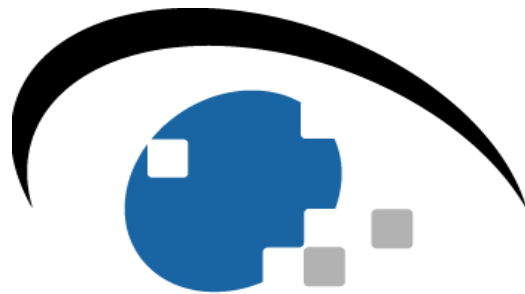


Half-year Financial Report 31 December 2008

# visionary technology





**seeingmachines**

ABN 34 093 877 331

**Seeing Machines Limited**

**Half-year financial report**

**For the half-year ended  
31 December 2008**



Seeing Machines Limited – Half-Year Report  
ABN 34 093 877 331

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Seeing Machines Limited – Half-Year Report  
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## Directors' Report

Your directors submit their report for the half-year ended 31 December 2008.

### DIRECTORS

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

James Fulton Muir, AO	Non Executive Chairman
Nicholas Cerneaz	Executive Director
David Gaul	Non Executive Director
Robert Sale	Non Executive Director
Trent Victor	Non Executive Director
Alexander Zelinsky	Non Executive Director
William Mobbs	Non Executive Director

### Review and results of Operations

#### Review of 1st half of our Ninth Year of Operations

The Company realised a profit in the six months to 31 December. This was on the back of revenue from three separate product lines faceLAB®, DSS and faceAPI.

#### Operational highlights for the half-year include:

- release of faceLAB® 4.6 in August 2008;
- release of the first commercial version of faceAPI in August 2008;
- the release of analytical tools for the Company's key driver monitoring software DSS;
- a number of successful trials of the DSS have been conducted in large truck fleets in North America;
- a successful showcasing of the TrueField Analyzer at the American Academy of Ophthalmology Meeting (AAO) in Atlanta in November 2008;
- the relocation of the Company from the Australian National University campus to more suitable premises in Braddon, ACT Australia.

#### Financial Results

Revenue from product sales for the half-year to 31 December 2008 was A\$2,815,965, A\$1,652,679 higher than the half-year ended 31 December 2007. This increase in revenue was due to several products (faceLAB®, DSS and faceAPI) contributing to revenue whereas in 2007 revenue was predominantly from faceLAB®. Other income for the half-year to 31 December 2008 was A\$402,011 up A\$253,116, on the corresponding period in 2007 due largely to foreign exchange fluctuations.

Net expenditure for the half-year was A\$2,878,936 up from A\$1,815,861 on the prior half-year. This was due to higher levels of activity, including the establishment of operations in the United States and higher depreciation and amortisation costs.

The Net Profit for the half-year to 31 December 2008 was A\$358,099 compared to a Net Loss of A\$430,155 for the half-year to 31 December 2007.

At 31 December 2008 cash on hand was A\$1,656,881 compared to A\$2,771,247 at 30 June 2008.



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## Directors' Report (continued)

### Operational Highlights

#### Driver State Sensor

During the half-year DSS generated revenue of A\$1.8 million overtaking faceLAB® as the Company's top revenue earner.

In March 2008 the Company signed the largest deal in its history with Dycom Industries for the DSS. During the first half of financial year 2009 the project with Dycom progressed and a number of other trials in private fleets in North America were commenced. A number of trials in mining operations were also progressed.

To aid with the analysis of the data collected by the DSS the Company produced and released the first version of the DSS Analyzer software enabling customers to extract fatigue and distraction events from the large volumes of driving data that the DSS collects. The Analyzer also generates statistical information on the occurrence of events and their geographic distribution.

The Company also continued to progress OEM opportunities for the DSS technology with German Tier 1 automotive supplier Hella KGaA Hueck & Co.

#### faceLAB®

faceLAB® 4.6 was released in August 2008. This version included link precision functionality which allows multiple versions of faceLAB to be linked together in precision mode.

The Company has completed the development of faceLAB® version 5 which was released in February 2009. Key features of faceLAB® 5 are:

- Multiple screen calibration - gaze intersections for each screen can be calibrated independently;
- Screen calibration is possible from faceLAB, WorldView and any third-party application using the Remoting Software Developer's Kit (SDK);
- Full remote control over a network connection with a private SDK to provide selected third-party developers access to these controls;
- Lip and eyebrow tracking;
- Support for Windows Vista.

Version 5 will also co-incide with the release of a new rich visual analysis tool developed by Eye Tracking Inc which will add significant impetus to the faceLAB® product offering in the expanding on-screen analysis market.

#### faceAPI

The first commercial version of the faceAPI was released in August 2008 and has attracted considerable interest since that time from developers across a broad cross section of industries. A cut-down version of the faceAPI is available for free download for non commercial use and full development licenses are also available. The Company's strategy is to derive revenues from this product in two ways:

1. through sales of the developer license; and
2. through production license sales.

Production licenses need to be acquired for applications using the faceAPI to be distributed to end users.

#### TrueField Analyzer®

The Company has largely completed the development work required to bring the Truefield Analyzer® (TFA) to market. The TFA was again shown at the American Academy of Ophthalmology Annual Meeting in Atlanta in November 2008 and also at the Veterans' of Foreign Wars Meeting in Orlando Florida in August 2008.

Our partners at the Australian National University Research School of Biological Sciences are completing their research program and the Company expects the TFA to be on the market during the 2009 calendar year.

The TFA will be on show in 2009 at the following events:

- Association for Research in Vision and Ophthalmology Annual Meeting in Ft Lauderdale Florida May 3-7 2009



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## Directors' Report (continued)

- World Glaucoma Congress in Boston Massachusetts from July 8-11 2009
- American Academy of Ophthalmology Annual Meeting in San Francisco California from October 24-27 2009.

With continued efforts the Company expects to bring TFA to market in mid 2009. Although we are pleased with the performance of the period under review the Company remains cautious going forward given the recent slowdown in revenue growth in the DSS business due to the global economic downturn and expects that in the second half of the financial year revenue growth may be harder to achieve. With this in mind we announced on the 18th February 2009 the restructure of Seeing Machines in order to put the Company on as sound a footing as possible to minimise the effects of this downturn.

### Auditor's Independence Declaration

We have obtained an independence declaration from our auditors, Ernst & Young. The signed declaration is included after this report.

Signed at Canberra this 11th day of March 2009 in accordance with a resolution of the directors made pursuant to section 306(3) of the *Corporations Act 2001*.

A handwritten signature in black ink, appearing to read "F. Muir".

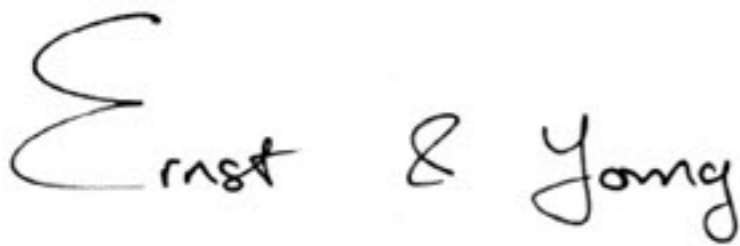
Fulton Muir  
Chairman

A handwritten signature in black ink, appearing to read "Nick Cerneaz".

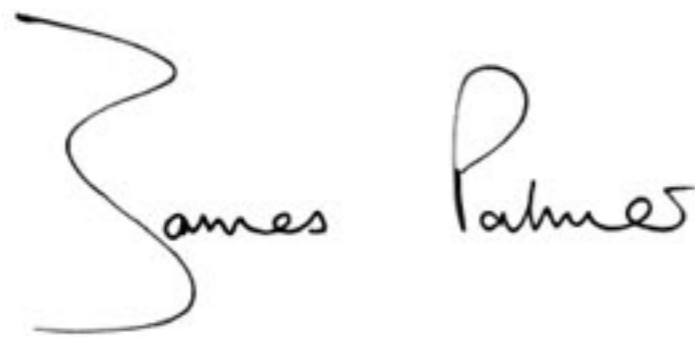
Nick Cerneaz  
Chief Executive Officer  
and Director

## Auditor's Independence Declaration to the Directors of Seeing Machines Limited

In relation to our review of the financial report of Seeing Machine Limited for the half-year ended 31 December 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'James Palmer'.

James Palmer  
Partner  
11 March 2009



Seeing Machines Limited – Half-Year Report  
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## Balance Sheet

As at 31 December 2008

	Note	Consolidated		
		31 December 2008 A\$	30 June 2008 A\$	31 December 2007 A\$
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents		1,656,881	2,771,247	3,235,364
Trade and other receivables		1,186,297	866,949	706,252
Inventories		223,965	288,243	213,567
Derivative financial instruments		-	12,297	-
Other		85,859	77,611	14,690
<b>Total Current Assets</b>		<b>3,153,002</b>	<b>4,016,347</b>	<b>4,169,873</b>
<b>Non-current Assets</b>				
Property, plant and equipment		360,807	259,906	231,476
Intangible assets		410,352	357,307	335,172
Capitalised development costs		6,756,955	5,849,250	4,749,985
<b>Total Non-current Assets</b>		<b>7,528,114</b>	<b>6,466,463</b>	<b>5,316,633</b>
<b>TOTAL ASSETS</b>		<b>10,681,116</b>	<b>10,482,810</b>	<b>9,486,506</b>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Trade and other payables		980,313	1,053,638	900,699
<b>Total Current Liabilities</b>		<b>980,313</b>	<b>1,053,638</b>	<b>900,699</b>
<b>Non-Current Liabilities</b>				
Government grants		2,182,624	2,221,018	2,147,137
Provisions		84,678	117,717	109,993
<b>Total Non-Current Liabilities</b>		<b>2,267,302</b>	<b>2,338,735</b>	<b>2,257,130</b>
<b>TOTAL LIABILITIES</b>		<b>3,247,615</b>	<b>3,392,373</b>	<b>3,157,829</b>
<b>NET ASSETS</b>		<b>7,433,501</b>	<b>7,090,437</b>	<b>6,328,677</b>
<b>EQUITY</b>				
Contributed equity		9,646,776	9,646,776	9,648,634
Accumulated losses		(2,920,382)	(3,278,481)	(4,035,380)
Other reserves		707,107	722,142	715,423
<b>TOTAL EQUITY</b>		<b>7,433,501</b>	<b>7,090,437</b>	<b>6,328,677</b>

The above statement of financial position should be read in conjunction with the accompanying notes.



Seeing Machines Limited – Half-Year Report  
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## Income statement

For the half-year ended 31 December 2008

	Note	Consolidated Half-year ended	
		31 December 2008 A\$	31 December 2007 A\$
<b>Continuing operations</b>			
Sale of goods and license fees		2,815,965	1,163,286
Contract Income		19,642	73,525
Other Revenue	5	402,011	148,895
<b>Revenue</b>		<b>3,237,618</b>	<b>1,385,706</b>
Cost of sales		(784,262)	(392,010)
Employee benefits expenses	6	(1,078,271)	(783,352)
Depreciation and amortisation expense	6	(82,490)	(64,417)
Other expenses	6	(933,913)	(576,082)
<b>Profit (Loss) before income tax</b>		<b>358,682</b>	<b>(430,155)</b>
<b>Income tax expense</b>		<b>(583)</b>	<b>-</b>
<b>Net Profit (Loss) for the period</b>		<b>358,099</b>	<b>(430,155)</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company:</b>			
Basic earnings per share		0.115	(0.156)
Diluted earnings per share		0.115	(0.144)

The above income statement should be read in conjunction with the accompanying notes.



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## Statement of changes in equity

For the half-year ended 31 December 2008

	Consolidated Accumulated Losses reserve A\$	Consolidated Foreign Currency Translation A\$	Consolidated Employee Equity benefits reserve A\$	Consolidated Cash flow hedge A\$	Total Retained Losses and Reserves A\$
Note	A\$	A\$	A\$	A\$	A\$
<b>At 1 July 2007</b>	(3,605,225)	-	679,722	-	(2,925,503)
Loss for the half-year	(430,155)	-	-	-	(430,155)
<b>Total Income and Expenditure for the half-year</b>	(430,155)	-	-	-	(430,155)
Share based payment	-	-	35,701	-	35,701
<b>At 31 December 2007</b>	(4,035,380)	-	715,423	-	(3,319,957)
<b>At 1 July 2008</b>	(3,278,481)	-	709,845	12,297	(2,556,339)
Exchange differences arising in translation of foreign operations	-	(21,075)	-	-	(21,075)
Transfer to profit and loss from equity on cash flow hedges	-	-	-	(12,297)	(12,297)
<b>Income and Expenditure for the half-year recognised directly in equity</b>	-	(21,075)	-	(12,297)	(33,372)
Profit for the half-year	358,099	-	-	-	358,099
<b>Total Income and Expenditure for the half-year</b>	358,099	-	-	-	358,099
Share based payment	-	-	18,337	-	18,337
<b>At 31 December 2008</b>	(2,920,382)	(21,075)	728,182	-	(2,213,275)

The above statement of recognised income and expense should be read in conjunction with the accompanying notes.



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## Cash flow statement

For the half-year ended 31 December 2008

	Note	Consolidated Half-year ended	
		31 December 2008 A\$	31 December 2007 A\$
<b>Cash flows from operating activities</b>			
Receipts from customers		2,854,633	926,432
Grants received		-	631,513
Payments to suppliers and employees		(2,559,400)	(1,688,542)
Interest received		80,769	39,204
Income Tax		(583)	-
<b>Net cash flows from/(used in) operating activities</b>		<b>375,419</b>	<b>(91,393)</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of plant and equipment		454	1,241
Purchase of plant and equipment		(173,420)	(36,566)
Purchase of intangibles		(69,902)	(15,498)
Costs incurred on research and development		(1,225,842)	(1,092,550)
<b>Net cash flows from/(used in) investing activities</b>		<b>(1,468,710)</b>	<b>(1,143,373)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	3,199,282
Transaction costs on issue of shares		-	(104,580)
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>3,094,702</b>
Net (decrease)/increase in cash and cash equivalents		(1,093,291)	1,859,936
Net foreign exchange differences		(21,075)	-
Cash and cash equivalents at the beginning of the period		2,771,247	1,375,428
Cash and cash equivalents at end of period		1,656,881	3,235,364

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.



Seeing Machines Limited – Half-Year Report  
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## Notes to the Financial Statements

For the half-year ended 31 December 2008

### 1. Corporate Information

The financial report of Seeing Machines Limited (the Company) for the half-year ended 31 December 2008 was authorised for issue in accordance with a resolution of the directors on 11<sup>th</sup> March 2009.

Seeing Machines Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly traded on the AIM of the London Stock Exchange.

The nature of the operations and principal activities of the Company have not changed since the last annual report for the financial year ended 30 June, 2008.

### 2. Summary of significant accounting policies

#### Basis of preparation

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, and AASB 134 *Interim Financial Reporting*. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and considered together with any public announcements made by Seeing Machines Limited during the half-year ended 31 December 2008.

The condensed consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value. Cost is based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 30 June 2008.

### 3. Segment information

The Group operates in one business segment, being research, development and production of computer vision technology in Australia. The company has a number of products, developed from a common core technology. The products are marketed internationally. All development takes place in Canberra, Australia, being the only material geographic location the company operates from.

### 4. Changes in accounting estimates

The nature and amounts of accounting estimates adopted in the preparation of the half-year financial report are consistent with those in the company's 2008 annual financial report for the financial year ended 30 June 2008.



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## Notes to the Financial Statements (continued)

### 5. Other revenue

	Consolidated Half-year ended	
	31 December 2008 A\$	31 December 2007 A\$
Government grants (market development)	-	70,000
Deferred grant income	38,395	24,523
Interest earned	63,880	53,131
Net gain on disposal of property, plant and equipment	-	1,241
Net gain on foreign exchange	299,736	-
	<b>402,011</b>	<b>148,895</b>

### 6. Expenses

	Consolidated Half-year ended	
	31 December 2008 A\$	31 December 2007 A\$
<b>(a) Employee benefits expense</b>		
Wages and salaries	2,024,157	1,533,654
Share-based payment expense	18,337	35,701
Employee benefits capitalised	(964,223)	(786,003)
	<b>1,078,271</b>	<b>783,352</b>
<b>(b) Depreciation and amortization expense</b>		
Depreciation	62,878	50,043
Amortisation of Patents, Trademarks and Licences	19,612	14,374
	<b>82,490</b>	<b>64,417</b>
<b>(c) Other expenses</b>		
Net loss on foreign exchange	-	7,609
Audit fees	45,087	28,191
Corporation fees	103,758	103,860
Other operating expenses	850,036	523,063
Loss on disposal of property, plant and equipment	9,179	-
Development costs capitalised	(74,147)	(86,641)
	<b>933,913</b>	<b>576,082</b>



## Notes to the Financial Statements (continued)

### 7. Dividends paid and proposed

No dividends or distributions have been made to members during the half-year reporting period and no dividends or distributions have been recommended or declared by the directors in respect of the half-year reporting period.

### 8. Issuances, repurchases and repayment of equity securities

During the half-year reporting period Seeing Machines Limited issued no ordinary shares. There was no movement in the ordinary share capital of the company during the half-year reporting period. In the six month period to 31 December 2007, Seeing Machines Limited issued 56,000,000 shares raising \$3,092,844.

During the half-year reporting period, Seeing Machines Limited issued no share options (2007: Nil) over ordinary shares under its Employee Share option Scheme.

### 9. Commitments

#### (i) Leasing commitments

##### *Operating lease commitments – Group as lessee*

The Group has entered into a commercial lease on property. This lease has a period of five years with a renewal option of one year.

Future minimum rental payments under non-cancellable operating leases as at 31 December are as follows:

	Consolidated	
	2008	2007
	A\$	A\$
Within one year	282,147	741
After one year but not more than five years	1,076,400	-
Balance 31 December	1,358,547	741

##### *Finance leases and hire purchase commitments – Group as lessee*

The Group has no finance leases or hire purchase commitments for items of property, plant and equipment.

### 10. Contingencies

#### *Unfulfilled conditions relating to government grants*

The Group has unfulfilled conditions attaching to government grants. There has been no change to these conditions in the half-year reporting period.

### 11. Events after balance sheet date

The Group's growth in sales of the driving monitoring product (DSS) has been slower than anticipated by the Board. The Group had realistic expectations of concluding at least one large DSS contract during this financial year. However, due to delays there is now growing uncertainty of this occurring and consequently revenues for the remainder of the financial year remain difficult to predict.

The Board of Seeing Machines Limited has restructured the Group's operations with the aim of re-focussing resources on the cash generative areas of the business and conserving cash. The restructuring has:

- reduced overall staff head-count by 16, made up of full-time and part-time employees and contractors;
- lead to re-organisation of the business with the aim of concentrating the Group's resources on areas of operation believed to be more profitable than others;
- reduced other costs including Board and executive salaries.



Seeing Machines Limited – Half-Year Report  
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**Directors' Declaration**

In accordance with a resolution of the directors of Seeing Machines Limited, I state that:

In the opinion of the directors:

- (a)** The financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
- (i)** Giving a true and fair view of the financial position as at 31 December 2008 and the performance for the half-year ended on that date of the consolidated entity
  - (ii)** Complying with Accounting Standard AASB134 *Interim Financial Reporting* and *Corporations Regulations 2001*; and
- (b)** There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

On behalf of the Board

Director

Canberra, 11<sup>th</sup> March 2009

To the members of Seeing Machines Limited

### **Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Seeing Machines Limited, which comprises the condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the half-year end.

### **Directors' Responsibility for the Half-Year Financial Report**

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Seeing Machines Limited and the entity it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

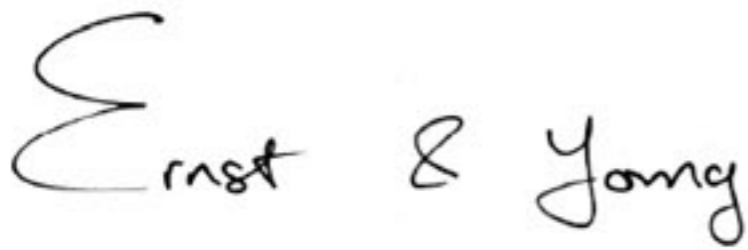
### **Independence**

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.


### Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Seeing Machines Limited is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



James Palmer  
Partner  
Canberra  
11 March 2009