	$1.00	14
	7,293,286			

(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	38	10
10,001 to 100,000	452	34
5,001 to 10,000	402	26
1,001 to 5,000	997	116
1 to 1,000	405	15
	2,294	201

There were 446 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.

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 2004 year and comply with the Council's best practice recommendations. The Corporate Governance section of Adacel's website was established in June 2004.

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
- 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.

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
- Reporting to shareholders.

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

Managing Director and Senior Management

Adacel's Managing Director is its Chief Executive Officer. 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.

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.

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.

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 introduced 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, it has been the practice of the Board that nominations, appointments and performance evaluation of Directors and the reviews of composition of the Board are considered by the Board as a whole. 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 was adopted by the Board in May 2004 to formalise existing practice. The charter 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. This policy was adopted by the Board in May 2004 to formalise existing practice. 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 had a formal Ethics Policy for employees in place since 2002. In May 2004, the Board adopted 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
- 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 since 1998 had a policy concerning the trading in the company's securities by Directors, senior managers and employees. The policy was reviewed and revised by the Board in December 2003. 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
- 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.

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
- 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
- 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 established written policies and procedures on information disclosure. In May 2004, the Board reviewed and confirmed these policies and procedures. 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.

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. During they year, the company reviewed its established risk management procedures and policies and in May 2004, the Board adopted the Risk Management policy which 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 June 2004 of its collective performance, the performance of the Chairman and of its Committees. This will be 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 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. These options are issued at not less than the market price at time of appointment or grant (based on the volume weighted price in the five days prior). All options that have been issued under the Staff Share Option Plan are required to meet a share price hurdle of 15% compound growth per year before exercise, which can only take place no earlier than one year after the grant. These conditions help to 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.

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
- 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
- Assist in achieving the company vision.

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

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