

## **Appendix 4D**

# Interim Financial Report

31 December 2009

ABN 49 009 558 865

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## SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities DIRECTORS' REPORT

The directors of SMS Management & Technology Limited ("the Company") present their report, together with the consolidated financial report of the consolidated entity ("the Group") for the six months ended 31 December 2009 and the auditor's review report thereon.

### PRINCIPAL ACTIVITIES

SMS operates primarily under two brands.

Under the SMS brand, the Group offers a range of value added management and technology related business services including:

- Business Performance Improvement
- Operational Learning and Change
- Program and Project Services
- Application Development
- Systems Integration
- Information and Data Management
- Systems Engineering

Under the M&T Resources brand the Group offers:

- Recruitment and Contract Labour

There were no significant changes in the nature of the activities of the Group during the six months.

### DIRECTORS

The directors of the Company at any time during or since the end of the six months are:

<b>Name</b>	<b>Period of Directorship</b>
<b>Non-Executive</b>	
Laurence Cox	Director since 9 May 2001 - Chairman
Bruce Thompson	Director since 18 October 2000
Kerry Smith	Director since 20 December 2004
Nicole Birrell	Director since 20 December 2004
<b>Executive</b>	
Thomas Stianos	Director since 25 March 2002 – Chief Executive Officer

### OPERATIONS REVIEW

SMS delivered net profit after tax of \$13.3 million, up 9.3% on the previous corresponding period with total revenues of \$117.1 million, down 3.1% on the previous corresponding period. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to \$17.7 million, a 7.6% improvement over the December 2008 figure of \$16.4 million.

Further commentaries can be found in the Investor Presentation accompanying this report.

**Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001**

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the six months ended 31 December 2009.

**Rounding off**

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the directors.



Laurence G Cox  
Director



Thomas Stianos  
Director

Signed at Melbourne on this 10<sup>th</sup> day of February 2010



**Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

To: the directors of of SMS Management & Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink, appearing to read 'Klaus'.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster'.

Gordon Sangster  
*Partner*

Melbourne

10 February 2010

## Appendix 4D

### Six months financial report For the six months ended 31 December 2009 (Previous corresponding period 31 December 2008)

#### RESULTS FOR ANNOUNCEMENT TO THE MARKET

<b>Results</b>	<b>Change from previous corresponding period</b>		<b>Dec 2009 \$'000</b>
Total revenue	Down	3.1% to	117,095
Profit after tax attributable to members	Up	9.3% to	13,277

<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Interim Dividend	12.5 cents	100%
Previous corresponding period	10 cents	100%

Record date for determining entitlements to the dividend: 25<sup>th</sup> February 2010

<b>Net tangible asset backing per ordinary security</b>	<b>Current period</b>	<b>Previous corresponding period</b>
Net tangible asset backing per ordinary security	69 cents	63 cents

#### **Controlled entities**

AIPEX Pty Ltd was acquired on 12 October 2009

SMS Management & Technology Sdn Bhd (Malaysia) was deregistered in July 2009

**SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities****CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**For the six months ended 31 December 2009**

	<b>31 Dec 2009 \$'000</b>	<b>31 Dec 2008 \$'000</b>
<b>Continuing operations</b>		
Revenue from rendering of services	116,959	120,824
Other income	136	12
<b>Total revenue</b>	<b>117,095</b>	<b>120,836</b>
Employee benefits expenses	(89,802)	(93,140)
Other project expenses	(3,418)	(3,513)
Depreciation expenses	(179)	(259)
Administrative expenses	(2,083)	(2,079)
Occupancy expenses	(1,843)	(1,952)
Due diligence costs	(22)	-
Other expenses	(2,250)	(3,724)
<b>Results from operating activities</b>	<b>17,498</b>	<b>16,169</b>
Financial income	604	650
Financial expenses	(233)	(8)
Net financing income	371	642
<b>Profit before income tax</b>	<b>17,869</b>	<b>16,811</b>
Income tax expense	(4,592)	(4,669)
<b>Profit for the year attributable to equity holders of the parent entity</b>	<b>13,277</b>	<b>12,142</b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>		
Basic earnings per share	20.0 cents	18.3 cents
Diluted earnings per share	19.4 cents	17.8 cents

*The consolidated interim statement of comprehensive income is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 11 to 14.*

**SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities****CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION****As at 31 December 2009**

	<b>31 Dec 2009 \$'000</b>	<b>30 Jun 2009 \$'000</b>
<b>Current assets</b>		
Cash and cash equivalents	28,646	26,463
Trade and other receivables	40,295	45,524
Other	1,713	1,206
<b>Total current assets</b>	<b>70,654</b>	<b>73,193</b>
<b>Non-current assets</b>		
Plant and equipment	1,581	1,361
Intangible assets	38,403	32,625
<b>Total non-current assets</b>	<b>39,984</b>	<b>33,986</b>
<b>Total assets</b>	<b>110,638</b>	<b>107,179</b>
<b>Current liabilities</b>		
Trade and other payables	9,050	12,293
Current tax payable	3,625	3,556
Employee benefits	7,182	6,584
Other	936	2,441
<b>Total current liabilities</b>	<b>20,793</b>	<b>24,874</b>
<b>Non-current liabilities</b>		
Employee benefits	686	243
Deferred tax liability	1,575	1,886
Other	2,923	617
<b>Total non-current liabilities</b>	<b>5,184</b>	<b>2,746</b>
<b>Total liabilities</b>	<b>25,977</b>	<b>27,620</b>
<b>Net assets</b>	<b>84,661</b>	<b>79,559</b>
<b>Equity</b>		
Issued capital	57,418	56,449
Reserves	4,018	3,188
Retained earnings	23,225	19,922
<b>Total equity</b>	<b>84,661</b>	<b>79,559</b>

*The consolidated interim statement of financial position is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 11 to 14.*

**SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities****CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS**  
**For the six months ended 31 December 2009**

	<b>31 Dec 2009 \$'000</b>	<b>31 Dec 2008 \$'000</b>
<b>Cash flows from operating activities</b>		
Receipts from customers	131,991	149,150
Payments to suppliers and employees	(112,098)	(131,433)
Cash generated from operations	19,893	17,717
Interest received	600	650
Income taxes paid	(4,782)	(3,127)
Borrowing costs paid	(233)	(8)
Other	136	12
<b>Net cash inflow from operating activities</b>	<b>15,614</b>	<b>15,244</b>
<b>Cash flows from investing activities</b>		
Acquisition of plant and equipment	(200)	(168)
Proceeds from sale of plant and equipment	-	180
Due diligence costs	(22)	-
Payments for businesses acquired, net of cash acquired	(3,235)	(1,723)
<b>Net cash outflow from investing activities</b>	<b>(3,457)</b>	<b>(1,711)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to shareholders	(9,974)	(9,964)
<b>Net cash outflow from financing activities</b>	<b>(9,974)</b>	<b>(9,964)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,183</b>	<b>3,569</b>
Cash and cash equivalents at 1 July	26,463	16,492
<b>Cash and cash equivalents at 31 December</b>	<b>28,646</b>	<b>20,061</b>

*The consolidated interim statement of cash flows is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 11 to 14.*

**SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities**

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended 31 December 2009**

**Consolidated**

	Issued capital	Foreign currency translation reserve	Equity compensation reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2008	56,704	68	2,116	12,146	71,034
<b>Total comprehensive income for the period</b>					
Profit or loss	-	26	-	12,142	12,168
<b>Transactions with owners, recorded directly in equity</b>					
Equity settled share based payment transactions	-	-	626	-	626
Issue of ordinary shares in acquisition	-	-	-	-	-
Dividends to shareholders	-	-	-	(9,964)	(9,964)
Balance at 31 December 2008	<u>56,704</u>	<u>94</u>	<u>2,742</u>	<u>14,324</u>	<u>73,864</u>
Balance at 1 July 2009	56,449	82	3,106	19,922	79,559
<b>Total comprehensive income for the period</b>					
Profit or loss	-	(82)	-	13,277	13,195
<b>Transactions with owners, recorded directly in equity</b>					
Equity settled share based payment transactions	-	-	912	-	912
Issue of ordinary shares in acquisition	969	-	-	-	969
Dividends to shareholders	-	-	-	(9,974)	(9,974)
Balance at 31 December 2009	<u>57,418</u>	<u>-</u>	<u>4,018</u>	<u>23,225</u>	<u>84,661</u>

The amounts recognised directly in equity are disclosed net of tax.

*The consolidated interim statement of changes in equity is to be read in conjunction with the notes to the consolidated interim financial statements set out on pages 11 to 14.*

**Note 1. Reporting entity**

SMS Management & Technology Limited (“the Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiaries together referred to as “the Group”.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2009 is available upon request from the Company’s registered office at Level 41, 140 William St, VIC 3000, or at [www.smsmt.com](http://www.smsmt.com).

**Note 2. Statement of compliance**

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting*.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2009.

This consolidated interim financial report was approved by the board of directors on the 9<sup>th</sup> February 2010.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Note 3. Significant accounting policies**

(a) Change in accounting policy

(i) Accounting for business combinations

The Group has adopted AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* for business combinations occurring in the financial year. All business combinations occurring on or after 1 July 2009 are accounted for by applying the acquisition method. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

The Group has applied the acquisition method for the business combination that occurred during the interim period ended 31 December 2009 as disclosed in Note 7. The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interest issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Transaction costs that the Group incurs in connection with a business combination, such as finder’s fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

**Note 3. Significant accounting policies (continued)**

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

(ii) Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (“CEO”), who is the Group’s chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosure is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate expenses and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(iii) Presentation of financial statements

The Group applies AASB 101 Presentation of Financial Statements, effective from 1 July 2009. As a result the Group presents in the consolidated interim statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated interim statement of comprehensive income. This presentation has been applied in these consolidated interim financial statements as of and for the six months ended 31 December 2009.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

**Note 4. Estimates**

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that has the most significant effect on the amount recognised in the financial statements is disclosed in Note 7.

**SMS MANAGEMENT & TECHNOLOGY LIMITED and its controlled entities**  
**CONSOLIDATED NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
For the six months ended 31 December 2009

**Note 4. Estimates (continued)**

In preparing this consolidated interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial report as at and for the year ended 30 June 2009.

**Note 5. Financial Risk Management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated financial report as at and for the year ended 30 June 2009.

**Note 6. Operating segments**

The Group has 2 reportable segments, as described below. The reportable segments offer different services and are managed separately because they require different resources and marketing strategies. For each of the operating segments, the CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- SMS – management consulting and technology services
- M&T Resources – contract labour and permanent recruitment

**For the six months ended 31 December**

	SMS		M&T Resources		Other		Total	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
External revenues	87,232	89,068	29,727	31,756	-	-	116,959	120,824
Inter-segment revenue	-	-	2,499	1,668	-	-	2,499	1,668
Reportable segment profit before income tax	19,873	18,935	1,897	2,023	-	-	21,770	20,958
Unallocated amounts:- Other corporate expenses (including net financing income)					(3,901)	(4,147)	(3,901)	(4,147)
Consolidated profit before income tax							17,869	16,811
Reportable segment assets	70,586	67,824	7,953	7,490	32,099	22,861	110,638	98,175

**Note 7. Acquisition of Subsidiary**

**Business Combination**

**AIPEX Pty Ltd**

On 12<sup>th</sup> October 2009, SMS Consulting Group Ltd acquired all of the shares in AIPEX Pty Ltd for \$2,401,300 in cash subject to earn-out arrangements. AIPEX is a specialist System Integration provider and Australia's largest certified Tibco partner. A second payment of \$2,401,300 is expected to fall due in October 2011, being the contingent amount of the

**Note 7. Acquisition of Subsidiary (continued)**

purchase price expected to be paid on meeting revenue and utilisation targets to October 2011. All payments and contingent payments in excess of net assets for the business have been included within goodwill. Contingent consideration represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the expected contingent consideration and a discount rate of 5.09%. The acquisition did not have a material effect on the results of the current interim period.

**Total Learn Pty Ltd**

In October 2007, the shares in Total Learn Pty Ltd were acquired for \$1,337,000 subject to earn-out arrangements. In October 2008, a second payment of \$1,723,294 was made in cash to the previous owners of Total Learn Pty Ltd. This payment included \$389,294 being the contingent amount of the purchase price paid on exceeding EBIT targets to September 2008. A third and final payment was made in October 2009 for \$1,938,100, half in cash and half in shares after exceeding EBIT targets to October 2009. All subsequent payments for the business have been adjusted against goodwill as no other assets have been acquired.

**Pelion Pty Ltd**

In May 2009, the shares in Pelion Group Pty Ltd were acquired for \$329,250 in cash and \$270,750 in shares subject to earn-out arrangements. A second and third anniversary payment each of \$300,000 in cash and \$300,000 in shares will be made in May 2011 and May 2012 provided the performance criteria are met. As the contingent purchase price could not be reliably measured at the time of acquisition any subsequent payments for the business will be adjusted against goodwill as no other assets will be acquired.

**Note 8. Equity**

**Dividends**

The following dividends were declared and paid by the Group.

**For the six months ended 31 December**

		<b>2009</b>	<b>2008</b>
		<b>\$'000</b>	<b>\$'000</b>
31 October 2008	Final 2008 Ordinary	-	9,964
14 October 2009	Final 2009 Ordinary	9,974	-

Franked dividends declared or paid during the period were franked at the tax rate of 30%.

**Note 9. Financing facilities**

In October 2009, the Group removed its unsecured interchangeable facility and overdraft facility.

**Note 10. Subsequent events**

No matter or circumstance has arisen since 31 December 2009 that has significantly affected, or may significantly affect:

- (a) The Group's operations in future financial years;
- (b) The results of those operations in future financial years; or
- (c) The Group's state of affairs in future financial years.

## Directors' Declaration

1. In the opinion of the directors of SMS Management & Technology Limited ("the Company"):
  - (a) the financial statements and notes set out on pages 7 to 14 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the consolidated entity as at 31 December 2009 and of its performance, for the six months ended on that date; and
    - (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Laurence G Cox  
Director



Thomas Stianos  
Director

Signed at Melbourne on this 10<sup>th</sup> day of February 2010



## **Independent auditor's review report to the members of SMS Management & Technology Limited**

### **Report on the financial report**

We have reviewed the accompanying half-year financial report of SMS Management & Technology Limited, which comprises the consolidated statement of financial position as at 31 December 2009, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies and other explanatory notes 1 to 10 and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the half-year period.

#### *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 control 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2009 and its performance for the half-year period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of SMS Management & Technology Limited, 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*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of SMS Management & Technology Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'Klaus'.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster'.

Gordon Sangster  
*Partner*

Melbourne

10 February 2010