

**STRUCTURAL  
MONITORING  
SYSTEMS**  
plc

## ANNUAL REPORT 2010





## Corporate Directory

### BOARD OF DIRECTORS

Mr Mark Vellacott  
*Managing Director*

Mr Robin Dean  
*Non Executive Chairman*

Prof. Malcolm Richmond  
*Non Executive Director*

Mr Sam Wright  
*Non Executive Director*

### COMPANY SECRETARY

Mr Sam Wright

### REGISTERED AND COPORATE OFFICE

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Osborne Park, Western Australia, 6017  
Tel: +61 8 9204 4844  
Fax: +61 8 9204 4866  
Email: [sms@smsystems.com.au](mailto:sms@smsystems.com.au)

### UNITED KINGDOM OFFICE & SHARE REGISTER

4 Elwick Road  
Ashford  
Kent TN23 1PF  
United Kingdom

### SHARE REGISTRY

Advanced Share Registry Services  
PO Box 1156  
Nedlands Western Australia 6892  
Tel: 618 9389 8033  
Fax: 618 9389 7871  
Website: [www.advancedshare.com.au](http://www.advancedshare.com.au)  
Email: [admin@advancedshare.com.au](mailto:admin@advancedshare.com.au)

### AUDITORS

#### PKF (UK) LLP

Accountants and business advisors  
Pannell House, Park Street, Guildford, Surrey, GU1  
4HN  
Tel +44 1483 564646  
Fax +44 1483 408101

### STOCK EXCHANGE LISTING

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

### STRUCTURAL MONITORING SYSTEMS PLC WEBSITE

[www.smsystems.com.au](http://www.smsystems.com.au)

### STRUCTURAL MONITORING SYSTEMS PLC Mailing Address

PO Box 2067  
Churchlands, Western Australia, 6018

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### Important Notice

Structural Monitoring Systems Plc (the Company) is incorporated in the United Kingdom under the laws of England and Wales. The Company is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act 2001 dealing with the acquisition of shares (including substantial holdings and takeovers)

## MANAGING DIRECTOR'S REPORT

The Group has been through a challenging period during the recent global economic downturn, and has been adversely affected by its impact on our civil and military aerospace customer base's level of investment in the acquisition and integration of new technology, and weak market sentiment towards technology related investment opportunities.

Despite being restricted by limited working capital and a significant downsizing of staff, with the on-going support of both existing and new shareholders, the Group is continuing to work hard to market CVM™ systems to existing and expanding new customers in the aerospace, fatigue test and civil infrastructure sectors, and to increase orders for CVM™ products and services in these sectors.

The Group has also been able to maintain its investment in the protection of CVM™ intellectual property, as well as developing products for new business sectors (for example the Bridge Monitoring System installed in the USA in April), and continue to meet on-going customer demands for CVM™ sensors and instrumentation systems.

We are seeing the benefits beginning to flow from this effort during this challenging time.

### Partnerships

The Board continues to recognise the importance of forming a strategic partnership with a major aerospace supplier. The development, formation and subsequent termination of such a partnership during the year provided a valuable learning experience and financial support. At this time the Group is continuing to hold discussions with suitable partner companies, whilst also independently progress in-service introduction programs with key civil and military aircraft operators and manufacturers to improve the Group's position.

### Markets

There is an increasing level of interest from both existing and potential customers in Structural Health Management (SHM) solutions for both aging aerospace and civil infrastructure, as the economic down-turn is delaying replacement and repair investment decisions in these sectors.

Recent discussions with customers have indicated that structural integrity is becoming a high priority issue.

Our mature CVM™ technology and products are therefore well placed to benefit the increasing level of customer awareness of the potential cost / benefits of using structural integrity sensor monitoring solutions.

### New Customers

CVM™ instrumentation and sensors are recognised around the world as leading SHM products, and the Group continues to receive expressions of interest from new potential customers and SHM system development groups.

In addition to providing repeat sales of sensors to key customers such as Embraer and Airbus, the Group has secured new customers in the USA, Europe and China, and is in discussion with a Chinese company that has budgetary approval to procure a large CVM™ laboratory instrument to support major new aircraft full scale fatigue test programs.

### New Products

The Brazilian Government funded program with the large regional aircraft manufacturer Embraer is particularly important to the Group. In addition to the sales of PM200 instrumentation systems and associated sensors for installation and certification on an operational aircraft, Embraer has ordered an airworthy version of the new on-board instrumentation system that will be permanently installed on an aircraft in early 2011 and be capable of continuously monitoring sensor networks in-flight. This is an important product development program, and the resulting system will provide an attractive SHM system solution for civil and military aircraft operators.

The Group has also developed new CVM™ products for application outside of the aerospace sector, and received its first order for the installation of a CVM™ technology based autonomous bridge structure monitoring system from a United States State Government, Department of Transport. The installation was completed successfully late April 2010.

The requirement for this system stemmed from the cost, complexity and lead times associated with the repair of a major bridge over the Mississippi River, and the need to be able to continuously monitor the integrity of a particular structural member pending its eventual repair. The CVM™ based system used in this application integrates CVM™ Switch with commercial off-the-shelf mobile phone and solar power technology to provide continuous remote monitoring of critical bridge structure that "can phone home" when a problem is detected.

This bridge monitoring application is not a trial, the CVM™ system is the primary means used to continuously monitor this structure. As such, it has provided an excellent opportunity to showcase this new CVM™ product for the autonomous monitoring of bridge and other infrastructure in the USA, and to form the base of a marketing campaign to address this large market.

## MANAGING DIRECTOR'S REPORT (continued)

It is apparent that there is a growing interest from US State Government Departments of Transport in the role that Structural Health Monitoring will play in the safe operation of bridges, and that following the collapse of a bridge in Minneapolis funding is being made available for the introduction of new sensor monitoring systems to monitor aging bridges in the USA.

On the basis of the on-going flawless operation of this system since April, and growing confidence in the effective and efficient use of CVM™ technology in this role, the Group has commenced business development activities to market this product to key bridge maintenance engineers across the USA.

### **The Future**

The Group is working hard to secure sales from existing and new customers around the world in order to be profitable and to able to regrow business operations.

We will also continue to pursue the development of an equitable strategic partnership with a major aerospace supplier company to underpin the CVM™ in-service introduction programs in progress with aircraft operators and manufacturers.



*Mark Vellacott*  
Managing Director  
30 September 2010

## DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2010.

### DIRECTORS

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

#### ***Robin John Dean (Non-Executive Chairman and member of audit and remuneration committees)***

Mr Dean has extensive experience in management, corporate and investment banking, having held the position as the Head of Project Finance at Bankwest and Chief Executive of St Barbara Mines Ltd. Mr Dean has also held prior corporate finance positions with Westchester Corporate Finance and Westpac Banking Corporation. Mr Dean holds a Bachelor of Economics from the University of Western Australia.

#### ***Mark William George Vellacott (Managing Director)***

Mr Vellacott has an impressive record in the aerospace industry with BAE Systems where he was Head of Engineering Technology, Corporate Development based in Adelaide from 1998 to 2001. His last position before joining the Company was Technical Director, Asia Pacific Space Centre, based in Sydney. In 1998 Mr Vellacott worked for British Aerospace PLC Head Office Engineering in the UK on strategic investment and planning issues. Mr Vellacott originally joined British Aerospace Military Aircraft in 1980, and completed a B.Sc in Aeronautical Engineering in 1986; an M.Sc in Systems Engineering in 1988 and his MBA in 1998. He was elected a Fellow of the Royal Aeronautical Society in 2000.

Mr Vellacott is primarily responsible for the day to day management of the company and the commercialisation of the CVM™ technology and overall strategic development of the company. He brings a depth of experience in management, dealing with the largest companies in the aerospace industry as well as with governments around the world.

#### ***Sam Michael Wright (Non-Executive Director/Company Secretary) appointed 25 May 2010***

Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He is a member of the Australian Institute of Company Directors, the Financial Services Institute of Australasia, and the Chartered Secretaries of Australia.

Mr Wright is currently a Non-Executive Director of ASX listed companies, PharmAust Limited and Structural Monitoring Systems plc. He is also Company Secretary for ASX listed companies, Mount Magnet South NL, PharmAust Limited, Structural Monitoring Systems plc, and Uran Limited. Mr Wright has also filled the role of Director and Company Secretary with a number of unlisted companies. He is the principal of Perth-based corporate advisory firm Straight Lines Consultancy, specialising in the provision of corporate services to public companies.

#### ***Malcolm Ross Richmond (Non-Executive Director)***

Professor Richmond is Professorial Fellow at the University of Western Australia, jointly to the Business School and Faculty of Engineering, Computing and Mathematics – his special interests include corporate strategy, technology management, entrepreneurship and innovation and commercialisation of research and development.

Prior to this appointment, Professor Richmond spent 30 years with the Rio Tinto and CRA Groups including the position of Managing Director of Research and Development and Vice President Strategy and Acquisitions.

Immediately prior to his retirement he held the position of Managing Director Development of Hamersley Iron Pty Limited, Deputy Chairman of the Australian Minerals Industry Research Council, Vice President of the WA Chamber of Minerals and Energy, Non-Executive Director of Amdel Limited and Non-Executive Director of Hismelt Corporation (Australia's single largest research project).

Professor Richmond is currently a Director of ASX-listed public companies Advanced Braking Technology Limited, MIL Resources Limited and Strike Resources Limited.

## DIRECTORS' REPORT (continued)

### REVIEW AND RESULTS OF OPERATIONS

#### 1. PRINCIPAL ACTIVITIES

The principal activity of the company was as a holding company. The principal activity of the trading subsidiary during the year was the development and commercialisation of its intellectual property for products used in testing and monitoring the structural integrity of materials that are subject to operational stress and fatigue in structures such as aircraft, ships, transportation infrastructure and power plants.

#### 2. REVIEW OF BUSINESS AND FUTURE EVENTS

The following recent activities occurred and will continue into the near future:

CVM™ technology has gained acceptance by aircraft manufacturers, operators and regulators as evidenced by the award given in September 2009 to CVM™ by the Air Transport Association (ATA) of America and the US Federal Aviation Administration (FAA).

The Group has continued to service orders for sensors and instrumentation with existing and new customers and progress in-service introductory programs with key civil and military aircraft operators and companies. The Group has also continued marketing CVM™ products mainly through its web site and customer demonstrations.

Cost-cutting measures have been in place during the year and the Board has continued to monitor the Group's cash position closely. However, it should be noted that the cost of protecting the Group's patents this year was high due to the need to take a number of patent applications through the national phase.

On the 14 January 2010 the Group announced orders for the supply of PM200 units and a number of sensor assembly application kits for installation on an Embraer aircraft as a part of a CVM™ certification program with the aim of including CVM™ technology into future inspection service bulletins.

The Group also received additional orders for the supply of technical services in association with this program, and has received an order for the delivery of an on-board real-time CVM™ instrumentation system early in 2011 to be installed on an Embraer aircraft for certification purposes. The certification phase of the Embraer CVM™ program will continue to generate revenue for into 2011.

Structural Monitoring Systems has provided CVM™ sensors to Boeing Integrated Defence Systems in support of a US Air Force fighter aircraft life extension program, and discussions are on going regarding the use of other CVM™ sensors types for the early detection of fatigue in built-up structures. Based on the success of the above program with Boeing it is likely that SMN will receive a further order during 2010 or a trial of CVM™ technology by a new military aircraft customer, who also operate this particular fighter aircraft and have a similar life extension program in progress.

The Group has been in on-going discussion with a major Chinese aircraft fatigue test institute, after having received an expression of interest for the procurement of CVM™ Laboratory Equipment systems for full-scale fatigue testing purposes. Following these discussions the Group is expecting to receive an order for up to US\$500,000, with delivery of the system early in 2011.

During the year the Group worked to develop new markets for CVM™ products outside of the aerospace sector, and on the 23 March 2010 it announced that it had received its first order for the installation of a CVM™ technology based autonomous bridge structure monitoring system from a United States State Government, Department of Transport. The installation was completed successfully on 23 April 2010.

The requirement for this system stemmed from the cost, complexity and lead times associated with the repair of a major bridge over the Mississippi River, and the need to be able to continuously monitor the integrity of a particular structural member pending its eventual repair. The CVM™ based system used in this application integrates CVM™ Switch with commercial off-the-shelf mobile phone and solar power technology to provide continuous remote monitoring of critical bridge structure that "can phone home" when a problem is detected.

This bridge monitoring application is not a trial, the CVM™ system is the primary means used to continuously monitor this structure. As such, it has provided an excellent opportunity to showcase this new CVM™ product for the autonomous monitoring of bridge and other infrastructure in the USA, and to form the base of a marketing campaign to address this large market.

It is apparent that there is a growing interest from US State Government Departments of Transport in the role that Structural Health Monitoring will play in the safe operation of bridges, and that following the collapse of a bridge in Minneapolis funding is being made available for the introduction of new sensor monitoring systems to monitor aging bridges in the USA.

## DIRECTORS' REPORT (continued)

### 2. REVIEW OF BUSINESS AND FUTURE EVENTS (continued)

On the basis of the on-going flawless operation of this system since April, and growing confidence in the effective and efficient use of CVM™ technology in this role, the Group has commenced business development activities to market this product to key bridge maintenance engineers across the USA.

In addition to the on-going supply of sensors to Airbus for materials test and inclusion on the A380 full-scale fatigue test rig, the Group also received orders from a new Switzerland based customer, for the supply of CVM™ laboratory system and supply of sensors for clutch plate component testing, and a Chinese University for the evaluation of CVM™ technology for the detection of damage to composite materials.

### 3. SIGNIFICANT EVENTS

On 23 September 2009 the Group announced that it had entered into an agreement with a large international aerospace company for an exclusive strategic partnership to develop and commercialise CVM™ technology in the civil and defence aerospace sectors. The purpose of this agreement was to enable the Group to support the on-going technical development and commercialisation of CVM™ technology in partnership with this company.

On the 13 April 2010, as a result of an inconclusive licence renegotiation process both parties agreed to sever the relationship and terminate the agreement. The primary reason why the renegotiation process resulted in this outcome was that the new offer presented did not provide sufficient assurance to the Group of future revenue streams.

During the term of the agreement the Group were paid \$537,477 by way of a licence option fee. The termination of the agreements between the companies caused the cancellation of this licence option.

At this time the Group commenced discussions with other parties with regard to a capital raising and potential partnership to provide the working capital required to deliver current orders and enable the Group to remain operational.

On the 23 April 2010 the Group announced that it had entered into an agreement to place 48,279,875 shares to clients of Mac Equity Partners at an issue price of 0.83 cents to raise \$400,735 to fund the working capital requirements of the Group and enable it to fill several outstanding orders for its products. The Group also issued one free option for each share subscribed for with an exercise price of \$0.0085, exercisable within three years of issue.

On the 30 June 2010 the Group held a General Meeting of Shareholders to, amongst other matters, approve the issue of options to the clients of Mac Equity Partners, and a reorganisation of share capital to enable the par value of the Group's Existing Ordinary Shares to be reduced from 0.5pence to 0.05pence.

Structural Monitoring Systems Plc recognises the importance of continuing to develop a strategic partnership in the aerospace sector and has continued to progress discussions with suitable companies, whilst also continuing to independently process military and civil aircraft in-service introductory programs with key customers and operators.

### 4. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

UK company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under UK company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the group and of the profit or loss of the Group and the group for that period. In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## DIRECTORS' REPORT (continued)

The directors are responsible for making a declaration in relation to certain matters required to be dealt with in financial statements under the Australian Corporations Act 2001 and the Australian Securities Exchange Listing Rules. This declaration is set out on page 56.

### 5. EVENTS OCCURRING AFTER BALANCE SHEET DATE

On 1 September 2010, the Group announced the termination of Mr Colin McDonald from his position as Chief Financial Officer and Company Secretary. The decision is a result from the Board's review of corporate operations to ensure it is operating in line with the size of the current business. The aim is to provide significant savings to the Group and to increase value for our shareholders. Non-Executive Director, Mr Sam Wright was appointed Company Secretary.

On 1 September 2010, the Group also announced the successful completion of its capital raising via the issue of 55,521,857 shares at \$0.009 per share together with 55,521,848 free attaching options to raise approximately \$500,000. Mac Equity Partners Pty Ltd was the lead manager of the placement. The Group further advised that it has received USD\$81,000 from Embraer, the large Brazilian regional aircraft manufacturer, for the CVM™ Periodic instrumentation system following the successful program review meetings held.

On 14 July 2010, the Group announced that it has received an order from Embraer, the large Brazilian aircraft manufacturer, for an On-Board Comparative Vacuum Monitoring (CVM™) system that will be installed on an Embraer aircraft for certification purposes. The total value of orders received for the Embraer certification program for the Group's periodic and on-board monitoring systems during 2010 is approximately US\$300,000. The program will continue to generate revenue for the remainder of 2010, and additional orders are expected in 2011.

The Group advised that the capital reorganisation approved by shareholders at the EGM held on 30 June 2010 was completed on the 14th July 2010.

### 6. RESULTS AND DIVIDEND

The operating loss, after income tax, for the year was \$821,849 (2009: \$1,301,897). No dividends were proposed or paid during the financial year.

### 7. SHARE CAPITAL

The impact on share capital and share premium account of the share issues in the year was as follows:

		Number of Shares	Share Price	Share Capital	Share Premium	Total
			\$	\$	\$	\$
Exercise of options	27/08/2009	20,000	0.015	52	248	300
Exercise of options	6/10/2009	500,000	0.015	1,400	6,100	7,500
Exercise of options	22/10/2009	26,666	0.015	74	326	400
Exercise of options	25/01/2010	18,588	0.015	52	227	279
Placement	7/05/2010	48,279,875	0.0083	144,070	256,665	400,735
Costs of issues					(73,023)	(73,023)
		<b>48,845,129</b>		<b>145,648</b>	<b>190,543</b>	<b>336,191</b>

### 8. DIRECTORS MEETINGS

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Group during the financial year are:

Director	Board Meetings		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
Sir J Walker	5	5	-	-	-	-
M Vellacott	12	12	-	-	-	-
R Dean	12	12	1	1	-	-
M Richmond	12	12	-	-	-	-
S Wright	2	2	1	1	-	-

A – Number of meetings attended

B – Number of meetings held during the time which the director held office during the year

There were no Remuneration Committee meetings held during the year



## DIRECTORS' REPORT (continued)

### 9. REMUNERATION OF DIRECTORS AND EXECUTIVE OFFICERS

Details of the nature and amount of each major element of remuneration of each director of the Group and each of the Group executives who receive the highest remuneration are:

Specific Directors	Primary		Post Em- ploy-ment	Redun- dancy	Other	Equity	Total
	Salary & Fees	Cash Bonus	Super- annuation		Social Security Costs	Options	
	\$	\$	\$	\$	\$	\$	\$
<b>30 June 2010</b>							
Sir. John Walker	11,482	-	-	-	531	-	12,013
Mr. Robin Dean	39,583	-	3,563	-	-	-	43,146
Mr. Mark Vellacott	275,000	-	24,750	-	-	-	299,750
Prof Malcolm Richmond	25,000	-	2,250	-	-	-	27,250
Mr. Sam Wright	8,333	-	750	-	-	-	9,083
<b>Total Remuneration:</b>							
Specified Directors	<b>359,398</b>	-	<b>31,313</b>	-	<b>531</b>	-	<b>391,242</b>
<b>Specified Executives</b>							
<b>30 June 2010</b>							
Mr. Colin McDonald	172,000	-	15,480	-	-	-	187,480
<b>Total Remuneration:</b>							
<b>Specified Executives</b>	<b>172,000</b>	-	<b>15,480</b>	-	-	-	<b>187,480</b>
<b>30 June 2009</b>							
Sir John Walker	8,312	-	-	-	521	-	8,833
Mr Robin Dean	10,417	-	938	-	-	-	11,355
Mr Mark Vellacott	234,151	-	19,994	44,990	-	15,779	314,914
Prof Malcolm Richmond	10,417	-	938	-	-	-	11,355
<b>Total Remuneration:</b>							
<b>Specified Directors</b>	<b>263,297</b>	-	<b>21,870</b>	<b>44,990</b>	<b>521</b>	<b>15,779</b>	<b>346,457</b>
<b>30 June 2009</b>							
Mr Andrew Chilcott	18,581	-	2,606	34,518	-	1,275	56,980
Mr Michael Southern	28,569	-	2,571	30,766	-	1,275	63,181
Mr Colin McDonald	179,828	-	16,185	36,041	-	1,275	233,329
Mr Alistair Lang	21,072	-	-	16,603	-	1,275	38,950
<b>Total Remuneration:</b>							
<b>Specified Executives</b>	<b>248,050</b>	-	<b>21,362</b>	<b>117,928</b>	-	<b>5,100</b>	<b>392,440</b>

The remuneration policy of the Group is outlined in Note 23 (b) in the Notes to the Financial Statements.

### 10. OPTIONS GRANTED AS COMPENSATION

No options over ordinary shares in the Group were granted as incentives to directors or employees during the reporting period.

The options granted to Mr Vellacott remain in place as he remains a director at the date of this report.

No shares were issued on exercise of remuneration options.

## DIRECTORS' REPORT (continued)

### 11. SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

Director	Date Appointed	Ordinary Shares	Percentage of total issued shares of SMS	Options remaining in issue
<b>Specified Directors</b>				
Mr Robin Dean	21 July 2003	4,807,267	1.50	-
Mr Mark Vellacott	15 June 2006	600,000	0.187	5,000,000
Mr Malcolm Richmond	17 October 2006	200,000	0.062	-
Mr Sam Wright	25 May 2010	Nil	-	-
<b>Specified Executives</b>				
Mr Colin McDonald		52,000	0.016	-
<b>Total</b>		<b>5,659,267</b>	<b>1.80</b>	<b>5,000,000</b>

The above relates to share and option holdings as at 30 September 2010

### 12. AUDITORS

Details of the amounts paid to the auditor of the Group, PKF (UK) LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amounts received or due and receivable by PKF (UK) LLP for:				
an audit or review of the financial report of the entity and the Group	32,690	31,513	32,690	43,993
other services in relation to the entity pursuant to legislation	-	12,480	-	-
Amounts received or due and receivable by PKF Perth for:				
an audit or review of the financial report of the principal trading subsidiary	36,082	41,076	19,289	19,079
other services in relation to the entity and any other entity in the consolidated entity				
tax compliance	4,862	12,007	4,862	7,442
	<b>73,634</b>	<b>97,076</b>	<b>56,841</b>	<b>70,514</b>

On the 27th July 2010 the subsidiary company Structural Monitoring Systems Ltd changed auditors from PKF Perth to Deloitte Touche Tohmatsu. All amounts disclosed above were paid to PKF Perth for services rendered prior to 30 June 2010 to the Group.

### 13. INFORMATION GIVEN TO AUDITORS

Each of the directors has confirmed that so far as he is aware, there is no relevant audit information of which the Group's auditors are unaware, and that he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

### 14. CREDITOR PAYMENT POLICY

The Group's policy during the year was to pay suppliers in accordance with agreed terms and this policy will continue for the year ended 30 June 2011. The Group does not follow a specific code or standard in respect of such creditors. As at 30 June 2010, the Group's trade creditors represented 47.33 days' purchases (2009: 42.12 days).

## DIRECTORS' REPORT (continued)

### 15. FINANCIAL INSTRUMENTS

The Group does not actively use financial instruments as part of its financial risk management. It is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control procedures. The nature of its financial instruments means that they are not subject to price risk or liquidity risk. Further information is provided in note 18 to the Financial Statements.

As a result of operations in both the United Kingdom and Australia, the Group's balance sheet can be affected by movements in the UK£/A\$ exchange rates.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

The foreign currency risk exposure is not deemed to be significant at this time although the risk could increase in the future as international commercialisation of the Group's technologies increase. There is currently no form of currency hedging or risk strategy in place, but this policy will be reviewed and strategies implemented when deemed prudent.

### 16. KEY PERFORMANCE INDICATORS

At this stage of the Group's development it does not have in place formal key performance indicators (KPIs). However, the Board held meetings at least monthly during the year where it reviewed reports prepared by senior executives which outlined progress in key areas such as finance, business development and technical development. Special Board meetings are held when necessary when the monitoring of the financial position, cost restructuring and capital raising measures becomes critical.

### 17. PRINCIPAL RISKS AND UNCERTAINTIES

The principal financial risks facing the Group are detailed in note 15 of the Directors' Report. In addition, the group faces the commercial risks of obtaining additional financing, of sustaining quality of service delivery, of staff retention and of the ability to renew or extend in-licensing or other strategic partnership agreements with a third-party. The directors continuously monitor these risks, both, formally at Board meetings and informally throughout the year, particularly during the strategic planning and budgeting processes.

By Order of the Board



*Mark Vellacott*  
Managing Director  
30 September 2010

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 June 2010

	Notes	CONSOLIDATED		PARENT	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>Continuing Operations</b>					
<b>Revenue</b>					
Sale of goods		187,751	327,020	-	-
Cost of Sales		(77,127)	(97,402)	-	-
<b>Gross profit</b>		110,624	229,618	-	-
Other Income	4(a)	547,540	-	-	-
Depreciation charges	4(d)	(21,569)	(46,328)	-	(1,050)
Impairment charges	4 (e)	-	(12,260)	(307,191)	(610,444)
Occupancy expenses		(133,640)	(114,924)	-	-
Marketing expenses		(3,943)	(205,858)	-	-
Research and development expenses	4 (g)	(370,203)	(662,609)	-	(29,294)
Administrative expenses		(950,133)	(826,033)	(70,226)	(116,786)
<b>Loss from continuing operations before income tax and finance costs</b>		(821,324)	(1,638,394)	(377,417)	(757,574)
Finance income	4(c)	6,231	24,013	-	65
Finance costs	4(b)	(3,398)	(266)	-	-
Foreign currency translations		(3,358)	43,686	23,890	(8,174)
Income tax benefit	5	-	269,064	-	-
<b>Loss after finance costs and tax from continuing operations</b>		(821,849)	(1,301,897)	(353,527)	(765,683)
<b>Loss attributable to members of the parent</b>		(821,849)	(1,301,897)	(353,527)	(765,683)
<b>Other comprehensive income</b>					
Foreign currency translations		23,890	(184,235)	-	(184,235)
Total other comprehensive income		23,890	(184,235)	-	(184,235)
<b>Total Comprehensive Income for the Period attributable to members of the parent</b>		(797,959)	(1,486,132)	(353,527)	(949,918)
Loss per share (\$ per share)	6				
- basic for loss from continuing operations		(0.022)	(0.045)		
- diluted for loss from continuing operations		(0.022)	(0.045)		



## BALANCE SHEET

FOR THE YEAR ENDED 30 June 2010

	Notes	CONSOLIDATED		PARENT	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>ASSETS</b>					
<b>Non-Current Assets</b>					
Property, plant and equipment	7	9,554	29,118	-	-
Deferred tax asset	5	-	-	-	-
<b>Total Non-current assets</b>		9,554	29,118	-	-
<b>Current Assets</b>					
Inventories	10	80,513	115,337	-	-
Prepayments		1,312	9,959	-	-
Trade and other receivables	11	84,009	319,165	-	78
Cash and cash equivalents	12	179,705	347,271	2,100	4,561
<b>Total Current Assets</b>		345,539	791,732	2,100	4,639
<b>TOTAL ASSETS</b>		355,093	820,850	2,100	4,639
<b>LIABILITIES</b>					
<b>Non Current Liabilities</b>					
Deferred tax liabilities	5	-	-	-	-
<b>Total Non Current Liabilities</b>		-	-	-	-
<b>Current Liabilities</b>					
Trade and other payables	15	229,541	246,901	14,797	-
Provisions	16	13,371	-	-	-
<b>Total Current Liabilities</b>		242,912	246,901	14,797	-
<b>TOTAL LIABILITIES</b>		242,912	246,901	14,797	-
<b>NET ASSETS</b>		<b>112,181</b>	<b>573,949</b>	<b>(12,697)</b>	<b>4,639</b>
<b>EQUITY</b>					
<b>Equity attributable to equity holders of the parent</b>					
Issued capital	17	30,794,209	30,648,561	30,794,209	30,648,561
Share premium account	17	11,861,031	11,670,488	11,861,031	11,670,488
Accumulated losses		(40,456,065)	(39,634,216)	(40,557,053)	(40,203,526)
Other reserves	17	(2,086,994)	(2,110,884)	(2,110,884)	(2,110,884)
<b>TOTAL EQUITY</b>		<b>112,181</b>	<b>573,949</b>	<b>(12,697)</b>	<b>4,639</b>

Approved by the Board and authorised for issue on 30 September 2010

Director

## CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 June 2010

	Notes	CONSOLIDATED		PARENT	
		2010	2009	2010	2009
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		163,470	644,736	-	5,480
Payments to suppliers and employees		(1,524,408)	(2,406,723)	(70,102)	(200,398)
Partnership income		537,477	-	-	-
Income tax refund		269,064	-	-	-
-Other income		13,631	-	-	-
<b>Net cash flows used in operating activities</b>	12	<b>(540,766)</b>	<b>(1,761,987)</b>	<b>(70,102)</b>	<b>(194,918)</b>
<b>Cash flows from investing activities</b>					
Interest received		6,231	21,351	-	65
Finance costs		(3,398)	(266)	-	-
Proceeds from sale of property, plant and equipment		-	1,501	-	-
Purchase of property, plant and equipment		(2,005)	-	-	-
<b>Net cash flows from investing activities</b>		<b>828</b>	<b>22,586</b>	<b>-</b>	<b>65</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares	17	350,942	978,286	350,942	978,286
Loan to subsidiary		-	-	(307,191)	(774,247)
<b>Net cash flows from financing activities</b>		<b>350,942</b>	<b>978,286</b>	<b>43,751</b>	<b>204,039</b>
Net (decrease)/increase in cash and cash equivalents		(188,996)	(761,115)	(26,351)	9,186
Net foreign exchange differences		21,430	53,704	23,890	(8,174)
Cash and cash equivalents at beginning of year		347,271	1,054,682	4,561	3,549
<b>Cash and cash equivalents at end of year</b>	12	<b>179,705</b>	<b>347,271</b>	<b>2,100</b>	<b>4,561</b>



## STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 June 2010

	Issued Capital	Accumulated losses	Share Premium Reserve	Share Based Payment Reserve	Foreign Ex- change Reserves	Total
<b>CONSOLIDATED</b>	\$	\$	\$	\$	\$	\$
<b>At 1 July 2008</b>	30,499,685	(38,332,319)	10,841,078	195,326	(2,126,006)	1,077,764
Currency translation differences	-	-	-	-	(184,235)	(184,235)
Loss for the year	-	(1,301,897)	-	-	-	(1,301,897)
Total comprehensive income for the year	-	(1,301,897)	-	-	(184,235)	(1,486,132)
Cost of share based payments	-	-	-	4,031	-	4,031
Issue of share capital	148,876	-	860,248	-	-	1,009,124
Cost of share issues	-	-	(30,838)	-	-	(30,838)
<b>At 30 June 2009</b>	30,648,561	(39,634,216)	11,670,488	199,357	(2,310,241)	573,949
Currency translation differences	-	-	-	-	23,890	23,890
Loss for the year	-	(821,849)	-	-	-	(821,849)
Total comprehensive income for the year	-	(821,849)	-	-	23,890	(797,959)
Issue of share capital	145,648	-	263,566	-	-	409,214
Cost of share issues	-	-	(73,023)	-	-	(73,023)
<b>At 30 June 2010</b>	30,794,209	(40,456,065)	11,861,031	199,357	(2,286,351)	112,181
<b>PARENT</b>	<b>Issued Capital</b>	<b>Accumulated losses</b>	<b>Share Premium Reserve</b>	<b>Share Based Payment Re- serve</b>	<b>Foreign Exchange Re- serves</b>	<b>Total</b>
<b>At 1 July 2008</b>	30,499,685	(39,438,043)	10,841,078	195,326,	(2,126,006)	(27,960)
Currency translation differences	-	-	-	-	(184,235)	(184,235)
Loss for the year	-	(765,483)	-	-	-	(765,483)
Total comprehensive income for the year	-	(765,483)	-	-	(184,235)	(949,718)
Cost of share based payments	-	-	-	4,031	-	4,031
Issue of share capital	148,876	-	860,248	-	-	1,009,124
Cost of share issues	-	-	(30,838)	-	-	(30,838)
<b>At 30 June 2009</b>	30,648,561	(40,203,526)	11,670,488	199,357	(2,310,241)	4,639
Loss for the year	-	(353,527)	-	-	-	(353,527)
Total comprehensive income for the year	-	(353,527)	-	-	-	(353,527)
Issue of share capital	145,648	-	263,566	-	-	409,214
Cost of share issues	-	-	(73,023)	-	-	(73,023)
<b>30 June 2010</b>	30,794,209	(40,557,053)	11,861,031	199,357	(2,310,241)	(12,697)

## Notes to the Financial Statements

**FOR THE YEAR ENDED 30 June 2010**

### 1 CORPORATE INFORMATION

The financial report of Structural Monitoring Systems Plc for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 September 2010

Structural Monitoring Systems Plc is a company limited by shares incorporated in the United Kingdom whose shares are publicly traded on the Australian Securities Exchange (ASX)

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of Preparation*

The consolidated financial statements and those of the parent entity are presented in Australian dollars and are prepared in accordance with International Financial Reporting Standards (“IFRSs”) adopted by the European Union. The exchange rate at the balance sheet date was £1:\$1.76, and the average for the year was £1:\$1.80.

#### *(b) Going Concern*

The directors believe that there is a material uncertainty related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

The group has achieved a number of significant milestones and accreditations which the Board is confident will ultimately lead to new sales contracts and revenue streams for the Group and enhance the commercialisation of the technology.

In addition, the directors recognise that the company will need access to further financing for the group to be able to continue in operational existence for the foreseeable future. The directors believe that they will obtain sufficient equity funding to ensure the continued operations of the group to at least 30 September 2011.

Consequently the directors consider that it is appropriate to prepare the financial statements on the basis that the group and company are able to continue as going concerns after consideration of the following factors:

- The Company announced to the market on 29 June 2010 that it is expecting an order for up to US\$500,000 from a major Chinese aircraft fatigue test institute, after having received an expression of interest for the procurement of CVM™ Laboratory Equipment systems for full-scale fatigue testing purposes;
- The Company raised \$499,696,71 from the issue of shares subsequent to reporting date, as disclosed in Note 21;
- Ability to issue additional shares;
- The potential to diversify revenue into new markets (eg bridges, mining industry, etc); and
- The ability to further reduce operational cost levels to conserve cash in the event that capital raisings are delayed or partial.

The directors recognise that there can be no certainty that the group and company will be able to find funding and achieve revenue increases and if this is the case the group and company may not be able to continue as a going concern. No adjustments have been made to these financial statements to record the impact of such occurrences, however, the directors do not consider that such adjustments would be significant. All necessary impairments in asset values have been made.

#### *(c) Statement of compliance*

The consolidated financial statements and the financial statements of the parent company have been prepared in accordance with International Financial Reporting Standards (‘IFRS’) and its interpretations adopted by the European Union. The financial statements have been prepared in accordance with those parts of the Companies Act 2006 and the Australian Corporations Act 2001 that apply to them.

The financial statements are prepared in accordance with International Financial Reporting Standards and Interpretations in force at the reporting date. The Group has not adopted any standards or interpretations in advance of the required implementation dates. It is not expected that adoption of standards or interpretations which have been issued by the International Accounting Standards Board but have not been adopted will have a material impact on the financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and parent entity financial statements

#### *(d) Accounting standards and Interpretations*

In the year ended 30 June 2010 the Group has adopted the following standards for the first time:



## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

IAS 1 (revised) Presentation of financial statements prescribes the content and structure of the financial statements. The income statement has been replaced by a statement of comprehensive income. Items of income and expenditure not recognised in the income statement are now disclosed as components of “other comprehensive income”. The standard included changes in the titles of the primary statement to reflect their function more clearly. These new titles are not mandatory and have not been adopted by the Group.

IFRS 8 Operating Segments requires a ‘management approach’ under which segment information is presented on the same basis as that used for internal reporting purposes.

#### *(e) Basis of consolidation*

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

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

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

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

#### *(f) Foreign currency translation*

The presentation currency of the group is Australian dollars (\$AUD). The functional currency of Structural Monitoring Systems Limited, the company’s Australian subsidiary is Australian dollars. During the year the directors reviewed the functional currency of Structural Monitoring Systems Plc and concluded that for the current and previous year the functional currency was Australian dollars. The financial statements for the year ended 30 June 2009 were prepared on the basis that the company’s functional currency was pounds sterling.

The directors do not consider any adjustment to the prior year financial statements arising from the change in functional currency of the company would be material and, hence, no prior year adjustment has been made. If an adjustment had been made to the prior year accounts the parent company loss after finance costs and tax would have increased by \$184,235 to \$949,918. The deficit on other reserves would have decreased by \$184,235 with a corresponding increase in the parent company accumulated losses.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Exchange differences relating to the retranslation of foreign currency denominated intercompany balances, designated as investments in the parent company, are taken to profit and loss. On consolidation, these exchange differences are taken to other reserves.

#### *(g) Property, plant and equipment*

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

Depreciation is calculated on a straight-line basis to write off the cost less estimated residual value over the estimated useful life of the asset as follows:

Plant and equipment	6.66% - 20%
Furniture and fittings	6.66%-20%
Office fit-out	33.33%
Computers	20%-40%
Manufactured equipment	33.33%

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

The residual values and estimated useful lives of the assets are reviewed at each financial year end.

#### Impairment

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

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Property, plant and equipment (continued)

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

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

#### (i) Intangible Assets

(i) Research and patent costs are expensed as incurred.

(ii) Development expenditure incurred is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

A summary of the policies applied to the Group's intangible assets is as follows:

	Technology Licence	Patents and Licences
Useful lives	Finite	Finite
Method used	5 years – Straight line	5 years- Straight line
Internally generated/Acquired	Acquired	Acquired
Impairment test /Recoverable amount testing	The balance has been fully amortised	The balance has been fully amortised

#### (j) Recoverable amount of assets

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

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

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

#### (k) Inventories

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

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

Raw materials - purchase cost on a first-in, first-out basis; and

Finished goods and work-in-progress - cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

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

#### (l) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.



## Notes to the Financial Statements (continued)

**FOR THE YEAR ENDED 30 June 2010**

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *(m) Cash and cash equivalents*

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

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

#### *(n) Provisions*

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

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

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

#### *(o) Share-based payment transactions*

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

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

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

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

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

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

#### *(p) Revenue*

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

##### *Sale of goods*

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

#### *(q) Income tax*

The charge for taxation is based on the profit or loss for the year and takes into account deferred tax. Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit or loss, and is accounted for using the balance sheet method.

Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available in the foreseeable future against which the temporary differences can be utilised.

## Notes to the Financial Statements (continued)

**FOR THE YEAR ENDED 30 June 2010**

### **2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **(r) Other taxes**

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

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

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

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

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

#### **(s) Employee Entitlements**

Provision is made for long service and annual leave payable to employees on the basis of relevant statutory requirements or contractual entitlements applicable in Australia.

Fair value is estimated using the binomial valuation model.

#### **(t) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured and are usually paid within 60 days of recognition. Disclosures concerning the risks associated with these liabilities are contained in Note 18.

#### **(u) Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

#### **(v) Critical accounting estimates and judgements**

The preparation of a financial report in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions. Those which may materially affect the carrying amounts of assets and liabilities reported in future periods are discussed below.

##### **(i) Impairment of non-financial assets**

The Company assesses impairment on all assets at each reporting date by evaluating conditions specific to the Company and to the particular asset that may lead to impairment. These include technology and economic environments. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves value-in-use calculations, which incorporate a number of key estimates and assumptions.

##### **(ii) Estimation of useful lives of assets**

The estimation of useful lives of assets has been based on historical experience. Adjustments to useful lives are made when considered necessary. Depreciation and amortisation charges as well as estimated useful lives are included in Note 7.



## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 3 SEGMENT INFORMATION

The consolidated entity operates predominantly in one industry, being Structural Health Monitoring. The main geographic areas that the entity operates in are the UK, the US and Australia. The consolidated entity also had operations in the UK, the US and Australia, although the Group no longer has employees based in the UK. All segments are now managed from the Australian office. The parent company is registered in the UK so that portion of the loss that pertains to maintaining that company is disclosed in that segment.

The following tables present revenue, expenditure and certain asset information regarding geographical segments for the years ended 30 June 2010 and 2009.

	Australia \$	US \$	UK \$	Total \$
<b>Year ended 30 June 2010</b>				
<b>Revenue</b>				
Sales to external customers	49,784	137,967	-	187,751
Finance income	6,231	-	-	6,231
Other operating income from external parties	-	547,540	-	547,540
Revenue from continuing operations	56,015	685,507	-	741,522
Inter-segment sales	-	-	-	-
Segment revenue	56,015	685,507	-	741,522
<b>Sales revenue by customer location</b>				
Australasia	-	-	-	-
Europe	49,784	-	-	49,784
Americas	-	137,967	-	137,967
Total revenue	49,784	137,967	-	187,751
<b>Result</b>				
Segment result	-889,550	137,967	-70,266	-821,849
Unallocated expenses	-	-	-	-
Loss before tax	-889,550	137,967	-70,266	-821,849
Income tax credit	-	-	-	-
Loss for the year	-889,550	137,967	-70,266	-821,849
<b>Assets and liabilities</b>				
Segment assets	352,993	-	2,100	355,093
Unallocated assets	-	-	-	-
Total assets	352,933	-	2,100	355,093
Segment liabilities	228,116	-	14,796	242,912
Unallocated liabilities	-	-	-	-
Total liabilities	228,116	-	14,796	242,912
<b>Other segment information</b>				
Capital expenditure	2,005	-	-	2,005
Depreciation	21,569	-	-	21,569

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

3 SEGMENT INFORMATION (continued)

	Australia \$	US \$	UK \$	Total \$
<b>Year ended 30 June 2009</b>				
<b>Revenue</b>				
Sales to external customers	220,499	106,521	-	327,020
Finance income	23,948	-	65	24,013
Revenue from continuing operations	244,447	106,521	65	351,033
Inter-segment sales	-	-	-	-
Segment revenue	244,447	106,521	65	351,033
<b>Sales revenue by customer location</b>				
Australasia	13,529	-	-	13,529
Europe	206,970	-	-	206,970
Americas	-	106,521	-	106,521
Total revenue	220,499	106,521	-	327,020
<b>Result</b>				
Segment result	-1,510,184	106,521	-167,298	-1,570,961
Unallocated expenses	-	-	-	-
Loss before tax	-1,510,184	106,521	-167,298	-1,570,961
Income tax credit	269,064	-	-	269,064
Loss for the year	-1,241,120	106,521	-167,298	-1,301,897
<b>Assets and liabilities</b>				
Segment assets	816,211	-	4,639	820,850
Unallocated assets	-	-	-	-
Total assets	816,211	-	4,639	820,850
Segment liabilities	246,901	-	-	246,901
Unallocated liabilities	-	-	-	-
Total liabilities	246,901	-	-	246,901
<b>Other segment information</b>				
Depreciation	45,278	-	1,050	46,328
Impairment of fixed assets	-	-	12,260	12,260
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>	<b>%</b>	<b>%</b>
<b>Major customers</b>				
During the year 3 customers (2009: 3) each accounted for more than 10% of the Group's revenues.				
Customer 1	108,860	-	58	-
Customer 2	-	118,074	-	36
Customer 3	20,983	99,705	11	30
Customer 4	19,983	34,823	10	10
	149,826	252,602	79	76



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 4 INCOME AND EXPENSES

#### (a) Other income

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Licence option fees	537,477	-	-	-
Settlement discount	1,818	-	-	-
Insurance refund	8,245	-	-	-
	547,540	-	-	-

#### (b) Finance costs

Interest expense	(3,398)	(266)	-	-
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#### (c) Finance income

Interest on tax rebate	2,662	-	2,662	-
Bank interest receivable	3,569	24,013	-	65
	6,231	24,013	2,662	65

#### (d) Depreciation, amortisation and foreign exchange differences included in statement of comprehensive income

Depreciation	21,569	46,328	-	1,050
Net foreign exchange differences	(3,740)	(40,580)	(23,890)	8,174
	17,829	5,748	(23,890)	9,224

#### (e) Impairment charges

Impairment of investment in subsidiary	-	-	307,191	598,184
Impairment of fixed assets	-	12,260	-	12,260
	-	12,260	307,181	610,444

#### (f) Employee benefits expense

Wages and salaries	615,263	568,167		
Workers' compensation costs	5,380	11,983		
Superannuation costs	61,115	67,892		
Social security costs	531	6,535		
Expense of share-based payments	-	4,031		
Redundancy payments	-	270,471		
	682,289	929,079		

	No	No
<b>Average monthly number of employees</b>		
Administration	2	3
Business development	1	2
Operations and technical	1.5	4
Total average employees	4.5	9

#### (g) Research and development costs

Research and development costs charged	370,203	662,609	-	29,294
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## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 5 INCOME TAX

Major components of income tax expense for the years ended 30 June 2010 and 30 June 2009 are:

#### Statement of comprehensive income

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Current Income				
Current income tax charge	-	-	-	-
Adjustment in respect of current income tax of previous year	-	(269,064)	-	-
Deferred Income Tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax expense (benefit) reported in statement of comprehensive income	-	(269,064)	-	-

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the group's effective income tax rate for the years ended 30 June 2010 and 2009 as follows:

Accounting loss before tax from continuing operations	(821,849)	(1,301,897)	(353,527)	(765,683)
Accounting loss before income tax	(821,849)	(1,301,897)	(353,527)	(765,683)
At the statutory income tax rate of 30% (2006: 30%)	(246,555)	(471,288)	(113,225)	(229,645)
Expenditure not allowable for income tax purposes	111,061	38,482	-	6,672
Research and development benefit	-	269,064	-	-
Temporary differences not brought to account as a deferred tax asset	135,494	432,806	113,225	222,973
Income tax credit reported in statement of comprehensive income	-	269,064	-	-

### Recognised deferred tax

#### Assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
CONSOLIDATED	\$	\$	\$	\$	\$	\$
Accrued Expenses	-	7,800	-	-	-	7,800
Employee entitlement provisions	-	-	-	-	-	-
Superannuation accrued	-	-	-	-	-	-
Capital raising cost	-	-	-	-	-	-
Unrealised FX Gain	-	-	(21,061)	(555,927)	(21,061)	(555,927)
Property Plant and Equipment	-	72,169	-	-	-	72,169
Patent	-	112,330	-	-	-	112,330
Tax Losses	21,061	363,628	-	-	21,061	363,628
Tax (assets) liabilities	21,061	555,927	(21,061)	(555,927)	-	-
Set off of tax	(21,061)	(555,927)	21,061	555,927	-	-
Net tax (assets) liabilities	-	-	-	-	-	-



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 5 INCOME TAX (continued)

	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
PARENT	\$	\$	\$	\$	\$	\$
Employee entitlement provisions	-	-	-	-	-	-
Unrealised FX Gain	-	-	-	-	-	-
Property Plant and Equipment	-	-	-	-	-	-
Tax (assets) liabilities	-	-	-	-	-	-
Set off of tax	-	-	-	-	-	-
Net tax (assets) liabilities	-	-	-	-	-	-

### Unrecognised deferred tax assets

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Provisions	-	-	-	-
Property, plant and equipment	157,508	602	-	602
Impairment of Investments	-	-	307,191	-
Patents	112,330	-	-	-
Capital raising costs	9,492	28,757	9,492	28,757
Unrealised forex losses	-	2,452	-	2,452
Tax losses	6,468,104	6,109,374	1,342,571	1,253,080
	6,747,434	6,141,185	1,659,254	1,284,891

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not currently probable that future taxable profit will be available against which the Group can utilise these benefits.

### 6 LOSS PER SHARE

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

#### Diluted Earnings per Share

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect. The number of anti dilutive options at 30 June 2010 was 118,887,066 (2009: 76,422,445).

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

	CONSOLIDATED	
	2010	2009
	\$	\$
Net loss attributable to equity holders from continuing operations	(821,849)	(1,301,897)
	Number of shares	Number of shares
Weighted average number of ordinary shares for basic loss per share	362,594,079	290,392,669
Weighted average number of ordinary shares for diluted loss per share	362,594,079	290,392,669

The Group is currently in the process of undertaking a placement of shares to raise funds for working capital. This will involve the issue of approximately 55,521,827 shares at \$0.009. This was finalised on 1 September 2010.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 7 PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED			PARENT		
	Leasehold Improvements	Plant and equipment	Total	Leasehold Improvements	Plant and equipment	Total
	\$	\$	\$	\$	\$	\$
<b>Year ended 30 June 2010</b>						
<b>Cost</b>						
At 1 July 2009	154,079	889,784	1,043,863	-	29,606	29,606
Additions	-	2,005	2,005	-	-	-
Disposals	-	-	-	-	-	-
<b>At 30 June 2010</b>	<b>154,079</b>	<b>891,789</b>	<b>1,045,868</b>	<b>-</b>	<b>29,606</b>	<b>29,606</b>
<b>Depreciation</b>						
At 1 July 2009	154,079	860,666	1,014,745	-	29,606	29,606
Charge for the year	-	21,569	21,569	-	-	-
Eliminated on disposal	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
<b>At 30 June 2010</b>	<b>154,079</b>	<b>882,235</b>	<b>1,036,314</b>	<b>-</b>	<b>29,606</b>	<b>29,606</b>
<b>Net book value at 30 June 2010</b>	<b>-</b>	<b>9,554</b>	<b>9,554</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Year ended 30 June 2009</b>						
<b>Cost</b>						
At 1 July 2008	154,079	892,845	1,046,924	-	29,606	29,606
Additions	-	(3,061)	(3,061)	-	-	-
Disposals	-	-	-	-	-	-
<b>At 30 June 2009</b>	<b>154,079</b>	<b>889,784</b>	<b>1,043,863</b>	<b>-</b>	<b>29,606</b>	<b>29,606</b>
<b>Depreciation</b>						
At 1 July 2008	154,079	803,591	957,670	-	16,296	16,296
Charge for the year	-	46,328	46,328	-	1,050	1,050
Eliminated on disposal	-	(1,513)	(1,513)	-	-	-
Impairment	-	12,260	12,260	-	12,260	12,260
<b>At 30 June 2009</b>	<b>154,079</b>	<b>860,666</b>	<b>1,014,745</b>	<b>-</b>	<b>29,606</b>	<b>29,606</b>
<b>Net book value at 30 June 2009</b>	<b>-</b>	<b>29,118</b>	<b>29,118</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net book value at 30 June 2008</b>	<b>-</b>	<b>89,255</b>	<b>89,255</b>	<b>-</b>	<b>13,310</b>	<b>13,310</b>



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 8 INVESTMENTS IN SUBSIDIARIES

	Loan to Subsidiary Undertaking	PARENT Investment in Subsidiary Undertaking	Total
	\$	\$	\$
<b>Year ended 30 June 2010</b>			
<b>Cost</b>			
At 1 July 2009	-	36,567,982	36,567,982
Arising during the year	307,191	-	307,191
Reclassification of loan as investment	(307,191)	307,191	-
<b>At 30 June 2010</b>	-	36,875,173	36,875,173
<b>Impairment</b>			
At 1 July 2009	-	36,567,982	36,567,982
Impairment charge	-	307,191	307,191
	-	36,875,173	36,875,173
<b>Net carrying amount at 30 June 2010</b>	-	-	-
<b>Year Ended 30 June 2009</b>			
<b>Cost</b>			
At 1 July 2008	-	35,969,141	35,969,141
Arising during the year	598,841	-	598,841
Reclassification of loan as investment	(598,841)	598,841	-
<b>At 30 June 2009</b>	-	36,567,982	36,567,982
<b>Impairment</b>			
At 1 July 2008	-	35,969,141	35,969,141
Impairment charge	-	598,841	598,841
	-	36,567,982	36,567,982
<b>Net carrying amount at 30 June 2009</b>	-	-	-

The intercompany loan has been reclassified as an investment as at 30 June 2010 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cashflows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to nil due to the uncertainty of recovery.

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 9 INTANGIBLE ASSETS

	CONSOLIDATED				PARENT
	Goodwill	Technology Licence	Patents and licenses	Total	Total
	\$	\$	\$	\$	\$
<b>Year ended 30 June 2010</b>					
<b>Cost</b>					
At 1 July 2009 and 30 June 2010	20,868,694	125,000	1,760,616	22,754,310	-
<b>Impairment</b>					
At 1 July 2009 and 30 June 2010	20,868,694	-	-	20,868,694	-
<b>Amortisation</b>					
At 1 July 2009 and 30 June 2010	-	125,000	1,760,616	1,885,616	-
Net book value at 30 June 2010	-	-	-	-	-
<b>Year ended 30 June 2009</b>					
<b>Cost</b>					
At 1 July 2008 and 30 June 2009	20,868,694	125,000	1,760,616	22,754,310	-
<b>Impairment</b>					
At 1 July 2008 and 30 June 2009	20,868,694	-	-	20,868,694	-
<b>Amortisation</b>					
At 1 July 2008 and 30 June 2008	-	125,000	1,760,616	1,885,616	-
Net book value at 30 June 2008	-	-	-	-	-

### 10 INVENTORIES

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Work-in-progress (at cost)	56,474	97,368	-	-
Finished goods (at net realisable value)	24,039	17,969	-	-
Total inventories at lower of cost and net realisable value	80,513	115,337	-	-

### 11 TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables	84,009	319,165	-	78
	84,009	319,165	-	78



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 12(a) RECONCILIATION FROM THE NET LOSS AFTER TAX TO THE NET CASH FLOWS FROM OPERATIONS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net Loss	(821,849)	(1,301,897)	(377,417)	(765,483)
Adjustments for:				
Finance income	(6,231)	(24,013)	-	(65)
Finance costs	3,398	266	-	-
Depreciation and amortisation	21,569	44,815	-	1,050
Net (profit)/loss on disposal of plant and equipment	-	48	-	-
Writeoffs and adjustments in carrying value of plant and equipment	-	12,260	-	12,260
Currency translation	3,740	(231,892)	-	-
Share options expensed	-	4,031	-	4,031
Impairment of investment in subsidiary	-	-	307,191	598,184
Changes in assets and liabilities				
(increase)/decrease in inventories	34,824	57,299	-	-
(increase)/decrease in trade and other receivables	(2,170)	(391,422)	-	5,403
(increase)/decrease in prepayments	(16,022)	1,273	-	-
(decrease)/increase in trade and other payables	241,975	67,245	124	(50,298)
Net cash from operating activities	(540,766)	(1,761,987)	(70,102)	(194,918)

### 12(b) CASH AND CASH EQUIVALENTS

Cash at bank	179,705	347,271	2,100	4,561
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### 13 EMPLOYEE BENEFITS

#### (a) Employees share option plan

The Group has an employee share options plan (ESOP) for the granting of non-transferable options to executive directors and employees with more than six months' service at the grant date.

No options were issued under the ESOP during the reporting period.

The options are cancelled upon the director or employee leaving the service of the Group.

The following options were granted during the year ended 30 June 2008:

Date of allotment	Tranche A (1)		Tranche B (2)		Total	
	Number of options	Fair Value \$	Number of options	Fair Value \$	Number of options	Fair Value \$
31 March 2008	7,500,000	111,750	6,500,000	16,969	14,000,000	128,719
Total	7,500,000	111,750	6,500,000	16,969	14,000,000	128,719

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 13 EMPLOYEE BENEFITS (continued)

Of these options, the following were cancelled on 12 September 2008

Date of cancellation	Tranche A (1)		Tranche B (2)		Total	
	Number of options	Fair Value \$	Number of options	Fair Value \$	Number of options	Fair Value \$
12 September 2008	4,500,000	67,050	4,500,000	-	9,000,000	69,119
Total outstanding at 30 June 2010	3,000,000	44,700	2,000,000	29,800	5,000,000	59,600

Tranche A options are exercisable at any time between 1 April 2008 and 31 March 2011 at 20 cents each.

Tranche B options are exercisable at any time between 1 April 2009 and 31 March 2011 at 25 cents each.

The total net cost of options for the year ended 30 June 2010 was Nil (2009: \$4,031).

The fair value of the options was estimated at the date of grant using the binomial option value method. The following table gives the assumptions made in determining the fair value of the options granted in the year to 30 June 2008.

Interest rate (%)	2008
Expected volatility (%)	7.25
Expected life of option (years)	50
Option exercise price (\$)	Over vesting period of each tranche
Share price at grant date (\$)	20c/25c
	0.09

During the year ended 30 June 2008 the following options were issued pursuant to the previous ESOP scheme.

Date of allotment	Tranche A		Tranche B		Tranche C		Total	
	Number of options	Fair Value \$	Number of options	Fair Value \$	Number of options	Fair Value \$	Number of options	Fair Value \$
13 July 2007	65,000	-	65,000	-	65,000	-	195,000	-
Total	65,000	-	65,000	-	65,000	-	195,000	-

No value was brought to account for these options, as the Tranche A options expired soon after issue and the value of the remaining options was not material. The remaining options have subsequently expired unexercised and been cancelled on the termination of the employee.

The weighted average exercise price of the options granted during 2008 was 22.36 cents.

The weighted average vesting period of the options granted during 2008 was 8 months.

The terms of the previous ESOP scheme were as follows:

1. Tranche A options were exercisable at any time between 1 September 2005 and 31 August 2007 at 20 cents each.
2. Tranche B options were exercisable at any time between 1 September 2006 and 31 August 2008 at 25 cents each.
3. Tranche C options were exercisable at any time between 1 September 2007 and 31 August 2009 at 30 cents each.

During the year ended 30 June 2010, no options were exercised over ordinary shares. At the date of this report all these options have expired.

There were no other movements in employee share options in the year.

#### b) Pensions and other post-employment benefit plans

In previous years the Company was below the threshold requiring it to maintain a Stakeholder Pension for its UK employees and there is no equivalent legislation in Australia. As there are no longer any employees based in the UK the Group does not maintain a pension fund.



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

### 14 SHARE BASED PAYMENTS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Employee benefits	-	4,031	-	4,031
	-	4,031	-	4,031

### 15 TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Trade payables	102,511	122,173	-	-
Other payables	-	-	-	-
Accruals and deferred income	109,822	107,394	14,797	-
Payroll liabilities	17,208	17,334	-	-
	229,541	246,901	14,797	-

Trade payables are non-interest bearing and are normally settled within 60-day terms. Other payables are non-interest bearing and have an average term of 6 months.

### 16 PROVISIONS

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Provision for annual leave entitlements	13,371	-	-	-
	13,371	-	-	-

The movements in the provision were:

Opening balance	-	159,500	-	17,351
Additional provision in the year	26,308	16,936	-	1,890
Utilised during the year	(15,588)	(89,486)	-	(8,776)
Unused leave paid out on termination of employees	2,651	(86,950)	-	(10,465)
	13,371	-	-	-

### 17 ISSUED CAPITAL AND RESERVES

	2010	2009	2010	2009
	Number	Number	GBP	GBP
Authorised Capital				
Ordinary shares of 0.5p each	5,500,000,000	5,500,000,000	27,500,000,	27,500,000
Deferred shares of 4.5p each	500,000,000	500,000,000	22,500,000	22,500,000

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Ordinary Shares				
Issued and fully paid	3,210,504	3,064,856	3,210,504	3,064,856
Deferred shares	27,583,705	27,583,705	27,583,705	27,583,705
Total issued and fully paid	30,794,209	30,648,561	30,794,209	30,648,561

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 17 ISSUED CAPITAL AND RESERVES (continued)

	Shares in Issue	\$
Movement in ordinary shares in issue		
At 1 July 2008	254,024,768	30,499,685
Issued on 15 December 2008 for cash	62,543,032	138,282
Issued on 18 December 2008 for cash	4,681,113	10,474
Issued on 30 December 2008 for cash	21,666	51
Issued on 14 January 2009 for cash	30,000	69
Issued on 20 February 2009 for cash	34	-
At 30 June 2009	321,300,613	30,648,561
Issued on 27 August 2009 for cash	20,000	52
Issued on 6 October 2009 for cash	500,000	1,400
Issued on 22 October 2009 for cash	26,666	74
Issued on 25 January 2010 for cash	18,588	52
Issued on 7 May 2010 for cash	48,279,875	144,070
At 30 June 2010	370,145,742	30,794,209

(1) The deferred shares are not entitled to receive any dividend out of the profits of the company. On a winding up the deferred share holders will receive the amount paid up on their shares after the ordinary shareholders have received £100,000,000 in respect of each ordinary share held by them. The holders of the deferred shares are not entitled to vote at any general meeting of the company, and are not listed on the ASX.

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>Share Premium Reserve</b>				
Share Premium Reserve	11,861,031	11,670,488	11,861,031	11,670,488

	Shares in Issue	\$
Movement in Share Premium Reserve		
At 1 July 2008	254,024,768	10,841,078
Issued on 15 December 2008 for cash	62,543,032	799,849
Issued on 18 December 2008 for cash	4,681,113	59,743
Issued on 30 December 2008 for cash	21,666	274
Issued on 14 January 2009 for cash	30,000	381
Issued on 20 February 2009 for cash	34	1
Cost of issues	-	(30,838)
At 30 June 2009	321,300,613	11,670,488
Issued on 27 August 2009 for cash	20,000	248
Issued on 6 October 2009 for cash	500,000	6,100
Issued on 22 October 2009 for cash	26,666	326
Issued on 25 January 2010 for cash	18,588	227
Issued on 7 May 2010 for cash	48,279,845	256,665
Cost of issues	-	(73,023)
At 30 June 2010	370,145,712	11,861,031

#### Other Reserves

Option Reserve	199,357	199,357	199,357	199,357
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## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 17 ISSUED CAPITAL AND RESERVES (continued)

	Unlisted Options on Issue	\$
Movement in Option Reserve		
At 1 July 2008	24,856,000	195,326
Expired 31 August 2008	(428,000)	-
Cost of options issued in previous periods	-	71,081
Cancelled	(9,178,000)	(67,050)
At 30 June 2009	15,250,000	199,357
Expired 31 August 2009	(250,000)	-
Expired 31 December 2009	(10,000,000)	-
Outstanding unlisted options at 30 June 2010	5,000,000	199,357
Listed Options		
Outstanding listed options at 1 July 2009	61,172,445	-
Granted during the year to 30 June 2010	53,279,875	-
Exercise of listed options	(565,254)	-
Outstanding listed options at 30 June 2010	113,887,066	-

Listed options are options held by investors in the company and are, therefore, outside the scope of IFRS 2

#### *Nature and purpose of reserves*

##### Share premium reserve

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

##### Option reserve

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

##### Foreign currency translation reserve

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

## 18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

### *Financial Risk Management*

#### *Overview*

The Company and Group have exposure to the following risks from their use of financial instruments:

- Interest rate risk
- Credit risk
- Liquidity risk
- Foreign currency risk

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities.

The Group Audit Committee oversees how management monitors compliance with the Company's and Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company and Group.

The company and the group's principal financial instruments are cash, receivables and payables. The financial assets are categorised as loans and receivables and the financial liabilities are categorised as other financial liabilities measured at amortised cost.

#### Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. Interest rate risk arises from fluctuations in interest bearing financial assets and liabilities that the group uses.

Interest bearing assets comprise cash and cash equivalents which are considered to be short-term liquid assets. It is the Group's policy to settle trade payables within the credit terms allowed and therefore not incur interest on overdue balances.

Cash and cash equivalents are exposed to foreign currency risk, cash balances earn a floating interest rate.

#### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

#### Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. The analysis is performed on the same basis for 2008.

Consolidated - 30 June 2010	Carrying Value at year end	Profit or loss		Equity	
		100bp increase	100bp decrease	100bp increase	100bp decrease
	\$	\$	\$	\$	\$
Cash and cash equivalents	179,705	1,797	(1,797)	1,797	(1,797)
<b>Consolidated - 30 June 2009</b>					
Cash and cash equivalents	347,271	3,473	(3,473)	3,473	(3,473)
Parent - 30 June 2010	Carrying Value at year end	Profit or loss		Equity	
	\$	100bp increase	100bp decrease	100bp increase	100bp decrease
	\$	\$	\$	\$	\$
Cash and cash equivalents	2,100	21	(21)	21	(21)
<b>Parent - 30 June 2009</b>					
Cash and cash equivalents	4,561	46	(46)	46	(46)



## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. This risk is minimised by reviewing term deposit accounts from time to time with approved banks of a sufficient credit rating which is AA and above. The company does not place funds on terms longer than 30 days and has the facility to place the deposit funds with more than one bank.

### Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash and cash equivalents	179,705	347,271	2,100	4,561
Trade and other receivables	84,009	319,165	-	78
	263,714	666,436	2,100	4,639

The Group's maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Consolidated		Parent	
	Carrying amount		Carrying amount	
	2010	2009	2010	2009
	\$	\$	\$	\$
Australia	24,669	286,692	-	-
Europe	7,410	25,658	-	78
Americas	51,930	6,815	-	-
Other regions	-	-	-	-
	84,009	319,165	-	78

### Impairment Losses

Of the company's receivables, \$59,340 were past the Company's 30 day credit terms at 30 June 2010 (2009: \$32,396). The aging of the Group's trade receivables at the reporting date was:

	Consolidated		Consolidated	
	Gross	Impairment	Gross	Impairment
	2010	2010	2009	2009
	\$	\$	\$	\$
Not past due	-	-	286,769	-
Past due 0-30 days	84,009	-	23,146	-
Past due 31-120 days	-	-	2,435	-
Past due 121 days to one year	-	-	6,815	-
More than one year	-	-	-	-
	84,009	-	319,165	-

There are no impairment losses at 30 June 2010 as the amounts have been received since year end or are within the standard credit terms imposed on the customers (2009: Nil).

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 18 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (continued)

##### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities:

Consolidated - 30 June 2010	Carrying amount	Contractual cash flows	6 mths or less
	\$	\$	\$
Trade and other payables	229,541	229,541	229,541
Interest bearing liabilities	-	-	-
	229,541	229,541	229,541
Consolidated - 30 June 2009	Carrying amount	Contractual cash flows	6 mths or less
Trade and other payables	246,901	246,901	246,901
Interest bearing liabilities	-	-	-
	246,901	246,901	246,901

##### Fair Value of Financial Assets and Liabilities

The fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the Group is equal to their carrying value.

##### Foreign Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD), but also the USD, the EUR and the GBP. The currencies in which these transactions primarily are denominated are AUD, USD, GBP.

##### Exposure to Currency Risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts

In AUD	30 June 2010				30 June 2009			
	AUD	GBP	EUR	USD	AUD	GBP	EUR	USD
Cash	91,526	2,100	-	86,079	279,383	4,561	-	63,327
Trade Receivables	24,669	-	7,410	51,820	286,691	78	25,851	6,815
Trade Payables	(229,541)	-	-	-	(246,901)	-	-	-
	(113,346)	2,100	7,410	137,899	319,173	4,639	25,581	70,142

As at 30 June 2010, if the US dollar had weakened/strengthened by 10% against the Australian dollar, with all other variables held constant, post tax loss and equity would have been higher/lower by Aus\$15,000 (2009: \$7,800).

The directors consider that the company does not have a significant foreign currency risk exposure.

The following significant exchange rates applied during the year:

AUD	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
GBP	0.55888	0.46073	0.56860	0.49114
USD	0.88219	0.73510	0.85670	0.80538

##### Capital Risk Management

The Company and the Group's objectives when managing capital are to safeguard the Company and the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The management of the Company and the Group's capital is performed by the Board.

Given the level of operations of the Group, the Board has not made use of long term debt financing, but has instead chosen to raise additional capital by issuing shares.

None of the Group's entities are subject to externally imposed capital requirements.



## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 19 COMMITMENTS AND CONTINGENCIES

##### Operating lease commitments - Group as lessee

The Group has entered into an operating lease on office equipment where it is not in the best interest of the Group to purchase these assets.

This lease have an average life of 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

The lease on the Company's premises was renewed in October 2009 for a 2 year period.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 are as follows:

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Within one year	131,454	8,023	-	-
After one year but not more than five years	50,986	-	-	-
More than five years	-	-	-	-
	182,440	8,023	-	-

#### 20 RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Structural Monitoring Systems Plc and the subsidiaries listed in the following table.

	Country of incorporation	% Equity interest		Investment (\$)	
		2010	2009	2010	2009
Structural Monitoring Systems Ltd	Australia	100	100	-	-
Structural Health Monitoring Ltd	United Kingdom	100	100	-	-
Structural Monitoring Systems Inc	United States	100	100	-	-
				-	-

Structural Monitoring Systems Plc is the ultimate parent entity and is incorporated in the United Kingdom.

The UK and US subsidiaries are both dormant. The Australian subsidiary carries on the business of developing the Group's structural health monitoring technology.

Structural Monitoring Systems Ltd (SMS) has at various times paid various expenses of Structural Monitoring Systems Plc (SMS plc) for which SMS plc accepts liability. These expenses were paid from Australia with SMS funds, some payments were made in Great British pounds and others were in Australian dollars.

During the 2004 financial year SMS plc raised capital in the UK and after paying certain fees and expenses, transferred net proceeds in the amount of £952,416.19 to a Great British pounds bank account in the name of SMS ("GBP Account"). This bank account is maintained by SMS for the purpose of paying SMS plc expenses and was established so that control of the funds would be in Australia. The account is in Great British pounds so as to avoid exposure to movements in exchange rates as the funds were raised in the UK and are intended for use in the UK.

Since then SMS plc has raised capital of AUD\$16,478,292 in Australia. The net proceeds of the capital raisings were deposited to a SMS Cash Management Account held by SMS. This bank account is maintained by SMS for the purpose of paying SMS and SMS plc expenses; control of the funds remains in Australia.

As a consequence of the above, there was an amount owing by SMS to SMS plc. This intercompany loan has been reclassified as an investment as at 30 June 2010 based on the assessment of the terms, conditions and circumstances of the loan. There are no set repayment dates and estimated future cashflows cannot be determined for the loan. The intention is to make the loan available indefinitely. Therefore the loan is likely to be the nature of an investment. The investment has had an impairment charge applied to write the balance down to nil due to the uncertainty of recovery.

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 21 EVENTS AFTER THE BALANCE SHEET DATE

On 1 September, the Company also announced the successful completion of its capital raising via the issue of 55,521,857 shares at \$0.009 per share together with 55,521,857 free attaching options to raise approximately \$500,000. Mac Equity Partners Pty Ltd was the lead manager of the placement. The Company further advised that it has received USD\$81,000 from Embraer, the large Brazilian regional aircraft manufacturer, for the CVM™ Periodic instrumentation system following the successful program review meetings held.

On 14 July, the Company announced that it has received an order from Embraer, the large Brazilian aircraft manufacturer, for an On-Board Comparative Vacuum Monitoring (CVM™) system that will be installed on an Embraer aircraft for certification purposes. The total value of orders received for the Embraer certification program for the Company's periodic and on-board monitoring systems during 2010 is approximately US\$300,000. The program will continue to generate revenue for the remainder of 2010, and additional orders are expected in 2011.

The Company advised that the capital reorganisation approved by shareholders at the EGM held on 30 June 2010 was completed on the 14th July 2010.

#### 22 AUDITORS' REMUNERATION

Details of the amounts paid to the auditor of the Company, PKF (UK) LLP, and other auditors for audit and non-audit services provided during the year are set out below.

	CONSOLIDATED		PARENT	
	2010	2009	2010	2009
	\$	\$	\$	\$
Amounts received or due and receivable by PKF (UK) LLP for:				
An audit of the financial report of the entity and the group entity	32,690	31,513	32,690	43,993
Other services in relation to the entity pursuant to legislation	-	12,480	-	-
Amounts received or due and receivable by PKF Perth for:				
An audit of the financial report of the principal trading entity	36,082	41,076	19,289	19,079
other services in relation to the entity and any other entity in the consolidated entity				
- tax compliance	4,862	12,007	4,862	7,442
	73,634	97,076	56,841	70,514

On the 27th July 2010 the subsidiary company Structural Monitoring Systems Ltd changed auditors from PKF Perth to Deloitte Touche Tohmatsu. All amounts disclosed above were paid to PKF Perth for services rendered prior to 30 June 2010 to the Group.

#### 23 DIRECTOR AND EXECUTIVE DISCLOSURES

##### (a) Details of Specified Directors and Specified Executives

###### (i) Specified directors

Sir John Walker	Chairman (non-executive) resigned 27 November 2009
Mr Mark Vellacott	Managing Director
Mr Robin Dean	Chairman
Prof Malcolm Richmond	Non Executive Director
Mr Sam Wright	Non Executive Director (appointed 25 May 2010) and Company Secretary (appointed 1 September 2010)

###### (ii) Specified executives

Mr Colin McDonald	Chief Financial Officer & Company Secretary (terminated 1 September 2010)
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##### (b) Remuneration of Specified Directors and Specified Executives

###### (i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Structural Monitoring Systems Plc is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.



## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 30 June 2010

#### 23 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and senior executives' emoluments to the company's financial and operational performance. Executive directors and employees have the opportunity to qualify for participation in the Employee Share Option Plan.

It is the Remuneration Committee's policy that employment agreements shall be entered into with the Managing Director and all other executives. The current employment agreement is consistent for all executives. The agreement has a 3 month notice period and provides for payment of an amount of three months salary at the end of the three month notice period. Any options held lapse when the service period is completed.

#### (ii) Remuneration of Specified Directors and Specified Executives

Specific Directors	Primary		Post Employment		Other	Equity	Total
	Salary & Fees	Cash Bonus	Super-annuation	Redundancy	Social Security Costs	Options	
	\$	\$	\$	\$	\$	\$	\$
<b>30 June 2010</b>							
Sir. John Walker	11,482	-	-	-	531	-	12,013
Mr. Robin Dean	39,583	-	3,563	-	-	-	43,146
Mr. Mark Vellacott	275,000	-	24,750	-	-	-	299,750
Prof Malcolm Richmond	25,000	-	2,250	-	-	-	27,250
Mr Sam Wright	8,333	-	750	-	-	-	9,083
Total Remuneration: Specified Directors	359,398	-	31,313	-	531	-	391,242
<b>30 June 2010</b>							
Mr. Colin McDonald	172,000	-	15,480	-	-	-	187,480
Total Remuneration: Specified Executives	172,000	-	15,480	-	-	-	187,480
<b>30 June 2009</b>							
Sir. John Walker	8,312	-	-	-	521	-	8,833
Mr. Robin Dean	10,417	-	938	-	-	-	11,355
Mr. Mark Vellacott	234,151	-	19,994	44,990	-	15,779	314,914
Prof Malcolm Richmond	10,417	-	938	-	-	-	11,355
Total Remuneration: Specified Directors	263,297	-	21,870	44,990	521	15,779	346,457
<b>30 June 2009</b>							
Mr. Andrew Chilcott	18,581	-	2,606	34,518	-	1,275	56,980
Mr. Michael Southern	28,569	-	2,571	30,766	-	1,275	63,181
Mr. Colin McDonald	179,828	-	16,185	36,041	-	1,275	233,329
Mr. Alistair Lang	21,072	-	-	16,603	-	1,275	38,950
Total Remuneration: Specified Executives	248,050	-	21,362	117,928	-	5,100	392,440

#### (c) Remuneration options: Granted and vested during the year

No options were granted as equity compensation benefits under the employee share option plan (ESOP) during the financial year.

#### (d) No shares were issued on exercise of remuneration options

## Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 June 2010

23 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(e) Option holdings of specified directors and specified executives

	Balance at beg of period 01-Jul-09	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-10
Specified Directors					
Mr Mark Vellacott	5,250,000	-	-	(250,000)	5,000,000
	5,250,000	-	-	(250,000)	5,000,000

(f) Shareholdings of Specified Directors and Specified Executives

Shares held in Structural Monitoring Systems Plc

	Balance at beg of period 01-Jul-09	Granted as Remuneration	Options Exercised	Net Change Other	Balance at end of period 30-Jun-10
<b>Specified Directors</b>					
Sir John Walker	100,000	-	-	(100,000)	-
Mr Robin Dean	4,807,267	-	-	-	4,807,267
Mr Mark Vellacott	600,000	-	-	-	600,000
Prof Malcolm Richmond	200,000	-	-	-	200,000
Mr Sam Wright	-	-	-	-	-
<b>Specified Executives</b>					
Mr Colin McDonald	52,000	-	-	-	52,000
<b>Total</b>	5,759,267	-	-	(100,000)	5,659,267

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

In the opinion of the directors:

the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001 and other mandatory professional reporting requirements, including:

giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

complying with Accounting Standards, Australian Corporations Regulations 2001 and UK Companies Act 2006; and

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

the audited remuneration disclosures set out in Sections 9 and 10 of the Directors' Report, for the year ended 30 June 2010, comply with section 300A of the Corporations Act 2001.

The Directors have been given the declarations by the Managing Director required by section 295A of the Corporations Act 2001.

On behalf of the Board

M W G Vellacott  
Managing Director  
30 September 2010

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

We have audited the financial statements of Structural Monitoring Systems plc for the year ended 30 June 2010 which comprise the group and parent statements of comprehensive income, the group and parent company balance sheets, the group and parent company cash flow statements, the group and parent company statements of changes in equity, the related notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year end or from time to time during the financial year. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Independence

In conducting our audit, we have complied with the independence requirements of the Australian Corporations Act 2001.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2010 and of the group's and the parent company's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 2(b) to the financial statements concerning the company's and the group's ability to continue as a going concern. The group incurred a net loss of \$821,849 during the year ended 30 June 2010. These conditions, along with the other matters explained in note 2(b) to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's and the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company and the group were unable to continue as a going concern.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### *Opinion on other matters prescribed by the Australian Corporations Act 2001*

### Report on the remuneration report

We have audited the remuneration report included on pages 10 to 11 of the directors' report for the year ended 30 June 2010. The directors of Structural Monitoring Systems plc are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with International Standards on Auditing (UK and Ireland).

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STRUCTURAL MONITORING SYSTEMS PLC

### Auditors' opinion

In our opinion the remuneration report of Structural Monitoring Systems plc for the year ended 30 June 2010 complies with section 300A of the Corporations Act 2001.

### Matters on which we are required to report by exception

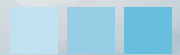
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Patrick Potter (Senior statutory auditor)  
for and on behalf of PKF (UK) LLP, Statutory auditors



Guildford, UK  
30 September 2010



## ASX Additional Information

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current as at 14 September 2010

### (a) Distribution of CDI securities

	CDI Securities	
	Number of holders	Number of shares
1 - 1,000	44	3,986
1,001 - 5,000	90	375,656
5,001 - 10,000	197	1,701,913
10,001 - 100,000	580	25,314,170
100,001 and over	397	398,271,844
	1,308	425,667,569
<b>The number of CDI security holders holding less than a marketable parcel of CDI securities are:</b>	747	13,851,192

### Distribution of options SMNO

	Listed Options	
	Number of holders	Number of shares
1 - 1,000	1	1
1,001 - 5,000	20	84,472
5,001 - 10,000	17	145,578
10,001 - 100,000	80	4,011,208
100,001 and over	77	62,365,932
	195	66,607,191
<b>The number of option holders holding less than a marketable parcel of options are:</b>	78	1,222,224

### Distribution of options SMNOA

	Listed Options	
	Number of holders	Number of shares
1 - 1,000	0	0
1,001 - 5,000	0	0
5,001 - 10,000	0	0
10,001 - 100,000	38	1,900,000
100,001 and over	12	51,379,875
	50	53,279,875
<b>The number of option holders holding less than a marketable parcel of options are:</b>	NIL	

## ASX Additional Information (continued)

### (b) Substantial shareholders

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

Holder	Number of shares
Orbis Holdings Limited	56,349,177

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

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

	Holder	Number of shares	% of CDI Securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LTD	33,359,987	7.84%
2	MAC EQUITY PARTNERS PTY LTD	15,374,427	3.61%
3	J P MORGAN NOMINEES AUSTRALIA	13,221,503	3.11%
4	NATIONAL NOMINEES LIMITED	12,375,009	2.91%
5	NUMBER 7 INVESTMENTS PTY LTD	11,111,111	2.61%
6	LANDMARK CONSTRUCTIONS PTY LTD	10,666,796	2.51%
7	GEBA PTY LTD	8,984,142	2.11%
8	MR ROBERT GREGORY LOOBY	8,043,667	1.89%
9	RBC DEXIA INVESTOR SERVICES AUSTRALIA	7,590,365	1.78%
10	MR PETER VASSILEFF	6,100,000	1.43%
11	CLATWORTHY NOMINEES LTD	6,000,000	1.41%
12	MR PATRICK MICHAEL GLOVAC	5,722,222	1.34%
13	SYRACUSE CAPITAL PTY LTD	5,722,222	1.34%
14	BILL BROOKS PTY LTD	5,555,555	1.31%
15	MR SIMON MARAIS	5,174,999	1.22%
16	OSTLE INTERNATIONAL PTY LTD	5,000,000	1.17%
17	DENSLEY HOLDINGS PTY LTD	4,554,800	1.07%
18	LINDANE PTY LTD	4,270,406	1.00%
19	MR DAVID MICHAEL BROWN	4,000,000	0.94%
20	WINTERSET INVESTMENTS PTY LTD	3,502,000	0.82%
		176,329,211	41.42%



## ASX Additional Information (continued)

### (c) Twenty largest option holders (ASX Code: SMNO)

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

	Holder	Number of shares	% of CDI Securities
1	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	10,564,919	15.86%
2	LANDMARK CONSTRUCTIONS PTY LTD	5,000,000	7.51%
3	HARBOUR NOMINEES PTY LTD	3,533,334	5.30%
4	RBC DEXIA INVESTOR SERVICES AUSTRALIA	3,333,333	5.00%
5	J P MORGAN NOMINEES AUSTRALIA	2,768,414	4.16%
6	YELLOWZONE PTY LTD	2,500,000	3.75%
7	MR SIMON MARAIS	2,500,000	3.75%
8	CLATWORTHY NOMINEES LTD	2,000,157	3.00%
9	MR JONATHAN THEADGOLD	1,886,000	2.83%
10	GEORGE RAYMOND SIMPSON	1,710,840	2.57%
11	DREAMLAND HOLDINGS PTY LTD	1,325,971	1.99%
12	MR ROBERT GREGORY LOOBY	1,074,446	1.61%
13	GEORGE RAYMOND SIMPSON	1,021,001	1.53%
14	MR ALAN RAYMOND REED	1,000,000	1.50%
15	WINTERSET INVESTMENTS PTY LTD	1,000,000	1.50%
16	CAFMAC PTY LTD	1,000,000	1.50%
17	MR KENNETH ROY SMITH	900,000	1.35%
18	KERED NOMINEES PTY LTD	887,565	1.33%
19	BINDING NOMINEES PTY LTD	887,565	1.33%
20	KERED AUSDEN	887,565	1.33%
		45,781,110	68.73%

## ASX Additional Information (continued)

### Twenty largest option holders (ASX Code: SMNOA)

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

	Holder	Number of shares	% of CDI Securities
1	MAC EQUITY PARTNERS PTY LTD	12,048,192	2.83%
2	GEBA PTY LTD	10,364,213	2.43%
3	MR PETER VASSILEFF	6,100,000	1.43%
4	EXIT OUT PTY LTD	6,024,096	1.42%
5	FOLEY PTY LTD	3,500,000	0.82%
6	SILKTREE INVESTMENTS PTY LTD	2,500,000	0.59%
7	AZALEA FAMILY HOLDINGS PTY LTD	2,409,639	0.57%
8	522 INVESTMENTS PTY LTD	2,409,639	0.57%
9	MR ANTHONY MASLIN	2,409,639	0.57%
10	MR BRETT GRAEME WALKER	1,204,819	0.28%
11	SOUTHAM INVESTMENTS 2003 PTY LTD	1,204,819	0.28%
12	MR CHARLES WILLIAM THOMAS	1,204,819	0.28%
13	MISS AMBER SUMMER ATKINSON	50,000	0.01%
14	MISS KATHERINE TESS MERRISON	50,000	0.01%
15	MRS COLLEEN ANN THORNTON	50,000	0.01%
16	LITTLE BREAKAWAY PTY LTD	50,000	0.01%
17	SOBOL CAPITAL PTY LTD	50,000	0.01%
18	MR HEATH JOHN DURRENT RYAN	50,000	0.01%
19	SAINTLY COMPANY PTY LTD	50,000	0.01%
20	MOUNTS BAY INVESTMENTS PTY LTD	50,000	0.01%
		51,779,875	43.19%

#### (d) Voting rights

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

#### (e) Unquoted options

There are 5,000,000 unquoted options with various expiry dates and exercise prices of 20 cents and 25 cents. All these options are held by the Managing Director, Mr Mark Vellacott.



## CORPORATE GOVERNANCE STATEMENT

Structural Monitoring Systems Plc (“Company”) has made it a priority to adopt systems of control and accountability as the basis for the administration of corporate governance. Some of these policies and procedures are summarised in this statement. Commensurate with the spirit of the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (“Principles and Recommendations”), the Company has followed each recommendation where the Board has considered the recommendation to be an appropriate benchmark for its corporate governance practices. Where, after due consideration, the Company’s corporate governance practices depart from a recommendation, the Board has offered full disclosure and reason for the adoption of its own practice, in compliance with the “if not, why not” regime.

Further information about the Company’s corporate governance practices including the relevant information on the Company’s charters, code of conduct and other policies and procedures is set out on the Company’s website at [www.smsystems.com.au](http://www.smsystems.com.au).

Recommendation	ASX P&R (1)	If not, why not (2)
Recommendation 1.1 Functions of the Board and Management		x
Recommendation 1.2 Evaluation of Senior Executives		x
Recommendation 1.3 Reporting on Principle 1		x
Recommendation 2.1 Independent Directors		x
Recommendation 2.2 Independent Chairman		x
Recommendation 2.3 Role of the Chairman and CEO		x
Recommendation 2.4 Establishment of Nomination Committee		x
Recommendation 2.5 Evaluation of Board		x
Recommendation 2.6 Reporting on Principle 2		x
Recommendation 3.1 Directors’ and Key Executives’ Code of Conduct		x
Recommendation 3.2 Company Security Trading Policy		x
Recommendation 3.3 Reporting on Principle 3		x
Recommendation 4.1 Establishment of Audit Committee		x
Recommendation 4.2 Structure of Audit Committee		x
Recommendation 4.3 Audit Committee Charter		x
Recommendation 4.4 Reporting on Principle 4		x
Recommendation 5.1 Policy for Compliance with Continuous Disclosure		x
Recommendation 5.2 Reporting on Principle 5		x
Recommendation 6.1 Communications Strategy		x
Recommendation 6.2 Reporting on Principle 6		x
Recommendation 7.1 Policies on Risk Oversight and Management		x
Recommendation 7.2 Implementation of Risk Management and Internal Control Systems		x
Recommendation 7.3 Attestations by CEO and CFO		
Recommendation 7.4 Reporting on Principle 7		
Recommendation 8.1 Establishment of Remuneration Committee		x
Recommendation 8.2 Executive and Non-Executive Director Remuneration		x
Recommendation 8.3 Reporting on Principle 8		x

(1) Indicates where the Company has followed the Principles and Recommendations

(2) Indicates where the Company has provided “if not, why not” disclosure.

## CORPORATE GOVERNANCE STATEMENT (continued)

### NOMINATION MATTERS

The following list identifies those directors who are members of the Nomination Committee.

Name:

Robin Dean (Chair)

Malcolm Richmond

There were no meetings of the nomination committee.

### AUDIT MATTERS

The Audit Committee held no formal meetings during the Reporting Period. The following list identifies those directors who are members of the Audit Committee.

Name	No of meetings attended
Robin Dean (Chair)	1
Sam Wright	1

Details of each director's qualifications are set out in the Director's Report.

Both current members of the Audit Committee have relevant qualification in financial and accounting experience.

### REMUNERATION MATTERS

Remuneration Policy

Details of remuneration, including the Company's policy on remuneration, are contained in the Remuneration Report which forms part of the Directors' Report and the Notes to the Financial Statements.

Remuneration Committee Function

Name	No of meetings attended
Robin Dean (Chair)	Nil
Malcolm Richmond	Nil

### OTHER

#### ***Skills, Experience, Expertise and term of office of each Director***

A profile of each Director containing their skills, experience and expertise is set out in the Directors' Report. There is no set term of office for any Director.

#### ***Assurances to the Board***

The Board has required management to implement and maintain risk management and internal control systems to manage the Company's material business risks. (A summary of the Company's policy on risk oversight is available on the Company's website, a summary of the Company's risk management of material business risks is provided below.) The board also requires management to report to it confirming that those risks are being managed effectively. Further the Board has received an assurance from management that the Company's management of its material business risks are effective.

Also the Chief Executive Officer and the Chief Financial Officer have provided a declaration in accordance with section 295A of the Corporations Act and have assured the Board that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risk.

#### **Summary of Company's System & Processes on the management of material risks:**

The Company has included a summary of its risk management policy, and its systems and processes for managing material business risks on its website at [www.smsystems.com.au](http://www.smsystems.com.au).



## CORPORATE GOVERNANCE STATEMENT (continued)

### Identification of Independent Directors and the Company's Materiality Thresholds

In considering the independence of directors, the Board refers to its Policy on Assessing the Independence of Directors (available on the Company's website).

The Board has agreed on the following guidelines for assessing the materiality of matters, as set out in the Company's Board Charter (available on the Company's website):

- Balance sheet items are material if they have a value of more than 5% of pro-forma net asset.
- Profit and loss items are material if they will have an impact on the current year operating result of 5% or more.
- Items are also material if they impact on the reputation of the Company, involve a breach of legislation, are outside the ordinary course of business, they could affect the Company's rights to its assets, if accumulated they would trigger the quantitative tests, involve a contingent liability that would have a probable effect of 5% or more on balance sheet or profit and loss items, or they will have an effect on operations which is likely to result in an increase or decrease in net income or dividend distribution of more than 5%.
- Contracts will be considered material if they are outside the ordinary course of business, contain exceptionally onerous provisions in the opinion of the Board, impact on income or distribution in excess of the quantitative tests, there is a likelihood that either party will default, and the default may trigger any of the quantitative or qualitative tests, are essential to the activities of the Company and cannot be replaced, or cannot be replaced without an increase in cost of such a quantum, triggering any of the quantitative tests, contain or trigger change of control provisions, they are between or for the benefit of related parties, or otherwise trigger the quantitative tests.

The directors of the Company are all considered to be independent.

### Statement concerning availability of Independent Professional Advice

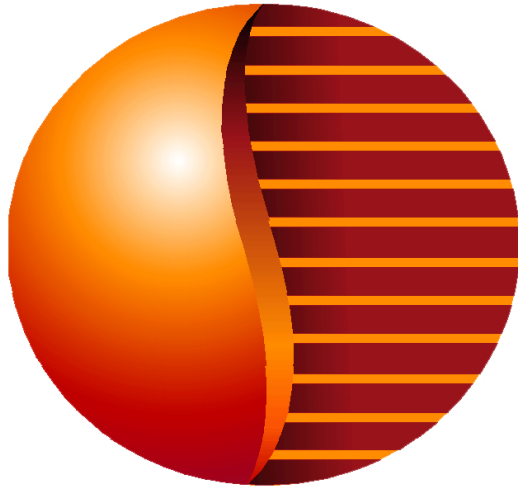
To assist directors with independent judgement, it is the Board's Policy that if a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of their office as a director then, provided the director first obtains approval for incurring such expense from the Chair, the Company will pay the reasonable expenses associated with obtaining such advice.

### Confirmation whether performance Evaluation of the Board and its members have taken place and how conducted

Confirmed. The Board Performance Evaluation Policy is available at [www.smsystems.com.au](http://www.smsystems.com.au) in the Corporate Governance Statement.

### Existence and Terms of any Schemes for Retirement Benefits for Non-Executive Directors

There are no termination or retirement benefits for non-executive directors (other than for superannuation).



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