



13 November 2008

RIGHTS ISSUE

Dear Shareholder

The Company has announced a non-renounceable Rights Issue of one (1) New Share for every one (1) Existing Share at AU\$0.015 per share to raise up to AU\$ 3,810,371, with one (1) free attached Option with an Exercise Price of AU\$0.015 exercisable within a two year period.

The Rights Issue is not underwritten. Shareholders can apply for unsubscribed shares and options over and above their allocation. The Board will reserve the right to place any short-fall of the issue with third-parties.

The primary objective of the Rights Issue is to raise sufficient working capital to protect and maintain the patent protection of the Intellectual Property (IP) generated from the years of development and investment in the Comparative Vacuum Monitoring (CVM™) technology, and also to provide the working capital for the Company to market and meet the demand for the Company's structural monitoring products.

The Company has received increasing orders for CVM™ instrumentation and sensors, and has continued to process these orders from stock and by engaging production staff on a contract basis. However, the current stock and working capital will only last a short time and additional working capital is urgently required to enable the Company to fulfil orders and continue to operate. In addition a number of customers have indicated that they are withholding orders until the Company has sufficient working capital to continue.

If sufficient funds are raised it is the intent that the Company will continue to operate on the greatly reduced cost structure that has resulted from the restructure of the operations. Research activities have been suspended, and focus is now on production, sales and product support to meet the projected increase in customer demand for CVM™ products.

The Board reserves the right to refund monies raised from the Rights Issue if it is deemed that they are insufficient to enable the Company to adequately protect its Intellectual Property, and provide the required level of working capital to reasonably see the Company through to a cash positive position.

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ARBN 106 307 322

A public limited liability company incorporated under the laws of England and Wales.

The success of this Rights Issue is therefore critical to the future of the Company as the Board will not be able to allow the Company to continue in the absence of sufficient working capital.

The Rights Issue is now only able to proceed as Shareholders at the Extraordinary General Meeting (EGM) on 27 October 2008 passed the resolutions to enable a reconstruction of the capital of the Company by reducing the Nominal Value of the Company's shares from UK £0.05 or around AU\$0.11 per share, to UK£0.005 (approximately AU\$0.01) per share. This enables new securities to be issued with the Nominal Value of UK£0.005 each.

"Nominal Value" is a concept that was removed from Australian Corporations Law many years ago but still applies under the UK Companies Act 2006. As the Company is incorporated in the UK Nominal Value applies. The affect of this has been that to date the Company has been prohibited from issuing shares for less than the "Nominal Value" of UK £0.05.

As the Company's shares have been trading below the previous Nominal Value of UK£0.05 for sometime, this has been a serious impediment to the Company raising capital in the current market conditions. This has led to the situation where the Company does not have sufficient working capital to continue its operations past the end of 2008. This situation has eventuated after years of development and incurring the considerable expense of meeting the strict regulatory requirements for accrediting the Company's CVM™ technology for use on operating aircraft.

If sufficient funds are raised from the Rights Issue then increasing sales revenue and the reduced cost base should see the business turn cash-flow positive during 2009.

The timing of the Rights Issues had to be revised to the schedule set out below as the ASX required the Company to allow sufficient time for the Share Register to be reconstructed to reflect the changes that Shareholders approved on 27 October 2008.

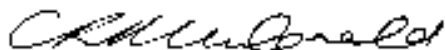
The Board commends the Rights Issue to Shareholders.

RIGHTS ISSUE TIMETABLE

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| Offer document lodged with ASX | 12 November 2008 |
| Letter sent to shareholders | 13 November 2008 |
| "ex" date | 14 November 2008 |
| Record date | 20 November 2008 |
| Offer document sent to eligible shareholders | 21 November 2008 |
| Acceptances close | 5 December 2008 |
| Securities quoted on a deferred settlement basis | 8 December 2008 |
| Notify ASX of undersubscriptions | 10 December 2008 |
| Despatch date | 15 December 2008 |

The Offer Document is available on the ASX website and the Company website at www.smsystems.com.au.

Yours faithfully



Colin McDonald

Company Secretary