






A photograph of three business professionals in a modern office hallway with large glass windows. On the left, a woman with glasses and a dark jacket smiles. In the center, a man in a dark suit and striped tie smiles. On the right, a man in a white shirt and dark tie smiles. The image has a teal overlay.

We did
we can
we will

results

Key Financial Results	June 2005	June 2004	% change
Revenue (\$m)	110.7	83.1	 33%
Operating cash flow (before interest and tax) (\$m)	9.3	5.6	 66%
EBITDA (\$m)	10.3	6.7	 54%
Net profit after tax	6.7	5.0	 34%
Dividend (cents per share)	10c	6c	 67%
Capital return (cents per share)	45c	Nil	n/a
Cash balance (after \$28.3m capital return in FY2005)	17.0	44.6	n/a

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Working to make a good company great

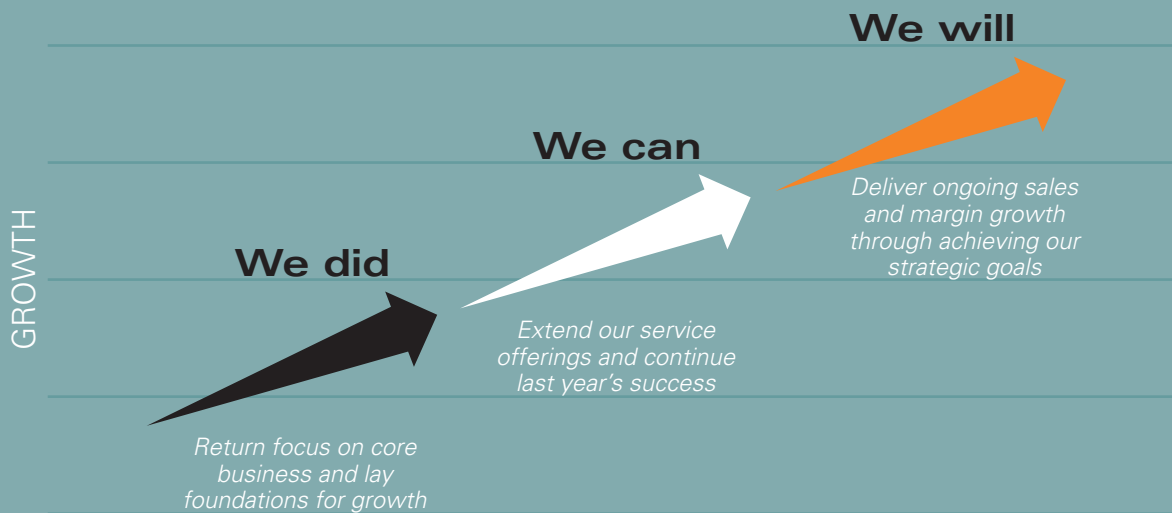
Dear fellow shareholders

The initiatives we have implemented over the last two years have positioned SMS at the forefront of the Management and IT services industry in Australia. Last year, revenue grew by 33% and the current pace of the business sees growth continuing for some time to come. At the same time, net profit after tax increased 34% and shareholders benefited from the distribution of 10 cents per share in a fully franked dividend plus a further 45 cents per share by way of a capital return.

During the year we completed the restructure of the balance sheet which comprised:

- ▶ Consolidating shares in a 5 for 1 ratio to reduce the number of shares on issue to 62.8m
- ▶ Return of \$28.3m cash to shareholders in a capital return representing 45 cents per share
- ▶ A share sale facility for small shareholdings reduced the number of shareholders on the register by 40% thus reducing registry costs

In November 2004 we acquired the business of Implementation Partners International (IPI). The integration of IPI into SMS was rapid and very successful. Some of the IPI principals have already assumed key leadership roles within SMS and the acquisition has generated synergistic benefits.



We achieved healthy growth from our two well established businesses:

- ▷ SMS Consulting, and
- ▷ M&T Resources

In addition we continued to increase revenue from outcome and solution based projects. Of particular note during the year was:

- ▷ A three year initiative to implement a shared service model for a State Government,
- ▷ A smart card solution for a transport operator, and
- ▷ Management of a multi-year applications implementation for the Department of Defence

During the year we also dedicated senior executives to focus on growing the value of technology services provided by our consulting business.

Over the next two years we aim to further grow solutions sales and technology services to complement the revenue currently being generated by our highly successful consulting and recruitment businesses. In so doing, we aim to have four strong lines of business which will provide a diversified and stable revenue stream.

The Company already has good diversification of revenue by industry sector. Four key industries each contribute approximately 20% of our revenue and all are showing strong demand levels into 2006. They are:

- ▷ Banking, Finance and Insurance
- ▷ Information and Communication Technology
- ▷ Government
- ▷ Defence

We continue to see strong demand from the energy and utilities sectors where SMS has a long track record.

Goals

- ▷ Become a regional leader in business services
- ▷ Steady growth in earnings over next 5 years
- ▷ Diversified revenue from 4 lines of business delivering consistent returns

Our International operations had a challenging year, posting a break even result. This was disappointing given their \$1.6m EBITDA contribution in the previous year. To address this, we have shifted the business model to reduce the earnings volatility and resultant impact on group results. Our Singapore business now operates as an integrated part of the Australian operation. This means all resources are shared regionally rather than each office operating as a satellite. In turn this ensures better resource utilisation and profitability. In the United Kingdom, we have added a pool of associate staff which increases our ability to meet client needs and also ensures higher utilisation of our fixed salary staff.

SMS is focused on being a regional leader in the area of business services. We offer the market a unique proposition by being large enough to take on significant business projects while being more flexible and responsive than most international competitors. This competitive differentiation is well understood by our clients and staff, giving SMS good long term prospects.

The investments over the last two years are bearing fruit as evidenced by a 33% increase in revenue and a 34% increase in net profit after tax. Two lines of business are well established and will continue to grow; they are SMS Consulting and M&T Resources. These are being complemented by the addition of two further lines of business, namely Technology Services and Solutions. Finally, we have implemented new business models in Singapore and London which will reduce the volatility of performance in our international offices. Current demand and sales performance point to a continuation of healthy growth in earnings during 2006.



Thomas Stianos
Chief Executive Officer



Laurence G. Cox
Chairman

we did:

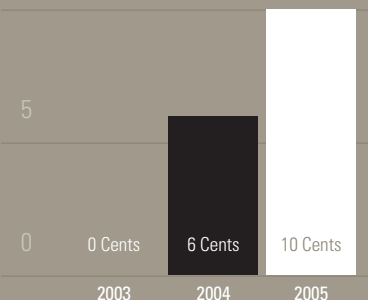
restore focus on the core business
and lay the foundations for growth

Shareholder returns

	2005	2004
Net profit after tax	\$6.7m	\$5.0m
Dividend paid	\$6.3m	\$3.8m
Franked dividend per share	10c	6c
Capital return per share	45c	–
Increase in share price	54c	75c

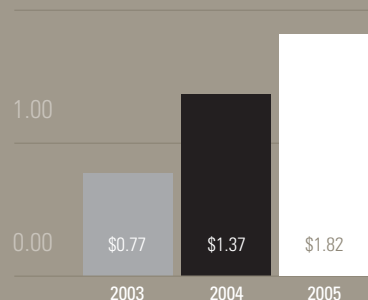
↑
Dividend
67%

10



↑
Share price
38%

2.00



OPERATING
CASHFLOW

↑ **64%**

STAFF NUMBERS

↑ **17%**

manage our capital

- ▷ Share consolidation complete
- ▷ Small shareholdings rationalised
- ▷ \$28.3m excess cash returned to shareholders as capital return
- ▷ Balance sheet restructured

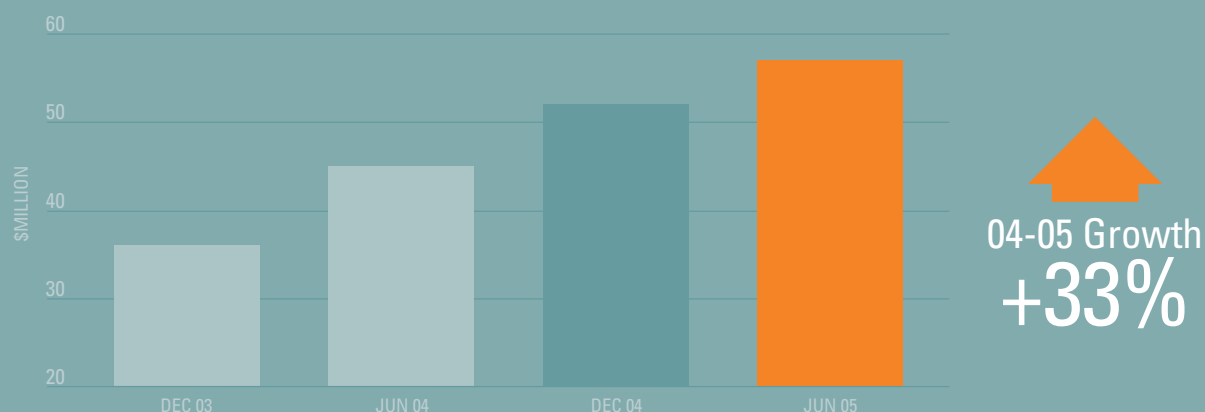
take action

<p>Introduced industry verticals to improve service and drive growth</p>	<ul style="list-style-type: none"> ▷ Defence revenue 25%  ▷ Banking & Finance 67%  ▷ ICT revenue 53% 
<p>Take on Systems Integration projects to leverage existing project management talent</p>	<ul style="list-style-type: none"> ▷ \$15m in Solutions projects
<p>Invest in intellectual property and knowledge management</p>	<ul style="list-style-type: none"> ▷ Knowledge Portal system implemented ▷ Four offices quality certified ▷ Accreditation for project management staff ▷ Skills training program
<p>Improve sales and account management capability</p>	<ul style="list-style-type: none"> ▷ Global Customer Relationship Management systems implemented ▷ Increased number of account managers 30% 
<p>Foster work environment that attracts best people</p>	<ul style="list-style-type: none"> ▷ Staff numbers 17% increased 
<p>Build M&T Resources as a self sufficient business</p>	<ul style="list-style-type: none"> ▷ Revenue up 52%  ▷ Independent sales and recruitment

we can:

grow the business

















Revenue in excess of \$110m pa and growing



spread the revenue

	\$m	Change
Banking, Finance and Insurance	26.5	▲ 67%
Information & Communication Technology	22.1	▲ 53%
Government	20.9	▲ 51%
Defence	19.2	▲ 25%
Energy and Utilities	9.0	-
Mining and Resources	2.1	▼ 10%
Other	9.3	▲ 2%

expand the business service offerings

Transition	04/05	05/06	06/07	07/08
Consulting				
M&T Resources				
Technology Services				
Solutions				
 = Established  = Planned				

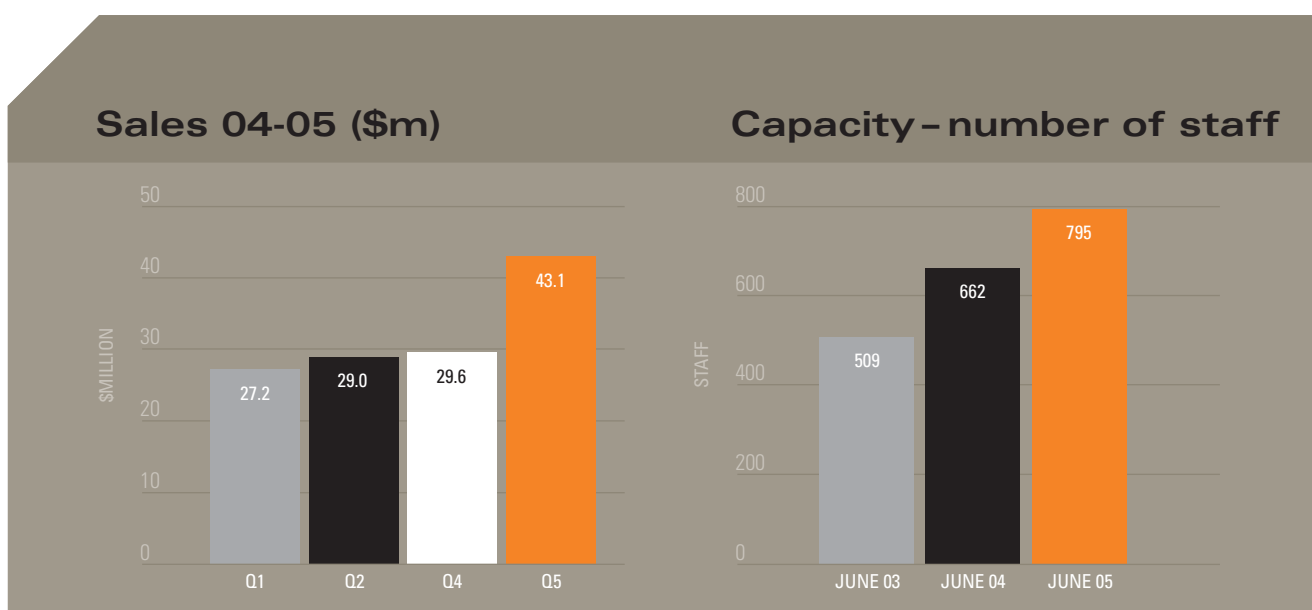
SMS has continued to expand the breadth of its service offerings and the depth of the clients that it serves.

By leveraging our core management and technology business, we have successfully established M&T Resources – a highly regarded provider of contract resources and recruitment services.

During the year, we launched our Technology Services division, building on nearly 20 years of providing advice and assistance to clients on technology matters. We plan to launch further business offerings in the coming year to meet our clients' needs for end-to-end solutions and service.

we will:

continue to drive growth



Our focus on building closer relationships with our clients is paying dividends. We have a deep understanding of the specific issues in their industries, and have grown our skill and knowledge base to deliver results.

We are driving growth in three key dimensions. Firstly we have expanded the range of our capabilities to solve contemporary business issues such as governance implementation, business integration, revenue management and logistics optimisation.

Secondly, we are extending the lines of business from our core consulting and contracting offerings to include technology and application services together with systems integration and managed services.

Our third growth dimension is to meet the growing regional needs of clients across Asia Pacific. We will achieve this through leverage of our existing operations and selective acquisitions.

SMS will continue to anticipate the changing needs of our clients and continue to grow our skills and capacity to serve them.

...in 3 key areas

1. Growing our core business

- ▷ Deeper industry presence and client growth
- ▷ Sustainable, consistent growth of our core business
- ▷ Expanded range of capabilities

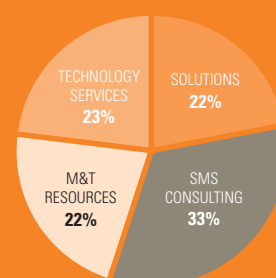
Target total shareholder return above **20% p.a.**
(performance target for executive share scheme)

20%

2. Establishing new lines of business

- ▷ Technology Services
- ▷ Solutions

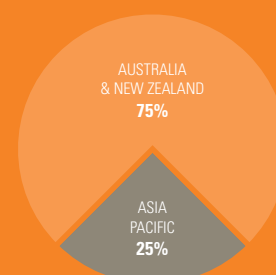
Target 2010
4 mature lines of business



3. Be a leading player in our region

- ▷ Serve clients on a regional level across Asia Pacific
- ▷ Acquire capability and capacity to consolidate market share

Target 2010



Operations review:

SMS Consulting

building on our greatest strength

Our Consulting business grew throughout the year as we assisted clients at all levels of their operations. Although known for providing “IT” consulting, we are increasingly helping clients solve business and operational problems that may involve technology rather than it being the focus.

Specialise in business services and solutions

Our Consulting business assisted clients in a range of areas during the year, including:

- ▶ Program and Project Management – Managing business and IT initiatives to ensure successful completion and benefits realisation
- ▶ Business Integration – Managing the many complex tasks and issues involved in the integration or separation of organisations as a result of an acquisition
- ▶ Governance – Implementing a wide range of mandated compliance programs for clients, including Sarbanes–Oxley and Basel II

- ▶ Change Management – Implementing business improvements and organisational change to achieve agreed outcomes

Key clients

We added over 60 new organisations to our prestigious client base in the commercial and government sectors. Representative key clients from our major industry sectors include Department of Defence, Telstra, ANZ, AGL, BHP and the Queensland Government.



Major projects

We participated in a significant number of major projects during the year including:

- ▶ Assisting a banking client manage the integration of a significant offshore acquisition
- ▶ Managing the roll out of a Sarbanes–Oxley’s compliance program for a major resources client
- ▶ Developing and implementing a “Smart Card” fare revenue system for a State Government organisation

International

Our International presence continues to support clients with operations in Asia and Europe. During the year, we assisted an Australian client with the acquisition of a European business and assisted another with the implementation of their Asia Pacific Strategy. We expect further growth in the immediate Asian region fuelled by the expansive growth of China and India.

Outlook

Clients are continuing to turn to SMS for results. Our reputation for execution excellence together with our responsiveness to contemporary client needs underscores a strong outlook for this business.



Operations review:

M&T Resources

an exciting growth engine

2005 has proven to be a watershed year for M&T Resources, with 52% revenue growth over the previous period. This growth was across all four offices and is the result not only of an upturn in the ICT contracting market, but a focus on market positioning, strategic client relationships, and staff development and retention.

The market

The growth of M&T Resources is a reflection not only of increased market demand but consistent positioning as a high value, delivery focused partner. The business has deliberately steered away from high volume, transactional accounts, focusing instead on clients who value our service and our ability to deliver business outcomes. This has enabled M&T Resources to develop depth in clients within the Banking and Finance, Insurance, Utilities, Government and ICT sectors. This strategy has also enabled us to maintain and grow the profitability of our business, rather than just the revenue.

Not only have we increased our staff numbers by over 20% this year, but we have also been successful in developing and growing our people internally and thus providing them with a career path within the business and ensuring low staff turnover. This, together with a collegiate work environment and a strong team culture, is a key market differentiator in an industry often known for high staff turnover.

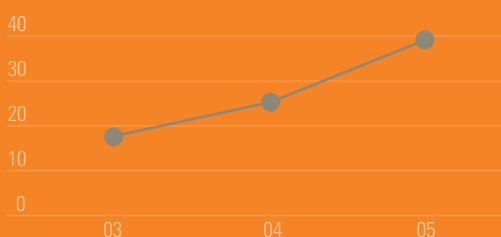
Our people

Key to the success of M&T Resources is its people. Our 'people' strategy is about recruiting and retaining people who exhibit a strong delivery focus and commercial maturity, thus enabling us to consistently deliver outcomes to clients, contractors and candidates.

The future

With market conditions expected to remain buoyant, fuelled by ICT spend and a continued skills shortage, M&T Resources is poised to continue its strong growth trend. We will continue a strong recruitment drive, and will also be investing in new systems aimed at increasing operational efficiency and streamlining business processes. Our growth strategy is to remain focused on the core business in ICT contracting and recruitment. However FY 2006 will see the implementation of 'allied' service lines that will expand offerings to current clients as well as provide a platform for new business development.

REVENUE (\$M)



Operations review:

Emerging Businesses

rapid
response to
emerging
trends

We will continue to drive additional growth through leveraging our core business to establish new, diversified revenue streams.

The two new growth businesses are:

- ▶ Technology Services
- ▶ Solutions



Technology Services

SMS has been providing technology related services to our clients since our inception in 1986. These services have been delivered through our core consulting business.

In February 2005, we formally launched Technology Services as a separate division and appointed executives to lead this growth business unit.

Technology Services will expand and grow the services we provide to clients in areas such as:

- ▶ Custom software development
- ▶ Systems integration
- ▶ Data conversion
- ▶ Business intelligence
- ▶ Data quality and re-engineering
- ▶ Support and maintenance

Technology Services strengthens our ability to provide a unified end-to-end service to our clients. This complementary business unit utilises our existing sales force and client relationships to deliver a quality and profitable offering.

Solutions

A significant portion of our core revenue is now derived from both large scale projects and managed services. We will grow these revenue streams through improved focus and plan to launch a solutions business unit to manage and expand this area.

Board of Directors

Thomas Stianos

Chief Executive Officer and Executive Director

Tom Stianos joined SMS in January 1989 and was appointed CEO in March 2002. During his 16 years with SMS he has led many growth initiatives into different industries and practice areas.

Tom previously held positions as Regional Director Victoria, Regional Director New South Wales, Regional Director 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 managed the divestment of non-core businesses and restructured the Company to focus on its successful core business centred on management and IT Services.

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 27 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 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 the University of Melbourne 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.

Bruce Thompson

Non-Executive Director

Bruce Thompson 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 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 retired as Chairman of Innovonics Ltd, a publicly listed Melbourne based technology company in January 2005.

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.



Nicole Birrell

Non-Executive Director

Nicole Birrell joined the Board of SMS Management & Technology in December 2004. She has over 27 years' experience in corporate and investment banking, both in Australia and overseas. She was Head of Operating Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group in Melbourne. Prior roles were with County NatWest and Chase Manhattan Bank/Chase AMP.

Nicole was on the Board of AusBulk Ltd for four years and was the Chair of AusMalt Pty Ltd until February 2004. She also serves on the Programs Advisory Committee for the School of Applied Economics at Victoria University, Melbourne.

Nicole graduated from the University of Antwerp with a degree in Applied Economics and obtained a M.Sc. in International Relations from the London School of Economics. She is a Fellow of both the Australian Institute of Company Directors and of the Australian Institute of Banking and Finance.

Kerry Smith

Non-Executive Director

Kerry Smith joined the Board of SMS Management & Technology Limited in December 2004. He is the former Managing Director of Schroders Australia Limited, which successfully operated wholesale funds management, property asset management, corporate advisory and financial markets businesses in Australia.

Prior to joining Schroders, Kerry was the Group Finance Director of Mojo MDA Group Limited, a publicly listed advertising and marketing communications group, and was formerly a Director of Financial Accounting at Macquarie Bank Limited.

Kerry is a graduate of The University of Sydney with a Bachelor of Economics degree and has been a member of The Institute of Chartered Accountants in Australia for over 25 years.

Financial Statements 2005

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Directors' Report

FOR THE YEAR ENDED 30 JUNE 2005

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 2005 and the auditor's report thereon.

DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Age	Experience and special responsibilities
Laurence G Cox <i>B. Comm, FCPA, FSIA</i> Chairperson Independent Non-Executive Director	67	Chairman of Transurban Group, Non Executive Director of Smorgon Steel Group Ltd. Past Chairman of the Australian Stock Exchange Ltd. Executive Director of Macquarie Bank
Bruce Thompson <i>B.Ec, FCPA, FAICD</i> Independent Non-Executive Director	58	CEO of Keycorp Ltd Past Chairman of Innovonics Ltd Chairman of Audit Committee
James Carnegie <i>B Comm, MBA</i> (resigned 31 January 2005) Non-Executive Director	38	Partner Archer Capital Former Division Director of Macquarie Direct Investment Ltd Audit Committee
Thomas Stianos <i>B App Sc, FAICD</i> Chief Executive Officer	51	Regional and Australia Consulting Director, CEO of SMS Management & Technology Ltd
Nicole Birrell , <i>B App Ec, M.Sc, FAICD, FAIBF</i> (appointed 20 December 2004) Independent Non-Executive Director	51	Past Director of AusBulk Limited, former head of Operating Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group in Melbourne Audit Committee member
Kerry Smith <i>B Ec, ACA</i> (appointed 20 December 2004) Independent Non-Executive Director	52	Former Managing Director of Schroders Australia Limited, Group Finance Director of Mojo MDA Group Limited and a former director of Financial Accounting at Macquarie Bank Ltd Audit Committee member

COMPANY SECRETARY

Ms Vivian Clark *B. Comm, Grad Dip in Company Secretarial Practice, ACA, ASA*, was appointed to the position of Company Secretary on 5 March 2003. She is a Member of the Institute of Company Directors and the Institute of Taxation in Australia. She is also the Chief Financial Officer (CFO) for the group. Ms Clark

has worked in private practice as well as holding senior financial positions in both listed companies and private entities.

OFFICERS WHO WERE PREVIOUSLY PARTNERS OF THE AUDIT FIRM

There are no officers of the Company who were previously partners of the current audit firm, KPMG.

DIRECTORS' MEETINGS

The numbers of meetings of the Company's Directors (including meetings of formally constituted committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Board of Directors		Audit, Compliance and Risk		Nomination and Remuneration	
	A	B	A	B	A	B
Laurence Cox	12	11	3	2	2	2
Bruce Thompson	12	12	3	3	2	2
Thomas Stianos	12	12	3	3	2	2
Kerry Smith	7	7	2	2	1	1
Nicole Birrell	7	7	2	2	1	1
James Carnegie	7	7	1	1	1	1

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

B = Number of meetings attended

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, Bruce Thompson, being the Director who has longest been in office, retires by rotation and is eligible for re-election.

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).

The Board has delegated responsibility for the operation and administration of the Company to the Chief Executive Officer and Executive management. Responsibilities are delineated by formal authority delegations.

Board Processes

To assist in the execution of its responsibilities, the Board has established a number of Board Committees including a Nomination and Remuneration Committee, and an Audit, Compliance and Risk Committee. These Committees have written mandates and operating procedures, which are reviewed on a regular basis. 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 12 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.

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 18 of the financial 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
- A majority of Non-Executive Directors
- A Non-Executive Independent Director is appointed 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 an 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 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
- Enough Directors to serve on various committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities
- Board members being subject to re-election every three years (except for the Chief Executive Officer)

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
- 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

* 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.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee (Committee) oversees the appointment and induction process for Directors and Committee Members, and the selection, appointment and succession planning process of the Company's Chief Executive Officer (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 Committee arranged for the Board to perform a self assessment analysis during the year. The results of the assessment are used to focus attention on areas where the Board can further improve the composition and performance of the Board. All Directors contributed to this process which takes into account each Director's ability to contribute to the setting of direction, strategy and financial objectives of the group, as well as monitoring compliance with regulatory requirements and ethical standards.

The Committee also 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 Committee also conduct an annual review of the CEO's performance and that of the Senior Executives reporting directly to him and the results are discussed at a Board meeting.

The Board policy is that the Committee will comprise entirely of independent Non-Executive Directors. The CEO, Mr Thomas Stianos, is invited to the Committee meetings, as required, to discuss Senior Executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

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

Laurence G. Cox (Chairperson)

James Carnegie (resigned 31 January 2005)

Bruce Thompson

Nicole Birrell (appointed 20 December 2004)

Kerry Smith (appointed 20 December 2004)

The Committee met twice during the year and Committee members' attendance record is disclosed in the table of Directors Meetings, on page 19.

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.

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 Policies – audited

Remuneration levels for Directors, secretaries, senior managers of the Company, and relevant Group Executives of the consolidated entity (the Directors and Senior Executives) are competitively set to attract and retain appropriately qualified and experienced Directors and Senior Executives. The Nomination and Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

The remuneration structures take into account:

- the capability and experience of the Directors and Senior Executives
- the Directors and Senior Executives' ability to control the relevant segment/s' performance
- the consolidated entity's performance including:
 - the consolidated entity's earnings
 - the growth in the share price and returns on shareholder wealth
- the amount of incentives within each Directors and Senior Executives remuneration

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance based incentives.

Fixed remuneration – audited

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Nomination and Remuneration Committee through a process that considers individual, segment, and overall performance of the consolidated entity. In addition, external consultants provide analysis and advice to ensure the Directors' and Senior Executives' remuneration is competitive in the market place. Review also takes place when an Executive is promoted.

Performance-linked remuneration – audited

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward Executive Directors and Senior Executives for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an "at risk" bonus provided in the form of cash, while the long-term incentive (LTI) has until 30 June 2005 been provided as options over the ordinary shares of SMS Management & Technology Limited under the rules of the Executive Share Option Plan.

Short-term incentive bonus – audited

Each year, the Nomination and Remuneration Committee sets the Key Performance Indicators (KPI's) for Executive Directors and Senior Executives.

The KPI's generally include measures relating to the consolidated entity, the relevant region, and the individual. They include financial, people, customer and strategy and risk measures. The measurements are chosen as they directly align the individual's reward to the KPI's of the consolidated entity and to its strategy and performance.

The financial performance objectives are earnings before interest, tax, depreciation and amortisation (EBITDA) compared to budgeted amounts for the region. The non financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes and staff development.

At the end of the financial year, the Nomination and Remuneration Committee assesses the actual performance of the consolidated entity, the relevant region and the individual against the KPI's as set at the beginning of the financial year. A percentage of the predetermined maximum amount is awarded depending on the results. If the results fall below 80% of the EBITDA target, no bonus is awarded and if the results exceed the target by 20% then 4% of that excess is paid as a bonus. All Executive bonuses, regardless of region are subject to the achievement of the consolidated budget.

The Nomination and Remuneration Committee recommends the quantum of the short-term cash incentive bonus to be paid to the individuals for approval by the Board. These assessment methods have been chosen as they provide the Committee with an objective assessment of the individual's performance.

Long-term Incentive – audited

Options were issued under the Executive Option Plan (made in accordance with thresholds set in plans approved by shareholders at a General meeting on 10 April 2000), and this provided for Executive Directors and Senior Executives to receive grants of options according to set criteria over ordinary shares at an exercise price of \$1.95. The initial grant exercise price was \$0.48 and options, once vested, were exercisable at a share price of \$0.48. However due to a 9 cent capital return and a 1 for 5 share consolidation during the financial year, the exercise price is now \$1.95. The options expire in 2006 and 2007.

In addition to the Executive options, Thomas Stianos, the Chief Executive Officer, was issued further options (approved at the Annual General Meeting on 28 October 2002) that are subject to an Exercise Condition.

The Exercise Condition provides that if the Company does not perform ahead of the ASX Small Ordinaries sharemarket index as measured by Total Shareholder Return (which measures the total return on investment of a security by taking into account both capital appreciation and distribution income), then, although the options will be vested, they cannot be exercised.

The options will be tested against the Exercise Condition at each vesting date (1 July 2004, 1 July 2005 and 1 July 2006). In the event that the performance hurdles are not met at any of these vesting dates, then the vested options cannot be exercised. The options remain vested and become exercisable only upon satisfaction of the Exercise Condition at a later vesting date.

Unexercised options that have not satisfied the Exercise Condition by the 30 June 2007 expiry date will lapse.

In considering the consolidated entity's performance and benefit for shareholders wealth, the Nomination and Remuneration Committee have regard to the following measures in respect of the current financial year and the previous four financial years:

	2005 \$'000	2004 \$'000	2003 \$'000	2002 \$'000	2001 \$'000
EBITDA	10,358	6,652	(\$1,134)	9,354	(\$8,484)
Net profit	6,755	5,033	(106,808)	(11)	(264,352)
Dividends paid	6,279	3,768	–	–	–
Capital Return	28,258	–	–	–	–

Earnings before interest, tax, depreciation and amortisation, (EBITDA) is considered in setting the Short Term Incentive (STI). The Remuneration Committee considers that the above performance linked remuneration structure is generating the desired outcomes. The evidence is the growth in profits in the last three years and the performance linked element seeing most of the Senior Executives achieving maximum short term incentive in the last two years.

The Executive Option Plan was introduced on 1 July 2001 and 1 July 2002. It was an option model and was linked to share performance. It was introduced in a different economic climate and has not proved satisfactory in driving expected performance. This current option based long-term incentive scheme expires on 30 June 2006 and 30 June 2007. To date no options have been exercised. Details of these options are in Note 32 to the accounts.

A new long-term incentive scheme for Executives will be introduced in the 2006 year that takes into account dividends, changes in share price and return of capital in a calculation of Total Shareholder Return (TSR). The new scheme involves the granting of shares to Executives subject to performance hurdles. The rights to these shares are exercisable after three years.

Other Benefits – audited

There are no other benefits received by the Directors or Senior Executives of the Company that relate to performance.

Service Agreements and contract details – audited

It is the consolidated entity's policy that contracts of employment for Executive Directors and Senior Executives be unlimited in term but capable of termination on one months' notice and that the consolidated entity retains the right to terminate the contract immediately, by making payment equal to one months pay in lieu of notice.

Mr Thomas Stianos' service contract allows for a payout of one year's salary due to termination as a result of a change in control of the legal entity.

Mr Andrew Dyer's service contract allows for a payout of six month's salary due to termination as a result of a change in the control of the legal entity.

Non-Executive Directors – audited

Total remuneration for all the Non-Executive Directors, last voted on at a general meeting of the Company in September 1996, is not to exceed \$200,000 per annum. Directors' base fees are presently \$40,000 per annum. The Chairperson receives twice that amount. Non-Executive Directors do not receive performance related remuneration.

Elements of Remuneration

Details of the nature and amount of each major element of remuneration of each Director of the Company and each of the five named Company Executives and relevant Executive Group Executives who receive the highest remuneration and each of the five or more Executives of the consolidated entity with the greatest authority are detailed in the below table.

Directors' and Executive Officers' Remuneration

Director	Year	Primary			Post-Employment	Equity compensation
		Base remuneration (Salary & Fees)	STI Cash Bonus (A)	Non-Cash Benefits	Super Contribution	Value of Options (B)
		\$	\$	\$	\$	
Non-Executive						
Laurence G. Cox	2005	80,000	–	–	7,200	24,040
	2004	62,500	–	–	5,625	24,040
Bruce Thompson	2005	40,000	–	–	3,600	7,212
	2004	25,000	–	–	2,250	7,212
James Carnegie	2005	20,000	–	–	1,800	–
	2004	25,000	–	–	2,250	–
Kerry Smith	2005	21,183	–	–	1,906	–
	2004	–	–	–	–	–
Nicole Birrell	2005	21,183	–	–	1,906	–
	2004	–	–	–	–	–
Executive						
Thomas Stianos – CEO	2005	375,000	187,500	–	11,585	42,150
	2004	325,000	100,000	–	11,002	42,150
Total all specified Directors	2005	557,366	187,500	–	27,997	73,402
	2004	437,500	100,000	–	21,127	73,402
Executives						
The Company						
Graham Lanphier	2005	170,000	117,000	–	11,584	3,165
Regional Director	2004	142,500	30,000	–	10,845	3,165
Catherine Ford	2005	170,000	124,000	–	11,584	8,063
Regional Director	2004	160,000	–	–	11,002	8,063
Darren Stanley	2005	150,000	120,000	–	11,584	2,880
Industry Director	2004	154,175	1,000	–	11,002	2,880
Mathew Miller	2005	150,000	110,000	–	11,584	1,053
Industry Director	2004	125,296	625	–	10,776	1,053
Andrew Dyer	2005	200,000	50,000	–	11,584	5,625
COO	2004	115,402	40,000	–	7,334	9,149
Consolidated						
Paul Cooper*	2005	417,896	–	101,097	20,895	10,338
Managing Director	2004	392,670	39,267	–	19,633	10,338
Paradee Thomas #	2005	180,000	10,000	21,227	11,584	4,390
Managing Director	2004	168,840	2,250	–	11,040	4,390
Total all named Executives	2005	1,437,896	531,000	122,324	90,399	35,514
	2004	1,258,883	113,142	–	81,632	39,038

Total	Audited	Not audited	
		Proportion of remuneration performance related	Value of Options as proportion of remuneration
\$		%	%
111,240	yes	–	21.6%
92,165	yes	–	26.1%
50,812	yes	–	14.2%
34,462	yes	–	20.9%
21,800	yes	–	–
27,250	yes	–	–
23,089	yes	–	–
–	yes	–	–
23,089	yes	–	–
–	yes	–	–
616,235	yes	30.4%	6.8%
478,152	yes	20.9%	8.8%
846,265			
632,029			
301,749	yes	38.8%	1.0%
186,510	yes	16.1%	1.7%
313,647	yes	39.5%	2.6%
179,065	yes	–	4.5%
284,464	yes	42.2%	1.0%
169,057	yes	0.6%	1.7%
272,637	yes	40.3%	0.4%
137,750	yes	0.5%	0.8%
267,209	yes	18.7%	2.1%
171,885	yes	23.3%	5.3%
550,226	yes	–	1.9%
461,908	yes	8.5%	2.3%
227,201	yes	4.4%	1.9%
186,520	yes	1.2%	2.3%
2,217,133			
1,492,695			

Notes in relation to the table of Directors' and Executive Officers' remuneration

* Amounts remunerated in Great British Pounds and converted into Australian dollars at the exchange rate on 30 June 2005 of 0.4250.

Amounts remunerated in Singapore dollars and converted into Australian dollars at the exchange rate on 30 June 2005 of 1.2782.

- (A) The short-term cash incentive bonus is for performance during the 2005 financial year using the criteria set out on page 22.
- (B) 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. In valuing options, market conditions have been taken into account in both the current and prior periods. Comparative information was not restated as market conditions were already included in the valuation.

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	01-Jul-06	\$0.75	\$1.95	\$1.95	60%	5.72%	1%
01-Jul-02	01-Jul-07	\$0.75	\$1.95	\$1.95	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 vest progressively one year after grant date and thereafter exercise is conditional on the consolidated entity's share price.

It should be noted that the Company returned 9 cents per share as a capital return in December 2004 and then completed a 5 for 1 share consolidation. The above table of figures has been adjusted to reflect this transaction.

There have been no options granted during or since the end of the financial year to any Executives as part of their remuneration.

Analysis of bonuses included in remuneration – unaudited

Details of the vesting profile of the short-term cash bonus awarded as remuneration to each of the five named Company Executives and relevant Group Executives are detailed below. Non-Executive Directors do not participate in the short-term bonus scheme.

Short Term Incentive

	Included in Remuneration \$ (A)	Vested in Year %	Forfeited in Year % (B)
Executives			
The Company			
Thomas Stianos	187,500	83%	17%
Graham Lanphier	117,000	100%	nil
Catherine Ford	124,000	100%	nil
Darren Stanley	120,000	100%	nil
Mathew Miller	110,000	100%	nil
Andrew Dyer	50,000	50%	50%
Consolidated			
Paul Cooper	–	–	100%
Paradee Thomas	10,000	20%	80%

(A) Amounts included in remuneration for the financial year represents the amount that vested in the financial year based on achievement of personal goals and satisfaction of specified performance criteria. No amounts vest in future financial years in respect of the short-term bonus schemes for the 2005 year.

(B) The percentage forfeited is due to performance or service criteria not being met in relation to the current financial year.

Analysis of share-based payments granted as remuneration – unaudited

Details of the vesting profile of options granted as remuneration to each Director of the Company and each of the five named Company Executives and relevant Group Executives are detailed below. No options were granted as part of remuneration for the 2005 year.

	Options granted			Forfeited in year (A)	Financial years to which grant vests	Value yet to vest \$	
	Number	Date	% vested in year			Min (B)	Max (C)
Directors							
Laurence G. Cox	200,000	1 July 2001	–%	–%	30 June 2004	–	–
Bruce Thompson	60,000	1 July 2001	–%	–%	30 June 2004	–	–
Thomas Stianos	78,000	1 July 2001	–%	–%	30 June 2004	–	–
	150,000	25 Oct 2002	20%	–%	30 June 2006	–	175,500
Executives							
The Company							
Graham Lanphier	13,800	1 July 2001	–%	–%	30 June 2004	–	–
	4,000	1 July 2002	20%	–%	30 June 2006	–	4,680
Catherine Ford	30,000	1 July 2001	–%	–%	30 June 2004	–	–
	15,000	1 July 2002	20%	–%	30 June 2006	–	17,550
Darren Stanley	11,100	1 July 2001	–%	–%	30 June 2004	–	–
	5,000	1 July 2002	20%	–%	30 June 2006	–	5,850
Mathew Miller	2,800	1 July 2001	–%	–%	30 June 2004	–	–
	3,000	1 July 2002	20%	–%	30 June 2006	–	3,510
Andrew Dyer	30,000	1 July 2002	20%	–%	30 June 2006	–	35,100
Consolidated entity							
Paul Cooper	43,000	1 July 2001	–%	–%	30 June 2004	–	–
	15,000	1 July 2002	20%	–%	30 June 2006	–	17,550
Paradee Thomas	20,800	1 July 2001	–%	–%	30 June 2004	–	–
	4,000	1 July 2002	20%	–%	30 June 2006	–	4,680

(A) Vesting of the 2002 options is progressive to 2006. All 2001 options are vested.

(B) The minimum value of options yet to vest is \$nil as the performance criteria may not be met and consequently the option may not vest.

(C) The maximum value of options yet to vest cannot be determined as it depends on the share price of the Company on the Australian Stock Exchange, if the option is exercisable and the date the option is exercised. The maximum values presented above are based on the assumption that the share price on the date the option is exercised is \$1.95.

No options were forfeited during the year as the options did not reach the required share price for exercising. Options are forfeited when they lapse.

Analysis of movements in options – unaudited

There was no movement during the period, by value, of options over ordinary shares in SMS Management & Technology Limited held by each Director of the Company and each of the five named Company Executives and relevant Group Executives.

This is because the 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 as disclosed is constant.

AUDIT, COMPLIANCE AND RISK COMMITTEE

The Audit, Compliance and 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 controls and appropriate ethical standards for the management of the consolidated entity.

The members of the Committee during the year were:

Bruce Thompson (Chairperson)
Independent Non-Executive

James Carnegie (resigned 31 January 2005)
Independent Non-Executive

Nicole Birrell (appointed 20 December 2004)
Independent Non-Executive

Kerry Smith (appointed 20 December 2004)
Independent Non-Executive

The external auditors, CEO and CFO are invited to Committee meetings at the discretion of the Committee. The Committee met 3 times during the year and the Committee members’ attendance record is disclosed in the table of Directors’ Meetings on page 19.

The CEO and the CFO declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company’s financial reports for the year ended 30 June 2005 comply with the accounting standards and present a true and fair view of the Company’s financial condition and operational results. This statement is required annually.

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

The Audit, Compliance and Risk Committee’s Charter is available on the Company’s website together 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 and 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
- 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
- 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
- Review the draft financial report and recommend Board approval of the financial report
- Review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made
- 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 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 processes 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 and Risk Committee reports to the Board annually on the status of risks by ensuring that 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 consolidated entity strives to ensure that its services are of the highest standard. Towards this aim the entity has gained national accreditation AS/NZS ISO 9001:2000 Quality Management Systems.

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 procedure manuals
- **Functional speciality reporting** – Key areas subject to regular reporting to the Board include Finance and Information Technology, Legal, Human Resources and Disclosures
- **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
- 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 Board of Directors and revised forecasts for the year are prepared regularly.

Convergence with AIFRS is a key current financial reporting project, and the Board has established a formal project, monitored by the Audit, Compliance and Risk Committee to ensure a smooth transition to IFRS reporting, beginning with the half-year ended 31 December 2005.

Details of the progress of the implementation project and the expected impact of transition to AIFRS on the financial report for the year ended 30 June 2005 are included in Note 34.

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, Executive and employee that they must comply with the Code of Conduct (Code). The Code 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 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
- Reporting of unethical behaviour

Trading in general Company securities by Directors and employees

The key elements of the Trading in Company Shares Policy by Directors and employees 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
- (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
- Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship
- 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 materials are placed on the Company's website
- The external auditor attends the annual general meetings to answer any questions concerning the conduct of the audit, the preparation of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit

A summary of the policy is included 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 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 shareholders who requests it.

PRINCIPAL ACTIVITIES AND OPERATIONS REVIEW

SMS delivered a net profit after tax of \$6.7m, up 34% on 2004 and revenues of \$110.7m, up 33% on last year. The Company declared a final dividend of 6 cents per share, bringing the total year's distributions to shareholders to 55 cents per share; 10 cents in fully franked dividends and 45 cents via a capital return.

SMS exceeded its recruitment target to bring total staff numbers to 795 as at 30 June 2005 (this includes contract staff fully billable with our clients as at 30 June 2005). We plan to recruit a further 130 staff in FY2006 to meet continuing demand from our clients. In line with guidance given 12 months ago, the business has successfully delivered double digit growth in earnings and revenue during FY2005.

Key financial results	June 2005	June 2004	% Change
Revenue (\$m)	110.7	83.1	« 33%
Operating cash flow (before interest and tax) (\$m)	9.3	5.6	« 66%
EBITDA (\$m)	10.3	6.7	« 54%
Net profit after tax (\$m)	6.7	5.0	« 34%
Dividend (cents per share)	10¢	6¢	« 67%
Capital return (cents per share)	45¢	Nil	n/a
Cash balance (\$m) (after \$28.3m capital return in FY2005)	17.0	44.6	n/a

Business Activities

Over the last three years, SMS restored the focus on its core business, represented by five service categories. All of these services draw on common capabilities which SMS is well known for and in which it has a proven track record. The five service categories are:

- Consulting and project management
- Recruitment and contract labour
- Information technology services
- Business and systems integration (Solutions)
- Business transformation

Consulting and project management is provided through the SMS Consulting business unit which is growing strongly and is seen as one of the leaders in this service category.

M&T Resources was set up as a separate line of business a few years ago to accelerate our recruitment and contract labour services. This strategy has proved successful and M&T Resources now makes a meaningful contribution to the overall SMS group.

Recently we appointed Executives dedicated to our **IT services** to build the SMS Technology Services line of business. This has always been a component of our offering but with dedicated Executive attention, we aim to further improve services to clients and thereby increase growth of this segment.

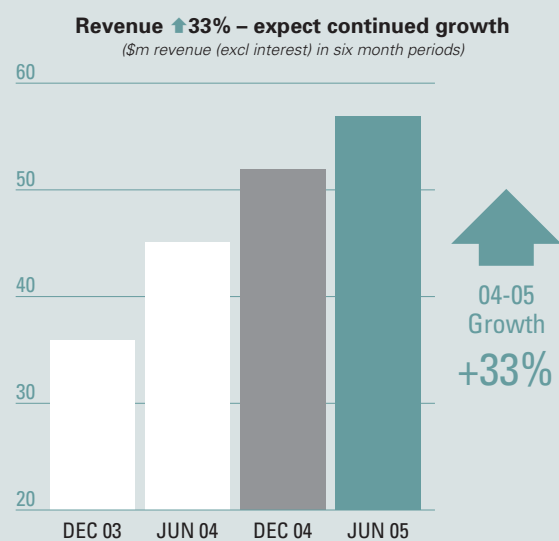
Likewise, **business and systems integration** has always been a part of our core offering and in recent years we have aimed to leverage the SMS Consulting capability by undertaking more solutions or outcome based projects. Last year, we sold \$15m worth of solutions projects and we aim to grow this to become a distinct line of business as has been achieved through M&T Resources.

Investing for growth

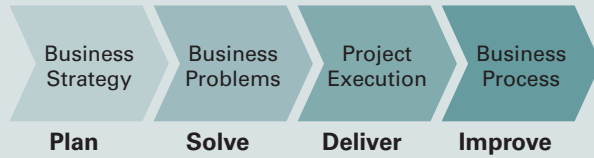
Three years ago we returned SMS to its core business as outlined above. Subsequently, we have invested in people (through professional development and recruiting new talent), service offerings, industry verticals, knowledge management and support systems. These investments underpin our focus on business services and are delivering consistent revenue and profit growth, as evidenced in the chart below. During FY2005 the Executive team updated these initiatives as part of a strategic business plan focusing on the next five years.

Clear market differentiation and competitive advantage

SMS has established a clear market position with its focus on business services related to performance improvement and execution of change initiatives. SMS is seen as a credible alternative to the multinational first tier firms because it has the scale to take on significant projects while being flexible enough to respond quickly and cost effectively to client demands.



Our strategy is to focus on only those service categories which we can match or surpass world leaders and while this is a subset of the total range of professional services, it nevertheless covers the complete life cycle of these services.



Our growth strategy is to focus on being a regional leader rather than attempting to be a minor global player. In that regard, our Singapore business now operates in concert with our Australian operation rather than as a separate satellite office. This allows us to leverage Australian-based resources and to ensure good utilisation of all staff. Our London office is progressively being transitioned to a variable cost base, which reduces the performance volatility and therefore the impact on group results.

Dedicated to employing and retaining the best people

One of the challenges facing our industry in the year ahead will be attracting and retaining qualified staff. SMS is differentiated from many of its competitors by only recruiting professionals with substantial experience rather than relying on a graduate program.

Last year we successfully recruited over 100 consultants and overall our staff turnover was below the consulting industry average. To maintain this advantage, we foster a work environment which encourages a work-life balance, rewards high performers and is based on a relatively flat organisational structure. We recently reinforced this through the introduction of an employee share scheme. This aligns staff rewards with shareholder interests and in the case of Executives, includes a performance test related to Total Shareholder Return (TSR) over three years.

The Executive share scheme requires delivery of compound return of 20% per annum on TSR between July 2005 and June 2008. All employee shares will be expensed to the Profit and Loss account over the three years of the scheme.

Market conditions and growth prospects

Demand remains strong across a broad range of our services and industry sectors. This is allowing us to maintain high consultant utilisation and therefore profitability. The broad based nature of demand gives confidence that it will be sustained for some years. The availability of staff of the calibre demanded by SMS is likely to be the only limiting factor and we have implemented strategies to ensure we retain our advantage in staff recruitment.

There are nine reasons why we expect continued growth beyond the 2006 financial year:

1. We are dedicated to employ and retain the best people. SMS has a culture which fosters an effective work environment and which attracts the best people. With the emerging skills shortage, this gives SMS a competitive advantage in staff recruitment and retention. We start FY2006 with consultant capacity 30% higher than at the start of FY2005
2. We have a clear market differentiation from both niche suppliers and multinational first tier competitors. This is based on a strategy of being a regional leader and focusing on business services related to operational execution
3. Our revenue per billable day (run rate) is the highest for over three years. We begin FY2006 on a much higher revenue rate than we started the 2005 year
4. The value of forward contracts is increasing and consistently running at a higher level than current revenue. Sales in the second half of last year were 30% ahead of the first half year
5. We are actively working to broaden our lines of business to offer related services to existing clients. This includes technology services, systems integration and business transformation
6. We are taking on outcome based projects to better leverage our capabilities and skills. Examples of such projects last year include:
 - A \$4m shared service implementation project for a State Government
 - A \$2m smart card implementation for a transport operator
 - A \$5m application implementation for the Department of Defence

7. We have a much stronger sales capability than we did two years ago. This includes more full-time account directors, industry focused teams, specialist client offerings and sales support systems
8. We have invested in significant infrastructure to support our staff including knowledge management, quality certification, capability training and accreditation and risk management systems
9. We have removed the downside risk from our two overseas businesses. We have done this in Singapore through operating in a more integrated way with Australia and in London through augmenting our staff with contracted associates to give us a more variable cost base

Capital management

During the year we completed the restructure of the balance sheet which comprised:

- Consolidating shares in a 5 for 1 ratio to reduce the number of shares on issue to 62.8m
- A share sale facility for small shareholdings sold 5.9m shares and reduced the number of shareholders on the register by 40%, thus reducing registry costs
- Return of \$28.3m cash to shareholders in a capital return, representing 45 cents per share

The Company currently holds \$5.4m in tax franking credits.

Shareholder returns

	2005	2004
Net profit	\$6.7m	\$5.0m
Dividend paid	\$6.3m	\$3.8m
Franked dividend per share	10¢	6¢
Capital return per share	45¢	–
Increase in share price	54¢	75¢

Cash flows from operations

Operating cash flow increased by 66% last year, however the cash balance was reduced by \$27.6m from June 2004 primarily due to:

- Return of \$28.3m capital to shareholders
- Payment of \$6.3m in dividends
- Increase in working capital to support the significant growth in sales and revenue. This is reflected in receivables from clients which increased by 39% since June 2004

- Reduced interest income following capital return

Cash generated from operations increased from \$5.6m in FY2004 to \$9.3m in FY2005.

While receivables increased to \$21.8m reflecting the rise in revenue, debtor days (average time to collect receivables) have shortened.

Impact of legislation and other external requirements

From 1 July 2005 the consolidated entity is required to comply with Australian equivalents to the International Financial Reporting Standards (AIFRS) issued by the Australian Accounting Standards Board. The expected impact of the resulting changes in accounting policies is fully disclosed in Note 34 of the financial report. The only significant impact is the removal of the need to amortise goodwill which will have an \$858,000 positive impact on the statement of financial performance.

There were no changes in environmental or other legislative requirements during the year that have significantly impacted the results or operations of the consolidated entity.

Business operations



Banking, Finance & Insurance	\$26.5m
Information & Comms Technology	\$22.1m
Government	\$20.9m
Defence	\$19.2m
Energy & Utilities	\$9.0m
Mining & Resources	\$2.1m
Other	\$9.3m

Banking, Finance and Insurance was our fastest growing sector last year and signs are good for ongoing demand in FY2006. This is driven by client demand for SMS' assistance in project and program delivery, business performance improvement, risk management, compliance, merger and acquisition, and refresh of products and systems.

The Defence practice continued to grow in 2005 in response to demand from clients in Australia and the United Kingdom. Moving into 2006, we have additional demand for experienced and accredited professionals in planning and delivery projects. SMS offers Defence clients the flexibility of either managing projects as a turnkey solution, or having SMS fully integrated into Defence teams. The SMS Defence practice has an enviable capability in areas such as Defence logistics, capability requirements definition, systems and software engineering, occupational health and safety and enterprise architecture.

The Information, Communications and Technology (ICT) Industry provided consistent and steady demand last year. SMS provided assistance and thought leadership in the areas of revenue growth, business integration, program and project management and infrastructure roll out. This was achieved in a difficult and uncertain environment, particularly around the leadership and regulatory challenges facing key clients in this area. Whilst the ICT industry has been unpredictable in some sectors, there will continue to be opportunity in the areas of 3G, wireless content, outsourcing and internal and external infrastructure improvement. We have a number of preferred supplier agreements with ICT clients including a consulting agreement with Telstra and a recruitment and contract labour agreement with Nortel and Getronics Australia.

Our Government practice is one of the preferred consultancies for improving the delivery of government services in Federal and State governments in Australia and the UK. SMS is recognised for its capability in IT strategy development and delivery, program

management, shared service implementation, business process improvement, governance, enterprise architecture and systems integration. Government demand for recruitment and contract labour services has also driven growth for our M&T Resources division.

Energy and Utilities have been significant growth sectors for SMS for over a decade. Our reputation for assessing and managing the successful delivery of projects to address complex industry changes has continued to grow within Australia, Asia and the United Kingdom. From de-regulation to retail contestability through to the introduction of interval meters to the market, SMS has helped our clients address their internal processes, systems and structures to make their businesses more efficient and effective. Our extensive experience includes many internal programs of work, industry representation and the facilitation of relationship management frameworks between retailers and distributors.

In summary

SMS is focused on being a regional leader in the area of business services. Our offering is well differentiated with both clients and staff. This gives SMS good long-term prospects. The investments over the last two years are bearing fruit as evidenced by a 33% increase in revenue and a 34% increase in net profit after tax. Two lines of business are now well established and will continue to grow; they are SMS Consulting and M&T Resources. The service offering is also being filled out through expansion of two further lines of business: Technology Services and Solutions. With the increased capacity, margins and healthy sales pipelines, we are confident of strong profit growth in FY2006.

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 \$'000	Franked/Unfranked	Date of Payment
Declared and paid during the year				
Final 2004 Ordinary*	6.0	3,768	franked	2 Aug 2004
Interim 2005 Ordinary	4.0	2,512	franked	31 Mar 2005
Final 2005 Ordinary	6.0	3,768	franked	16 Sept 2005
Dealt with in financial report as:				
Dividends	10.0	6,280		

* Dividend declared and paid prior to the five for one share consolidation as 1.2 cents. Converted with the consolidation of 5 for 1 ordinary share to 6 cents per share.

All franked dividends paid and declared by the Company since the end of the previous financial year were fully franked at 30%.

EVENTS SUBSEQUENT TO REPORTING DATE

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with the Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board (AASB). The implementation plan and potential impact of adopting AIFRS are detailed in Note 34 to the financial statements.

Other than the matter noted above, 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:

	Ordinary Shares	Options over Ordinary Shares
	No	No
Laurence Cox	140,600	200,000
Thomas Stianos	1,717,418	228,000
Bruce Thompson	100,000	60,000
James Carnegie	100,000	–
Kerry Smith	–	–
Nicole Birrell	–	–

SHARE OPTIONS

Options granted to Directors and officers of the Company

During or since the end of the financial year, the Company has not made any grants of options over unissued shares in SMS Management & Technology Limited.

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
Various under employment Contracts	\$7.50 – \$29.55	717,600
30 June 2005	\$9.55	5,800
30 June 2006	\$1.95	1,565,820
30 June 2007	\$1.95	800,080
Total		3,089,300

All options expire on the earlier of their expiry date or termination of employee's employment. These options do not entitle the holder to participate in any share issue of the Company.

There were no options converted into ordinary shares during or since the end of the financial year. 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 AND AUDITORS

During the financial year, SMS Management & Technology Limited paid a premium to insure officers of the Company and related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2005 included the Directors and Company Secretary.

The Directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such is prohibited under the terms of the contract.

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.

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor

- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they do not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks or rewards

Details of the amounts paid to the auditor of the Company, KPMG and its related practices for the audit and non audit services provided during the year are set out below.

	Consolidated	
	2005 \$	2004 \$
Statutory Audit		
Auditors of the Company		
– audit and review of financial reports (KPMG Australia)	134,200	109,000
– audit and review of financial reports (KPMG Overseas firms)	16,000	16,000
	150,200	125,000
Services other than statutory audit		
– Taxation compliance services	96,800	88,500
– Other assurance services	1,500	1,500
– Recruitment services	25,000	–
– Other assurance services-KPMG overseas	15,738	17,634
	139,038	107,634

It is the consolidated entity's policy to employ KPMG on assignments additional to their statutory audit duties where its 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 2005 totalled \$2,538,166 (2004:\$1,979,032).

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The Lead Auditor's Independence Declaration is set out on page 38 and forms part of the Directors' Report for the year ended 30 June 2005.

ROUNDING OFF

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 G Cox
Director



Thomas Stianos
Director

Signed at Melbourne on this
29th day of August 2005



Lead Auditor's Independence Declaration

UNDER SECTION 307C OF THE CORPORATION ACT 2001

To: the directors of SMS Management and Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

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

A handwritten signature in black ink that reads 'Don Pasquariello'.

KPMG

A handwritten signature in black ink that reads 'Don Pasquariello'.

Don Pasquariello
Partner

Melbourne
29th August 2005

Statements of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from rendering services	3	109,157	79,929	–	–
Other revenue from ordinary activities	3	1,602	3,177	6,323	3,839
Total revenue from ordinary activities	3	110,759	83,106	6,323	3,839
Employee expenses		(87,111)	(67,548)	–	–
Depreciation and amortisation expenses	4	(1,396)	(1,682)	–	–
Borrowing costs	4	(7)	(43)	–	–
Occupancy expenses		(2,260)	(2,377)	–	–
Other expenses from ordinary activities		(9,697)	(4,394)	(85)	(56)
Profit from ordinary activities before related income tax expense		10,288	7,062	6,238	3,783
Income tax (expense)/benefit relating to ordinary activities	6	(3,533)	(2,029)	12	–
Net Profit attributable to members of the parent entity	23(b)	6,755	5,033	6,250	3,783
Non owner transaction changes in equity					
Net exchange differences relating to self sustaining foreign operations	23(a)	(43)	(16)	–	–
Total revenues, expenses and valuation adjustments attributable to members of the parent entity recognised directly in equity		(43)	(16)	–	–
Total changes in equity other than those resulting from transactions with owners as owners		6,712	5,017	6,250	3,783
Basic earnings per share	7	\$0.11	\$0.08		
Diluted earnings per share	7	\$0.11	\$0.08		

The comparative figure for 30 June 2004 as previously reported was \$0.016 cents. This has been recalculated after the five for one share consolidation to a figure of \$0.08 cents.

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

Statements of Financial Position

AS AT 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current Assets					
Cash assets	9	17,047	44,577	–	7,638
Receivables	10	21,753	15,618	3,791	3,768
Other	11	723	1,088	–	–
Total Current Assets		39,523	61,283	3,791	11,406
Non-Current Assets					
Receivables	12	–	–	45	45
Other financial assets	13	–	–	59,014	59,014
Property, plant and equipment	14	1,000	1,410	–	–
Deferred tax assets	6(c)	1,112	1,019	1,112	1,019
Intangible assets	15	12,411	12,469	–	–
Total Non-Current Assets		14,523	14,898	60,171	60,078
Total Assets		54,046	76,181	63,962	71,484
Current Liabilities					
Payables	16	8,445	4,233	–	–
Interest bearing liabilities	17	–	222	–	–
Current tax liabilities	6(c)	1,261	220	1,249	220
Provisions	18	6,908	6,233	3,768	3,768
Other	19(a)	–	–	24,199	4,452
Total Current Liabilities		16,614	10,908	29,216	8,440
Non-Current Liabilities					
Provisions	21	533	508	–	–
Deferred tax liabilities	6(c)	–	11	–	11
Other	19(b)	60	90	–	–
Total Non-Current Liabilities		593	609	–	11
Total Liabilities		17,207	11,517	29,216	8,451
Net Assets		36,839	64,664	34,746	63,033
Equity					
Contributed equity	22(a)	50,597	449,399	50,597	449,399
Reserves	23(a)	(188)	(145)	–	–
Accumulated losses	23(b)	(13,570)	(384,590)	(15,851)	(386,366)
Total Equity		36,839	64,664	34,746	63,033

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

Statements of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash Flows from operating activities					
Cash receipts in the course of operations		110,750	86,106	–	–
Cash payments in the course of operations		(101,428)	(80,481)	–	–
Interest received		9,322	5,625	–	–
Borrowing costs paid		1,332	2,095	44	–
Income taxes paid		–	(43)	–	–
Income taxes paid		(2,942)	(1,594)	–	–
Refund of Income Taxes		315	2,860	–	–
Other		129	–	(22)	–
Net cash provided by/(used in) operating activities	30	8,156	8,943	22	–
Cash flows from investing activities					
Payments for plant and equipment		(277)	(119)	–	–
Proceeds on disposal of non-current assets		–	13	–	–
Payment for investments		(650)	–	–	–
Net cash used in investing activities		(927)	(106)	–	–
Cash flows from financing activities					
Repayment of lease liabilities		(222)	(351)	–	–
Funding by Intercompany Loans		–	–	26,877	–
Dividends paid		(6,279)	–	(6,279)	–
Capital return		(28,258)	–	(28,258)	–
Net cash used in financing activities		(34,759)	(351)	(7,660)	–
Net (decrease)/increase in cash held		(27,530)	8,486	(7,638)	–
Cash at the beginning of the financial year		44,577	36,091	7,638	7,638
Cash at the end of the financial year	9	17,047	44,577	–	7,638

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence recoverable amount impairment.

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:

1. 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.

2. Interest

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

3. 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).

4. 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 Australian Taxation Office (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.

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 2005	Average 2004	As at 30 Jun 2005	As at 30 Jun 2004
UK Pound Sterling	0.4052	0.4108	0.4250	0.3872
Singapore Dollar	1.2529	1.2254	1.2782	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 the effect of hedges of borrowings 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 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 current tax assets and liabilities and movements in deferred tax balances arising from external transactions during the year.

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 external 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

(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), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue. Refer Note 7.

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. Refer Note 7.

(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) Use and 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 and 12

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 30 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 lease – Note 17

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), Note 1(o) and Note 1(q)), 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:

	2005	2004
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

(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 & 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 to defined contributions plans 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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
- 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.

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 3 — REVENUE FROM ORDINARY ACTIVITIES				
Rendering of services revenue	109,157	79,929	–	–
	109,157	79,929	–	–
Other Revenues				
<i>From operating activities</i>				
Dividends				
Related Parties	–	–	6,279	3,768
Interest				
Other parties	1,332	2,134	44	13
<i>From outside operating activities</i>				
Gross proceeds from sale of non-current assets	57	13	–	–
Other	213	1,030	–	58
Total other revenues	1,602	3,177	6,323	3,839
Total revenue from ordinary activities	110,759	83,106	6,323	3,839

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 4 — PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE				
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	264	474	—	—
	264	474	—	—
<i>Amortisation of:</i>				
Plant and equipment under finance lease	51	94	—	—
Leasehold improvements	223	283	—	—
Goodwill	858	831	—	—
	1,132	1,208	—	—
Total depreciation and amortisation	1,396	1,682	—	—
<i>Borrowing Costs</i>				
Finance charges relating to finance leases	7	43	—	—
	7	43	—	—
Bad and doubtful debts	71	29	—	—
Foreign exchange loss/(gain)	(55)	34	63	40
Net (gain)/loss on disposal of plant and equipment	92	6	—	—
Rental expense relating to operating leases	1,845	2,178	—	—
			Consolidated	
			2005 \$	2004 \$
NOTE 5 — REMUNERATION OF AUDITORS				
Statutory Audit				
Auditors of the Company				
– audit and review of financial reports (KPMG Australia)			134,200	109,000
– audit and review of financial reports (KPMG Overseas firms)			16,000	16,000
			150,200	125,000
Services other than statutory audit				
– Taxation compliance services			96,800	88,500
– Other assurance services			1,500	1,500
– Recruitment services			25,000	—
– Other assurance services-KPMG overseas			15,738	17,634
			139,038	107,634

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 5 — REMUNERATION OF AUDITORS *continued*

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 2005 totalled \$2,538,166 (2004:\$1,979,032).

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 6 — INCOME TAX				
(a) Income Tax expense/(benefit)				
Prima facie income tax expense calculated at 30% (2004:30%) on the profit from ordinary activities	3,087	2,119	1,897	1,135
Increase in income tax expense due to:				
Non-deductible entertainment	109	99	—	—
Non-deductible legal fees	4	—	—	5
Amortisation of goodwill	260	253	—	—
Dividend from Australian controlled entity	—	—	(1,884)	(1,130)
Income tax expense related to current and deferred tax transactions of the wholly owned subsidiaries in the tax-consolidated group	—	—	1,169	789
Recovery of income tax expense under a tax funding agreement	—	—	(1,169)	(789)
Other items	(43)	12	(25)	(10)
Income tax expense/(benefit)	3,417	2,483	(12)	—
Benefit of tax losses not brought to account/(brought to account)	45	(405)	—	—
Under/(over) provision in previous year	71	(49)	—	—
Income tax expense/(benefit)	3,533	2,029	(12)	—
(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.	2,228	2,182	—	—

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
- No changes in tax legislation adversely affect the relevant Company and/or the consolidated entity in realising the benefit

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 6 — INCOME TAX continued				
(c) Tax assets and liabilities				
Current asset – Deferred tax assets				
Future income tax benefit	–	–	–	–
Non-Current asset – Deferred tax assets				
Future income tax benefit	1,112	1,019	1,112	1,019
Current liability – Current tax liabilities				
Provision for income tax	1,261	220	1,249	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 and the Executive Option Plan have not been included in the calculation of diluted EPS as they are not dilutive. Further details are contained in Note 22.

	Consolidated	
	2005 \$'000	2004 \$'000
Earnings	6,755	5,033
Basic earnings per share	\$0.11	\$0.08
Diluted earnings per share	\$0.11	\$0.08
Weighted average number of shares used as the denominator		
<i>Number for basic earnings per share</i>		
Ordinary shares	No. 62,794,571	No. 62,794,571
<i>Number for diluted earnings per share</i>		
Ordinary shares	62,794,571	62,794,571
Ordinary shares	62,794,571	62,794,571

A five for one share consolidation was completed in December 2004 as agreed to by shareholders at the Annual General Meeting on 25 October 2004. The comparative figures for 2004 have been adjusted to reflect this capital consolidation.

The following employee share options have not been included in the calculation of diluted earnings per share as they are not dilutive.

Issue Date	Number of options at 30 June 2005	Number of options at 30 June 2004
01-Jul-00	5,800	9,600
01-Jul-00	717,600	717,600
01-Jul-01	1,245,820	1,380,360
12-Jul-01	320,000	320,000
01-Jul-02	650,080	722,580
28-Oct-02	150,000	150,000
Total	3,089,300	3,300,140

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

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	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
External Segment Revenue by Location of Customers	102,521	74,879	6,523	6,054	1,715	2,173	110,759	83,106
Segment Assets by Location of Assets	50,381	72,745	2,520	2,293	1,145	1,143	54,046	76,181
Acquisition of non-current assets	227	119	—	—	50	—	277	119

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
	14,447	25,992	—	7,638
	2,600	18,585	—	—
	17,047	44,577	—	(7,638)

NOTE 9 — CURRENT ASSETS - CASH ASSETS

Cash at bank and on hand	14,447	25,992	—	7,638
Deposits at call	2,600	18,585	—	—
	17,047	44,577	—	(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 5.39% and 5.27% (2004 4.75% and 5.27%).

NOTE 10 — CURRENT ASSETS - RECEIVABLES

Trade debtors	21,714	14,156	—	—
Less: Provision for doubtful debts	(86)	(59)	—	—
	21,628	14,097	—	—
Sundry and other debtors	13	1,521	3,768	3,768
Accrued income	112	—	23	—
	125	1,521	3,791	3,768
	21,753	15,618	3,791	3,768

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 11 — CURRENT ASSETS - OTHER				
Prepayments	591	949	–	–
Security deposits	132	139	–	–
	723	1,088	–	–
NOTE 12 — NON-CURRENT ASSETS - RECEIVABLES				
Amounts receivable from related entities	–	–	32,095	32,095
Less: provision for diminution	–	–	(32,050)	(32,050)
	–	–	45	45
NOTE 13 — NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS				
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				
Plant and equipment – at cost	6,200	6,079	–	–
Less: Accumulated depreciation	(5,332)	(5,075)	–	–
	868	1,004	–	–
Leasehold improvements – at cost	3,198	3,198	–	–
Less: Accumulated amortisation	(3,081)	(2,858)	–	–
	117	340	–	–
Plant and equipment under finance lease	1,951	1,951	–	–
Less: Accumulated amortisation	(1,936)	(1,885)	–	–
	15	66	–	–
	1,000	1,410	–	–

Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment are set out as follows for the consolidated entity only, given that the parent entity does not hold any property, plant or equipment.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 14 — NON-CURRENT ASSETS — PROPERTY, PLANT AND EQUIPMENT *continued*

	Plant and equipment \$'000	Leasehold Improvements \$'000	Plant and equipment under finance Lease \$'000
Financial Year 2005			
Consolidated Entity			
Carrying amount at 1 July 2004	1,004	340	66
Additions	277	–	–
Disposals	(149)	–	–
Depreciation/Amortisation charge	(264)	(223)	(51)
Carrying amount at 30 June 2005	868	117	15

	Plant and equipment \$'000	Leasehold Improvements \$'000	Plant and equipment under finance Lease \$'000
Financial Year 2004			
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

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000

NOTE 15 — NON-CURRENT ASSETS — INTANGIBLES

Goodwill	365,528	364,728	–	–
Less: Accumulated amortisation and writedown to recoverable amount	(353,117)	(352,259)	–	–
	12,411	12,469	–	–

NOTE 16 — CURRENT LIABILITIES - PAYABLES

Trade creditors	3,493	2,901	–	–
Other creditors and accruals	4,952	1,332	–	–
	8,445	4,233	–	–

NOTE 17 — CURRENT LIABILITIES - INTEREST BEARING LIABILITIES

Lease liabilities	–	222	–	–
	–	222	–	–

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

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 18 — CURRENT LIABILITIES – PROVISIONS				
Surplus lease space	–	75	–	–
Employee entitlements	3,140	2,390	–	–
Dividend	3,768	3,768	3,768	3,768
	6,908	6,233	3,768	3,768
NOTE 19 — CURRENT AND NON-CURRENT LIABILITIES – OTHER				
(a) Current liabilities – other				
Amounts payable to controlled entities	–	–	24,199	4,452
	–	–	24,199	4,452
(b) Non-current liabilities – other				
Other liabilities	60	90	–	–
	60	90	–	–
NOTE 20 — NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES				
Assets pledged as security				
Assets pledged as security comprise the security deposits disclosed 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.				
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	33	189	–	–
	3,189	3,345	162	162
Used at balance date				
Interchangeable lease facility	2,300	2,300	–	–
Bank Indemnity/Guarantee facility	434	645	162	162
Encashment and Clean Credit facility	–	–	–	–
	2,734	2,945	162	162
Unused at balance date				
Interchangeable lease facility	–	–	–	–
Bank Indemnity/Guarantee facility	422	211	–	–
Encashment and Clean Credit facility	33	189	–	–
	455	400	–	–

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 21 — NON-CURRENT LIABILITIES - PROVISIONS				
Employee entitlements	533	508	–	–
	533	508	–	–
	Parent Entity Shares		Parent Entity	
	2005 '000	2004 '000	2005 \$'000	2004 \$'000
NOTE 22 — CONTRIBUTED EQUITY				
(a) Share capital				
Ordinary shares – fully paid	62,795	313,973	50,597	449,399
	62,795	313,973	50,597	449,399
Terms and Conditions				
<p>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 meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.</p>				
(b) Movements in ordinary share capital of the Company during the year				
	Details	Number of Shares	Issue Price	\$'000
1 July 2004	Opening balance	313,972,890		449,399
	A reduction in capital of \$370,544,000 representing accumulated losses transferred to equity*			(370,544)
	Value of capital reduced as a result of a 9 cent return of capital#			(28,258)
	Issued and fully paid shares subject to a five for one share consolidation			
30 June 2005	Closing balance	62,794,571		50,597
<p>* A reduction in capital of \$370,544,000, representing accumulated losses transferred to equity as approved by special resolution at the Annual General Meeting on 25 October 2004</p> <p># The value of the capital was reduced by 9 cents per share as a result of a return of capital on 19 November 2004 as approved by a special resolution at the Annual General Meeting on 25 October 2004</p>				
<p>The issued and fully paid shares were subject to a five for one share consolidation on 13 December 2004 as approved by ordinary resolution at the Annual General Meeting on 25 October 2004. The issued share capital numbers were 313,972,890 prior to the conversion and 62,794,571 after the conversion.</p>				
(c) Movements in ordinary share capital of the Company during the prior year				
	Details	Number of Shares	Issue Price	\$'000
1 July 2003	Opening balance	313,966,660		449,399
Various	Conversion of options to ordinary shares with nil exercise price	6,230	nil	–
30 June 2004	Closing balance	313,972,890		449,399

NOTE 22 — CONTRIBUTED EQUITY continued

(d) Movements in options during the year

Grant Date	Exercise date on or after	Expiry Date	Exercise Price	Number of options at 1 July 2004	Options Granted	Options Lapsed	Options Exercised	Number of Options as at 30 June 2005		Proceeds Received	Date Issued	Number of shares issued	Fair value per share aggregate	Fair value	
								On Issue	Vested						
										\$					\$
01-Jul-00	01-Jul-01	30-Jun-05	\$10.00	9,600	—	3,800	—	5,800	5,800	—	—	—	—	—	—
01-Jul-00	01-Jul-01	30-Jun-10	\$7.05-\$30.00	717,600	—	—	—	717,600	717,600	—	—	—	—	—	—
01-Jul-01	01-Jul-02	30-Jun-06	\$1.95	1,380,360	—	134,540	—	1,245,820	1,245,820	—	—	—	—	—	—
12-Jul-01	01-Jul-02	30-Jun-06	\$1.95	320,000	—	—	—	320,000	320,000	—	—	—	—	—	—
01-Jul-02	01-Jul-03	30-Jun-07	\$1.95	722,580	—	72,500	—	650,080	260,032	—	—	—	—	—	—
28-Oct-02	01-Jul-04	30-Jun-07	\$1.95	150,000	—	—	—	150,000	60,000	—	—	—	—	—	—
				3,300,140	—	210,840	—	3,089,300	2,609,252	—	—	—	—	—	—

Notes

The issued and fully paid shares were subject to a five for one share consolidation on 13 December 2004 as approved by ordinary resolution at the Annual General Meeting on 25 October 2004. The issued share capital number was 313,972,890 shares prior to the conversion and 62,794,571 shares after the conversion. This together with a capital return of 9 cents has meant that option conversion prices and option numbers have changed. Prior to the capital return, options post June 2000 were exercisable at 48 cents. With the capital return, the option exercise price changed to 39 cents. With the five for one share conversion, the conversion price has changed to \$1.95. All other option conversion prices have similarly been affected. The number of share options outstanding has also altered due to the five for one share conversion.

(e) Post balance date movements in equity

No significant movements in equity have occurred since 30 June 2005 and up to the date of this report.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 23 — RESERVES AND RETAINED PROFITS				
(a) Foreign Currency Translation Reserve				
Balance at beginning of year	(145)	(129)	—	—
Foreign currency translation of foreign controlled entities	(43)	(16)	—	—
Balance at end of year	(188)	(145)	—	—
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:				
(b) Retained Profits/(Accumulated Losses)				
Accumulated losses at the beginning of the financial year	(384,590)	(385,855)	(386,366)	(386,381)
A reduction in capital of \$370,544,000 representing accumulated losses transferred to equity*	370,544	—	370,544	—
Net profit/(loss) attributable to members of the parent entity	6,755	5,033	6,250	3,783
Dividends recognised during the year	(6,279)	(3,768)	(6,279)	(3,768)
Accumulated losses at the end of the financial year	(13,570)	(384,590)	(15,851)	(386,366)
* A reduction in capital of \$370,544,000, representing accumulated losses transferred to equity as approved by special resolution at the Annual General Meeting on 25 October 2004				
NOTE 24 — DIVIDENDS				
Dividends recognised in the current year by the Company are:				
	Cents per share	Total Amount	Franked/Unfranked	Date of payments
		\$'000		
2005				
Interim 2005 Ordinary	4.0	2,511	franked	6 April 2005
Final 2005 Ordinary	6.0	3,768	franked	16 September 2005
Total	10.0	6,279		
2004				
Final 2004 Ordinary	6.0	3,768	franked	2 August 2004
Total	6.0	3,768		
Franked dividends declared or paid during the year were franked at the tax rate of 30%.				
Dividend franking account				
			Parent Entity	
			2005 \$'000	2004 \$'000
30% franking credits available to shareholders of SMS Management & Technology Limited for subsequent financial years			5,425	6,314

NOTE 24 — DIVIDENDS continued**Dividend franking account continued**

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

- (a) Franking credits that will arise from the payment of the current tax liability
- (b) Franking debits that will arise from the payment of dividends recognised as a liability at the year-end
- (c) Franking credits that will arise from the receipt of dividends recognised as receivables by the tax consolidated group at the year-end
- (d) 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.

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.

	Notes	Floating interest rate	Fixed interest maturing in:			Non- interest bearing	Total
			1 year or less	1 to 5 years	More than 5 years		
2005		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Cash and deposits	9	14,447	2,600	–	–	–	17,047
Trade and other Receivables	10,11	–	–	–	–	22,476	22,476
		14,447	2,600	–	–	22,476	39,523
Weighted average interest rate		5.0%	5.0%				
Financial liabilities							
Trade and other creditors	16	–	–	–	–	8,445	8,445
Lease liabilities	17	–	–	–	–	–	–
Employee entitlements	18,21	3,673	–	–	–	–	3,673
		3,673	–	–	–	8,445	12,118
Weighted average interest rate		5.0%	7.6%				
2004							
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%				

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 25 — ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE *continued*

(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 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 in the Statements of Financial Position at balance date are the same.

There are no unrecognised financial instruments.

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 26 — COMMITMENTS FOR EXPENDITURE				
Lease Commitments				
Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	2,097	1,852	—	—
Later than one year but not later than 5 years	5,883	6,110	—	—
Total commitments	7,980	7,962	—	—
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	—	229	—	—
Later than one year but not later than 5 years	—	—	—	—
Minimum lease payments	—	229	—	—
Less: future finance charges	—	(7)	—	—
Total lease liabilities	—	222	—	—
Representing lease liabilities:				
Current (Note 17)	—	222	—	—
Non-current (Note 20)	—	—	—	—
	—	222	—	—

NOTE 27 — CONTINGENT LIABILITIES

Details of contingent liabilities are as follows:

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.

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.

NOTE 27 — CONTINGENT LIABILITIES continued**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.

Implementation Partners International Pty Ltd Acquisition

In November 2004 the business of Implementation Partners International Pty Ltd (IPI) was acquired for the amount of \$800,000. Further payments to the owners of IPI will be owing if certain performance criteria are met. The initial and subsequent payments for the business have and will be treated as goodwill as no other assets were acquired. Subsequent payments, should the performance criteria be met, will be made in November 2005 at \$900,000 and November 2006 at \$800,000.

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 2005 and 30 June 2004 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 2005 and 30 June 2004 effectively comprise the full Statement of Financial Performance and Statement of Financial Position included in this Annual Report.

NOTE 29 — INVESTMENT IN CONTROLLED ENTITIES

	Country of Incorporation	Class of Shares	Equity Holding	
			2005 \$'000	2004 \$'000
Name of Entity				
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 24 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 29 — INVESTMENT IN CONTROLLED ENTITIES continued

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

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2005 \$'000	2004 \$'000
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 of America.

(b) Acquisition of Controlled Entities in 2005

There were no acquisitions during the 2005 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.

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 30 — RECONCILIATION OF OPERATING PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES				
Operating profit after income tax	6,755	5,033	6,250	3,783
<i>Add/(less) non cash items</i>				
Unrealised foreign exchange (gain)/loss	—	—	63	—
Depreciation and amortisation	1,396	1,682	—	—
Net (profit)/loss on disposal or write down of non-current assets	92	6	—	—
Writeback of provision for excess lease space	(75)	345	—	—
Dividend received	—	—	(6,279)	—
Exchange rate movements in foreign currency translation reserve	(43)	(16)	—	—
Bad and doubtful debts	71	29	—	—
<i>Changes in assets and liabilities</i>				
Decrease (increase) in trade and other debtors	(6,135)	1,354	—	(3,768)
Decrease (increase) in intercompany transfers	—	—	—	—
Decrease (increase) in other assets	365	(216)	—	(15)
Increase (decrease) in trade creditors, prepaid revenue and provisions	4,793	713	—	—
Decrease (increase) in future income tax benefit	(93)	(218)	—	—
Increase (decrease) in provision for income tax	1,041	220	(12)	—
Increase (decrease) in provision for deferred income tax	(11)	11	—	—
Net cash inflow (outflow) from operating activities	8,156	8,943	22	—

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
NOTE 31 — EMPLOYEE ENTITLEMENTS				
Employee entitlement liabilities				
Provision for employee entitlements – current (Note 18)	3,140	2,390	–	–
Provision for employee entitlements – non-current (Note 21)	533	508	–	–
Aggregate employee entitlement liabilities	3,673	2,898	–	–
Employee numbers	No.	No.	No.	No.
Number of employees at reporting date (excluding contractors)	368	322	–	–

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:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	4%	6%	–	–
Weighted average discount rates	5.18%	5.18%	–	–
Settlement term (years)	15	15	–	–

Employee Share Option Plan

No 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 were 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 2001 and 1 July 2002, the exercise price of the options is \$1.95. This was previously \$0.48 cents but with a capital return of \$0.09 cents this reduced the exercise price to \$0.39 and with the five for one share consolidation the exercise price increased to \$1.95. Entitlements vest progressively to 1 July 2007.

Options once vested are exercisable subject to the exercise price. All options expire on 30 June 2006 and 30 June 2007 or on the employee's termination. They are non-transferable and unquoted. 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 over 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 \$7.05 to \$29.55. 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

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 32 — DIRECTORS' AND EXECUTIVE DISCLOSURES

Disclosure of remuneration policies, service contracts and details of remuneration are included in the remuneration report on pages 21 to 28.

Equity instruments

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

Options and rights over equity instruments granted as remuneration and option holdings

There was no movement during the reporting period over options held in SMS Management & Technology Ltd, held directly, indirectly or beneficially by each of the specified Directors and specified Executives, including their personally related entities. The only movement related to the five for one share conversion approved by shareholders at the 2004 Annual General Meeting.

	Held at 1 July 2004 (A)	Held at 30 June 2005	Vested during the year	Vested and exer- cisable at 30 June 2005
Specified Directors				
Laurence Cox	200,000	200,000	–	200,000
Bruce Thompson	60,000	60,000	–	60,000
James Carnegie	–	–	–	–
Thomas Stianos	228,000	228,000	–	78,000
Kerry Smith	–	–	–	–
Nicole Birrell	–	–	–	–
Specified Executives				
Graham Lanphier (regional director)	17,800	17,800	800	15,400
Catherine Ford (regional director)	45,000	45,000	3,000	36,000
Darren Stanley (industry director)	16,100	16,100	1,000	13,100
Mathew Miller (industry director)	5,800	5,800	600	4,000
Andrew Dyer (COO)	30,000	30,000	6,000	12,000
Paul Cooper (managing director)	58,000	58,000	3,000	49,000
Paradee Thomas (managing director)	24,800	24,800	800	22,400

(A) The exercise price of the options is \$1.95 cents as a result a capital return of 9 cents and the five for one share consolidation agreed to at the 2004 Annual General Meeting. The fair value of the options is \$0.75 cents.

No options have been granted as remuneration during or since the end of the financial year.

Mr Thomas Stianos has 60,000 options vested but are not exercisable under the terms of the options agreements. All other vested options are able to be exercised subject to the share price.

All options expire on the earlier of the expiry date or termination of the individual's employment. The options vest progressively and are exercisable once vested subject to the share price. All will be expired by 2007. The options were issued at no cost to the recipients.

Further details, including grant dates and exercise dates regarding options granted to Executives under the plan are in Note 22.

Exercise of options granted as remuneration

There were no options exercised by Directors or Executives during the period.

NOTE 32 — DIRECTORS' AND EXECUTIVE DISCLOSURES *continued***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 2004	Purchases	Received on exercise of options	Sales	Held at 30 June 2005
Specified Directors					
Laurence Cox	140,600	–	–	–	140,600
Thomas Stianos	1,717,418	–	–	–	1,717,418
Bruce Thompson	20,000	–	–	–	20,000
James Carnegie	235,614	–	–	135,614	100,000
Kerry Smith	–	–	–	–	–
Nicole Birrell	–	–	–	–	–
Specified Executives					
Graham Lanphier	6,528	–	–	–	6,528
Catherine Ford	8,076	–	–	–	8,076
Darren Stanley	9,191	–	–	–	9,191
Mathew Miller	–	–	–	–	–
Andrew Dyer	–	–	–	–	–
Paul Cooper	–	–	–	–	–
Paradee Thomas	–	–	–	–	–

Note that the above figures have been adjusted for the five for one share consolidation as agreed to at the October 2004 Annual General Meeting.

Loans and Other transactions with specified Directors and specified Executives**Loans**

There were no loans to or from 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 entities 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 controlled entities as set out in Note 29. The ultimate parent entity in the 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 for the provision of services on normal commercial terms and conditions and at market rates. There are no fixed terms for the repayment of principal on loans advanced by and to SMS Management & Technology Limited. These loans are charged interest monthly averaging at 5.3% p.a. (2004 4.9% 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 and 19 (a).

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

NOTE 34 — IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

For financial reporting periods on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

Transition management

The Board established a formal implementation project, monitored through the Board, to assess the impact of the transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

Assessment and planning phase

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

This phase included:

- high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting AIFRS
- assessment of any new information requirements
- assessing whether there was any need for a conversion plan, given the high level key differences identified, for the expected changes in the accounting policies and reporting systems

The assessment and planning phase is completed as at 30 June 2005.

Design Phase

The design phase formulated the changes required to existing accounting policies, procedures and processes in order to transition to AIFRS. The design phase included:

- formulation of revised accounting policies and procedures for compliance with AIFRS requirements
- identification of potential financial impacts as at transition date and for subsequent reporting periods prior to adoption of AIFRS
- development of revised AIFRS disclosures
- formulation of accounting and business processes to support AIFRS reporting obligations
- identification of required changes to financial reporting and business source systems

The design phase is completed as at 30 June 2005.

Implementation Phase

The implementation phase includes implementation of identified changes to accounting systems and business procedures, processes and systems and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards*.

This phase is in progress as at 30 June 2005.

Impact of Transition to AIFRS

The impact of transition to AIFRS described is based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

(a) Reclassifications

AASB 101 prohibits the presentation of items of income or expense as extraordinary, either on the face of the income statement or in the notes. The nature and amount of material items will be disclosed separately in the notes to the financial statements.

Non-current assets classified as held for sale and the assets and liabilities of a disposal group classified as held for sale will be presented separately from other assets and liabilities on the balance sheet. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, the asset (or disposal group) is available for immediate sale in its current condition, and its sale is highly probable.

For the consolidated entity there is no expected reclassification. No adjustment is expected for the Company.

(b) Property, plant and equipment

Property, plant and equipment will be measured at cost under AIFRS. However, as permitted by the election available under AASB 1, at transition date certain items of property, plant and equipment are expected to be recognised at deemed cost, being a revalued amount prior to transition date that approximates the fair value as at the date of transition.

For the consolidated entity, there are no expected adjustments from reclassification of property, plant and equipment. As carrying amounts, depreciation rates and useful economic lives are not expected to change, there is no effect on the income statement for the financial year ended 30 June 2005. No adjustments are expected for the Company.

Under AIFRS the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity, no material amount is expected with this change. No adjustment is expected for the Company.

(c) Leased assets

Classification

At the date for transition to AIFRS, leases will be classified as operating leases or financial leases on the basis of circumstance existing at inception of the lease. Under Australian GAAP certain leases were classified as operating leases that are classified as finance leases

under AIFRS due to differences in the classification criteria. AIFRS requires consideration of the probability of expected risks and benefits not just the possible risks and benefits.

For the consolidated entity, no material change in classification is expected other than the timing effect of CPI increases in operating leased premises where the CPI increases are written into the rental agreements.

No adjustments are expected for the Company.

Make good provisions

The consolidated entity has certain operating leases that require the asset to be returned to the lessor in its original condition. The operating lease payments do not include an element for the repairs/overhauls.

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment costs must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

At 1 July 2004 a provision for make good costs associated with these operating leases of \$10,685 is expected to be recognised in the consolidated entity. The provision is expected to increase by \$60,744 during the 30 June 2005 financial year.

(d) Business combinations

As permitted by the election available under AASB 1, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1, as discussed.

Post acquisition adjustments recognised in the year ended 30 June 2005 under Australian GAAP relating to acquisitions that occurred more than 12 months earlier will be recognised through profit and loss under AIFRS, unless the adjustment relates to the correction of an error.

No adjustments are expected for the Company.

Comparative period

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations will be accounted for by applying the purchase method. No adjustments are expected for the consolidated entity and the Company.

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FOR THE YEAR ENDED 30 JUNE 2005

(e) Intangible assets

Goodwill

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer (f) for further details on impairment testing).

Negative goodwill arising on acquisition will be recognised directly in profit and loss unless it is deemed to be a transaction with owners. Under current Australian GAAP, negative goodwill is allocated to the non-monetary assets acquired. As business combinations have not been restated (refer (d)) there is no expected impact of this change in treatment on transition.

Amortisation

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively. The estimated useful lives for 1 July 2004 are expected to be as follows:

	AIFRS	Current AGAAP
Goodwill	indefinite	20 years

The impact on the results for the year ended 30 June 2005 is expected to be a reduction in amortisation expense and increase in goodwill of \$858,000 for the consolidated entity.

(f) Impairment

Under current Australian GAAP, the carrying amounts of non-current assets valued on a cost basis, are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with

the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP, the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding investment properties, defined benefit assets, deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS (refer (e)), intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually.

If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets and each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Goodwill and indefinite life intangible assets will be tested for impairment as at transition date. For the consolidated entity no impairment loss is expected to be allocated against goodwill. No adjustment is expected for the Company.

Calculation of recoverable amount

Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS, the recoverable amount of the consolidated entity's held-to-maturity securities and receivables carried at amortised cost will be calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

As all of the consolidated entities trade receivables are current, there is no impact as a result of the change in the basis of impairment testing for trade receivables. No adjustment is expected for the Company.

Reversals of impairment

Under current Australian GAAP, impairment losses have not been reversed.

Under AIFRS, an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

There is no expected impact of this change in treatment on transition.

(g) Taxation

On transition to AIFRS, the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

There is no expected impact on the consolidated entity at 1 July 2004 as a result of the change in basis and transitional adjustments on the deferred tax balances. There are no adjustments to the Company.

There is no expected impact of the change in basis on the tax expense for the financial year ended 30 June 2005 for the consolidated entity or for the Company.

Tax consolidation

Under AIFRS, wholly-owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via an equity contribution or distribution. However the head entity will no longer recognise deferred tax assets other than those relating to tax losses or deferred tax liabilities relating to the subsidiaries.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2005

(h) Employee Benefits

Share based payments

Under current Australian GAAP, no expense is recognised for options issued to employees.

Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employee becomes unconditionally entitled to the options. The fair value of options granted will be measured using the binomial method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002 which have vested before 1 January 2004. Options granted after 7 November 2002 remaining unvested at 1 January 2004 will be recognised in the opening balance sheet through retained earnings resulting in a nil impact on transition.

As options in the current option scheme were granted prior to 7 November 2002, there is no expected adjustment to the consolidated entity for the financial year ended 30 June 2005.

(i) Foreign currency

Financial statements of foreign operations

Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill 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 recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

The assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates

current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS, each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the Company or its subsidiaries.

All foreign operations are translated into Australian dollars using the method described above, the concepts of 'self sustaining' and 'integrated' operations do not exist in the AIFRS framework.

On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

The AASB 1 election to reset existing foreign currency translation reserve balance to nil is not expected to be adopted. Foreign currency translation differences that have arisen prior to the date of transition are expected to continue to be presented as a separate component of equity.

There is no material impact expected as a result of this change in policy on the consolidated results for the year ended 30 June 2005.

(j) Borrowing costs

Current Australian GAAP requires borrowing costs relating to qualifying assets to be capitalised as part of the cost of the asset.

Under AIFRS, borrowing costs may either be recognised as an expense in the period in which they are incurred, or where they are directly attributable to the acquisition, construction or production of a qualifying asset, they may be capitalised as part of the cost of the asset.

There are no borrowing costs in the consolidated entity and therefore, there is no expected impact on either the Company or the consolidated entity.

(k) Earnings per share

Under AIFRS, basic and diluted earnings per share are calculated using the profit or loss from continuing operation attributable to the ordinary equity holders of the parent entity. The basic and diluted earnings per share for the discontinued operations is calculated and disclosed separately.

The earnings per share for the financial year ending 30 June 2005 calculated on the AIFRS adjusted results are expected to be:

Basic EPS from continuing operations:	\$0.12
Diluted EPS from continuing operations:	\$0.12

Summary of impact of transition to AIRFS on financial statements

The material impact of the transition to AIRFS for the consolidated entity and the Company is in the treatment of amortisation of goodwill. The impact to the Statement of Financial Position and Statement of Financial Performance is that there will no longer be an amortisation charge of \$858,000. This will result in an increase in net profit and a corresponding increase in non-current assets in the year ended 30 June 2005.

NOTE 35 — EVENTS OCCURRING AFTER BALANCE DATE

No matter or circumstance has arisen since 30 June 2005 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

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIRFS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIRFS is detailed in Note 34 to the Financial Statements.

Directors' Declaration

1. In the opinion of the Directors of SMS Management & Technology Limited ("the Company"):
 - (a) the financial statements and notes including the remuneration disclosures in sections identified as audited within the Remuneration Report in the Directors Report on pages 21 to 28 of the Directors' report set out on pages 39 to 69, 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 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date
 - (ii) complying with Accounting Standards in Australia including AASB 1046 Director and Executive Disclosures by Disclosing Entities and the Corporations Regulations 2001
 - (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.
3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2005.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne on this 29th day
of August 2005



Independent Audit Report

TO MEMBERS OF SMS MANAGEMENT AND TECHNOLOGY LTD

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, the disclosures made by the Company in accordance with the *Corporations Regulations 2001* as required by AASB 1046 *Director and Executive Disclosures by Disclosing Entities* in sections identified as audited in the "Remuneration Report" in the Directors' Report ("remuneration disclosures") and the directors' declaration for SMS Management and Technology Ltd (the "Company") and its controlled entities (the "consolidated entity"), for the year ended 30 June 2005. The consolidated entity comprises both the Company and the entities it controlled during the year.

The Remuneration Report also contains information not required by Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which is not subject to our audit.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration 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 and the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*. 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 the 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*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the *Corporations Regulations 2001*.

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.

AUDIT OPINION

In our opinion, the financial report including the remuneration disclosures that are contained in sections identified as audited in the Remuneration Report in the Directors' Report of SMS Management and Technology Ltd are in accordance with:

- a) the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Company and consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and
 - ii. complying with Accounting Standards in Australia, including AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, and the *Corporations Regulations 2001*; and
- b) other mandatory financial reporting requirements in Australia.

KPMG

Don Pasquariello

Partner, Melbourne, 29th August 2005

Shareholder Information

Twenty largest quoted equity security holders as at 17 August 2005

Rank	Name	Number of ordinary shares held	% of Issued Capital
1	National Nominees Limited	5,495,821	8.75
2	ANZ Nominees Limited	5,094,304	8.11
3	Westpac Custodian Nominees Limited	4,532,474	7.22
4	J P Morgan Nominees Australia Limited	3,991,687	6.36
5	Cogent Nominees Pty Limited	2,823,526	4.5
6	Macquarie Direct Investment B Limited	2,774,611	4.42
7	Macquarie Direct Investment A Limited	2,756,635	4.39
8	AMP Life Limited	2,299,183	3.66
9	Citicorp Nominees Pty Limited	2,283,336	3.64
10	Glennfield Pty Ltd	1,400,000	2.23
11	Larison Pty Ltd	942,162	1.5
12	Queensland Investment Corporation	747,983	1.19
13	ANZ Nominees Limited	697,925	1.11
14	Larison Pty Ltd	664,340	1.06
15	Government Superannuation Office	636,916	1.01
16	Mr Steven Bryce Outtrim	500,000	0.8
17	RBC Global Services Australia Nominees Pty Limited	478,964	0.76
18	Citicorp Nominees Pty Limited	409,888	0.65
19	Bond Street Custodians Limited	393,151	0.63
20	Victorian Workcover Authority	363,696	0.58
	Total Top Holders Balance	39,286,602	62.57

Unquoted equity securities

There are no unquoted fully paid or partly paid ordinary shares as at 17 August 2005.

Options Held

Options issued in July 2001 to Directors after approval by shareholders on 25 June 2001	320,000
Options issued to the Chief Executive Officer pursuant to the SMS Management & Technology Limited Employee Share Option Plan prior to appointment as Director	78,000
Options issued on 28 October 2002 to the Managing Director after approval by shareholders on 28 October 2002	150,000
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	1,577,800
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	717,600
	2,843,400

Corporate Directory

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Share Registry

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Auditor

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161 Collins Street
Melbourne VIC 3000
Australia
+61 3 9288 5555

Company Secretary

Vivian Clark

