

# ASX ANNOUNCEMENT

27 February 2017

## Half Year Financial Report for the 6 month period ended 31 December 2016

In accordance with the ASX Listing Rules, the documents which follow are for immediate release to the market:

1. Half Year Report for the 6 month period ended 31 December 2016 - Appendix 4D
2. Half Year Financial Report including the Directors' Report for the 6 month period ended 31 December 2016.

## Interim Dividend

The Directors have determined an interim dividend of 1.5 cents per share which will be fully franked. The record date for determining dividend entitlements is 17 March 2017. The dividend will be paid on 7 April 2017.

The information contained in this release should be read in conjunction with the Company's most recent Annual Report

**Investors, Analysts and Media**  
**For further information please contact**  
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## About SMS

A leader in advisory, solutions, managed services and recruitment, SMS cultivates innovation, digital, mobile and design-led business and technology capability to empower organisations across all industry sectors. With over 1400 staff across Asia Pacific, SMS promotes and delivers next-generation customer-centric outcomes for our clients.

**Appendix 4D Listing Rule 4.2A.3**

**Half Year Report**

**SMS MANAGEMENT & TECHNOLOGY LIMITED  
ABN 49 009 558 865**

**1) Details of the reporting period and the previous corresponding period**

Reporting period: Half year ended 31 December 2016  
 Previous corresponding period: Half year ended 31 December 2015

**2) Results for announcement to the market**

<b>Results</b>	<b>Change from previous corresponding period</b>			<b>December 2016</b>
Total revenue from ordinary activities	down	\$16.2m or 9.6%	to	\$151.9m
Loss from ordinary activities after tax attributable to members	down	\$(51.6m) or (730.6%)	to	\$(44.5m)
Loss for the period attributable to members	down	\$(51.6m) or (730.6%)	to	\$(44.5m)

<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<i>Current year to 31 December 2016</i> Interim dividend 2017	1.5 cents	1.5 cents
<i>Prior year to 30 June 2016</i> Final dividend Interim dividend	3.0 cents 6.5 cents	3.0 cents 6.5 cents
Record date for determining entitlements to interim dividend	17 March 2017	
Payment date of interim dividend	7 April 2017	

**A brief explanation of results for the period:**

Loss from ordinary activities after tax attributable to members includes a non-cash goodwill impairment charge of \$46.7 million. Further explanation can be found in the accompanying ASX Announcement, Investor Presentation and the attached Interim Financial Report.

**3) Net tangible assets**

	<b>Current period</b>	<b>Previous corresponding period</b>
Net tangible assets per ordinary security	25 cents	29 cents

**4) Details of entities over which control has been gained or lost during the period**

Not applicable.

**5) Details of individual and total dividends and payment dates**

Refer Section 2 above and Note 11 to the attached Interim Financial Report.

There is no foreign sourced income component to any dividend.

**6) Details of dividend reinvestment plan**

Not applicable.

**7) Details of associates and joint venture entities**

Not applicable.

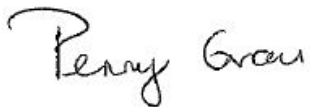
**8) For foreign entities, accounting standards used in compiling the report**

Not applicable.

**9) Description of any modified opinion, emphasis of matter or other matter paragraph contained in the independent auditor's review report**

Not applicable.

This report is based on, and should be read in conjunction with, the audit reviewed Interim Financial Report attached.



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Penny Grau  
Company Secretary

Date: 27 February 2017



# **SMS Management & Technology Limited**

## Interim Financial Report

31 December 2016

ABN 49 009 558 865

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## SMS MANAGEMENT & TECHNOLOGY LIMITED AND ITS CONTROLLED ENTITIES DIRECTORS' REPORT

The directors of SMS Management & Technology Limited ("the Company") present their report, together with the financial report of the Company and its controlled entities (collectively "the Group") for the six months ended 31 December 2016 and the auditor's review report thereon.

### DIRECTORS

The directors of the Company during the six months ended 31 December 2016 and up to the date of this report are:

Name	Period of Directorship
<b>Non Executive</b>	
Derek Young	Director since 22 November 2011 - Chairman
Bruce Thompson	Director since 18 October 2000
Nicole Birrell	Director since 20 December 2004
Justin Milne	Director since 28 August 2014
Deborah Radford	Director since 9 September 2013, resigned 14 November 2016
<b>Executive</b>	
Rick Rostolis	Chief Executive Officer ("CEO") since 2 May 2016 Managing Director since 18 May 2016

### PRINCIPAL ACTIVITIES

The Group provides a broad range of services across business and IT advisory, technology solutions, managed services and contract recruitment. The Group operates across Australia and the Asia Pacific, with regional offices in Hong Kong and Singapore.

The business operates in two segments:

- SMS Consulting: offering a range of specialised business and IT advisory, technology solutions and managed services; and
- M&T Resources: sourcing contract and permanent candidates IT resources.

SMS Consulting offers:

Advisory	Solutions	Managed Services
Digital Business Strategy	Web, Mobile & IoT Apps	Application Managed Services
Technology, Strategy and Planning	Data Provisioning, Reporting and Business Analytics	Managed Infrastructure Services
Design Thinking and Customer Experience	Customer Solutions	Cloud Orchestration
Agile Transformation	Process and Productivity Solutions	Support Services
Information Management Strategy	Cloud Migration and Enablement	
Program Delivery & Enablement		

M&T Resources offers:

- Recruitment and Contract Labour (predominantly in the Information Technology (IT) sector).

There were no significant changes in the nature of the principal activities of the Group during the six months ended 31 December 2016.

## **REVIEW OF OPERATIONS**

The Group earned total revenue from services of \$151.9 million down, 9.6% on the previous corresponding period. Net profit after tax (excluding non-cash goodwill impairment charge) of \$2.2 million was down 69.4% on the previous corresponding period. The reported net loss after tax was \$44.5 million.

A review of operations of the Group for the six months ended 31 December 2016 and the results of these operations are set out in the accompanying Australian Securities Exchange ("ASX") announcement and investor presentation.

## **SUBSEQUENT EVENTS**

On 27 February 2017, the Company entered into a scheme implementation agreement with DWS Limited ("DWS") under which it is proposed that DWS will acquire 100% of the share capital of the Company.

There have been no other material matters or circumstances which have arisen between 31 December 2016 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

## **AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the six months ended 31 December 2016.

## **ROUNDING OFF**

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the consolidated interim financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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



Derek Young  
Chairman



Rick Rostolis  
Chief Executive Officer

Signed at Melbourne on 27 February 2017



Deloitte Touche Tohmatsu  
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The Board of Directors  
SMS Management & Technology Limited  
Level 41, 140 William Street  
MELBOURNE VIC 3000

27 February 2017

Dear Board Members

**SMS Management & Technology Limited**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of SMS Management & Technology Limited.

As lead audit partner for the review of the financial statements of SMS Management & Technology Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited



**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

	Notes	31 December 2016 \$'000	31 December 2015 \$'000
Revenue from operating activities		151,920	168,130
Employee benefits expense		(127,728)	(138,688)
Project expenses		(10,917)	(8,126)
Depreciation and amortisation expense		(753)	(656)
Administrative expenses		(3,745)	(4,525)
Occupancy expenses		(2,415)	(2,517)
Contingent consideration expense		-	(79)
Impairment of intangible assets	9	(46,700)	-
Other expenses		(3,002)	(3,184)
<b>Results from operating activities</b>		<b>(43,340)</b>	<b>10,355</b>
Finance income		103	112
Finance costs		(355)	(411)
Net finance costs		(252)	(299)
<b>(Loss)/profit before income tax</b>		<b>(43,592)</b>	<b>10,056</b>
Income tax expense		(948)	(2,993)
<b>(Loss)/profit for the period</b>		<b>(44,540)</b>	<b>7,063</b>
<b>Other comprehensive income</b>			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations		60	131
<b>(Loss)/profit and other comprehensive income for the period attributable to the ordinary equity holders of the company</b>		<b>(44,480)</b>	<b>7,194</b>
<b>Earnings per share:</b>			
Basic earnings per share	12	(65.0) cents	10.3 cents
Diluted earnings per share	12	(65.0) cents	10.1 cents

*The consolidated interim statement of comprehensive income is to be read in conjunction with the accompanying notes to the consolidated interim financial statements.*

**CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Notes	31 December 2016 \$'000	30 June 2016 \$'000
<b>Current assets</b>			
Cash and cash equivalents		5,244	4,733
Trade and other receivables		45,461	51,119
Current tax assets		1,908	-
Other	8	3,653	2,442
<b>Total current assets</b>		<b>56,266</b>	<b>58,294</b>
<b>Non-current assets</b>			
Plant and equipment		3,199	3,723
Deferred tax assets		341	1,898
Intangible assets	9	65,052	111,980
Other	8	2,208	595
<b>Total non-current assets</b>		<b>70,800</b>	<b>118,196</b>
<b>Total assets</b>		<b>127,066</b>	<b>176,490</b>
<b>Current liabilities</b>			
Trade and other payables		12,508	16,209
Loans and borrowings	10	16,581	12,567
Current tax liabilities		-	2,454
Employee benefits		9,393	10,393
Prepaid revenue and other current liabilities		1,923	2,592
<b>Total current liabilities</b>		<b>40,405</b>	<b>44,215</b>
<b>Non-current liabilities</b>			
Loans and borrowings	10	1,683	518
Employee benefits		1,441	1,337
Accrued rent		1,059	1,046
<b>Total non-current liabilities</b>		<b>4,183</b>	<b>2,901</b>
<b>Total liabilities</b>		<b>44,588</b>	<b>47,116</b>
<b>Net assets</b>		<b>82,478</b>	<b>129,374</b>
<b>Equity</b>			
Issued capital		63,402	63,402
Reserves		10,384	10,684
Retained earnings		8,692	55,288
<b>Total equity</b>		<b>82,478</b>	<b>129,374</b>

*The consolidated interim statement of financial position is to be read in conjunction with the accompanying notes to the consolidated interim financial statements.*

**CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

	Issued capital	Foreign currency translation reserve	Equity compensation reserve	Retained earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	64,350	313	10,536	56,966	132,165
<b>Total comprehensive income for the period</b>					
Profit	-	-	-	7,063	7,063
Other comprehensive income	-	131	-	-	131
<b>Total comprehensive income</b>	-	<b>131</b>	-	<b>7,063</b>	<b>7,194</b>
<b>Transactions with owners, recorded directly in equity</b>					
On-market share buy-back	(392)	-	-	-	(392)
Equity-settled share-based payment transactions	-	-	337	-	337
Dividends to shareholders	-	-	-	(6,887)	(6,887)
<b>Balance at 31 December 2015</b>	<b>63,958</b>	<b>444</b>	<b>10,873</b>	<b>57,142</b>	<b>132,417</b>
Balance at 1 July 2016	<b>63,402</b>	<b>374</b>	<b>10,310</b>	<b>55,288</b>	<b>129,374</b>
<b>Total comprehensive income for the period</b>					
Loss	-	-	-	(44,540)	(44,540)
Other comprehensive income	-	60	-	-	60
<b>Total comprehensive income</b>	-	<b>60</b>	-	<b>(44,540)</b>	<b>(44,480)</b>
<b>Transactions with owners, recorded directly in equity</b>					
Equity-settled share-based payment transactions	-	-	(360)	-	(360)
Dividends to shareholders	-	-	-	(2,056)	(2,056)
<b>Balance at 31 December 2016</b>	<b>63,402</b>	<b>434</b>	<b>9,950</b>	<b>8,692</b>	<b>82,478</b>

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

*The consolidated interim statement of changes in equity is to be read in conjunction with the accompanying notes to the consolidated interim financial statements.*

**CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

	Notes	31 December 2016 \$'000	31 December 2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		171,893	190,666
Payments to suppliers and employees		(167,996)	(183,310)
Cash generated from operations		3,897	7,356
Interest received		103	115
Income taxes paid		(3,873)	(4,773)
<b>Net cash from operating activities</b>		<b>127</b>	<b>2,698</b>
<b>Cash flows from investing activities</b>			
Acquisition of plant and equipment		(103)	(59)
Payments of contingent consideration related to previous business combination	7	-	(11,375)
<b>Net cash used in investing activities</b>		<b>(103)</b>	<b>(11,434)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		3,500	8,500
Repayment of borrowings		(537)	(1,523)
On-market share buy-back		-	(392)
Dividends paid to shareholders	11	(2,056)	(6,887)
Borrowing costs paid		(364)	(310)
<b>Net cash from/(used in) financing activities</b>		<b>543</b>	<b>(612)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>567</b>	<b>(9,348)</b>
Cash and cash equivalents at 1 July		4,733	12,908
Effects of exchange rate fluctuations on cash held		(56)	(56)
<b>Cash and cash equivalents at 31 December</b>		<b>5,244</b>	<b>3,504</b>

*The consolidated interim statement of cash flows is to be read in conjunction with the accompanying notes to the consolidated interim financial statements.*

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

**1. Reporting entity**

SMS Management & Technology Limited (the Company) is a for-profit company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2016 comprise the Company and its controlled entities (collectively the Group).

The consolidated annual financial statements of the Group as at, and for the year ended 30 June 2016 are available upon request from the Company's registered office at Level 41, 140 William St, Melbourne, Victoria, 3000 or at [www.smsmt.com](http://www.smsmt.com).

**2. Basis of preparation**

**Statement of compliance**

The consolidated interim financial statements are general purpose financial statements which have been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The consolidated interim financial statements do not include all of the information required for the full annual financial statements, and should be read in conjunction with the consolidated annual financial statements of the Group as at, and for the year ended, 30 June 2016.

The consolidated interim financial statements were authorised for issue by the Board of Directors on 27 February 2017.

The Company is of a kind referred to in *ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191*, dated 24 March 2016, and in accordance with that Corporations Instrument, amounts in the consolidated interim financial statements and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

**Basis of measurement**

The consolidated interim financial statements have been prepared on the basis of historical cost, with the exception of contingent consideration assumed in a business combination which is measured at fair value at each reporting date.

**Estimates and judgements**

The preparation of the consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In preparing the consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated annual financial statements as at, and for the year ended, 30 June 2016.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

**3. Significant accounting policies**

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated annual financial statements as at, and for the year ended, 30 June 2016.

**4. New accounting standards and interpretations effective for the six months ended 31 December 2016**

New and revised accounting standards and amendments thereof and interpretations effective for the six months ended 31 December 2016 that are relevant to the Group include:

- AASB 2014-4 *Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation*;
- AASB 2015-1 *Amendments to Australian Accounting Standards - Annual improvements to Australian Accounting Standards 2012-2014 Cycle* ; and
- AASB 2015-1 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101*

The application of these amendments has had no material impact on the Group's consolidated financial statements.

**5. Financial risk management**

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated annual financial statements as at, and for the year ended, 30 June 2016.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

**6. Operating segments**

The Group provides a broad range of services across business and IT advisory, technology solutions, managed services and contract recruitment. The Group operates across Australia and the Asia Pacific, with regional offices in Hong Kong and Singapore.

The business operates in two segments:

- SMS Consulting: offering a range of specialised business and IT advisory, technology solutions and managed services; and
- M&T Resources: sourcing contract and permanent candidates IT resources.

SMS Consulting offers:

<b>Advisory</b>	<b>Solutions</b>	<b>Managed Services</b>
Digital Business Strategy	Web, Mobile & IoT Apps	Application Managed Services
Technology, Strategy and Planning	Data Provisioning, Reporting and Business Analytics	Managed Infrastructure Services
Design Thinking and Customer Experience	Customer Solutions	Cloud Orchestration
Agile Transformation	Process and Productivity Solutions	Support Services
Information Management Strategy	Cloud Migration and Enablement	
Program Delivery & Enablement		

M&T Resources offers:

- Recruitment and Contract Labour (predominantly in the Information Technology (IT) sector).

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

6. Operating segments (continued)

Refer to the table below for the financial information relating to the reportable segments.

	For the six months ended 31 December							
	SMS Consulting		M&T Resources		Unallocated		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
External revenue	105,506	120,666	46,414	47,464	-	-	151,920	168,130
Inter-segment revenue	-	-	11,721	13,157	-	-	11,721	13,157
<b>Segment EBITDA* prior to significant items and adjustments<sup>^</sup></b>	<b>10,071</b>	17,070	<b>3,727</b>	3,979	<b>(8,796)</b>	(9,959)	<b>5,002</b>	11,090
Impairment of intangible assets	(46,700)	-	-	-	-	-	(46,700)	-
Termination costs	(889)	-	-	-	-	-	(889)	-
Contingent consideration expense	-	(79)	-	-	-	-	-	(79)
<b>Segment EBITDA* after significant items and adjustments</b>	<b>(37,518)</b>	16,991	<b>3,727</b>	3,979	<b>(8,796)</b>	(9,959)	<b>(42,587)</b>	11,011
Net finance costs	-	-	-	-	(252)	(299)	(252)	(299)
Depreciation and amortisation	(228)	(228)	-	-	(525)	(428)	(753)	(656)
<b>(Loss)/profit before income tax</b>	<b>(37,746)</b>	16,763	<b>3,727</b>	3,979	<b>(9,573)</b>	(10,686)	<b>(43,592)</b>	(10,056)
Income tax expense	-	-	-	-	(948)	(2,993)	(948)	(2,993)
<b>Profit for the period</b>	<b>(37,746)</b>	16,763	<b>3,727</b>	3,979	<b>(10,521)</b>	(13,679)	<b>(44,540)</b>	7,063
<b>Reportable segment assets</b>	<b>102,673</b>	157,402	<b>11,244</b>	14,638	<b>13,149</b>	11,472	<b>127,066</b>	183,512

\*EBITDA is defined as earnings before interest, tax, depreciation and amortisation. EBITDA is non-IFRS financial information.

<sup>^</sup> 31 December 2015 segment EBITDA prior to significant items and adjustments has been restated to reflect a reallocation of IT expenses to unallocated costs to align with new management structure implemented on 1 July 2016.



CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

**7. Business combinations**

There have been no business combinations during the six months ended 31 December 2016 or the comparative period.

In the previous corresponding period a final payment of \$11.4 million was made relating to the acquisition of 100% of shares in Indicium Technology Group Pty Ltd and 100% of the units in Access Networks & Communications Unit Trust (together Indicium). Indicium was acquired in July 2013 for a total acquisition price of \$27.9 million.

There was no contingent consideration paid during the six months ended 31 December 2016.

**8. Other assets**

	31 December 2016 \$'000	30 June 2016 \$'000
<b>Current</b>		
Prepayments	2,198	1,598
Finance lease receivables <sup>(1)</sup>	1,197	597
Other current assets	258	247
	<b>3,653</b>	<b>2,442</b>
<b>Non-current</b>		
Finance lease receivables <sup>(1)</sup>	2,208	595
	<b>2,208</b>	<b>595</b>

(1) Finance lease receivables are a component of back-to-back lease arrangements relating to equipment associated with certain managed services contracts.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

9. Intangible assets

	Goodwill	Customer contracts and relationships	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>Cost</b>				
Balance at 1 July 2015	444,235	3,935	21	448,191
Balance at 31 December 2015	444,235	3,935	21	448,191
Balance at 1 July 2016	<b>444,235</b>	<b>3,935</b>	<b>21</b>	<b>448,191</b>
Balance at 31 December 2016	<b>444,235</b>	<b>3,935</b>	<b>21</b>	<b>448,191</b>
<b>Amortisation and impairment losses</b>				
Balance at 1 July 2015	(333,191)	(2,564)	-	(333,755)
Amortisation for the period	-	(228)	-	(228)
Balance at 31 December 2015	(333,191)	(2,792)	-	(335,983)
Balance at 1 July 2016	<b>(333,191)</b>	<b>(3,020)</b>	<b>-</b>	<b>(336,211)</b>
Amortisation for the period	-	(228)	-	(228)
Impairment of intangible assets	<b>(46,700)</b>	-	-	<b>(46,700)</b>
Balance at 31 December 2016	<b>(379,891)</b>	<b>(3,248)</b>	<b>-</b>	<b>(383,139)</b>
<b>Carrying amounts</b>				
Balance at 1 July 2015	111,044	1,371	21	112,436
Balance at 31 December 2015	111,044	1,143	21	112,208
Balance at 1 July 2016	<b>111,044</b>	<b>915</b>	<b>21</b>	<b>111,980</b>
Balance at 31 December 2016	<b>64,344</b>	<b>687</b>	<b>21</b>	<b>65,052</b>

In accordance with the Group's accounting policies, the Group undertakes its impairment testing for intangible assets with indefinite useful lives at each reporting date or when an indicator of impairment exists. Where an indication of impairment is identified, a formal impairment assessment is performed.

The Group has identified the following indicators of impairment as at 31 December 2016:

- Reduction in the Group's share price over the six month period since 30 June 2016 resulting in a gap emerging between the Group's market capitalisation and the Group's net assets (pre-impairment); and
- Decline in revenue due to weak sales pipeline and contract conversions in the Advisory & Solutions division of SMS Consulting.

**CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016**

**9. Intangible assets (Continued)**

As a result, the Group assessed the recoverable amount for each of its cash generating units (CGUs). For impairment testing purposes, the Group's CGUs are the same as its reportable segments as disclosed in Note 6, being SMS Consulting and M&T Resources.

The Group's goodwill has been fully allocated to the SMS Consulting CGU. There are no other CGUs that have goodwill or intangible assets with indefinite useful lives.

The impairment review identified that an impairment charge of \$46.7 million should be recognised against the goodwill relating to the SMS Consulting CGU.

The recoverable amount of the SMS Consulting CGU was determined based on a value in use (VIU) approach which uses cash flow projections based on:

- Earnings (i.e. EBITDA) forecasts prepared by management and endorsed by the Board of Directors covering a five-year period;
- Discount rate of 11.0% per annum (30 June 2016: 11.0% per annum); and
- Long-term growth rate of 2.5%.

The discount rate represents the post-tax weighted average cost of capital (WACC) applied to the cash flow projections and reflects the specific risks relating to the CGU. The long-term growth rate is based on the Group's expectation of the CGU's long-term performance in its market.

The values assigned to the key assumptions represent management's assessment of future performance in the CGU based on historical experience, and internal and external sources of information and analysis. The estimated recoverable amounts are highly sensitive to key assumptions. Therefore, any adverse movements in key assumptions could lead to further impairment charges. Following the impairment, the recoverable amount of the SMS Consulting CGU's assets is equal to the carrying value.

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

10. Loans and borrowings

	31 December 2016 \$'000	30 June 2016 \$'000
<b>Current</b>		
Unsecured working capital facility	15,500	12,000
Secured finance lease liabilities <sup>(1)</sup>	1,081	567
	<b>16,581</b>	<b>12,567</b>
<b>Non-current</b>		
Secured finance lease liabilities <sup>(1)</sup>	1,683	518
	<b>1,683</b>	<b>518</b>

(1) Includes a component of back-to-back lease arrangements relating to equipment associated with certain managed services contracts amounting to \$2.6 million.

The Group has a three-year multi-option working capital facility of \$30.0 million (30 June 2016: \$30.0 million). The facility is non-amortising, unsecured and \$15.5 million was drawn down at 31 December 2016.

*Financing facilities*

	31 December 2016 \$'000	30 June 2016 \$'000
<b>Total facilities available</b>		
Unsecured working capital facility	30,000	30,000
Bank indemnity/guarantee facility	4,653	4,653
	<b>34,653</b>	<b>34,653</b>
<b>Facilities used at balance date</b>		
Unsecured working capital facility	15,500	12,000
Bank indemnity/guarantee facility	2,557	2,656
	<b>18,057</b>	<b>14,656</b>
<b>Facilities not utilised at balance date</b>		
Unsecured working capital facility	14,500	18,000
Bank indemnity/guarantee facility	2,096	1,997
	<b>16,596</b>	<b>19,997</b>

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

11. Equity

Dividends

	Cents per share	Total amount \$'000	Percentage franked	Date of payment
<b>2016</b>				
Final 2016 ordinary	3.0	2,056	100%	4 November 2016
<b>2015</b>				
Final 2015 ordinary	10.0	6,887	100%	6 November 2015

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

On 27 February 2017, the directors determined the payment of an interim 2017 ordinary (fully franked) dividend of 1.5 cents per share (2016 interim: 6.5 cents) amounting to \$1.0 million (2016 interim: \$4.5 million) to be paid on 7 April 2017 (2016 interim: 8 April 2016).

The financial effect of this interim dividend has not been brought to account in the financial statements for the six months ended 31 December 2016 and will be recognised in subsequent financial statements.

Shares cancelled under share buy-back

There were no shares bought back under the on-market share buy-back during the six months ended 31 December 2016.

116,946 (\$392,188) ordinary shares were cancelled during the six months ended 31 December 2015, as a result of the on-market share buy-back that commenced on 13 June 2014 and extended on 15 June 2015.

12. Earnings per share

	31 December 2016	31 December 2015
<b>Basic earnings per share (EPS)</b>	<b>(65.0) cents</b>	10.3 cents
<b>Diluted earnings per share (EPS) <sup>(1)</sup></b>	<b>(65.0) cents</b>	10.1 cents
<b>Earnings used in calculating EPS</b>	<b>\$'000</b>	<b>\$'000</b>
(Loss)/profit for the period used in calculating the basic and diluted EPS	<b>(44,540)</b>	7,063

CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

12. Earnings per share (Continued)

	31 December 2016	31 December 2015
<b>Weighted average number of shares used as a denominator</b>		
Weighted average number of ordinary shares outstanding during the half year used in the calculation of basic EPS	<b>68,536,340</b>	68,888,062
Adjustments for calculation of dilutive EPS:		
Shares to be issued in relation to Performance Rights Plan	-	1,379,807
<b>Weighted average number of ordinary shares and potential ordinary shares used as denominator in calculating dilutive EPS</b>	<b>68,536,340</b>	70,267,869

- (1) Diluted EPS for 31 December 2016 does not assume conversion of the shares which could be issued in relation to Performance Rights Plans, should such performance rights vest, this would have an anti-dilutive effect on EPS.

**Additional information:**

Earnings per share based on profit for the period excluding significant items

	31 December 2016	31 December 2015
<b>Basic EPS</b>	<b>4.1 cents</b>	10.3 cents
<b>Diluted EPS</b>	<b>4.1 cents</b>	10.1 cents
<b>Earnings used in calculating EPS based on profit for the period excluding significant items</b>	<b>\$'000</b>	\$'000
(Loss)/profit for the period	<b>(44,540)</b>	7,063
Add: Impairment charge (net of tax)	<b>46,700</b>	-
Add: Termination costs (net of tax)	<b>622</b>	-
<b>Profit for the period excluding significant items</b>	<b>2,782</b>	7,063

13. Subsequent events

On 27 February 2017, the Company entered into a scheme implementation agreement with DWS Limited ("DWS") under which it is proposed that DWS will acquire 100% of the share capital of the Company.

There have been no other material matters or circumstances which have arisen between 31 December 2016 and the date of this report that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

## DIRECTORS DECLARATION

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In the opinion of the directors of SMS Management & Technology Limited:

- (a) the consolidated interim financial statements and notes that are set out on pages 6 to 19 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the six months ended on that date; and
  - (ii) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Derek Young  
Chairman



Rick Rostolis  
Chief Executive Officer

Signed at Melbourne on 27 February 2017



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**Independent Auditor's Review Report  
to the members of SMS Management & Technology Limited**

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

We have reviewed the accompanying half-year financial report of SMS Management & Technology Limited (the Entity) and its subsidiaries (the Group), which comprises the consolidated interim statement of financial position as at 31 December 2016, the consolidated interim statement of comprehensive income, the consolidated interim statement of changes in equity and the consolidated interim statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 6 to 20.

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

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of SMS Management & Technology Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited





*Auditor's Independence Declaration*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SMS Management & Technology Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

*Conclusion*

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

DELOITTE TOUCHE TOHMATSU

Stephen Roche  
Partner  
Chartered Accountants  
Melbourne, 27 February 2017