



WHERE WE STAND



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The business of SMS

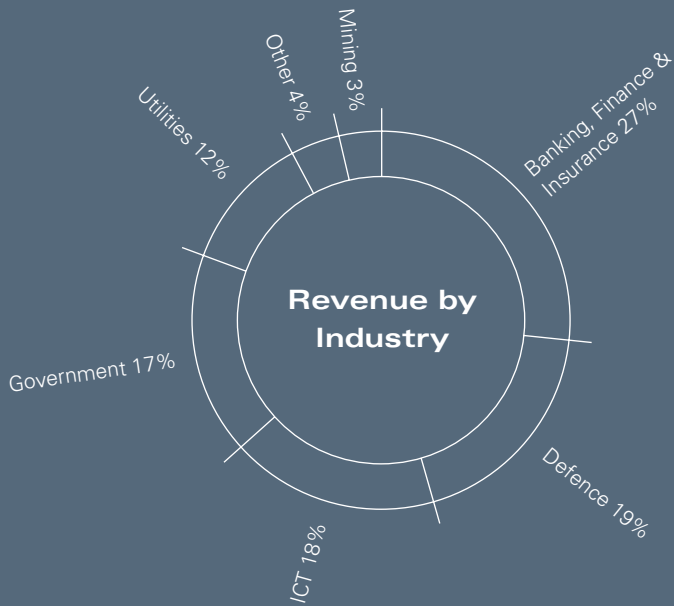
SMS delivers genuine solutions to its clients through the practical use of IT, streamlined business processes and improved management practices.

We have become market leaders because of our deep knowledge of the industries in which we operate, our experience with the latest business technologies and practices, and our commitment to practical outcomes; in short our reputation for excellence in execution of business initiatives.

TODAY

Last year we spoke about why **SMS** is poised for growth.

Growth has started. In the second half of this year, revenue has grown 20% on the first half. Importantly this has been profitable growth; net profit after tax was \$5m and a dividend was paid to shareholders on 2 August 2004. This year's report will provide details on where we stand and how we are delivering profitable growth and returns for our shareholders.



> WITH OUR

Revenue by Industry Sector

	2004	2003
Banking, Finance & Insurance	27%	24%
Defence	19%	12%
ICT	18%	18%
Government	17%	11%
Utilities	12%	14%
Other	4%	15%
Mining	3%	6%



Investment in industry based teams delivers

Our investment into global industry based teams has achieved a good spread of revenue in all locations. The value to our clients is that SMS is able to leverage its considerable industry knowledge to craft innovative approaches that cost effectively deliver

integration services and growth strategies.

Information and Communication Technology (ICT) has also been a key SMS market sector over the past 15 years. With the recent appointment of a director to lead this industry practice, we are now focused on supporting our clients to take new and converging

extensive experience includes many internal programmes of work, industry representation and the facilitation of relationship management frameworks between retailers and distributors.

Growing international markets

In the past year, there has been dramatic improvement in our overseas businesses, particularly the UK. The UK achieved consistent profits each month, a substantial improvement over the prior year. The Defence, Government and Banking, Finance and Insurance markets performed well in the UK. We are continuing to serve the UK Ministry of Defence on a range of initiatives as well as many other smaller diversified clients.

During the year the Singapore office increased its client base in the Banking, Finance and Insurance sector and began work in the telecommunications sector.

Exciting growth for M&T Resources

The specialist IT recruitment and placement division of SMS, M&T Resources had a successful year with all its business units performing well. An upturn in market demand for both contract and permanent IT professionals combined with a focus on service levels, client relationships and the provision of the highest quality resources, resulted in a 44% increase in revenue and profits. With market demand expected to continue, additional strong growth is forecast.

MARKETS

the business outcome to meet their specific business challenges.

The defence practice has assembled a highly qualified team with current engagements in the United Kingdom, Canberra, Sydney and Melbourne. SMS offers world's best practice in several areas including defence logistics, capability requirements definition, systems and software engineering, occupational health and safety, and enterprise architecture.

Banking, Finance and Insurance is SMS's largest industry sector and last year we appointed a global director to lead our service provision into this sector. Building on our reputation for delivery, we aim to be a well recognised supplier of services to this industry. Particular areas of focus are program/project management, risk management (including Basel II), process improvement,

ICT products and services to market to deliver top line growth. These projects are managed through SMS's outcome-based engagement models.

Our government practice is one of the preferred consultancies for improving delivery of government services in London, Canberra, Sydney, Melbourne and Brisbane. SMS is recognised for its capability in IT strategy development and delivery, shared service implementation, business process improvement, accountability mapping, enterprise architecture and systems integration.

Energy has been a significant growth sector for SMS since 1995. Our reputation for assessing and managing the successful delivery of complex industry changes resulting from electricity and gas full retail contestability has continued to grow within Australia, Asia and the UK. Our





> WITH OUR

Clients by Industry

	2004	2003
<i>Banking, Finance & Insurance</i>	43	36
<i>Defence</i>	3	2
<i>ICT</i>	48	29
<i>Government</i>	75	82
<i>Utilities</i>	20	21
<i>Other</i>	41	22
<i>Mining</i>	4	4

Growth initiatives generate results

The restructuring and growth initiatives implemented during the last 18 months are achieving good results and will continue to improve SMS's capacity to service clients. These include:

- Improved support systems and knowledge management

Outcome-based model

Our drive to offer clients more outcome-based engagement models has resulted in the reduction of revenue from daily rate based fees. For example, SMS is currently engaged in a number of managed services and outcome-based engagements including:

Growth from new clients

Over the past year SMS has continued to strengthen its client base in the area of logistics with an ever-increasing presence in the logistics area of Defence. In addition, M&T Resources was awarded Tier One status with an international computer

CUSTOMERS



- Outcome-based engagements
- Industry specialist teams
- Specialist service lines

SMS services

Consulting
Managed Services
Business & System Integration
Technology Services
Resourcing

Sample of managed projects

<i>Integrated logistics</i>	Defence	\$7m
<i>Business transformation</i>	ICT	\$1m
<i>Risk management</i>	Banking	\$4m
<i>Smart card application</i>	Transport	\$2m
<i>Process improvement</i>	Government	\$1m

A broad customer base

SMS continues to provide specialised skills to a diverse and prestigious client base. Spanning an 18-year history, over 230 leading corporate clients and government departments across Australia, Asia and Europe have benefited from the business and management expertise that SMS provides.

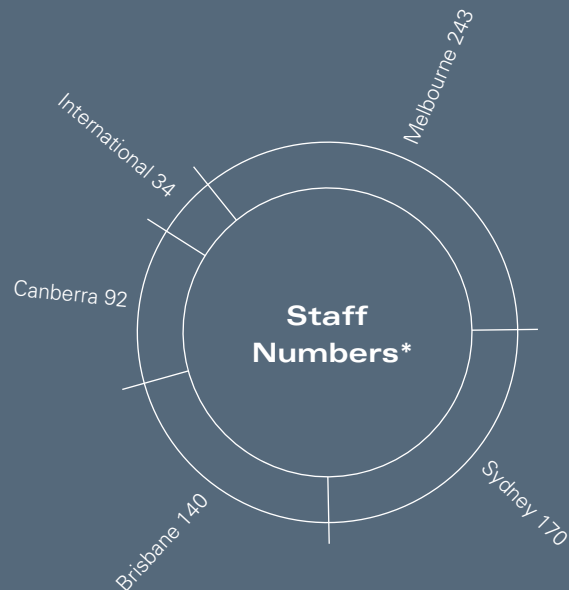
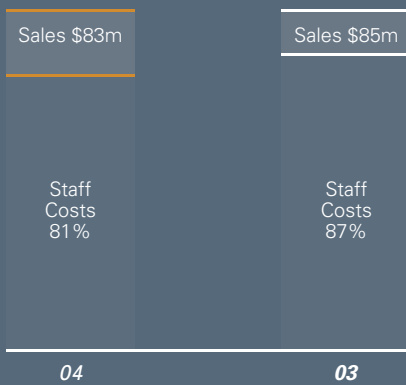
During the past year the Company has focused on developing diversity across five principal industry sectors. This has given SMS depth and critical mass in our selected sectors whilst avoiding dependence on a single client.

service provider and is now their preferred supplier for all the Company's external contracting and permanent placement needs.

The international division is constantly winning new clients including a large Scotland based bank and an international telecommunications provider. These were just two of the thirty new clients SMS added to its customer base in the last year.

> WITH OUR

Staff to Sales



*Includes contractors actively billing on 30 June 2004

Achieving an excellent balance for growth

During the first half of the year, the Consulting division maintained its permanent staffing levels whilst M&T Resources built on its contracting ranks. This resulted in a significant increase in the number of contractors engaged across all the SMS offices.

- **Add Value.** Our people focus on the whole problem, not just the immediate issue, so the outcomes they achieve are appropriate and sustainable over the long term.
- **Maintain Unity.** Many clients comment on the strength of collaboration and team spirit our consultants bring to their

through design to delivery. With our consistently low voluntary separation rates and high average tenures, our clients are assured of continuity of service. They benefit from long term relationships and the expertise and experience our consultants bring from other clients.

Humanity, integrity and continuity

SMS aims to be an honest, responsive and understanding employer; a company people actively want to work for. At the same time, business realities cannot be ignored. People management is a part of broader business management.

Managing our knowledge effectively

SMS launched an Enterprise Information Portal which replaced both the Company intranet and knowledge resources database with an integrated, powerful and easy-to-use application.

It provides staff with an unprecedented tool for communication, knowledge, sharing and collaboration. It delivers information tailored to the needs of staff regardless of the role in the Company. It also provides an entry point to a much improved web-mail application.

The Portal contains the Company's extensive knowledge resources, but with vastly enhanced functionality. The new Portal features up-to-date corporate and regional information, including news and events and it is all delivered through a user-friendly interface.

PEOPLE

During the second half of the year, both divisions aggressively recruited additional consultants and contractors. In this period, SMS hired over 30 consultants and 100 contractors in line with the business growth.

Consistent quality the key

The quality and consistency of SMS consultants is widely recognised by the market. At SMS, our three core values continue to underpin everything we do, both internally and in our interaction with clients. They are not vague statements of intent; they are explicit commitments.

- **Enhance Reputation.** Our people do more than just work hard; they stake their reputations on the outcomes they achieve. They strive to do a superb job every time; no matter if the task is big or small, complex or simple.

organisations, and how easy it is to work with them.

Consultants for the long term

At SMS, consulting is viewed as a career, not just a job. This doesn't mean guaranteed tenure: it does mean an ongoing commitment by the Company to the highest quality of recruitment, ongoing professional development and effective mentoring.

SMS consultants view client placements as a commitment, not just a contract. The hallmarks of our service are objective assessment of client needs, dedication to producing real and practical outcomes and reliable post project support. These traits are manifested in the way our consultants often blend seamlessly into client organisations.

Our consultants work closely with our clients across all facets of a project: from discovery,



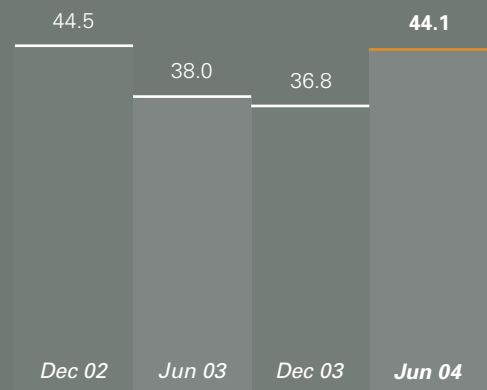
> WITH OUR

Revenue rebounds with

^20%

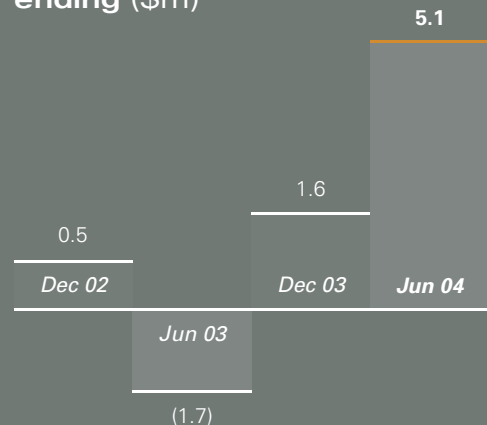
growth in second half

Revenue (excluding interest)
for 6 months ending (\$m)



Profitability
continues to
improve

EBITDA for 6 months
ending (\$m)



Financial Position (\$m)

	2004	2003
Current Assets	61.3	53.9
<i>Non Current Assets</i>	14.9	16.7
Total Liabilities (incl. \$3.8m provision for dividend)	11.5	7.2
<i>Net Assets</i>	64.7	63.4
<i>Cash held on 30 June</i>	44.6	36.1

RESULTS



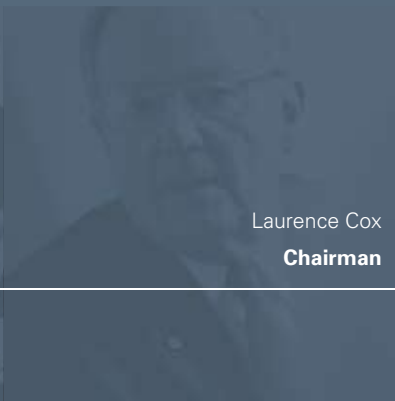
“ \$9m in operational cash flow, \$3.8m fully franked dividend, \$28.2m capital return”

SMS delivered a net profit after tax of \$5m on revenues of \$83m. Operating revenue (excluding interest) for the second half increased by 20% on the first half. The business generated net operating cash flows of \$9m, increasing the cash balance from \$36.1m in June 2003 to \$44.6m in June 2004. On 2 August the Company paid \$3.8m in fully franked dividends from profits of the 2004 financial year. The Company also announced a plan to return \$28.2m in capital to its shareholders following the Annual General Meeting in October 2004.

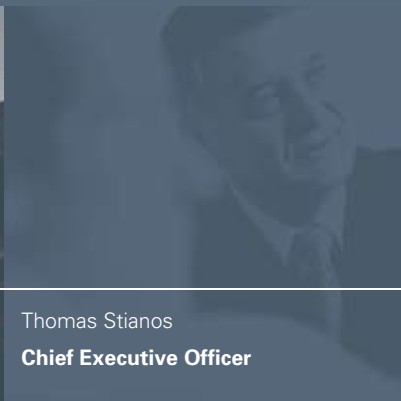
Strong financial position

SMS further strengthened its financial position with an increase in Net Assets and cash holding balance. Operations generated \$9m in positive cash flow.

> WITH OUR



Laurence Cox
Chairman



Thomas Stianos
Chief Executive Officer

Key Financial Results (\$m)	2004	2003
<i>Revenue</i>	83.1	84.8
<i>Operating cash flow</i>	9.0	2.3
<i>EBITDA</i>	6.7	(1.1)
<i>Net profit after tax</i>	5.0	(106.8)
<i>Cash balance</i>	44.6	36.0
<i>Net tangible assets (post dividend)</i>	52.2	50.1

COMPANY



Chairman & Chief Executive Officers' Review

“ SMS is benefiting from the growth strategy implemented last year. We are leveraging market opportunities to grow sales and profits and we delivered our first fully franked dividend. Our cash balance and net tangible assets have also increased.”

Dear fellow shareholders

In 2003 we completed the divestment of non-core businesses. Last year we continued our focus on the core SMS professional services and invested in a number of growth initiatives including:

- Re-engineer business model and improve core processes;
- Improve support systems and knowledge management;

- Introduce outcome and team based engagements;
- Establish industry specialist teams; and
- Develop specialist service lines.

These initiatives have begun to generate results: the second half saw sales grow by 20% and net profits grow by 300% on the first half. Key financial results reflect a consistent improvement from the previous year.

SMS has completed the global implementation of its next generation, Enterprise Portal which provides Knowledge Management, Client Relationship Management, operational and enterprise reporting functionality, an online collaboration tool suite and a single repository for all Company policies and procedures. This capability is improving business effectiveness, competitive advantage and added value to our clients.

Our drive to offer clients more outcome-based engagements generated 20% of sales last year and we aim to deliver 50% of our revenue from these engagements in two years. During FY2005 we will improve productivity through managed projects, which in addition to delivering better value to our clients allows us to gain greater leverage and efficiencies from our business model.

Our investment into global industry teams has achieved a good spread of revenue in all locations. Clients benefit from SMS leveraging its industry knowledge to cost effectively deliver business outcomes tailored to their specific needs.

Consultant numbers were steady in the second half as the sales growth absorbed spare capacity. Staff numbers including contractors who were actively engaged in billing projects on 30 June 2004 totalled 679. With staff now fully utilised, the business aims to hire 100 consultants in FY2005. The executive team has been considerably strengthened in the last year, particularly with key appointments in London, Sydney and Canberra.

During FY2004 our M&T Resources business grew contractor numbers and revenue substantially and is set to expand further in FY2005. We will continue to upgrade our support systems to permit a further scale up of the M&T Resources business.

We anticipate a moderate increase in demand during FY2005 and SMS is expected to continue to grow revenue and earnings.

Capital management

The Company is implementing a comprehensive capital management strategy consisting of:

- Retention of \$12.5m cash to support organic growth
- Payment of a fully franked dividend of 1.2cents per share utilising \$3.8m in cash
- Return of surplus cash of \$28.2m to shareholders via a capital return to shareholders. This is subject to shareholder approval at the AGM
- A 5 for 1 share consolidation
- A reduction of accumulated losses netted against share capital. This will give the Board greater flexibility to pay future dividends

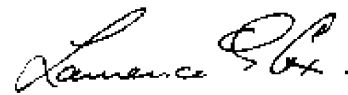
The \$12.5m retained to support further organic growth will fund:

- Increasing debtors as our revenues grow
- Developing and acquiring specialist capabilities to accelerate entry into markets where SMS is not well established.
- Supporting outcome-based engagement models that will allow SMS to secure strategic projects in the order of \$5m-\$10m annual revenue

In summary SMS is in a sound financial position. It has access to quality staff, it has improved its systems and investment in intellectual capital to support further growth in revenue and earnings.



Thomas Stianos
Chief Executive Officer



Laurence Cox
Chairman



Thomas Stianos

Chief Executive Officer and Executive Director

Tom Stianos joined SMS in January 1989 and was appointed CEO in March 2002. During his 15 years with SMS he has led many growth initiatives into different industries and practice areas. Tom previously held the position of Regional Director Victoria, Regional Director Consulting New South Wales, Regional Director Consulting ACT and led the establishment of SMS in Singapore. Immediately prior to his current appointment he was Managing Director of SMS Australia. Since becoming CEO, Tom has completed the divestment of non-core businesses and restructured the Company to focus on its two successful core businesses. Tom graduated from the University of Melbourne with a Bachelor of Applied Science and was awarded the Ford Australia prize for Economics. Tom is a Fellow of the Australian Institute of Company Directors. His career spans 24 years in business and IT management.



Laurence Cox

Chairman

Laurie Cox became Chairman of the Board of SMS Management & Technology in May 2001. He has many years' experience in Australian and international financial markets. Laurie was Executive Chairman of the Potter Warburg Group of Companies in Australia from 1989-95 and Director of SG Warburg Securities of London. He is the immediate past Chairman of the Australian Stock Exchange Limited (1989-1994). From its inception in 1987 he was a Director of the ASX and he was a Director of the Stock Exchange of Melbourne Limited from 1982 and its Chairman from 1987 to 1989.

In 1996 he was awarded the Order of Australia for services to the ASX and the Securities industry.

He is a Chairman of Transurban Group and the Murdoch Childrens Research Institute and is an Executive Director of Macquarie Bank Limited and Non-Executive Director of Smorgon Steel Limited.

Laurie is a graduate of Melbourne University with a Bachelor of Commerce degree, a Fellow of the Australian Society of Certified Practising Accountants and a Fellow of the Securities Institute of Australia.

BOARD OF DIRECTORS

James Carnegie

Non-Executive Director

James Carnegie joined the Board of SMS Management & Technology in November 2002. He is a partner with GS Private Equity, one of Australia's largest private equity fund managers. Prior to joining GS Private Equity James was Division Director of Macquarie Direct Investment Limited (MDI), responsible for sourcing and completing profitable private equity investments for the Macquarie Investment trusts.

Prior to joining Macquarie, James worked for three years as a Funds Manager with the hedge fund Platinum Asset Management, and has previously worked in the Australian retail industry. James has experience on the board of a number of portfolio companies across a wide range of industries; and has primary responsibility for Signature Security Holdings.

He holds a Bachelor of Commerce Degree from Melbourne University and a Master of Business Administration from Harvard University.

John Murphy

Non-Executive Director

John Murphy joined the Board of SMS Management & Technology in May 2001. He is Managing Director of Investec Wentworth Private Equity Pty Limited which manages two investment funds, MGB Equity Growth Trust and Investec Wentworth Private Equity Fund, specialising in investing in established corporations with good growth potential and sound management. John sits on the Boards of all seven fund investments.

John is a member of the Institute of Chartered Accountants and a Fellow of the Australian Society of Certified Practising Accountants. Prior to founding the MGB fund in 1998, he spent 25 years with Arthur Andersen, including 14 years as a global partner. John held the position of Managing Partner of the Economic and Financial Consulting Divisions in both Australia and Asia Pacific.

He holds Bachelor and Master of Commerce Degrees from the University of New South Wales.

Bruce Thompson

Non-Executive Director

Bruce joined the Board of SMS Management & Technology in October 2000. He is the former Chairman and Managing Director of Hewlett-Packard Australia Ltd and he worked with Hewlett-Packard for 32 years in Australia and overseas until his retirement in August 2000.

Bruce is also Chairman of Innovonics Ltd, a publicly listed Melbourne based technology company and the Chief Executive Officer of Keycorp Limited, a publicly listed Sydney based payment solutions company. He is a Trustee of the Melbourne Cricket Ground Trust, Chairman of the Federal Government's Electronic Industry Action Group and a council and board member of the Box Hill TAFE Council.

Bruce is a graduate of Monash University with a Bachelor of Economics degree, a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors and a Graduate of the Wharton Business School Advanced Management Program.

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DIRECTORS' REPORT

The Directors present their report, together with the financial report of SMS Management & Technology Limited ("the Company") and of the consolidated entity, being the Company and the entities it controlled during the year ended 30 June 2004 and the auditor's report thereon.

DIRECTORS

Details of Directors who have held office during the financial year and after the financial year:

Laurence Cox (Chairperson)

Mr Cox is an Executive Director of Macquarie Bank Limited. Macquarie Direct Investment Limited (MDIL) is a controlled entity of Macquarie Bank. MDIL is the holder of 27,656,233 ordinary shares.

Bruce Thompson

Mr Thompson was a Non-Executive Director for the entire year.

Thomas Stianos

Mr Stianos was appointed as Managing Director on 25 March 2002 and continues in office at the date of this report.

James Carnegie

Mr Carnegie was a Non-Executive Director for the entire year.

John Murphy

Mr Murphy was a Non-Executive Director and is Managing Director of MGB Equity Growth Nominees Pty Ltd (MGB). On 13 November 2003, MGB sold its holding of 12,975,637 ordinary shares. Mr Murphy resigned as a Director of the Board on 30 June 2004.

ELECTION OF DIRECTORS

Clause 58 of the Company's Constitution requires that at each Annual General Meeting one-third of the Directors must retire from office. Therefore, Mr Laurence Cox, being the Director who has longest been in office, retires by rotation and is eligible for re-election.

DIRECTORS MEETINGS

The numbers of meetings of the Company's Directors (including meetings of formally constituted committees of Directors) held during the year ended 30 June 2004 and the number of meetings attended by each Director, are set out in the following table.

Director	Board of Directors		Audit, Compliance & Risk		Remuneration and Nominations	
	A	B	A	B	A	B
Laurence Cox	12	9	–	–	–	–
John Murphy	12	11	3	3	–	–
Bruce Thompson	12	11	3	3	1	1
Thomas Stianos	12	12	–	–	–	–
James Carnegie	12	12	3	3	1	1

A = Number of meetings held during the time the Director held office during the year

B = Number of meetings attended

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the Australian Stock Exchange (“ASX”) Corporate Governance Council recommendations, unless otherwise stated.

BOARD OF DIRECTORS

Role of the Board

The Board’s primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior Executives, establishing and monitoring the achievement of management’s goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. Details of the Board’s Charter are located on the Company’s website – (www.smsmt.com).

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Remuneration & Nomination Committee, and an Audit, Compliance & Risk Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly monitored. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds twelve scheduled meetings each year, in addition, strategic and planning meetings and any extraordinary meetings

at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairperson, Chief Executive Officer (“CEO”) and Company Secretary. Standing items include the CEO’s report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in Board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

The Board conducts an annual review of its processes to ensure that it is able to carry out its functions in the most effective manner.

Director Education

The consolidated entity has a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of Directors. Directors also have the opportunity to visit consolidated entity offices and meet with management to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to Company information

Each Director has the right of access to all relevant Company information and to the Company’s Executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the consolidated entity’s expense. The Director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairperson’s approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

Composition of the Board

The names of the Directors of the Company in office at the date of this Statement are set out in the

Directors' Report on page 15 of the financial report. Details of the experience and qualification of Directors are set out on page 13 of the Annual Report.

The composition of the Board is determined using the following principles:

- A minimum of three Directors, with a broad range of expertise both nationally and internationally;
- Be a Non-Executive Independent Director as Chairperson. Mr Cox, as Chairperson, is an Executive Director of Macquarie Bank Limited (MBL). Macquarie Direct Investment Limited (MDIL) is a controlled entity of MBL, which holds 8.81% shareholding in SMS Management & Technology Limited. MBL is technically required to disclose the substantial shareholding, although MDIL, as the shareholder, must manage the interests for the benefit of other parties. The Board has considered that this relationship would not materially affect Mr Cox's ability to exercise independent judgement in the interest of the Company;
- A majority of Non-Executive Directors;
- A majority of Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies; and
- Enough Directors to serve on various committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

An independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

- Holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with

a shareholder of more than five per cent of the voting shares of the Company;

- Has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- Within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another group member;
- Is not a material* supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer;
- Has no material* contractual relationship with the Company or another group member other than as a Director of the Company; and
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the Director's ability to act in the best interests of the Company.

Nomination Committee ("Committee")

The Committee oversees the appointment and induction process for Directors and Committee Members, and the selection, appointment and succession planning process of the Company's CEO. The Committee makes recommendations to the Board on the appropriate skill mix, personal qualities, expertise and diversity of each position. When a vacancy exists or there is a need for particular skills, the Committee in consultation with the Board determines the selection criteria based on the skills deemed necessary. The Committee identifies potential candidates with advice from an external consultant. The Board then appoints the most suitable candidate. Board candidates must stand for election at the next general meeting of shareholders.

* The Board considers, "material" in this context, where any Director-related business relationship has represented, or is likely in the future to represent the lesser of at least ten per cent of the relevant segments or the Director-related businesses revenue. The Board considered the nature of the relevant industries' competition, and the size and nature of each Director-related business relationship, in arriving at this threshold.

The Board performed a self assessment analysis during the year in conjunction with the CEO and Company Secretary. The results of the assessment were used as a starting point to further improve the composition and performance of the Board. As a result, the Committee is currently reviewing its evaluation processes to establish performance indicators that are both measurable and qualitative and will report the processes for the evaluations to shareholders in the next annual report.

The Committee comprised the following members during the year, all of whom were Non-Executive Directors:

Laurence Cox (Chairperson)

Independent Non-Executive

James Carnegie

Independent Non-Executive

Bruce Thompson

Independent Non-Executive

The Committee meets annually unless otherwise required. The Committee met once during the year and Committee members' attendance record is disclosed in the table of Directors Meetings, on page 15. The terms and conditions of the appointment and retirement of Non-Executive Directors are set out in a letter of appointment, including expectations for attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other Boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

The Committee also conducts an annual review of the performance of the CEO and the senior Executives reporting directly to him and the results are discussed at a Board meeting.

Further details of the Committee's Charter and policies, including those for appointing Directors and senior Executives, are available on the Company's website.

REMUNERATION REPORT

Remuneration Committee ("Committee")

The Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the CEO, senior Executives and Directors themselves. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The members of the Committee during the year were:

Laurence Cox (Chairperson)

Independent Non-Executive

James Carnegie

Independent Non-Executive

Bruce Thompson

Independent Non-Executive

The CEO, Mr Thomas Stianos, is invited to the Committee meetings, as required, to discuss senior Executives' performance and remuneration packages.

The Committee meets once a year and as required. The Committee met once during the year and Committee member's attendance record is disclosed in the table of Directors Meetings on page 15.

The Committees' Charter is available on the Company's website.

Remuneration Policies

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior Executives. The Remuneration & Nomination Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates and to affect the broader outcome of increasing the consolidated entity's net profit attributable to members of the parent entity. The remuneration structures take into account:

- The overall level of remuneration for each Director and Executive;
- The Executive's ability to control the relevant segments performance; and
- The amount of incentives within each Executive's remuneration.

Executive Directors and senior Executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the consolidated entity's and each relevant segment's result and are set out in each Executive's letter of appointment (further details are available on the Company's website). There is no separate profit-share plan. Options were issued under the Executive Share Option Plan (made in accordance with thresholds set in plans approved by shareholders at the 2002 Annual General Meeting). The ability to exercise the options is conditional on the consolidated entity achieving share price performance hurdles.

Discretion in the granting of bonuses does arise where Executives change roles during the year. Non-Executive Directors do not receive any performance related remuneration.

The Board considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence for this is firstly, the very strong growth in profits in this financial year, where they were first widely introduced and secondly, the performance-linked element of the structure appears to be appropriate because most but not all of the Executives achieve a level of performance which qualifies them for bonuses and options.

Total remuneration for all Non-Executive Directors, in accordance with the Constitution is not to exceed \$200,000 per annum. Directors' base fees are presently up to \$25,000 per annum. The Chairperson receives \$62,500. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities and committee membership.

DIRECTORS' AND SENIOR EXECUTIVES REMUNERATION

Details of the nature and amount of each major element of the remuneration of each Director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

Directors' Remuneration

	Base remuneration (Salary & Fees)	Bonuses	Non-Cash Benefits	Super Contribution	Options Issued	Total
	\$	\$	\$	\$	\$	\$
Non-Executive						
Laurence Cox	62,500	–	–	5,625	24,040	92,165
Bruce Thompson	25,000	–	–	2,250	7,212	34,462
John Murphy ^(A)	25,000	–	–	2,250	2,712	29,962
James Carnegie	25,000	–	–	2,250	–	27,250
Executive						
Thomas Stianos	325,000	100,000	–	11,002	45,660	481,662

(A) John Murphy Resigned 30 June 2004

Senior Executives' Remuneration

Executive Officers (excluding Directors)	Base remuneration (Salary & Fees)	Bonuses	Non-Cash Benefits	Super Contribution	Options Issued	Total
	\$	\$	\$	\$	\$	\$
The Company						
Catherine Ford	160,000	–	–	11,002	4,574	175,576
Vivian Clark	151,535	30,000	–	9,944	1,525	193,004
Graham Lanphier	142,500	30,000	–	10,845	–	183,345
Paul Pettigrew ^(B)	130,513	100,000	–	7,334	12,198	250,045
Stephen Clark ^(C)	230,147	–	–	11,002	–	241,149
Consolidated						
Paul Cooper [#]	392,670	39,267	–	19,633	4,574	456,144
Hilton Holloway ^{##}	262,366	59,690	–	11,001	6,099	339,156

(B) Paul Pettigrew was appointed 3 November 2003

(C) Stephen Clark resigned 2 April 2004

Amounts remunerated in Great British Pounds and converted into Australian dollars at the exchange rate on 30 June 2004 of 0.3872.

Amounts remunerated in Singapore dollars and converted into Australian dollars at the exchange rate on 30 June 2004 of 1.2076.

The fair value of options is calculated at the date of grant using a Black-Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the options allocated to this reporting date.

The following factors and assumptions were used in determining the fair value of options on grant date;

Grant Date	Expiry Date	Fair value per option	Exercise Price	Price of shares on Grant Date	Estimated Volatility	Risk free Interest rate	Dividend Yield
01-Jul-01	30-June-06	\$0.24	\$0.48	\$0.48	60%	5.72%	1%
01-Jul-02	30-June-07	\$0.24	\$0.48	\$0.48	60%	5.72%	1%

Estimated volatility approximates historic volatility. The estimated life of all options granted is four years. Each option entitles the holder to purchase one ordinary share in the Company.

All options expire on the earlier of their expiry date or termination of the employee's employment. Options do not vest until one year after grant date and thereafter exercise is conditional on the consolidated entity's share price.

Options granted to Senior Executives

During or since the end of the financial year, the Company granted options for no consideration over unissued shares to the following Executives of the Company as part of their remuneration.

Officers	Number of options granted	Exercise price	Expiry Date
Paul Pettigrew	200,000	\$0.48	30 Jun 2007
Andrew Dyer	150,000	\$0.48	30 Jun 2007

All options expire on the earlier of their expiry date or termination of the employee's employment. Options do not vest until one year after grant date and thereafter exercise is conditional on the consolidated entity's share price.

Unissued shares under option

At the date of this report unissued ordinary shares of the Company under option are:

Expiry Date	Exercise Price	Number of Shares
30 June 2004	\$1.50 – \$6.00	3,588,000
30 June 2005	\$2.00	48,000
30 June 2006	\$0.48	8,501,800
30 June 2007	\$0.48	4,362,900
Total		16,500,700

Shares issued on exercise of options

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued):

Number of shares issued	Amount paid on each share
6,320	Nil

AUDIT, COMPLIANCE & RISK COMMITTEE

The Audit, Compliance & Risk Committee ("Committee") has a documented Charter, approved by the Board. All members must be Non-Executive Directors with a majority being independent. The Chairperson may not be the Chairperson of the Board. The Committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the Committee during the year were:

John Murphy (Chairperson)
Independent Non-Executive

James Carnegie
Independent Non-Executive

Bruce Thompson

Independent Non-Executive

John Murphy resigned as the Chairperson from the Committee as at 30 June 2004. Bruce Thompson was elected as the new Chairperson for the Committee.

The external auditors and the CEO are invited to Committee meetings at the discretion of the Committee. The Committee met three times during the year and Committee member's attendance record is disclosed in the table of Directors' Meetings on page 15.

The external auditor met with the Committee and the Board of Directors twice during the year without management being present.

The Audit, Compliance & Risk Committee's Charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of the external audit engagement partner.

The responsibilities of the Audit, Compliance & Risk Committee include reporting to the Board on:

- Reviewing the annual, half-year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- Assessing corporate risk assessment processes;
- Reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2005;
- Assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. The external auditor provides an annual declaration of independence which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;

- Reviewing the nomination and performance of the external auditor. The external auditors were appointed in 2002 for the financial year ended 30 June 2003;
- Assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- Discuss the external audit, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed; and
- Review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results.

Finalise half-year annual reporting to:

- Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- Review the draft financial report and recommend Board approval of the financial report; and
- As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

Risk Management

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity.

The CEO and the Chief Financial Officer ("CFO") have declared, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management have also been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk Profile

The Audit, Compliance & Risk Committee reports to the Board bi-annually on the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed. Further details of the Company's Risk Management Policy and internal compliance and control system are available on the Company's website.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Risk Management and compliance and control

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control is comprehensive, details of which are available on the Company's website. It comprises the Company's internal compliance and control systems, including;

- *Operating unit controls* – Operating/Business Units confirm compliance with financial controls

and procedures including information systems controls detailed in procedures manuals;

- *Functional speciality reporting* – Key areas subject to regular reporting to the Board include Finance and Information Technology, Legal, Human Resources and Disclosures; and
- *Investment appraisal* – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- Capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- Financial exposures are controlled with policies concerning investment activities closely monitored;
- Occupational Health and Safety Standards and management systems are monitored and reviewed;
- Business transactions are properly authorised and executed;
- The quality and integrity of personnel; and
- Financial reporting accuracy and compliance with the financial reporting regulatory framework.

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

Financial Reporting

The CEO and the CFO have declared, in writing to the Board that the Company's financial reports are

founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly. Convergence with IFRS is a key current financial reporting project, and the Board has established a formal project, monitored by the Audit, Compliance & Risk Committee to ensure a smooth transition to IFRS reporting, beginning with the half-year ended 31 December 2005. One of the project's first tasks is to prepare an opening statement of financial position, under IFRS, as at 1 July 2004 (24 months prior to the first IFRS financial year end), to facilitate first year IFRS comparatives.

The broad IFRS convergence plan is as follows:

- Appointment of a steering committee;
- A staff training plan;
- Calculation of the estimate of the financial impact of convergence;
- Significant changes in accounting policies;
- A management information systems conversion plan;
- Calculation of the opening IFRS-based statement of financial position as at 24 months prior to the first full IFRS year end (to facilitate first year IFRS comparatives);
- Calculation of an IFRS-based statement of financial performance in the lead-up year to the first full year of IFRS-based reporting, in addition to the non-IFRS financial reporting, (to facilitate first year IFRS comparatives);
- IFRS-only complete financial reporting in the first full year of IFRS financial reporting which commences from 1 January 2005 (for SMS Management & Technology Limited this is the year ending 30 June 2006); and
- Project status reporting to the Board.

ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the consolidated entity. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of Director related entity transactions with the Company and consolidated entity are set out in Note 32.

Code of conduct

The consolidated entity has advised each Director, manager and employee that they must comply with the Ethical Standards Manual. The manual may be viewed on the Company's website, and it covers the following:

- Aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- Fulfilling responsibilities to shareholders by delivering shareholder value;
- Usefulness of financial information by maintaining appropriate accounting policies and practices and disclosure;
- Fulfilling responsibilities to clients, customers and consumers by maintaining high standards of product quality, service standards and commitments to fair value;

- Employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- Responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- Compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's;
- Conflicts of interest;
- Corporate opportunities such as preventing Directors and key Executives from taking advantage of property, information or position for personal gain;
- Confidentiality of corporate information;
- Fair dealing;
- Protection and proper use of the Company's assets;
- Compliance with laws; and
- Reporting of unethical behaviour.

Trading in general Company securities by Directors and employees

The key elements of the trading in general company securities by Directors and employees policy are:

- Identification of those restricted from trading – Directors and senior Executives (all employees from Regional Directors upwards) may acquire shares in the Company, but are prohibited from dealing in company shares or exercising options:
 - (i) Except between two and thirty days after either the release of the Company's half-year and annual results to the ASX, the Annual General Meeting or any major announcement; and
 - (ii) Whilst in possession of price sensitive information not yet released to the market.

- Raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- Requiring details to be provided of intended trading in the Company's shares;
- Requiring details to be provided of the subsequent confirmation of the trade; and
- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

The policy is reproduced in full on the Company's website.

Communication with Shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. More details of the policy are available on the Company's website.

In summary, the Continuous Disclosure policy operates as follows

- The CEO, the CFO and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered;
- The full annual financial report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document);
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it;

- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- All announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- Analyst and media briefings and general meetings transcripts are placed on the Company's website;
- The full texts of notices of meetings and associated explanatory material are placed on the Company's website; and
- The external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

Information evenings are not held on a regular basis in each state as there has not been a demonstrated demand for such events. Shareholder queries are handled in a prompt manner by the Company Secretary.

All of the above information, including that of the previous three years, is made available on the consolidated entity's website within one day of public release. Shareholder requests for financial report information are handled by the Company share registry, Computershare Investor Services Limited (Computershare).

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

PRINCIPAL ACTIVITIES

During the financial year the principal activities of the consolidated entity consisted of the provision of Management Consulting Services, Information Technology Services, Systems Integration, and IT contract labour and recruitment.

REVIEW AND RESULTS OF OPERATIONS

Company overview and significant changes

SMS delivered a net profit after tax of \$5.033m on revenues of \$8.3106m compared to a loss of \$106.977m on revenues of \$84.866m in 2003. Operating revenue for the second half (excluding interest) was \$44.000m, a 20% increase on the first half. The NPAT result for 2003 includes a goodwill write-down of \$98.042m

	June 2004	June 2003
	(\$m)	(\$m)
Revenue	83	85
Operating cash flow	9	2
EBITDA	7	(1)
Net profit after tax	5	(107)
Cash balance	45	36
Net tangible assets (post dividend)	52	50

The business generated net operating cash flows of \$8.945m, increasing the cash balance from \$36.091m in June 2003 to \$44.577m in June 2004. The Company declared a fully franked dividend of 1.2 cents per share which was paid on 2 August 2004.

Review of Performance

The first half performance was impacted by below budget results in the SMS Canberra and Sydney businesses. In the second half, both Canberra and Sydney achieved a turnaround in performance following the appointment of new management teams. This turnaround together with growth from our M&T Resources division, and continued profitable growth from our international business have delivered the best six months in the last two years.

Our better utilisation of existing staff contributed to the increase in profit even though the revenue numbers were static on a year on year basis.

The restructuring and growth initiatives implemented during the last two years are achieving good results and will continue to improve SMS's capacity to service clients. These include:

- Re-engineer business model and improve core processes;
- Improve support systems and knowledge management;
- Introduce outcomes-based and team based engagements;
- Establish industry specialist teams; and
- Develop specialist service lines.

SMS has completed the global implementation of its Enterprise Portal which provides Knowledge Management, Client Relationship Management, operational and enterprise reporting functionality, an online collaboration tool suite and a single repository for all Company policies and procedures. This capability is improving business effectiveness, competitive advantage and added value to our clients.

Our drive to offer clients more outcome-based engagement models has resulted in the reduction of revenue from daily rate based fees. SMS is currently engaged on a number of managed services and outcomes based engagements including:

Project	Sector
Integrated logistics	Defence
Business transformation	Telecommunications
Risk management	Banking
Smart card application	Transport
Process improvement	Government

Our investment into global industry-based teams has achieved a good spread of revenue in all locations. Clients benefit from SMS leveraging its industry knowledge to cost-effectively deliver business outcomes tailored to their specific needs.

Revenue by Industry*

Banking, Finance & Insurance	26%
Defence	19%
ICT	18%
Government	17%
Energy & Utilities	12%
Mining	4%
Other	4%
Total	100%

* includes Consulting and M&T Resources revenue

The Defence practice provides world's best practice in several areas including Defence logistics, capability requirements definition, systems and software engineering, occupational health and safety, and enterprise architecture.

Banking, Finance and Insurance is SMS's largest industry sector and last year we appointed a global director to lead our service provision into this sector. Particular areas of focus are program/project management, risk management, process improvement, integration services and growth strategies.

We have also appointed a new director to our ICT industry practice which is focused on supporting our clients to take new and converging ICT products and services to market to deliver top-line growth.

Our Government practice is recognised for IT strategy development and delivery, shared service implementation, business process improvement, accountability mapping, enterprise architecture and systems integration.

In the energy sector we have established a reputation for assessing and managing the delivery of complex industry changes resulting from electricity and gas full retail contestability. This includes many internal programmes of work, industry representation and the facilitation of relationship management frameworks between retailers and distributors.

Growth in consultant utilisation and overall staff numbers

Consultant numbers were steady in the second half as the sales growth absorbed spare capacity. With staff now fully utilised, the business aims to hire 100 consultants in the 2005 financial year.

During the year our M&T Resources business grew contractor numbers and revenue substantially and it now generates 29% of revenue. The M&T Resources business is set to expand further in the 2005 financial year and we will upgrade our support systems to permit a further scale up of the business.

During the year we acquired a number of staff and associated contracts from firms exiting our market space. This included Defence contracts from Adacel, and contractors taken on by M&T Resources as part of our preferred supplier arrangement with Getronics.

The Executive team has been considerably strengthened in the last year, particularly with key appointments in London, Sydney and Canberra. Now that the restructuring is complete, the Executive team is focused exclusively on staff, clients and growth.

Recruitment of the best available talent is a key challenge for the year ahead and we anticipate increasing competition for consultants. During the next financial year we will improve productivity through delivering more managed projects, which in addition to delivering better value to our clients allows us to gain greater leverage and efficiencies from our business model.

Market conditions

We anticipate a moderate increase in demand in the forthcoming year. Competition is expected to remain vigorous despite several international firms withdrawing from the Australian market during the last two years. These factors should lead to Supply-Demand returning to equilibrium and some skill shortages may emerge during the financial year.

While the trend to outsource work to low cost off shore companies has had an effect on the market, this has not significantly affected SMS or M&T Resources because of our focus on business

outcomes rather than provision of commodity technical resources. Our principal competitors are multi-national management consulting and IT professional services firms. In that regard, SMS offers a quality and cost effective alternative to the tier one firms with our specific strength and point of differentiation in operational execution of business and systems integration. Furthermore, SMS's narrower sector focus allows deeper knowledge and tailored service offerings.

Significant market risks in the year ahead include:

- Availability of sufficient recruits of the calibre demanded by SMS;
- Delay in purchasing decisions by Government clients due to the Federal election; and
- Re-entry of international competitors who exited the Australian market during the downturn.

DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Type	Cents per share	Total Amount \$	Franked/ Unfranked	Date of Payment
2004 Dividend	1.2	3,767,674	Franked	2 August 2004

EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen in the interval between the end financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in the future financial years.

DIRECTORS' INTERESTS

The relevant interests of each Director in the shares, rights or options over such instruments issued by the Companies within the consolidated entity, as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	2004	
	Shares No	Options No
Laurence Cox	761,000	1,000,000
Thomas Stianos	8,587,090	1,140,000
Bruce Thompson	100,000	300,000
John Murphy	130,000	300,000
James Carnegie	1,178,068	–

UNISSUED SHARES UNDER OPTION

Unissued ordinary shares of SMS Management & Technology Limited under option at the date of this report were as follows:

- 3,588,000 options pertaining to employment contracts which are exercisable at various prices and with various expiry dates.
- 48,000 options with a \$2.00 exercise price pursuant to the former Employee Share Option Plan, expiring 30 June 2005.
- 6,901,800 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2002, 1 July 2003 and 1 July 2004 pursuant to the SMS Management & Technology Limited Employee Share Option Plan and expiring on 30 June 2006.
- 3,612,900 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2003, 1 July 2004, 1 July 2005 and 1 July 2006 pursuant to the SMS Management & Technology Limited Employee Share Option Plan and expiring on 30 June 2007.
- 1,600,000 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2002, 1 July 2003 and 1 July 2004 issued to non-executive Directors and expiring on 30 June 2006.
- 750,000 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2003, 1 July 2004, 1 July 2005 and 1 July 2006 issued to Thomas Stianos and expiring on 30 June 2007.

Options converted into ordinary shares, options issued, options expired and equity movements during the financial year and after balance date up to the date of this report are disclosed in detail in Note 22 to the Financial Statements.

INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year, SMS Management & Technology Limited paid a premium of \$105,579 to insure officers of the Company and related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2004 included the Directors and Company Secretary.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

The Company is of a kind referred to in Class Order, 98/100 dated 10 July 1998 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and financial report. Amounts have been rounded off in the Directors' Report and financial report in accordance with that Class Order.

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



Laurence Cox
Director



Thomas Stianos
Director

Signed at Melbourne this day of 23 August 2004

STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	Consolidated		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Total revenue from ordinary activities	3	83,106	84,846	3,839	226
Employee expense		(67,548)	(73,932)	–	–
Depreciation and amortisation expenses	4(b)	(1,682)	(9,245)	–	–
Write-down of goodwill to recoverable amount	4(a)	–	(98,042)	–	–
Borrowing costs	4(b)	(43)	(74)	–	–
Occupancy expenses		(2,377)	(4,557)	–	–
Write-down of investments to recoverable amount	4(a)	–	–	–	(91,514)
Other expenses from ordinary activities		(4,394)	(5,716)	(56)	(4,555)
Profit/(loss) from ordinary activities before income tax (expense)/benefit		7,062	(106,720)	3,783	(95,843)
Income tax (expense)/benefit relating to ordinary activities	6	(2,029)	(88)	–	–
Profit/(loss) from ordinary activities attributable to members of the parent entity after income tax expense	23(b)	5,033	(106,808)	3,783	(95,843)
Net exchange differences relating to self sustaining foreign operations	23(a)	(16)	(169)	–	–
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity		(16)	(169)	–	–
Total changes in equity other than those resulting from transactions with owners as owners		5,017	(106,977)	3,783	(95,843)
Basic earnings (loss) per share	7	\$0.02	(\$0.33)		
Diluted earnings (loss) per share	7	\$0.02	(\$0.33)		

The above Statements of Financial Performance should be read in conjunction with the accompanying notes

STATEMENTS OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 JUNE 2004

	Notes	Consolidated		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current Assets					
Cash assets	9	44,577	36,091	7,638	7,638
Receivables	10	15,618	16,972	3,768	50
Other	11	1,088	872	–	–
Total Current Assets		61,283	53,935	11,406	7,688
Non-Current Assets					
Receivables	12	–	–	45	29
Other financial assets	13	–	–	59,014	59,014
Property, plant and equipment	14	1,410	2,151	–	–
Deferred tax assets	6(c)	1,019	1,237	1,019	–
Intangible assets	15	12,469	13,300	–	–
Total Non-Current Assets		14,898	16,688	60,078	59,043
Total Assets		76,181	70,623	71,484	66,731
Current Liabilities					
Payables	16	4,233	2,795	–	–
Interest bearing liabilities	17	222	340	–	–
Current tax liabilities	6(c)	220	–	220	–
Provisions	18	6,233	3,177	3,768	–
Other	19(a)	–	–	4,452	3,645
Total Current Liabilities		10,908	6,312	8,440	3,645
Non-Current Liabilities					
Interest bearing liabilities	20	–	222	–	–
Provisions	21	508	563	–	–
Deferred Tax Liabilities	6(c)	11	–	11	–
Other	19(b)	90	111	–	–
Total Non-Current Liabilities		609	896	11	–
Total Liabilities		11,517	7,208	8,451	3,645
Net Assets		64,664	63,415	63,033	63,086
Equity					
Contributed equity	22	449,399	449,399	449,399	449,399
Reserves	23(a)	(145)	(129)	–	–
Accumulated losses	23(b)	(384,590)	(385,855)	(386,366)	(386,313)
Total Equity		64,664	63,415	63,033	63,086

The above Statements of Financial Position should be read in conjunction with the accompanying notes

STATEMENTS OF CASH FLOWS

AS AT 30 JUNE 2004

	Notes	Consolidated		Parent Entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Cash Flows from Operating Activities					
Cash receipts in the course of operations		86,106	98,003	–	55
Cash payments in the course of operations		(80,481)	(96,083)	–	(392)
		5,625	1,920	–	(337)
Interest received		2,095	1,776	–	226
Borrowing costs paid		(43)	(74)	–	–
Income taxes paid		(1,594)	(1,323)	–	–
Refund of Income Taxes		2,860	–	–	–
Net cash provided by /(used in) operating activities	30	8,943	2,299	–	(111)
Cash Flows from Investing Activities					
Payments for plant and equipment		(119)	(322)	–	–
Proceeds on disposal of non-current assets		13	58	–	–
Proceeds on disposal of controlled entities		–	1,117	–	700
Net cash used in investing activities		(106)	853	–	700
Cash Flows from Financing Activities					
Conversion of options into shares	22(c)	–	115	–	115
Buy back of ordinary shares under buy back scheme	22(c)	–	(13,970)	–	(13,970)
Borrowings received from/(lent to) controlled entities		–	–	–	(7,973)
Repayment of lease liabilities		(351)	(874)	–	–
Net cash provided by financing activities		(351)	(14,729)	–	(21,828)
Net (Decrease) / Increase in Cash Held		8,486	(11,577)	–	(21,239)
Cash at the beginning of the financial year		36,091	47,668	7,638	28,877
Cash at the end of the Financial Year	9	44,577	36,091	7,638	7,638

The above Statements of Cash Flows should be read in conjunction with the accompanying notes

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

(b) Principles of Consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest.

Changes in ownership interest

Loss of control or significant influence

When control ceases, a gain or loss is recognised as the difference between net sales proceeds, if any, and the consolidated carrying amount (including post-acquisition share of profits, goodwill and equity). Any remaining investment is then accounted for at cost if unlisted, or fair value if listed.

(c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Revenues are recognised as follows in accordance with the principal business activities:

(i) Consulting services

Consulting services revenue is recognised on a billing entitlement basis and is matched against related costs incurred. Where fixed price contracts are used, revenue recognition is based on stage of completion. The stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours.

(ii) Interest

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(iii) Sale of non current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

(iv) Dividends

Dividend revenue is recognised net of any franking credits. Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

NOTES TO THE FINANCIAL STATEMENTS

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- Relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

Translation of controlled foreign operations

The assets and liabilities of foreign operations that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

Exchange rates used

The following exchange rates are the main exchange rates used in translating foreign currency transactions, balances and financial statements (expressed in Australian dollars).

	Average 2004	Average 2003	As at 30 June 2004
UK pound sterling	0.4108	0.3989	0.3872
Singapore dollar	1.2254	1.1080	1.2076

(f) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

(g) Taxation – Note 6

The consolidated entity adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond

reasonable doubt, or if relating to tax losses when realisation is virtually certain.

To the extent that dividends are proposed by controlled entities incorporated overseas, the consolidated entity has provided for withholding tax. A provision is also made for the withholding tax on the balance of unremitted profits that eventually will be remitted to the Company.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Tax Consolidation

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 29. The implementation date for the tax-consolidated group is 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions).

The tax-consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- Deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- Current tax assets and liabilities and deferred tax balances arising from transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a "stand-alone basis" so that the contributions are equivalent to the tax balances generated by transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

(h) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

NOTES TO THE FINANCIAL STATEMENTS

(i) Acquisitions of assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

(j) Revisions of accounting estimates

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. 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.

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.

(k) Receivables – Note 10

The collectibility of debts is assessed at reporting date and specific provisions are made for any doubtful accounts.

Trade debtors are to be settled within 60 days and are carried at amounts due.

(l) Work in progress

Work in progress is carried at the lower of cost allocated and net realisable value and cost includes direct labour and other direct variable costs.

(m) Investments – Note 13

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Refer to Note 1(p).

(n) Leased assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases – Note 17 & 20

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(o) Goodwill – Note 15

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

(p) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis carried forward (refer Note 1(m) and Note 1(o)), are reviewed to determine whether they are in excess of their recoverable amount at balance date.

If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present value.

(q) Depreciation and amortisation

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/ amortised using the straight line method over their estimated useful lives, taking into account estimated residual values. Finance lease assets are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	2004	2003
Furniture and fittings	3-8 years	3-8 years
Computer equipment	2-4 years	2-4 years
Leasehold improvements	6-8 years	6-8 years
Plant and equipment	3-8 years	3-8 years
Goodwill	20 years	20 years

NOTES TO THE FINANCIAL STATEMENTS

(r) Payables – Note 16

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(s) Employee entitlements – Note 31

Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

Non-accumulating non-monetary benefits, such as interest free loans, are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Long service leave

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee share and option plans

Ownership-based remuneration is provided to employees via the SMS Management and Technology Limited Employee Share Option Plan (the Plan). Information relating to the Plan is set out in Note 31.

No accounting entries are made in relation to the Plan until the options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital.

Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation

There are no persons employed by the Company or any of its subsidiaries who are members of a defined benefit superannuation plan. Contributions are recognised as an expense as they are made.

(t) Provisions – Note 18

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and

it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:

- Has a legally recognised right to set-off the recovery receivable and the provision, and
- Intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

Surplus leased premises

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained from its occupancy and sub-lease rentals are less.

The estimate is calculated based on discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

NOTE 2 CHANGES IN ACCOUNTING POLICIES

There are no changes in accounting policies in SMS Management & Technology Limited.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 REVENUE

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from operating activities				
Sales of services	79,929	82,540	–	–
	79,929	82,540	–	–
Revenue from outside operating activities				
Sale of non-current assets	13	58	–	–
Interest revenue	2,134	1,776	13	226
Other	1,030	472	58	–
Dividends received	–	–	3,768	–
	3,177	2,306	3,839	226
Total revenue from ordinary activities	83,106	84,846	3,839	226

NOTE 4 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Individually significant expenses/(revenues) included in loss from ordinary activities before income tax expense				
Write-down of carrying value of goodwill	–	98,042	–	–
Provision for non-recovery of intercompany debt	–	–	–	4,365
Write down of investments to recoverable amount	–	–	–	91,514
Total	–	98,042	–	95,879
(b) Profit/(loss) from ordinary activities before income tax expense has been arrived at after charging /(crediting) the following items:				
<i>Depreciation of:</i>				
Plant and equipment	474	817	–	–
	474	817	–	–
<i>Amortisation of:</i>				
Plant and equipment under finance lease	94	1,076	–	–
Leasehold improvements	283	551	–	–
Goodwill	831	6,801	–	–
	1,208	8,428	–	–
Total depreciation and amortisation	1,682	9,245	–	–
<i>Borrowing Costs</i>				
Finance charges relating to finance leases	43	55	–	–
Interest payable on interest bearing loans	–	19	–	–
	43	74	–	–
Bad and doubtful debts	29	53	–	–
Foreign exchange loss/(gain)	34	14	40	191
Net (gain)/loss on disposal of plant and equipment	6	158	–	–
Rental expense relating to operating leases	2,178	3,131	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Audit Services				
Auditors of the Company				
<i>KPMG Australia:</i>				
– audit and review of financial reports	109,000	90,000	–	–
<i>Overseas KPMG Firms:</i>				
– audit and review of financial reports	16,000	20,000	–	–
	125,000	110,000	–	–
Other Services				
Auditors of the Company				
<i>KPMG Australia:</i>				
– other assurance services	1,500	–	–	–
– taxation services	88,500	13,700	–	–
<i>Overseas KPMG Firms:</i>				
– other assurance services	17,634	–	–	–
	107,634	13,700	–	–

It is the consolidated entity's policy to employ KPMG on assignments additional to their statutory audit duties where their expertise and experience with the consolidated entity are important. These assignments are principally tax advice.

The consolidated entity is a professional services provider to an Australian Government Department. KPMG and the consolidated entity were assigned to provide the Department with advisory services in relation to a significant project. Both KPMG and the consolidated entity are providing services directly to the Department. KPMG has contracted through the consolidated entity at the direction of the Government Department.

The amounts paid or payable to KPMG under these arrangements for the year ended 30 June 2004 totalled \$1,979,032 (2003: \$2,036,187).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INCOME TAX

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Income Tax expense/(benefit)				
Prima facie income tax expense for the financial year differs from the amount calculated on the operating profit/(loss).				
The differences are reconciled as follows:				
Profit/(loss) from ordinary activities before income tax expense	7,062	(106,720)	3,783	(95,843)
Income tax calculated at 30% (2003 at 30%)	2,119	(32,016)	1,135	(28,753)
Tax effect of permanent differences:				
Non-deductible entertainment	99	128	–	–
Non-deductible legal fees and acquisition/divestment costs	–	1	5	–
Non-deductible amortisation expense	253	2,040	–	–
Write-down of carrying value of goodwill (individually significant item)	–	29,413	–	–
Provision for non-recovery of intercompany debt (individually significant item)	–	–	–	1,310
Dividend from Australian controlled entity	–	–	(1,130)	–
Write-down of investments to recoverable amount (individually significant item)	–	–	–	27,454
Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax-consolidated group	–	–	789	–
Recovery of income tax expense under a tax funding agreement	–	–	(789)	–
Other items	12	17	(10)	57
Income tax adjusted for permanent differences	2,483	(417)	–	68
Transfer of tax losses from controlled entities	–	–	–	(68)
Benefit of tax losses not brought to account/(brought to account)	(405)	780	–	–
Under/(over) provision in previous year	(49)	(275)	–	–
Income tax expense/(benefit)	2,029	88	–	–
(b) Future income tax benefit not taken into account				
The potential future income tax benefit in foreign controlled entities arising from tax losses has not been recognised as an asset because recovery of tax losses is not virtually certain	2,182	1,341	–	–

The potential future income tax benefit will only be obtained if:

- The relevant Company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- The relevant Company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- No changes in tax legislation adversely affect the relevant Company and/or the consolidated entity in realising the benefit.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INCOME TAX continued

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(c) Tax assets and liabilities				
Current asset – Deferred tax assets				
Future income tax benefit	–	–	–	–
Non-current asset – Deferred tax assets				
Future income tax benefit	1,019	1,237	1,019	–
Current liability – Current tax liabilities				
Provision for income tax	220	–	220	–
Non-current liability – Deferred tax liabilities				
Provision for deferred income tax	11	–	11	–

NOTE 7 EARNINGS PER SHARE

All shares included in the earnings per share calculation are ordinary shares. Options redeemable under the SMS Management & Technology Limited Employee Share Option Plan the Executive Option Plan are classified as potential ordinary shares and are included in the diluted earnings per share calculations. Further details are contained in Note 22.

	Consolidated	
	2004 \$'000	2003 \$'000
Earnings	5,033	(106,808)
Basic earnings/(loss) per share	\$0.02	(\$0.33)
Diluted earnings/(loss) per share	\$0.02	(\$0.33)
Weighted average number of shares used as the denominator		
<i>Number for basic earnings per share</i>		
Ordinary shares	313,972,890	321,914,508
<i>Number for diluted earnings per share</i>		
Ordinary shares	313,972,890	321,914,508
Effect of share options on issue	–	43,450
	313,972,890	321,957,958

During the year 6,320 options were converted to ordinary shares. The diluted EPS calculations include that portion of options issued for nil consideration, weighted with reference to the date of conversion.

The following employee share options have not been included in the calculation of diluted EPS as they are not dilutive:

Issue Date	Number of options at 30 June 2004	Number of options at 30 June 2003
01-Jul-00	48,000	48,000
01-Jul-00	3,588,000	3,588,000
01-Jul-01	6,901,800	7,909,900
12-Jul-01	1,600,000	1,600,000
01-Jul-02	3,612,900	4,032,900
28-Oct-02	750,000	750,000
Total	16,500,700	17,928,800

The full details of these options are set out in Note 22(d).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 SEGMENT REPORTING

Business Segments

SMS Management & Technology Limited (SMS) and its controlled entities develop, manage and implement information technology and business solutions. There is only one business segment based on the consolidated entity's management reporting system. All non core segments have been divested or closed down.

Geographical Segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets. The consolidated entity's business segments operate geographically as follows:

	Australia		United Kingdom		Singapore		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Secondary reporting Geographical Segments								
External Segment Revenue by Location of Customers	74,879	78,023	6,054	4,382	2,173	2,441	83,106	84,846
Segment Assets by Location of Assets	72,745	69,195	2,293	998	1,143	430	76,181	70,623

NOTE 9 CURRENT ASSETS - CASH ASSETS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Cash at bank and on hand	25,992	18,144	7,638	7,638
Deposits at call	18,585	17,947	-	-
	44,577	36,091	7,638	7,638

The above figures are reconciled to cash at the end of the financial year as shown in the Statements of Cash Flows. The deposits are bearing interest rates of between 4.75% and 5.27% (2003 4.38% and 4.85%).

NOTE 10 CURRENT ASSETS - RECEIVABLES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Trade debtors	14,156	13,800	-	-
Less: Provision for doubtful debts	(59)	(35)	-	-
	14,097	13,765	-	-
Sundry and other debtors	1,521	151	3,768	50
Income taxes refundable	-	2,867	-	-
Accrued income	-	189	-	-
	1,521	3,207	3,768	50
	15,618	16,972	3,768	50

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 CURRENT ASSETS – OTHER

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Prepayments	949	770	–	–
Security deposits	139	102	–	–
	1,088	872	–	–

NOTE 12 NON-CURRENT ASSETS – RECEIVABLES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Amounts receivable from related entities	–	–	32,095	32,079
Less: provision for diminution	–	–	(32,050)	(32,050)
	–	–	45	29

NOTE 13 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Shares in controlled entities – at cost	–	–	392,235	392,235
Less: provision for diminution	–	–	(333,221)	(333,221)
	–	–	59,014	59,014

NOTE 14 NON CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Plant and equipment – at cost	6,079	5,967	–	–
Less: Accumulated depreciation	(5,075)	(4,599)	–	–
	1,004	1,368	–	–
Leasehold improvements – at cost	3,198	3,198	–	–
Less: Accumulated amortisation	(2,858)	(2,575)	–	–
	340	623	–	–
Plant and equipment under finance lease	1,951	1,951	–	–
Less: Accumulated amortisation	(1,885)	(1,791)	–	–
	66	160	–	–
	1,410	2,151	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

continued

Reconciliations

Reconciliations of the carrying amount of plant and equipment at the beginning and end of the current financial year are set out as follows for the consolidated entity only, given that the parent entity does not hold any plant or equipment.

	Plant and equipment	Leasehold Improvements	Plant and equipment under finance lease
Financial Year 2004	\$'000	\$'000	\$'000
Consolidated Entity			
Carrying amount at 1 July 2003	1,368	623	160
Additions	119	–	–
Disposals	9	–	–
Depreciation/Amortisation charge	474	283	94
Carrying amount at 30 June 2004	1,004	340	66

NOTE 15 NON-CURRENT ASSETS – INTANGIBLES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Goodwill	364,728	364,728	–	–
Less: Accumulated amortisation and write-down	(352,259)	(351,428)	–	–
	12,469	13,300	–	–

NOTE 16 CURRENT LIABILITIES – PAYABLES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Trade creditors	2,901	2,250	–	–
Other creditors and accruals	1,332	545	–	–
	4,233	2,795	–	–

NOTE 17 CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Lease liabilities	222	340	–	–
	222	340	–	–

The lease liabilities are secured by a lien over the assets subject to the finance lease arrangement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Surplus lease space	75	854	–	–
Employee entitlements	2,390	2,323	–	–
Dividend	3,768	–	3,768	–
	6,233	3,177	3,768	–
Reconciliations				
Reconciliations of the carrying amount of each class of provision, except for employee benefits, are set out below:				
Reconciliations				
<i>Surplus lease space</i>				
Carrying amount at beginning of year	854	–	–	–
Payments made during the year	(434)	854	–	–
Re-measurement adjustments	(345)	–	–	–
Carrying amount at end of year	75	854	–	–
<i>Dividend</i>				
Carrying amount at beginning of year	–	–	–	–
Provisions made during the year	3,768	–	3,768	–
Carrying amount at end of year	3,768	–	3,768	–

NOTE 19 CURRENT AND NON-CURRENT LIABILITIES – OTHER

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Current liabilities – other				
Amounts payable to controlled entities	–	–	4,452	3,645
	–	–	4,452	3,645
(b) Non-current liabilities – other				
Other liabilities	90	111	–	–
	90	111	–	–

NOTE 20 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Lease liabilities	–	222	–	–
	–	222	–	–

The lease liabilities are secured by a lien over the assets subject to the finance lease arrangement. All leases are now current.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES

continued

Assets pledged as security

Assets pledged as security comprise the security deposits referred to in Note 11 plus a Standard Authority to Appropriate and Set-Off Term Deposits held by SMS Consulting Group Limited to the equivalent value of the amount used with regard to the facilities detailed below to a maximum limit of \$2,300,000.

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Unrestricted access was available at balance date to the following facilities:				
Total facilities				
Interchangeable lease facility	2,300	2,300	–	–
Bank Indemnity / Guarantee facility	856	856	162	162
Encashment and Clean Credit facility	189	149	–	–
	3,345	3,305	162	162
Used at balance date				
Interchangeable lease facility	2,300	6	–	–
Bank Indemnity / Guarantee facility	645	798	162	162
Encashment and Clean Credit facility	–	–	–	–
	2,945	804	162	162
Unused at balance date				
Interchangeable lease facility	–	2,294	–	–
Bank Indemnity / Guarantee facility	211	58	–	–
Encashment and Clean Credit facility	189	149	–	–
	400	2,501	–	–

NOTE 21 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Employee entitlements	508	563	–	–
	508	563	–	–

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 CONTRIBUTED EQUITY

	Parent Entity		Parent Entity	
	Shares			
	2004 '000	2003 '000	2004 \$'000	2003 \$'000
(a) Share capital				
Ordinary shares – fully paid	313,973	313,967	449,399	449,399
	313,973	313,967	449,399	449,399

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meeting. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

(b) Movements in ordinary share capital of the Company during the year

Date	Details	Number of Shares	Issue price	\$'000
1 July 2003	Opening balance	313,966,570		449,399
Various	Conversion of options to ordinary shares with nil exercise price	6,320	NIL	–
30 June 2004	Closing balance	313,972,890		449,399

A total of 6,320 ordinary shares were issued during the financial year as a consequence of conversion of options with a nil exercise price.

On 27 October 2003 the Company announced its intention to extend its on market share buy-back within the Section 254B(4) Corporations Act 2001 10% in 12 months limit commencing not earlier than 17 November 2003. As at 30 June 2004 no shares had been bought back.

(c) Movements in ordinary share capital of the Company during the prior year

Date	Details	Number of Shares	Issue price	\$'000
1 July 2002	Opening balance	352,355,094		463,254
Various	Conversion of options to ordinary shares with nil exercise price	206,980	NIL	–
Various	Conversion of options to ordinary shares with \$0.48 exercise price	240,000	\$0.48	115
Various	Cancellation of shares bought back under share buy back scheme	(38,835,504)	Avg \$0.36	(13,970)
30 June 2003	Closing balance	313,966,570		449,399

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 CONTRIBUTED EQUITY continued

(d) Movements in options during the year

Grant Date	Exercise Date or after	Expiry Date	Exercise Price	Number of options at 1 July 2003	Options Granted	Options Lapsed	Options Exercised	Number of Options as at 30 June 2003 on Issue	Options Vested	Proceeds received \$	Date Issued	Number of shares issued	Fair value per share \$	Fair value aggregate \$
1 Jul 99	1 Jul 00	1 Jul 03	NIL	43,450	0	37,130	6,320	-	-	-	Various	6,320	\$0.32	2,022
1 Jul 00	1 Jul 01	30 Jun 05	\$2.00	48,000	0	0	0	48,000	48,000	-	-	-	-	-
1 Jul 00	1 Jul 01	30 Jun 10	\$1.50-\$6.00	3,588,000	0	0	0	3,588,000	3,588,000	-	-	-	-	-
1 Jul 01	1 Jul 02	30 Jun 06	\$0.48	7,909,900	0	1,008,100	0	6,901,800	6,901,800	-	05-Sep-02	-	-	-
12 Jul 01	1 Jul 02	30 Jun 06	\$0.48	1,600,000	0	-	0	1,600,000	1,600,000	-	-	-	-	-
1 Jul 02	1 Jul 03	30 Jun 07	\$0.48	4,032,900	350,000	770,000	0	3,612,900	1,445,160	-	-	-	\$0.24	-
28 Oct 02	1 Jul 04	30 Jun 07	\$0.48	750,000	0	-	0	750,000	500,000	-	-	-	-	-
				17,972,250	350,000	1,815,230	6,320	16,500,700	14,082,960	-	-	6,320	-	2,022

(e) Post balance date movements in equity

No significant movements in equity have occurred since 30 June 2004 and up to the date of this report.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 RESERVES AND RETAINED PROFITS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
(a) Reserves:				
Foreign Currency Translation reserve	(145)	(129)	–	–
	(145)	(129)	–	–
Nature and purpose of foreign currency translation reserve:				
Exchange differences arising on translation of wholly owned subsidiaries SMS Management & Technology Limited (incorporated in UK), SMS M&T Pte Ltd (incorporated in Singapore) and SMS Management & Technology Sdn Bhd (incorporated in Malaysia) are taken to the foreign currency translation reserve in accordance with accounting policy Note 1(e).				
Movements in reserve:				
Foreign Currency Translation Reserve				
Balance at beginning of year	(129)	40	–	–
Foreign currency translation of foreign controlled entities	(16)	(169)	–	–
Balance at end of year	(145)	(129)	–	–
(b) Retained Profits				
Accumulated losses at the beginning of the financial year	(385,855)	(279,047)	(386,381)	(290,538)
Net profit/(loss) attributable to members of the parent entity	5,033	(106,808)	3,783	(95,843)
Dividends recognised during the year	(3,768)	–	(3,768)	–
Accumulated losses at the end of the financial year	(384,590)	(385,855)	(386,366)	(386,381)

NOTE 24 DIVIDENDS

Dividends recognised in the current year by the Company are:

Type	Cents per share	Total Amount \$	Franked/ Unfranked	Date of Payment
2004 Dividend	1.2	3,767,674	Franked	2 August 2004

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

	Parent	
	2004 \$'000	2003 \$'000
Dividend franking account		
30% franking credits available to shareholders of SMS Management & Technology Limited for subsequent financial years.	6,314	7,106

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- Franking credits that will arise from the payment of the current tax liability;
- Franking debits that will arise from the payment of dividends recognised as a liability at the year-end;
- Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end; and
- Franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 RESERVES AND RETAINED PROFITS

Tax Consolidation Legislation

On 1 July 2003, SMS Management & Technology Limited and its wholly-owned subsidiaries adopted the Tax Consolidation legislation which requires a tax-consolidated group to keep a single franking account. The amount of franking credits available to shareholders of the parent entity (being the head entity in the tax-consolidated group) disclosed at 30 June 2004 has been measured under the new legislation as those available from the tax-consolidated group.

NOTE 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

(a) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the consolidated entity, which have been recognised on the Statement of Financial Position, is generally the carrying amount, net of any provisions for doubtful debts.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of clients and customers in various companies and performing due diligence procedures on major new customers. The consolidated entity is not materially exposed to any overseas country or individual customer.

(b) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rates for classes of financial assets and liabilities is set out in the tables below.

	Note	Fixed interest maturing in				Non-interest Bearing	Total
		Floating Interest rate	1 year or less	1 to 5 years	More than 5 years		
2004		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash and deposits	9	41,977	2,600	–	–	–	44,577
Trade and other Receivables	10,11	–	–	–	–	16,706	16,706
		41,977	2,600	–	–	16,706	61,283
Weighted average interest rate		5.0%	5.0%	–			
Financial Liabilities							
Trade and other creditors	16	–	–	–	–	4,233	4,233
Lease liabilities	17, 20	–	222	–	–	–	222
Employee entitlements	18, 21	2,898	–	–	–	–	2,898
		2,898	222	–	–	4,233	7,353
Weighted average interest rate		5.2%	7.8%	7.8%			

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE continued

(b) Interest rate risk (continued)

	Note	Fixed interest maturing in				Non-interest Bearing	Total
		Floating Interest rate	1 year or less	1 to 5 years	More than 5 years		
2003		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash and deposits	9	33,581	2,510	–	–	–	36,091
Trade and other Receivables	10,11	–	–	–	–	17,844	17,844
		33,581	2,510	–	–	17,844	53,935
Weighted average interest rate		4.7%	4.7%				
Financial Liabilities							
Trade and other creditors	16	–	–	–	–	2,795	2,795
Lease liabilities	17, 20	–	340	222	–	–	562
Employee entitlements	18,21	2,886	–	–	–	–	2,886
		2,886	340	222	–	2,795	6,243
Weighted average interest rate		5.2%	7.8%	7.8%			

(c) Net Fair Value of Financial Assets and Liabilities

Recognised financial instruments

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is determined by discounting the expected future cash flows by the current interest rate for assets and liabilities with similar risk profiles. The carrying amounts and net fair values of financial assets and liabilities on the Statements of Financial Position at balance date are the same.

There are no unrecognised financial instruments.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Lease Commitments				
Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,852	2,625	–	–
Later than one year but not later than 5 years	6,110	1,869	–	–
Total commitments*	7,962	4,494	–	–
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	229	375	–	–
Later than one year but not later than 5 years	–	228	–	–
Minimum lease payments	229	603	–	–
Less: future finance charges	(7)	(41)	–	–
Total lease liabilities	222	562	–	–
Representing lease liabilities:				
Current (Note 17)	222	340	–	–
Non-current (Note 20)	–	222	–	–
	222	562	–	–

*Includes surplus lease space provision amounting to \$75,000 (2003:\$854,000).

NOTE 27 CONTINGENT LIABILITIES

Details of contingent liabilities are as follows:

(a) Disputes and minor claims

From time to time, sundry intellectual property disputes and minor claims have been made against the consolidated entity. The Directors consider these claims to be immaterial and spurious, and part of the normal course of doing business. No amounts have been provided in relation to any of these matters. No material losses are anticipated in respect of any of the above contingent liabilities.

(b) Cross Guarantees

Certain entities in the wholly owned group have entered into a Deed of Cross Guarantee full details of which are provided in Note 28.

(c) Bank guarantees

Bank guarantees of \$694,000 have been provided as security for performance of property rental covenants. The bank guarantees are secured by a Standard Authority to Appropriate and Set-Off Term Deposits to the equivalent facility value.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 DEED OF CROSS GUARANTEE

SMS Management & Technology Limited, SSH Financial Services Pty Ltd, SMS Consulting Group Limited, Maximo Go Pty Ltd, GMD Group Pty Ltd, Garner MacLennan Interactive Pty Ltd and SMS Administration Pty Ltd are parties to a Deed of Cross Guarantee under which each Company guarantees the debts of the others.

By entering into the Deed, the participating wholly-owned entities have been relieved of the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission.

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by SMS Management & Technology Limited, they also represent the "Extended Closed Group."

Given that the Closed Group for the years ended 30 June 2004 and 30 June 2003 include all of the trading entities either individually or by way of consolidation of the results and balances of their wholly owned subsidiaries, both domestic and overseas, the results and balances of the Closed Group as at 30 June 2004 and 30 June 2003 effectively comprise the full Statement of Financial Performance and Statement of Financial Position included in this Annual Report.

NOTE 29 INVESTMENT IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2004 %	2003 %
SSH Financial Services Pty Ltd ^{(vi)#}	Australia	Ordinary	100	100
SMS Administration Pty Ltd #	Australia	Ordinary	100	100
SMS M&T Pte Ltd ⁽ⁱ⁾	Singapore	Ordinary	100	100
SMS Management & Technology Sdn Bhd ⁽ⁱⁱ⁾	Malaysia	Ordinary	100	100
Maximo Go Pty Ltd ^{(iii)#}	Australia	Ordinary	100	100
GMD Group Pty Ltd ^{(iv) #}	Australia	Ordinary	100	100
SMS Consulting Group Limited ^{(v)#}	Australia	Ordinary	100	100

(i) SMS M&T Pte Ltd holds a 100% beneficial interest in SMS Management & Technology Limited, a Company incorporated in Hong Kong.

(ii) SMS Management & Technology Sdn Bhd was incorporated on 24th August 2002 and is a wholly owned subsidiary of SMS Management & Technology Ltd.

(iii) Maximo Go Pty Ltd held a 100% interest in SMS Technology Pty Ltd at balance date. SMS Technology Pty Ltd is a Company incorporated in Australia.

(iv) GMD Group Pty Ltd held interests at balance date as set out in the following.

			2004 %	2003 %
Garner MacLennan Interactive Pty Ltd #	Australia	Ordinary	100	100
Stewart MacLennan Holdings Pty Ltd	Australia	Ordinary	100	100
B1B2 Pty Ltd	Australia	Ordinary	100	100

(v) SMS Consulting Group Limited held a 100% interest in SMS Management & Technology Limited, a Company incorporated in the United Kingdom.
SMS Consulting Group Limited held a 100% interest in SMS Employees Pty Ltd, a Company incorporated in Australia.

(vi) SSH Financial Services Pty Ltd held a 100% interest in eVend Inc, a Company incorporated in the United States America.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 INVESTMENT IN CONTROLLED ENTITIES continued

(b) Acquisition of Controlled Entities in 2004

There were no acquisitions during the 2004 financial year.

(c) Class Order Relief

For controlled entities marked #, relief has been granted from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information, refer Note 28.

NOTE 30 RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Operating profit/(loss) after income tax	5,033	(106,808)	3,783	(95,843)
<i>Add/(less) non cash items</i>				
Depreciation and amortisation	1,682	9,245	–	–
Net (profit) / loss on disposal or write down of non-current assets	6	98,042	–	–
Write-back of provision for excess lease space	345	–	–	–
Amount set aside for Provision for Dividend	(3,768)	–	(3,768)	–
Intercompany debt forgiveness	–	–	–	–
Provision for diminution of investments	–	–	–	91,514
Exchange rate movements in foreign currency translation reserve	(16)	(169)	–	–
Provision for non-recovery of intercompany debt	–	–	–	4,365
Bad and Doubtful Debts	29	53	–	–
<i>Changes in assets and liabilities</i>				
Decrease (increase) in trade and other debtors	(1,526)	5,884	(3,786)	55
Decrease (increase) in inventories	–	–	–	–
Decrease (increase) in other assets	(216)	130	(16)	–
Increase (decrease) in trade creditors, prepaid revenue and provisions	4,494	(2,802)	4,575	(202)
Decrease (increase) in prepaid income tax	2,867	(1,323)	–	–
Decrease (increase) in future income tax benefit	(218)	169	(1,019)	–
Increase (decrease) in provision for income tax	220	(40)	220	–
Increase (decrease) in provision for deferred income tax	11	(82)	11	–
Net cash inflow (outflow) from operating activities	8,943	2,299	–	(111)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 31 EMPLOYEE ENTITLEMENTS

	Consolidated		Parent Entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Employee entitlement liabilities				
Provision for employee entitlements – current (Note 18)	2,390	2,323	–	–
Provision for employee entitlements – non-current (Note 21)	508	563	–	–
Aggregate employee entitlement liabilities	2,898	2,886	–	–
Employee numbers	No.	No.	No.	No.
Number of employees at reporting date (excluding contractors)	322	351	–	–

As explained in Note 1(s), the amounts for long service leave are measured at their present values.

The following assumptions were adopted in measuring present values:

Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	6%	6%	–	–
Weighted average discount rates	5.18%	5.18%	–	–
Settlement term (years)	15	15	–	–

Employee Share Option Plan

Options have been issued during the financial year under SMS Management & Technology Limited Employee Share Option Plan (the Plan). All employees of SMS Management & Technology Limited and its controlled entities at the date of approval of the offer by the Board of Directors are eligible to participate in the Plan.

In accordance with the Company's policy for Dealing in Company Securities (Refer Corporate Governance Statement in the Annual Report), each option is convertible into one ordinary share. Options have been granted for no consideration. With an effective grant date of 1 July 2002, the exercise price of the options is \$0.48 and the entitlements become exercisable progressively to 1 July 2007.

The employees' entitlements to the options are vested as soon as they become exercisable subject to the forfeiture provisions. The options expire on 30 June 2007 and are non-transferable and unquoted. No options issued during the year have been exercised pursuant to the Plan. Amounts receivable on the exercise of the options are recognised as share capital.

There are no voting or dividend rights attached to these options. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of options of unissued ordinary shares as at the beginning of the reporting date and movements during the year are set out in Note 22(d).

Employment contracts

In prior years, certain employees were granted option entitlements as part of their contract of employment with the Company or its controlled entities. Exercise prices for these options ranged from \$1.50 to \$6.00. Expiry and exercise dates also varied on a contract by contract basis. All options have been issued for nil consideration and are convertible into one ordinary share. The employees' entitlements to the options are vested (i.e. they are not conditional on future employment) as soon as they become exercisable and the options are non-transferable and unquoted.

There are no voting or dividend rights attached to these options. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of options of unissued ordinary shares as at the beginning of the reporting date and movements during the year are set out in Note 22(d).

Superannuation

All employees in the consolidated entity are members of accumulation funds of their choice and there are no employees who are members of defined benefit superannuation schemes.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 DIRECTORS AND EXECUTIVE DISCLOSURES

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include a mix of fixed remuneration, performance-based remuneration, and equity-based remuneration.

The remuneration structures explained below are designed to attract suitably qualified candidates and to affect the broader outcome of increasing the consolidated entity's net profit attributable to members of the parent entity. The remuneration structures take into account:

- The overall level of remuneration for each Director and Executive;
- The Executives' ability to control the relevant segment/s' performance; and
- The amount of incentives within each Executive's remuneration.

Executive Directors and senior Executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are a blend of the consolidated entity's and each relevant segment's result and are set out in each Executive's letter of appointment (further details are available on the Company's website). There is no separate profit-share plan. Options were issued under the Executive Share Option Plan (made in accordance with thresholds set in plans approved by shareholders at the 2002 AGM). The ability to exercise the options is conditional on the consolidated entity achieving share price performance hurdles. Discretion in the granting of bonuses does arise where Executives change roles during the year.

Non-Executive Directors do not receive any performance related remuneration.

The Board considers that the above performance-linked remuneration structure is generating the desired outcome. The evidence for this is firstly, the very strong growth in profits in this financial year, where they were first widely introduced and secondly, the performance-linked element of the structure appears to be appropriate because most but not all of the Executives achieve a level of performance which qualifies them for bonuses and options.

Total remuneration for all Non-Executive Directors, in accordance with the Constitution is not to exceed \$200,000 per annum. Directors' base fees are presently up to \$25,000 per annum. The Chairperson receives \$62,500. Non-Executive Directors do not receive bonuses. Directors' fees cover all main Board activities and committee membership excluding Executives of the parent entity who are only Directors of wholly-owned Australian controlled entities and comprises only amounts paid whilst holding office of Director.

There were no retirement benefits paid to Directors during the financial year (2003:\$nil).

Remuneration of specified Directors and specified Executives of the consolidated entity

The following table provides the details of all Directors of the Company ("specified Directors") and the five or more Executives of the consolidated entity with the greatest authority ("specified Executives") and the nature and amount of the elements of their remuneration for the year ended 30 June 2004.

Director	Base	Bonuses	Non-Cash Benefits	Super Contribution	Options Issued	Total
	Remuneration (Salary & Fees)					
	\$	\$	\$	\$		\$
Specified Directors*						
Laurence Cox (Chairman)	62,500	–	–	5,625	24,040	92,165
Bruce Thompson (Non-Executive Director)	25,000	–	–	2,250	7,212	34,462
John Murphy ^(A) (Non-Executive Director)	25,000	–	–	2,250	2,712	29,962
James Carnegie (Non-Executive Director)	25,000	–	–	2,250	–	27,250
Thomas Stianos (Executive Director)	325,000	100,000	–	11,002	45,660	481,662

(A) John Murphy Resigned 30 June 2004

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 DIRECTORS AND EXECUTIVE DISCLOSURES continued

Remuneration of specified Directors and specified Executives of the consolidated entity (continued)

Executive Officers (excluding Directors)	Base	Bonuses	Non- Cash Benefits	Super Contribution	Options Issued	Total
	Remuneration (Salary & Fees)					
	\$	\$	\$	\$		\$
Specified Executives*						
Catherine Ford (Regional Director, QLD)	160,000	–	–	11,002	4,574	175,576
Vivian Clark (Company Secretary/CFO)	151,535	30,000	–	9,944	1,525	193,004
Graham Lanphier (Regional Director, VIC)	142,500	30,000	–	10,845	–	183,345
Paul Pettigrew ^(B) (Regional Director, NSW)	130,513	100,000	–	7,334	12,198	250,045
Stephen Clark ^(C) (Former Director Consulting, VIC)	230,147	–	–	11,002	–	241,149
Andrew Dyer ^(D) (Director Operations)	115,402	40,000	–	7,334	9,149	171,885
Paul Cooper# (Managing Director, UK)	392,670	39,267	–	19,633	4,574	456,144
Hilton Holloway ## (Managing Director, Asia)	262,366	59,690	–	11,001	6,099	339,156

(B) Paul Pettigrew was appointed 3 November 2003

(C) Stephen Clark resigned 2 April 2004

(D) Andrew Dyer was appointed 10 November 2003

Amounts remunerated in Great British Pounds and converted into Australian dollars at the exchange rate on 30 June 2004 of 0.3872.

Amounts remunerated in Singapore dollars and converted into Australian dollars at the exchange rate on 30 June 2004 of 1.2076.

* During the financial year, SMS Management & Technology Limited paid a premium of \$105,579 to insure officers of the Company and related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2004 included the Directors and Company Secretary.

Equity Interests

All options refer to options over ordinary shares in SMS Management & Technology Limited.

Options and rights over equity instruments granted as remuneration

During the year the following options over ordinary shares were granted under the SMS Employees options plan

Specified Executives	Number of Options granted during the year	Number of Options granted during the year
Paul Pettigrew	200,000	40,000
Andrew Dyer	150,000	30,000

All options granted in the current year were granted in November 2003, have an expiration date of 30 June 2007, an exercise price of \$0.48 cents and a fair value of \$0.24 cents. No options have been granted since the end of the financial year. The options are at no cost to the recipients.

All options expire on the earlier of the expiry date or termination of the individual's employment. The options are exercisable yearly from grant date.

Further details, including grant dates and exercise dates regarding options granted to Executives under the plan are in Note 31.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 DIRECTORS AND EXECUTIVE DISCLOSURES continued

Exercise of options granted as remuneration

There were no options exercised by directors or executives during the period.

Option Holdings

The movement during the reporting period in the number in the options over the ordinary shares in SMS Management & Technology Limited

	Held at 1 July 2003	Granted as Remuneration	Exercised	Other changes	Held at 30 June 2004	Vested or exercisable at 30 June 2004
Specified Directors						
Laurence Cox	1,000,000	–	–	–	1,000,000	1,000,000
Thomas Stianos	1,140,000	–	–	–	1,140,000	271,000
Bruce Thompson	300,000	–	–	–	300,000	300,000
John Murphy	300,000	–	–	–	300,000	300,000
James Carnegie	–	–	–	–	–	–
Specified Executives						
Catherine Ford	225,000	–	–	–	225,000	114,000
Vivian Clark	124,500	–	–	–	124,500	85,630
Graham Lanphier	89,000	–	–	–	89,000	49,540
Paul Pettigrew	–	200,000	–	–	200,000	40,000
Andrew Dyer	–	150,000	–	–	150,000	30,000
Paul Cooper	290,000	–	–	–	290,000	184,100
Hilton Holloway	315,000	–	–	–	315,000	175,500

Equity holding and transactions

The movement during the reporting period in the number of ordinary shares of SMS Management & Technology Limited held, directly, indirectly or beneficially, by each specified Director and Executive, including their personally-related entities is as follows:

	Held at 1 July 2003	Purchases	Received on exercise of Options	Sales	Held at 30 June 2004
Specified Directors					
Laurence Cox	854,000	58,000	–	151,000	761,000
Thomas Stianos	11,047,090	–	–	2,460,000	8,587,090
Bruce Thompson	100,000	–	–	–	100,000
John Murphy	130,000	–	–	–	130,000
James Carnegie	1,178,068	–	–	–	1,178,068
Specified Executives					
Catherine Ford	30,380	10,000	–	–	40,380
Vivian Clark	510,340	–	–	–	510,340
Graham Lanphier	32,640	–	–	–	32,640
Paul Pettigrew	–	–	–	–	–
Andrew Dyer	–	–	–	–	–
Paul Cooper	1,643,437	–	–	583,637	1,059,800
Hilton Holloway	33,180	–	–	–	33,180

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 DIRECTORS AND EXECUTIVE DISCLOSURES continued

Loans and Other transactions with specified Directors and specified Executives

Loans

There were no loans to or from with specified Directors or specified Executives as of reporting date.

Other transactions with the company or its controlled entities

There were no other transactions with specified Directors or specified Executives as of reporting date.

NOTE 33 NON-DIRECTOR RELATED PARTIES

The classes of Non-Director related parties are:

- Controlling entity of the Company
- Wholly-owned controlled entities
- Partly-owned controlled entities
- Commonly controlled entities
- Associated companies
- Joint venture entities
- Directors of related parties and their Director-related entities.

The wholly-owned group consists of SMS Management & Technology Limited and its wholly controlled entities as set out in Note 28. The ultimate parent entity in the wholly owned group is SMS Management & Technology Limited.

All transactions with Non-Director related parties are on normal terms and conditions. These transactions consisted of loans advanced by and repaid to SMS Management & Technology Limited and provision of services on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by and to SMS Management & Technology Limited Loans to wholly owned controlled entities. These loans are charged interest monthly at 4.9% p.a. (2003: 4.7% p.a.) on the outstanding balance.

Parent entity aggregate amounts receivable from and payable to subsidiaries in the wholly-owned group at balance date are set out in Notes 12.

NOTE 34 EVENTS OCCURRING AFTER BALANCE DATE

No matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:

- (a) The consolidated entity's operations in future financial years
- (b) The results of those operations in future financial years
- (c) The consolidated entity's state of affairs in future financial years
- (d) International Financial Reporting Standards

The consolidated entity will be required to prepare financial statements using Australian Accounting Standards that comply with International Financial Reporting Standards and their related pronouncements ("IFRS") commencing with the year ending 30 June 2006.

The consolidated entity will report for the first time in compliance with IFRS when the results for the half year ending 31 December 2005 are released. IFRS require that entities complying with IFRS for the first time also restate their comparative financial statements using all IFRS except for:

- IFRS4 Insurance Contracts

Hence, the consolidated entity's opening IFRS statement of financial position, dated 1 July 2004, will be a restated comparative balance sheet. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained profits on 1 July 2004, however, transitional adjustments relating to those standards where comparatives are not required will only be made at 1 July 2005. Comparatives restated under IFRS will not be reported in financial statements until those for the half year ending 31 December 2005 being the first half year reported in compliance with IFRS.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34 EVENTS OCCURRING AFTER BALANCE DATE continued

(d) International Financial Reporting Standards (continued)

This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements ("Australian GAAP"). The difference between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position on the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of IFRS and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

Goodwill

Initial impact on retained profits at 1 July 2004

Lower expenses

Volatility in results in event of impairment

Goodwill acquired in a business combination will not require amortisation, but instead be subject to impairment testing at least annually. If there is any impairment, it will be recognised immediately in the statement of financial performance

Share based payments

Initial impact on retained profits at 1 July 2004

Higher expenses

On adoption of IFRS based standards, the consolidated entity will recognise an expense for all share based remuneration, including Deferred Shares and options, and will amortise those expenses over the relevant vesting periods.

Taxation

Initial impact on retained profits at 1 July 2004

Recognition of new assets/liabilities

A "statement of financial" approach will be adopted, replacing the "statement of financial performance" approach currently used by Australian companies. This method recognises deferred tax balances when there is a difference between the carrying value of an asset or liability, and its tax base. It is expected that the AASB112 Income Taxes may require the consolidated entity to carry higher levels of deferred tax assets and liabilities.

Planning phase

The planning phase aims to provide a high level overview of the impacts of conversion to IFRS reporting on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

This phase includes:

- identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS;
- assessment of new information affecting management information systems and business processes;
- evaluation of the implications for staff; and
- preparation of a conversion plan for expected changes to accounting policies, reporting structures, systems, accounting and business process' and staff training.

The Company considers the planning phase will be complete in most respects by 30 September 2004.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 34 EVENTS OCCURRING AFTER BALANCE DATE continued

(d) International Financial Reporting Standards (continued)

Design phase

The design phase aims to formulate the changes required to existing accounting policies, procedures and systems processes in order to transition to IFRS. The design phase will incorporate:

- formulating revised accounting policies and procedures for compliance with IFRS requirements;
- identifying potential financial impacts as at the transition date and for subsequent reporting periods prior to adoption of IFRS;
- developing revised IFRS disclosures;
- designing accounting and business processes to support IFRS reporting obligations;
- identifying and planning required changes to financial reporting and business source systems; and
- developing training programs for staff.

Implementation phase

The implementation phase will include implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff. It will enable the Company to generate the required disclosures of AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards as it progresses through its transition of IFRS.

The Company has not yet commenced the implementation phase. However, the Company expects this phase to be completed by 30 June 2005.

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 19 to 58 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the 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.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

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



Laurence Cox
Director



Thomas Stianos
Director

Signed at Melbourne this day of 23 August 2004

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SMS MANAGEMENT & TECHNOLOGY LIMITED

Scope

The financial report and Directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the Directors' declaration for both SMS Management & Technology Limited (the "Company") and the "Consolidated Entity", for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and entities it controlled during that year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independent requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of SMS Management & Technology Limited is in accordance with:

- a) the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date: and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Don Pasquariello
Partner

Melbourne
23rd August 2004

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20 August 2004.

A SUBSTANTIAL SHAREHOLDERS

Substantial shareholders as advised to the Company are set out below:

	Number held	%
1 J P Morgan Nominees Australia Limited	34,670,006	11.04
2 National Nominees Limited	16,719,393	5.33
3 Macquarie Direct Investment B Limited	13,873,056	4.42
4 Macquarie Direct Investment A Limited	13,783,177	4.39

B VOTING RIGHTS

The voting rights attaching to the ordinary of shares are set out below:

- At meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney; and
- On a show of hands every member present in person or by proxy shall have one vote and on a poll each fully paid share shall have one vote.

There are no voting rights attaching to the options. Ordinary shares partly paid carry voting rights in proportion of the price paid at any time to the total issue price of the shares.

C DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

	Ordinary shares
1 – 250	134
251 – 500	330
501 – 1,000	730
1,001 – 2,000	757
2,001 – 5,000	3001
5,001 – 10,000	1691
10,001 – 100,000	2010
100,001 and over	207
	8,860

On-market buy-back

There is no current on-market buy-back.

D EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders as at 20 August 2004

	Number of Ordinary Shares held	% of Issued Shares
1 J P Morgan Nominees Australia Limited	34,670,006	11.04
2 National Nominees Limited	16,719,393	5.33
3 Macquarie Direct Investment B Limited	13,873,056	4.42
4 Macquarie Direct Investment A Limited	13,783,177	4.39
5 AMP Life Limited	8,915,284	2.84
6 Invia Custodian Pty Limited	8,748,315	2.79
7 Westpac custodian Nominees Limited	8,391,526	2.67
8 Cogent Nominees Pty Limited	8,170,691	2.60
9 Glennfield Pty Ltd	7,000,000	2.23
10 ANZ Nominees Limited	6,458,554	2.06
12 Citicorp Nominees Pty Limited	6,093,339	1.88
11 UBS Nominees Pty Ltd	6,000,000	1.91
13 RBC Global Services Australia Nominees Pty Limited	5,071,486	1.62
14 Larison Pty Ltd	4,710,810	1.50
15 Fortis Clearing Nominees	4,583,713	1.43
16 Larison Pty Ltd	3,321,700	1.06
17 Mr Steven Bryce Uuttrim	2,890,000	0.92
18 RBC Global Services Australia Nominees Pty Limited	2,700,078	0.86
19 Invia Custodian Pty Limited	2,319,577	0.74
20 Permanent trustee Australia Limited	2,200,000	0.70
	166,620,705	52.99

Unquoted equity securities

There are no unquoted fully paid or partly paid ordinary shares as at 20 August 2004.

Options Held

Options issued in July 2001 to Directors after approval by shareholders on 25 June 2001	1,600,000
Options issued to the Chief Executive Officer pursuant to the SMS Management & Technology Limited Employee Share Option Plan prior to appointment as Director.	390,000
Options issued on 28 October 2002 to the Managing Director after approval by shareholders on 28 October 2002	750,000
Options issued pursuant to the SMS Management & Technology Limited Employee Share Option Plan in which no person holds more than 20% of the options and excluding Directors.	10,172,700
Options pertaining to employment contracts which are exercisable at various prices, with various expiry dates and in which no person holds more than 20% of the options	3,588,000
	16,500,700

CORPORATE DIRECTORY

REGISTERED OFFICE:

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SHARE REGISTRY:

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AUDITOR:

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COMPANY SECRETARY:

Vivian Clark



