

**STRUCTURAL
MONITORING
SYSTEMS**
plc

10 August 2004

Australian Stock Exchange
Level 8
Exchange Plaza
2 The Esplanade
Perth WA 6000

Fascimile: 08 9221 2020

Attention: Christine Panetta

Dear Christine,

Please find following the terms and conditions of the options issued and allotted to KTM Capital:

Rights Attaching to KTM Options

The terms and conditions of the Options are as follows:

Register

The Company will maintain a register of holders of Options in accordance with Section 168(1)(b) of the Corporations Act.

Transfer/Transmission

An Option may be transferred or transmitted in any manner approved by the ASX.

Exercise

An option may be exercised by delivery to the Company of a duly completed notice of exercise of Options, signed by the registered holder of the Option, together with payment to the Company of \$0.25 per option being exercised and the relevant Option certificate.

An Option may be exercised on any business day from the date of grant to 31 December 2009, (inclusive) but not after that date.

A notice of exercise of Options is only effective when the Company has received the full amount of the exercise price in cash or cleared funds.

Shares must be issued not more than 10 business days after the receipt of a properly executed exercise notice and payment of the requisite application monies.

Dividend Entitlement

Options do not carry any dividend entitlement until they are exercised. Shares issued on exercise of Options rank equally with other issued Shares of the Company in all respects. The Shares are entitled to dividends paid on and from that date.

Australian Office

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ARBN 106 307 322

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

Participating rights

An Option holder may only participate in new issues of securities to holders of Shares if the Option has been exercised and Shares allotted in respect of the Option 10 business days prior to and inclusive of the record date for determining entitlements to the issue. The Company must give notice to Option holders of any new issue before the record date for determining entitlements to the issue in accordance with the Listing Rules.

If between the date of issue and the date of exercise of an Option the Company makes 1 or more rights issues (being a pro rata issue of Shares in the capital of the Company that is not a bonus issue), the exercise price of Options on issue will be reduced in respect of each rights issue according to the following formula:

$$NE = OE - \frac{E(P - (S + D))}{(N + 1)}$$

where:

NE is the new exercise price of the Option;

OE is the old exercise price of the Option;

E is the number of underlying Shares into which one Option is exercisable;

P is the average closing sale price per Share (weighted by reference to volume) during the 5 trading days ending on the day before the ex rights date or ex entitlements date (excluding special crossings and overnight sales);

S is the subscription price for a Share under the rights issue;

D is the dividend due but not yet paid on each Share at the relevant time; and

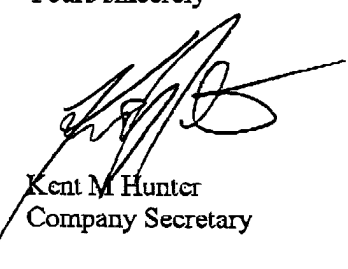
N is the number of Shares that must be held to entitle holders to receive a new Share in the rights issue.

If there is a bonus issue to the holders of Shares, the number of Shares over which the Option is exercisable will be increased by the number of Shares which the holder of the Option would have received if the Option had been exercised before the record date for the bonus issue.

Reconstructions and Alteration of Capital

Any adjustment to the number of outstanding Options and the exercise price under a re-organisation of the Company's share capital must be made in accordance with the Listing Rules.

Yours sincerely



Kent M Hunter
Company Secretary