

From ideas to action

SMS

SMS Management & Technology Limited
Annual Report 2006



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| Key Financial Results | June 2006 | June 2005 | % change | |
|---|-----------|-----------|----------|---|
| Total revenue (\$m) | 128.4 | 110.8 | 16% | ▲ |
| Operating cash flow (before interest and tax) (\$m) | 16.2 | 9.3 | 74% | ▲ |
| EBITDA (\$m) | 16.4 | 10.2 | 61% | ▲ |
| Net profit after tax (\$m) | 11.8 | 7.5 | 57% | ▲ |
| Earnings per share | 18.8c | 12c | 57% | ▲ |
| Cash balance (\$m) | 22.5 | 17.0 | 32% | ▲ |
| Net tangible assets per share | 55c | 39c | 41% | ▲ |
| Final dividend (per share, fully franked) | 10c | 6c | 67% | ▲ |
| Full year dividend (per share, fully franked) | 15c | 10c | 50% | ▲ |

20 years, the journey so far



SMS was founded in 1986 on the basis of three core rules: add value, maintain unity and enhance reputation. 20 years on, these values remain central to our business today, allowing us to continue delivering excellence in everything we do.

1992

Growth strategy focused on bridging gap between business and technology. Bridge logo introduced.

1994

SMS Canberra office established. SMS Contracting established (now M&T Resources). Significant broadening of client base in Finance, ICT, Government and Energy.

1996

Staff numbers reach 400. Training and professional development program upgraded and made more comprehensive.

1993

Consultant professional development program introduced. Formal account management structure implemented. Applications development and SI practice launched.

1995

SMS Brisbane office established. Gas and water industry practice established. ISO quality accreditation attained.

Chairman and Chief Executive Officer review

Dear fellow shareholders,



SMS has completed another successful year and further reinforced its strong reputation for delivering results; to its clients, its employees and its shareholders. Net profit after tax increased by 57% to \$11.8m and revenue grew by 16% to \$128m. With total staff of 828, SMS is Australia's leading management and IT services company with an enviable list of blue chip clients.

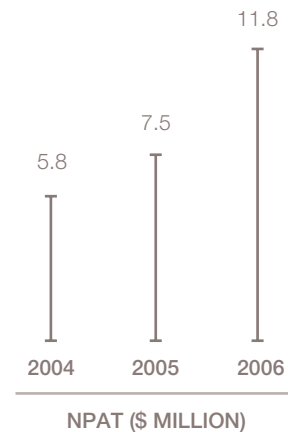
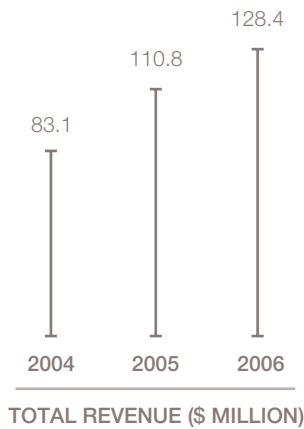
The Company paid dividends of 15 cents per share fully franked (a 50% increase on last year). This dividend together with share price appreciation delivered total shareholder returns of \$1.35 per share.

Our core consulting business continued to grow strongly and we increased net consultant numbers in Australia by 59. Demand and sales performance are the highest for many years and consequently the Company is ramping up its recruitment program to meet demand in FY2007. As part of this, SMS has become a sponsoring employer permitting us to recruit overseas staff under the 457 Visa program. This program has already begun and the first of the new hires started work in September 2006.

Technology Services was successfully launched as a separate profit centre and made a good contribution to the profitability of the Company. This is a major area of investment for the Company and we expect this business to drive significant growth in earnings over the next five years.

Another new service line, Business Transformation, aims to leverage all business units as well as consortium partners and subcontractors in order to deliver major programmes of work for our clients. This will be established as a separate business unit to deliver growth which is not limited by our permanent staff numbers. We assigned one of our most experienced executives to lead this offering.

We completed the transformation of our international practices in Singapore and London to a variable cost base. This has resulted in a reduction in the number of permanent staff in these offices who are augmented with local associates and partners as well as staff from the Australian operation. Both international offices operated profitably under the new model and will continue to seek growth opportunities through leveraging the strong Australian base.



TOTAL SHAREHOLDER RETURNS (per share)

| | 2006 | 2005 | 2004 |
|---------------------------|--------|--------|--------|
| Fully franked dividend | \$0.15 | \$0.10 | \$0.06 |
| Capital return | | \$0.45 | |
| Increase in share price | \$1.20 | \$0.09 | \$0.75 |
| Total shareholder benefit | \$1.35 | \$0.64 | \$0.81 |

1997

Defence practice established. Further broadening of client base – no client represents more than 10% of revenue.

1999

SMS changes from a private unit trust to a public unlisted company. Laurie Cox appointed non-executive Chairman. Shareholding opened up to non-employees. Further increase in demand as other suppliers tied up in Y2K projects.

2001

Company renamed and re-branded as SMS Management & Technology Limited. SMS Contracting changed its name to M&T Resources. Decline in demand following end of Y2K, ERP and .com boom.

1998

SMS London office established. Demand grows with market focus on e-commerce and ERP. Premises expanded.

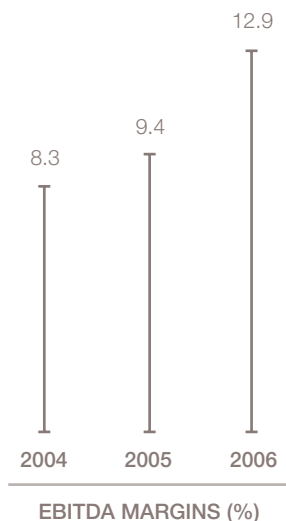
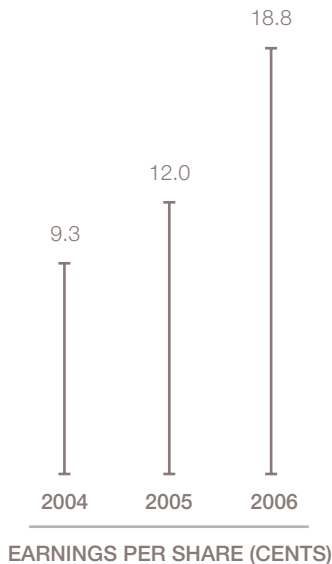
2000

SMS acquired by Sausage Software Limited. SMS Singapore office established. Y2K and GST projects complete.

2002

Tom Stianos appointed CEO. Non-core Sausage businesses divested. Executive team changed. Sales capability upgraded, industry directors appointed.

Renowned for our innovative approach to solving complex business problems, SMS has an enviable reputation for delivering results. We enjoy the extensive reach and resources of a large company so we can deliver on the largest projects, yet we remain flexible and responsive to our clients' individual needs. We do this by adopting a pragmatic, vendor neutral approach and by working in partnership with our clients; we form strong and long-lasting relationships because we generously share knowledge, expertise and energy and we maintain a single-minded focus on producing results.



In 2007 we will increase our investment in the Health industry vertical to accelerate the growth of this sector. During FY2006 SMS made good progress in the Health sector with new clients in Queensland, NSW, the ACT and Victoria but we believe with additional focus, this sector will become a more significant contributor over the next few years.

The ICT sector has been one of our largest and the industry has been fairly subdued in recent years, however activity has recently increased in this sector and we expect it to be a growth area between 2007 and 2009.

Baking and Financial Services, Defence, Government and Utilities have continued apace with demand from a broad range of drivers. Over 90% of revenue in FY2006 was earned from the following industry sectors:

- >Banking and Financial Services
- >Information and Communications Technology
- >Federal and State Government
- >Defence
- >Energy
- >Resources
- >Health

M&T Resources delivered a good result with slightly reduced contractor numbers. Last year we began a program to shift the mix of work from 95% contract services to 70% contract and 30% recruitment services. This aims to optimise working capital and improve margins and will also slow the growth in contractor head count. We estimate that it will take another two years to achieve our target service mix in M&T Resources. Like Consulting,

M&T Resources has a loyal and blue chip client base and will benefit from the continuing growth in demand for human resources and IT expertise particularly.

Profit grew at a faster rate than revenue in line with our 2005-2010 growth strategy. The EBITDA margin has increased from 9% to 13%, and management is focused on improving the margin further in FY2007. Last year's margin growth, was in part, achieved by accelerating selected service lines such as Technology Services, and bringing the International businesses into profit.

Demand remains strong across a broad range of our services and industry sectors. With the increased capacity, margins and healthy sales pipelines, we forecast continued EBITDA growth over the next few years.

Thomas Stianos
Chief Executive Officer

Laurence G. Cox
Chairman

2003

Knowledge management system developed. Independent accreditation and certification programs for consultants and project managers introduced. Defence industry line won the major logistics modernisation project. Practice and commercial management processes strengthened. Balance sheet restructured, Goodwill from Sausage Software written off.

2005

SMS achieves 33% growth and 54% jump in profit. Technology Services established as a separate profit centre. Staff numbers reach 800. CRM and sales management systems upgraded.



2004

SMS acquires Implementation Partners International (IP). First dividend paid since SMS was acquired in 2000. Knowledge management system extended and relaunched as Magellan. Profit rebounds with a \$7.9m increase in EBITDA.

2006

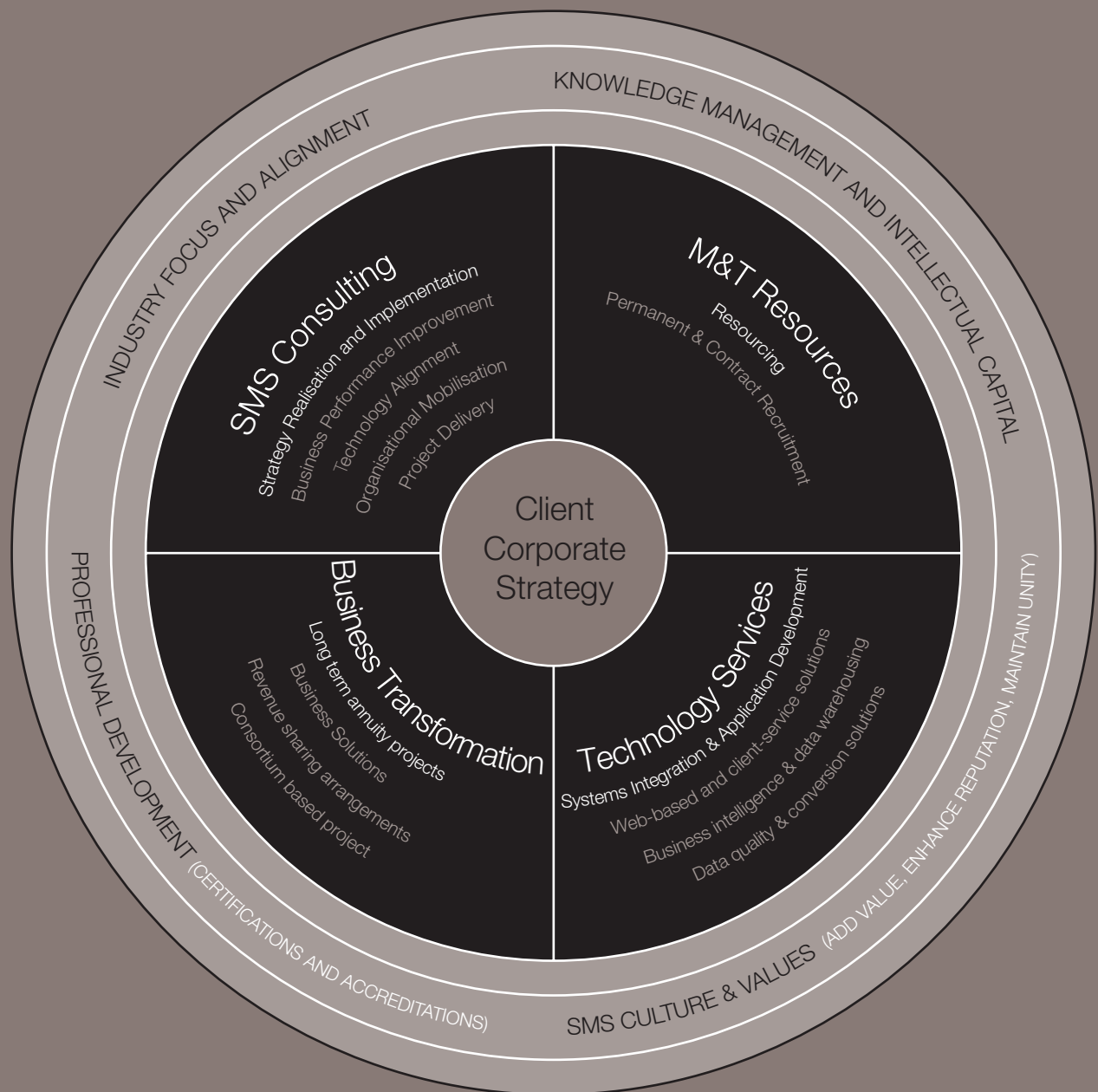
SMS sponsors recruits from the United Kingdom to meet growing demand. Profits grow by a further 61%. International businesses adopt a variable cost base model. Health industry director appointed to consolidate success in the Health sector.

SMS Strategy in action

Structured to deliver practical outcomes and sustained value

SMS Management & Technology Limited (SMS) specialises in helping organisations turn their ideas and strategies into action. We do this by improving the way our clients use people, processes and technologies. This means we address everything from business integration to compliance, process improvement to change management and technology strategy to systems integration and application development.

Underpinning and reinforcing SMS's lines of business is its management services infrastructure. The SMS culture and values, our professional development program, our knowledge management systems and our industry focus, are the elements that are fundamental in helping us achieve transformational results for our clients, our staff and our shareholders.



Our primary markets

Defence

07 Case Study



Financial Services

08 Case Study



ICT*

09 Case Study



Government

10 Case Study



Energy & Utilities

11 Case Study



Mining & Resources

12 Case Study



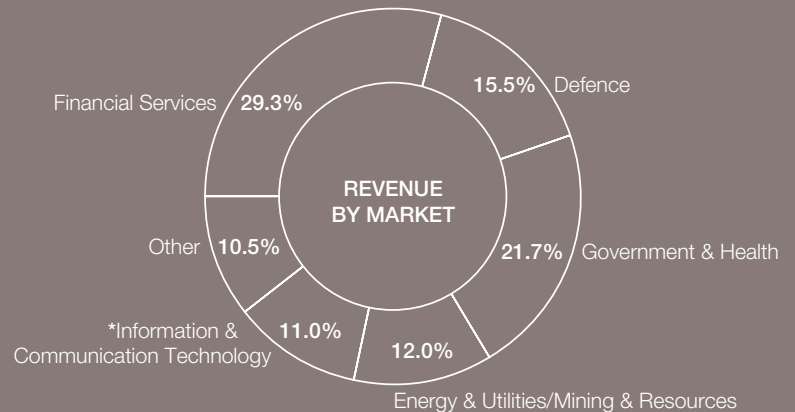
Health & Human Services

13 Case Study



Our demand drivers

- > Project delivery and execution
- > Product, services and capability development
- > New processes and systems
- > Operational efficiency
- > Change management and business performance
- > Regulatory and compliance
- > M&A activity (acquisition, integration and divestment)
- > Governance
- > Security
- > Infrastructure upgrades
- > Technology refresh



Our growth strategy

- > Leverage market differentiation
 - > Large enough to deliver, small enough to be agile
 - > Credible alternative to the multinational firms
 - > Only hire experienced professionals
 - > Known for pragmatic advice and practical results
- > Focus on what we are most respected for
 - > Execution excellence in the implementation of business strategy
 - > Business performance improvement
- > Expand services to current clients
 - > M&T Resources launched due to demand from Consulting relationships
 - > Technology Services being provided to current Consulting clients
- > Leverage our skills in managing complex projects
- > Take on total solution projects
- > Use deep industry knowledge to drive service
- > Acquisition
 - > Broaden client base, capability and market coverage

ideas

+

action

=

excellence

results

responsive

partnership

improvement

delivery

implementation

performance



Although very mature, the Defence and National Security industry continuously strives for greater efficiency and effectiveness. Since the mid-90s, SMS has been delivering outstanding outcomes to Defence and National Security organisations in Australia, the Asia/Pacific region and, more recently, the United Kingdom.

Case Study:

REVITALISING DOCUMENT AND RECORDS MANAGEMENT AT DEFENCE

CLIENT PROBLEM

The Australian Department of Defence operates the largest document and records management (DRM) capability in the Southern hemisphere. A re-vamped solution needed to provide support for:

100 million new documents and records per annum

100,000 users, with 50,000 active users within two years of contract signature

600 locations, including deployments on ships, with overseas detachments and in operational environments

Before implementing this proposal, Defence asked SMS to develop a DRM Strategy which reviewed Defence's legislative and charter (business and operational)

requirements for record-keeping; SMS reviewed the internal proposal developed by Defence; and recommended an appropriate way forward

SMS APPROACH

In a seven week project that promulgated best practice, SMS developed a Defence DRM Strategy that included examination of:

Functionality requirements

Systems requirements

Other implementations

RECOMMENDATIONS

The Strategy recommended and outlined how Defence should:

More rigorously define Defence DRM policy and governance arrangements

Implement a corporately funded whole-of-Defence DRM Solution, in several stages

Be capable of managing and supporting the extensive enterprise requirements of the Department

OUTCOME

The DRM Strategy was agreed by the Secretary and Commander of Defence Forces (CDF)

SMS was subsequently asked to manage the implementation, which included the specification of requirements, market testing for an outsourced provider, contract negotiation and implementation management

A projected implementation savings of around 45%

Case Study:

LEADING TECHNOLOGY INTEGRATION TO ACHIEVE AN INTERNATIONAL GROWTH STRATEGY

CLIENT PROBLEM

Our client was considering the acquisition of an off shore bank as part of their growth strategy. They recognised the need for professional assistance to perform due diligence and – subject to a successful acquisition – professional management of the integration.

SMS APPROACH

SMS developed, implemented and maintained a programme and project management approach that was tailored to meet the exacting needs driven by the integration objectives and multifaceted implementation environments.

RECOMMENDATION

In conjunction with our client's management team, SMS established the strategy for the due diligence and the initial integration planning, trained our client's staff and managed the technology due diligence. SMS subsequently led the technology integration of this major acquisition.

OUTCOME

The successful integration has resulted in considerable economies of scale for the bank, including streamlining of processes and the enablement of the bank's international growth strategy.

SMS exceeded expectations and was sought out to implement similar approaches across all elements of the integration programme and in other key change areas within the bank. The project was also judged by the client to be one of the bank's most complex, yet best executed programmes.

SMS has a strong record of achievement within the financial services sector, with an enviable reputation for delivery. Having undertaken important assignments with Australia's big four banks, major general insurers, financial services providers, credit unions and several regional banks, we have an in-depth understanding of the industry and the issues which confront it.



Financial Services

Information and Communication Technology

SMS has successfully completed numerous high-profile and diverse projects for a variety of ICT organisations, including major global carriers, network operators and service suppliers. These projects include the rapid roll-out of a mobile network, implementation of important industry changes and the management of marketing and distribution initiatives.

Case Study:

OUTSOURCING A BANK'S TELECOMMUNICATIONS SERVICES

CLIENT PROBLEM

A large telecommunication service provider required expert advice and guidance on outsourcing a major bank's telecommunications services to increase efficiency across the IT&T division.

SMS APPROACH

SMS brought together specialist consultants to:

establish a Project Office, with particular focus on a smooth and effective conversion

focus on the effective delivery of projects to facilitate successful transition of bank staff and assets to the telecommunication service provider

RECOMMENDATION

SMS developed and implemented a range of processes and methodologies to ensure

successful integration of the bank's IT&T resources to the telecommunication service provider. SMS's tailored recommendations focused specifically on:

developing a project management plan in line with pre-transition requirements

program and management of high profile projects

developing and implementing detailed transformation plans

establishing transformation programs of work to enable adherence to the telecommunication company's contractual obligation of delivery

identifying a list of potential projects which would deliver real benefits in technology improvement

establishing a range of business processes to support contract functions, including vendor management

OUTCOME

All bank staff were successfully transitioned over to the telecommunication company, resulting in significant reductions in cost and improvements in staff resource allocation.

As well as managing the successful transition as required, SMS provided the bank with a five-year technology roadmap based on the telecommunication company's transformation process.

ENABLING THE GOVERNMENT'S STRATEGY FOR THE ELDERLY

CLIENT PROBLEM

The Federal Government Department wanted to develop a web portal to help consumers to more easily find and compare the entire range of care facilities for the elderly. The broader vision was for the site to become the public 'shopfront' for the entire government-funded care system for the elderly. This had never been attempted before.

SMS APPROACH

The SMS focus was strategic and highly user-centred, commencing with detailed research to determine end user needs,

understandings and preferences, and testing results with users along the way. A market research approach was applied to ensure that the end users would find the service useful and accessible.

RECOMMENDATIONS

SMS recommended particular principles for the look, feel and architecture of the website and managed a team of copywriters and graphic designers in the development of website prototypes to these specifications. By the end of this process, the prototypes balanced the Department's business needs with the needs of consumers.

OUTCOME

This website represents the first ever consumer focused view of care services for the elderly in Australia. It has gained universal consensus and acclaim amongst its stakeholders and is seen as a model for future outward-looking aged care information services to be provided by the Department.

SMS has developed an intimate understanding of government service delivery requirements, as well as highly refined, sector-specific capabilities. This has enabled us to help numerous government organisations (at federal, state and local levels) improve core service functions, reduce costs and develop practical business improvement programs in response to public, client and environmental demand.



Government

Energy & Utilities



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Having participated extensively in the privatisation and deregulation of the Australian energy and utilities sector, SMS understands the challenges that contestability, service demands and competition impose. Above all, we recognise the central role of the customer in the deregulated energy and utilities sector and the requirement for energy and utilities companies to redefine service standards and minimise customer churn.

Case Study:

DRIVING STRATEGIC PERFORMANCE

CLIENT PROBLEM

A major utilities company needed to drive strategic awareness and alignment of their new vision through operational plans, but had inconsistent business planning and reporting processes to support them.

SMS APPROACH

SMS utilised a collaborative process of workshops and mentoring sessions with the company's management team and their individual departments to ensure strong buy-in to the

strategy, clearly cascaded objectives and appropriate performance rewards.

RECOMMENDATIONS

SMS achieved agreement from the management team on a dashboard format for the departmental monthly report. This included reporting both operational and strategic data to provide visibility of progress. A mix of lead and lag measures ensured the ability to identify areas where mitigation was required.

OUTCOME

SMS's solution resulted in four major benefits for the utilities company:

a repeatable business planning process

greater strategic awareness throughout the organisation

clearer accountability for delivery to plan

a performance reward system that drives behaviour toward delivering against the business strategy

HOW A MINING MERGER BROUGHT ABOUT AN ERP OVERHAUL

CLIENT PROBLEM

When a newly acquired business had to be integrated, the acquiring organisation recognised an opportunity to completely overhaul its ERP system to ensure consistent information management and to consolidate business process.

SMS APPROACH

SMS evaluated and compared the client's ERP system with the system inherited as part of the acquired business. SMS ran an 'IT alignment with business' review to identify what IT projects and initiatives needed to be put in place for the business to achieve its goals and objectives. Finally SMS conducted consultations in multiple client and supplier locations to assess the most suitable system and ensured

that it met user and business requirements.

RECOMMENDATIONS

SMS delivered the strategies and plans required for the company to consolidate and update their existing ERP systems. The SMS team delivered:

an IT strategy and recommended a roadmap for the company to move to a more mature and scalable IT environment

an IT and Administration Migration Management Plan

a Business Case, including qualitative, functional and quantitative evaluations and a risk assessment of two ERP systems and their service providers

an IT Alignment with Business Report

OUTCOMES

SMS's recommendations led to the successful deployment of a new IT network and a recommendation on an ERP system. The client expressed high satisfaction with the SMS deliverables and recommendations which led to:

successful deployment of a new IT network in Australia

successful migration of staff to the new network

an informed decision on the preferred ERP system

the establishment of an appropriate IT function and structure

Additionally, the client benefited significantly from the risk minimisation strategies developed and applied by SMS.

Since the late 1980s, SMS has been delivering large-scale management and technology outcomes to leading clients within the mining and natural resources sector. Our solutions have been critical in driving new efficiencies in a highly competitive sector and in managing significant company and industry risks.

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Mining & Resources



Health and Human Services

SMS offers the Health and Human Services sector the benefit of our business optimisation knowledge gained through assisting clients in many industries. Our ability to creatively and effectively transfer our knowledge in commercial management, business improvement and technology consulting, has earned us a reputation as a trusted advisor and business partner with many leading healthcare organisations and departments in the health and human services sectors.

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Case Study:

STRATEGIC REVIEW FOR BUSINESS OPTIMISATION

CLIENT PROBLEM

Overall service provision of IT group did not appear to be aligned with strategic business direction.

SMS APPROACH

Engaged by a health service provider to assess the effectiveness of Information Systems the SMS approach included a requirements assessment based on interviews conducted with key business stakeholders, a capability assessment of the IT function utilising the structured CobiT® framework, and individual

interviews with IT managers.

The final report included key recommendations associated with technology, processes, people and structure and a high level road map guiding the way forward.

Issues examined included strategic planning, governance and direction; departmental structure; leadership; project prioritisation; project management capability; resourcing; interface with the Department of Human Services; and service delivery.

RECOMMENDATIONS

SMS provided recommendations on alignment, and structure and an implementation plan.

OUTCOMES

The IS service is now regarded as effective, and business aligned and is contributing significantly to the overall business of the provider.



From left to right: Matt Dawson, Cathy Ford, Amy Wheaton, Tom Hadkiss, Michael Wright

SMS Consulting

SMS Consulting delivers specialist external expertise when our clients need it most. Established in 1986, SMS Consulting is a long standing provider of Management Services to Australian and selected international clients.

In 2006, SMS Consulting continued to be engaged by our clients across all dimensions of commercial and government operations. Our Consultant staff numbers grew by 20% and we also added 34 new clients during the year.

SMS Consulting continues to broaden our Service Offerings, talent pool and professional accreditations. We now have one of the largest Consulting groups formally qualified in ITIL, CobiT, MSP and AIPM accreditations in Australia. We continue to invest in the training and development of our consultants to meet industry changes such as compliance and regulatory programs including Sox and Basel II.

2006 saw the continued investment in, and development of our specialist intellectual property and the expansion of our Service Offerings to allow a greater ability to support our clients in bridging the gap between their corporate strategy and technology departments.

Our Consulting efforts in 2006 have fuelled the expansion of our world class knowledge management system, which is globally available to our consulting base, providing access to models, templates and practical approaches that promulgate best practice.

SPECIALIST MANAGEMENT CONSULTING

SMS Consulting brings deep industry understanding and extensive practical experience to every consulting engagement. The following highlights our consulting practices and the sort of work that we have delivered through them:

>Business Performance Improvement

- Strategic Planning & Realisation
- Process Improvement
- Business Continuity Management
- Governance Establishment and Implementation
- Sourcing & Support Services
- Risk & Compliance Management

>Technology Alignment

- Enterprise Architecture
- Web & Information Management
- IT Service Management
- Security & Authentication Service

>Organisational Mobilisation

- Organisational Change Management
- Organisational Review & Design
- Mergers & Acquisitions
- Performance Measurement

>Project Delivery

- Programme & Portfolio Services
- Project Management
- Project Alignment & Recovery
- Benefits Realisation

KEY CLIENTS

We continue to add new clients on a regular basis, and importantly we pride ourselves on outstanding client retention and growth. This is in part attributed to our industry focus and our policy of employing consultants with deep industry expertise. Key clients from our industry verticals include Department of Defence, Telstra, ANZ, Queensland Government, Southern Health, AGL, BHP Billiton and Tabcorp.

INTERNATIONAL

Further to our corporate strategy, communicated to the market during 2006, our international offices continue to support Australian clients with Asian and European offices. We have successfully changed the business model for the UK office to a more variable cost base. The Singapore office was also integrated as a regional hub, working in close association with the Australian business. Both the Singapore and UK offices made a positive contribution to SMS during 2006 and remain of strategic importance to the business.

OUTLOOK

Clients continue to engage SMS Consulting as a credible alternative to the multinational firms. FY 2007 will see SMS Consulting focus on building our end-to-end capabilities and will work closely with SMS Technology Services and M&T Resources to deliver strong, bundled services to our clients. During FY 2007, SMS Consulting will continue to strive for the mantle of Australia's pre-eminent, tier 2 provider of consulting services and will grow our full-service consulting capabilities accordingly.



From left to right: Mike Palfreman, Jason Young, Geetha Jothilingam, Nadia Michaelides

SMS Technology Services specialises in tailoring technology to business needs. We provide Custom Software Development and a range of Systems Integration services to our large corporate and government clients.

Since its launch as a separate profit centre in February 2005, Technology Services has established itself as a natural extension to our management consulting offerings, further bolstering our consulting proposition within the technology consulting arena.

SPECIALIST TECHNOLOGY SOLUTIONS

During 2006, Technology Services continued to offer opportunities for SMS to bundle our services to win end-to-end projects, securing a larger part of a project's investment, whilst helping our clients gain more predictable outcomes with lower risk.

Examples of projects involving SMS Consulting and Technology Services working in partnership include:

Sample Project

A MAJOR AUSTRALIAN TRANSPORT PROVIDER WAS UNDERTAKING A STRATEGIC REVIEW OF THEIR REQUIREMENTS FOR THE SELECTION AND IMPLEMENTATION OF A SUITABLE INTRANET SOLUTION

SMS CONSULTING ROLE

- >Business requirements gathering
- >Business case development
- >Management of legislative requirements
- >Project and stakeholder management
- >Technology vendor management

SMS TECHNOLOGY SERVICES ROLE

- >Development and customisation of the chosen Intranet system
- >Customised reporting and data management
- >Implementation

Sample Project

THE AUSTRALIAN DEPARTMENT OF DEFENCE WAS ASSESSING THE OPTIONS TO ENHANCE A KEY SUPPLY-CHAIN SYSTEM AND NEEDED TO UNDERSTAND THE OPTIONS FOR INFRASTRUCTURE ENHANCEMENTS

SMS CONSULTING ROLE

- >Management of the Programme Office
- >Project governance
- >New capability development

SMS TECHNOLOGY SERVICES ROLE

- >Technology due-diligence
- >Infrastructure benchmarking and system recommendation

OUR BUSINESS

In FY 2006, SMS Technology Services completed over 25 projects with SMS clients. Technology Services continues to leverage existing SMS infrastructure and back office systems. This includes the use of the existing sales force, client relationships and support systems.

We have set the foundations in place to allow for continued growth. This includes the development of the Technology Services methodology; a proprietary framework specifically designed to bring together SMS's collective experience into repeatable and reusable practices covering the entire software development lifecycle.

We also continue to extend SMS's commitment to professional development and career progression. SMS Technology Services has established internal practice groups, around our key areas of service; .NET, Java, Data Management Services and technology project management.

THE FUTURE

The market continues to demand local knowledge and expertise in business critical software development and systems integration. This is particularly important for Australian government and corporate clients who require us to have an intimate understanding of local legislative and compliance requirements.

Strong market conditions continue for Technology Services, including an increased demand for a credible and cost-effective alternative to the tier 1 consulting organisations. Technology Services will continue to work with SMS Consulting to become the pre-eminent, tier 2 provider offering extended end-to-end management and technology solutions throughout FY 2007.



From left to right: Julia Townsend, Paul Martinico, Paula Johnston, Kate Hart, Corey Nixon

M&T Resources

M&T Resources specialises in the provision of professional Information and Communication Technology (ICT) permanent and contract resources. Established in 1994, we are a leading provider because we offer a first class service aimed at managing our clients' most important asset; its people.

M&T Resources continued a successful year of growth in 2006. The ICT marketplace continued to fuel this, coupled with our focus on strategic client relationship in target industry sectors.

THE MARKET

In 2006, M&T Resources continued to focus on industry verticals. ICT, Government, Financial Services, and Utilities showed strong results, with increasing demand from the Health and Mining industries.

M&T Resources' market continues to demand high-calibre ICT people, as a result our service focuses on project based, business critical work over transactional recruitment opportunities. In many cases M&T Resources has become a strategic part of our clients' operations, bringing a well rounded and experienced resourcing service to their organisations.

OUR BUSINESS

In 2006 we successfully implemented our candidate management system, ensuring that we have the infrastructure and support systems in place to allow for continued growth, more effective management of our contractors, better client intelligence and operational efficiencies. This was carried out in conjunction with the launch of a new Internet presence for M&T Resources, offering an integrated candidate management experience.

M&T Resources staff continue to be critical to our success. During 2006, our staff numbers grew by 24% and we continue to develop our staff from within, providing ongoing professional development and career opportunities.

THE FUTURE

This year M&T Resources will continue to bolster and grow our industry based orientation and experience, with an emphasis on incremental revenue through permanent recruitment services.

As a division of SMS, M&T Resources has a first-hand understanding of the precise needs of ICT contractors and employers; in fact many of the clients that M&T Resources services are also clients of the wider SMS business. FY 2007 will see a greater emphasis on end-to-end business within key SMS clients, growing business opportunities for concurrent service provision between M&T Resources, SMS Consulting and Technology Services.

Board of Directors

From left to right: Laurence Cox, Chairman; Bruce Thompson, Non-Executive Director; Nicole Birrell, Non-Executive Director; Kerry Smith, Non-Executive Director; Thomas Stianos, Chief Executive Officer and Executive Director.



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.

THOMAS STIANOS Chief Executive Officer and Executive Director

Tom Stianos joined SMS in January 1989 and was appointed CEO in March 2002. During his 18 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 28 years in business and IT management.

Financial Statements

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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 for the financial year ended 30 June 2006 and the auditor's report thereon.

PRINCIPAL ACTIVITIES

SMS operates five service categories under two brands.

Under the SMS brand the Company offers:

- > Consulting and Project Management
- > Information Technology Services
- > Business and Systems Integration
- > Business Transformation

Under the M&T Resources brand the Company offers:

- > Recruitment and Contract Labour

There were no significant changes in the nature of the activities of the consolidated entity during the year.

OPERATIONS REVIEW

SMS delivered net profit after tax of \$11.8 million, up 57% on last year (75% over previous AGAAP reporting), and revenues of \$128 million, up 16% on last year. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased to \$16.4 million, a 61% improvement over last year's figure of \$10.2 million. This is the third consecutive year of solid growth delivered by the Company.

Margins

As forecast, profit grew at a faster rate than revenue in line with our five year strategy. The EBITDA margin has increased from 9% to 13% in the current year, and management is focused on improving the margin further in the 2007 financial year. Last year's margin growth was achieved by:

- > Accelerating selected service lines such as Technology Services to leverage off the market positioning of SMS Consulting.
- > Successful leveraging of prior year investments in Intellectual Property and systems has maintained operating costs while growing the scale of the business.
- > Bringing the international businesses into profit (with reduced revenue and staff).
- > Driving more cross selling between the three lines of business.
- > Maintaining primary margins by ensuring that rates keep pace with the increasing cost of labour.

Consultant numbers in Australia increased by a net 59, while back office support staff and international staff numbers were reduced in line with the strategy announced last year. These changes led to total staff numbers increasing to 828 at 30 June 2006.

Demand and sales performance are the highest for many years and consequently the Company is ramping up its recruitment program to meet demand in the 2007 financial year. As part of this, SMS has become a sponsoring employer permitting us to recruit up to 75 overseas staff under a 457 Visa. This program has already begun and the first of the new hires are due to start work over the next quarter.

The Company also implemented a number of innovations to provide a competitive work environment and attract the best local talent. During the year, SMS extended its staff share ownership plan to ensure that staff participate in the success of the Company and to align the interests of staff and shareholders. The Executive Performance Rights Plan is also aligned with shareholder interests by requiring the achievement of total shareholder returns of at least 10% compound p.a. for the three years to June 2008.

Internationally SMS Consulting completed the transition of the Singapore and London practices to a largely variable cost base. This has resulted in a reduction in the number of permanent staff in these offices who are augmented with local associates and partners as well as staff from the Australian operation. Both international offices operated profitably under the new model and will continue to seek growth opportunities through leveraging the strong Australian base.

M&T Resources delivered a good result with slightly reduced contractor numbers. Last year M&T Resources began a program to shift the mix of work from 95% contract services to 70% contract and 30% recruitment services. This aims to optimise working capital and improve margins. It is likely that it will take another two years to achieve the target service mix in M&T Resources. Like Consulting, M&T Resources has a loyal and blue chip client base and will benefit from the continuing growth in demand for human resources.

OPERATIONS REVIEW *(continued)*

Technology Services was successfully launched and made a good contribution to the profitability of the Company. This is a major area of investment for the Company and we expect this business to drive significant growth in earnings over the next five years.

Business Transformation aims to leverage all business units as well as consortium partners and subcontractors in order to deliver major programs of work for clients. This business unit will deliver growth which is not limited by permanent staff numbers. One of the most experienced executives was assigned to lead this offering which is planned to launch during the 2007 financial year.

Industry Focus

During the year SMS made good progress in the Health sector and dedicated a senior executive to drive the Health industry vertical to accelerate the growth of this sector. New Health sector clients were engaged in Queensland, NSW, the ACT and Victoria and it is expected that, with additional focus, this sector will become a more significant contributor over the next few years.

The Information and Communication Technology (ICT) sector was previously one of the largest for the Company but has been fairly subdued in recent years. Activity however has recently increased and is expected to be a growth area over the next two years.

Banking and Financial Services, Defence, Government and Utilities have continued apace with demand from a broad range of drivers. Over 95% of revenue in the 2006 financial year was earned from the following industry sectors:

- > Banking and Financial Services
- > Information and Communications Technology
- > Federal and State Government
- > Defence
- > Energy
- > Resources
- > Health

Market Conditions

Current sales performance is the best for several years providing confidence of continued growth. Demand for services is expected to remain strong. This is partly due to SMS providing a range of services not solely tied to IT projects and partly due to the broad set of factors affecting the nature of demand. As an indication of the diversity of demand for SMS services, the following is a sample of the projects undertaken during the year:

Banking and Finance

- > Mergers and Acquisitions activity – business integration
- > Organisational transformation and culture change
- > Compliance
- > Revenue growth projects
- > Cost reduction projects
- > Security projects

Government

- > Interoperability – framework of information flow between government agencies
- > Online service delivery
- > Security and authentication
- > Whole of government initiative – single point of service delivery
- > Shared corporate service implementation
- > Portfolio and programme management
- > Change management and governance
- > Systems development and integration
- > Enterprise architecture

Directors' Report

OPERATIONS REVIEW *(continued)*

Energy and Utilities

- > Full retail contestability – Queensland
- > Product innovation
- > Advanced (interval) Metering Infrastructure
- > Industry rationalisation
- > Operational effectiveness
- > Revenue leakage remediation

Information and Communications Technology

- > 3G development and roll-out
- > Two factor authentication
- > Customer Relationship Management
- > Product rationalisation
- > Strategy and business analysis for mobility solutions
- > Identity management
- > Self service strategies

Defence

- > Supply chain and logistics systems enhancements
- > Introduction of technology and automation to reduce dependence on people
- > Replacing and rationalising old technology systems
- > Rationalisation of business systems to gain economies of scale
- > Development of enterprise architecture
- > Extending governance systems to drive increased compliance

Mining

- > Mergers and Acquisitions activity – business integration
- > Operational efficiency
- > Change management and operational effectiveness
- > Security and risk management

In summary, SMS continues to deliver on its commitments, both to clients and shareholders. The strong sales performance and high demand give us confidence that earnings will continue to grow in the 2007 financial year.

DIVIDENDS

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

| Type | Cents per share | Total amount \$'000 | Date of Payment |
|---------------------------------------|-----------------|---------------------|-------------------|
| <i>Paid during the year</i> | | | |
| Final 2005 Ordinary (fully franked) | 6.0 | 3,768 | 16 September 2005 |
| Interim 2006 Ordinary (fully franked) | 5.0 | 3,153 | 6 April 2006 |

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

In addition to the above dividends, since the end of the financial year the directors have declared the payment of a final ordinary (fully franked) dividend of 10 cents per share (\$6,415,000) to be paid on 10 October 2006.

Events subsequent to reporting date

In the interval between the end of the financial year and the date of this report there has not arisen any item, matter or circumstance that has significantly affected, or may significantly affect:

- > the consolidated entity's operations in future financial years, or
- > the results of those operations in future financial years, or
- > the consolidated entity's state of affairs in future financial years.

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, special responsibilities and other directorships |
|---|-----|--|
| <p>Laurence G Cox <i>B. Comm, FCPA, FAICD, SF Fin</i></p> <p>Independent Non-Executive Director Chairman of the Board Chairman of the Remuneration and Nominations Committee</p> | 67 | <p>Currently Chairman of the Transurban Group and the Murdoch Children's Research Institute, Executive Director of Macquarie Bank Limited, Non-Executive Director of Smorgon Steel Limited.</p> <p>Former Executive Chairman of the Potter Warburg Group of Companies, Australia and Director of SG Warburg Securities, London. Immediate past Chairman of the Australian Stock Exchange Limited.</p> |
| <p>Bruce Thompson <i>B.Ec, FCPA, FAICD</i></p> <p>Independent Non-Executive Director Chairman of the Audit, Risk and Compliance Committee</p> | 59 | <p>Currently CEO of Keycorp Limited, a Trustee of the Melbourne Cricket Ground Trust and a council and board member of the Box Hill TAFE Council. Former Chairman of Innovonics Ltd and former Chairman and Managing Director of Hewlett-Packard Australia Ltd.</p> |
| <p>Thomas Stianos <i>B App Sc, FAICD</i></p> <p>Executive Director Chief Executive Officer</p> | 52 | <p>Previous positions held with SMS include Regional Director Victoria, Regional Director NSW, Regional Director ACT and Managing Director of SMS Australia. Mr Stianos has been employed by SMS for 18 years.</p> |
| <p>Nicole Birrell <i>B App Ec, M.Sc, FAICD, F Fin</i></p> <p>Independent Non-Executive Director</p> | 52 | <p>Currently a Director of Grains Research & Development Corporation, The Australian Practice Nurses Association Inc. and also an operational risk management consultant and serves on the Programs Advisory Committee for the School of Applied Economics at Victoria University, Melbourne.</p> <p>Past Director of AusBulk Limited, Chair of AusMalt Pty Ltd, former head of Operational Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group, Melbourne.</p> |
| <p>Kerry Smith <i>B Ec, ACA</i></p> <p>Independent Non-Executive Director</p> | 52 | <p>Currently a Director of Wellcom Group Ltd.</p> <p>Former Managing Director of Schroders Australia Group, Group Finance Director of Mojo MDA Group Ltd and a former Director of Financial Accounting at Macquarie Bank Limited.</p> |

COMPANY SECRETARY

The Company Secretary is Debra Connor LLB. Debra was appointed to the position of Company Secretary on 6 December 2005. Debra has a Graduate Diploma in Corporate Governance, is a member of the Australian Corporate Lawyers Association, Chartered Secretaries Australia, Law Institute of Victoria and the Law Council of Australia.

DIRECTORS' MEETINGS

The number 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, Risk and Compliance Committee | | Remuneration and Nominations Committee | |
|----------------|--------------------|----|--------------------------------------|---|--|---|
| | A | B | A | B | A | B |
| Laurence Cox | 13 | 13 | 2 | 2 | 1 | 1 |
| Bruce Thompson | 13 | 11 | 2 | 2 | 1 | 0 |
| Thomas Stianos | 13 | 13 | 2 | 2 | 1 | 1 |
| Kerry Smith | 13 | 13 | 2 | 2 | 1 | 1 |
| Nicole Birrell | 13 | 13 | 2 | 2 | 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, Mr Laurence Grimes Cox, 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 overseeing 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 committees including a Remuneration and Nominations Committee and an Audit, Risk and Compliance 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 controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds twelve scheduled meetings each year. In addition, strategic and planning meetings and any extraordinary meetings are held 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), chief financial officer (CFO) and company secretary. Standing items include the CEO's report, CFO's report, 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 offices, 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 and employees 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 report are set out in the Directors' report on pages 25.

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.

BOARD OF DIRECTORS *(continued)*

- > A majority of directors having extensive knowledge of the Company's industries, and those who 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; and
- > Board members being subject to re-election every three years (except for the CEO).

An independent director is a director who is not a member of management (a non-executive director) and who:

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

* 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 business's 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.

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REMUNERATION AND NOMINATIONS COMMITTEE

The Remuneration and Nominations Committee oversees the appointment and induction process for directors and committee members, and the selection, appointment and succession planning process of the Company's CEO.

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

The 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 plans, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The committee also conducts an annual review of the performance of the CEO and the senior executives reporting directly to the CEO 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 Cox (<i>Chairman</i>) | Independent Non-Executive |
| Bruce Thompson | Independent Non-Executive |
| Nicole Birrell | Independent Non-Executive |
| Kerry Smith | Independent Non-Executive |

The committee met once during the year and committee members' attendance record is disclosed in the table of Directors Meetings, on page 25. 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.

A summary of the committee's role and responsibilities is 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 Remuneration and Nominations 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 in shareholder wealth
- > the amount of incentives within each director's and senior executive's remuneration

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

Fixed remuneration

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

Remuneration levels are reviewed annually by the Remuneration and Nominations 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

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward the CEO 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 been provided as performance rights over the ordinary shares of SMS Management & Technology Limited under the rules of the 2005 Executive Performance Rights Plan.

Short-term incentive bonus

Each year the Remuneration and Nominations Committee sets the Key Performance Indicators (KPIs) for the CEO and the senior executives. The KPIs generally include measures relating to the consolidated entity, the relevant region, and the individual. They include financial, people, customer, strategy and risk measures. The measurements are chosen as they directly align the individual's reward to the KPIs 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 Remuneration and Nominations Committee assesses the actual performance of the consolidated entity, the relevant region and the individual against the KPIs as set at the beginning of the financial year. A percentage of the predetermined maximum amount is awarded depending on the results. Bonuses are assessed in three tranches, one third based on performance to budget, one third based on performance exceeding budget and one third based on strategic management criteria.

The Remuneration and Nominations 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 each individual's performance.

Long-term incentive

A) 2001 and 2002 Option Plans

Options were issued under the Executive Share Option Plans (in accordance with thresholds set in plans approved by shareholders at a General Meeting on 10 April 2000), which provides for the CEO and senior executives to receive grants of

REMUNERATION REPORT *(continued)*

options according to set criteria over ordinary shares at an exercise price of \$1.95. The initial 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 2005 financial year, the exercise price was \$1.95. All options issued under the July 2001 plan were exercised prior to 30 June 2006 and any unexercised options as at that date have lapsed. The remaining 40% of the options, granted under the July 2002 option plan, vested on 1 July 2006 such that the options are now 100% vested. Any unexercised options will expire on 30 June 2007.

B) 2002 CEO Options

In addition to the above options, Mr Thomas Stianos, CEO, was issued 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 share market index as measured by total shareholder return, then, although the options will be vested, they cannot be exercised.

These options have been tested against the exercise condition at each vesting date and have failed to satisfy the exercise conditions. Therefore these vested options cannot be exercised and lapsed on 1 July 2006.

C) 2005 Executive Performance Rights Plan

In July 2005, the Company introduced the Executive Performance Rights Plan (the "Plan") which provided for the CEO and senior executives to receive grants of performance rights over ordinary shares, granted for nil consideration. The rights are exercisable subject to a three year performance period and the satisfaction of set performance criteria during that period which take into account dividends, changes in share price and return of capital in a calculation of total shareholder return (TSR). If TSR for the performance period is less than 10% compound p.a. then no rights are exercisable. Between 10% TSR and 20% TSR, rights are exercisable from 50% of award to 100% of award. Mr Thomas Stianos, CEO, was granted performance rights under the Plan (approved at the Annual General Meeting on 24 October 2005) which are subject to the performance criteria outlined above.

Consequences of performance on shareholders' wealth (unaudited)

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

| | AIFRS | | AGAAP | | |
|--------------------------|----------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2004 \$'000 | 2003 \$'000 | 2002 \$'000 |
| EBITDA | 16,439 | 10,224 | 6,652 | (1,134) | 9,354 |
| Net profit (loss) | 11,848 | 7,524 | 5,033 | (106,808) | (11) |
| Dividend (fully franked) | \$0.15 | \$0.10 | \$0.06 | – | – |
| Capital return | – | \$0.45 | – | – | – |
| Change in share price | \$1.28 | \$0.09 | \$0.75 | (\$1.47) | \$0.30 |

EBITDA is considered in setting the STI. The Remuneration and Nominations 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 has resulted in most of the senior executives achieving maximum short-term incentive in the last two years.

Other benefits

There are no other benefits received by the directors or senior executives of the Company that relate to performance.

Service agreements and contract details

It is the consolidated entity's policy that contracts of employment for the CEO 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.

The service contract for Mr Thomas Stianos (CEO) allows for a payout of 12 months base salary due to redundancy as a result of a corporate reorganisation/restructure.

The service contract for Mr Stephen Kelly (CFO) allows for a payout of 2 months salary upon termination of employment without cause.

REMUNERATION REPORT *(continued)*

Non-executive directors

Total remuneration for all the non-executive directors, last voted on at a general meeting of the Company on 24 October 2005, is not to exceed \$400,000 per annum. A director's base fee is presently \$50,000 per annum. The Chairman receives twice that amount. Non-executive directors no longer 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 following table.

Directors' and executive officers' remuneration

| Director | Year | Base remuneration (salary & fees) | | Short-term remuneration | | Post-employment | | Equity remuneration | | Audited | | Not audited | |
|--|------|-----------------------------------|---------|-------------------------|-------------------|--------------------|---------------------------------|---------------------|--|--|------|-------------|---|
| | | \$ | \$ | STI cash bonus (A) | Non-cash benefits | Super contribution | Value of performance rights (B) | Total | Proportion of remuneration performance related | Value of equity remuneration as proportion of remuneration | | | |
| Non-Executive Laurence Cox | 2006 | 95,000 | - | - | - | 8,550 | - | 103,550 | Yes | - | - | - | - |
| | 2005 | 80,000 | - | - | - | 7,200 | - | 87,200 | Yes | - | - | - | - |
| Bruce Thompson | 2006 | 47,500 | - | - | - | 900 | - | 48,400 | Yes | - | - | - | - |
| | 2005 | 40,000 | - | - | - | 3,600 | - | 43,600 | Yes | - | - | - | - |
| Kerry Smith | 2006 | 47,500 | - | - | - | 4,275 | - | 51,775 | Yes | - | - | - | - |
| | 2005 | 21,183 | - | - | - | 1,906 | - | 23,089 | Yes | - | - | - | - |
| Nicole Birrell | 2006 | 47,500 | - | - | - | 4,275 | - | 51,775 | Yes | - | - | - | - |
| | 2005 | 21,183 | - | - | - | 1,906 | - | 23,089 | Yes | - | - | - | - |
| Executive Thomas Stianos CEO | 2006 | 383,479 | 225,000 | - | - | 12,139 | 30,667 | 651,285 | Yes | 34.5% | 4.7% | - | - |
| | 2005 | 375,000 | 187,500 | - | - | 11,585 | - | 574,085 | Yes | 32.7% | - | - | - |
| Total all directors | 2006 | 620,979 | 225,000 | - | - | 30,139 | 30,667 | 906,785 | | | | | |
| | 2005 | 537,366 | 187,500 | - | - | 26,197 | - | 751,063 | | | | | |

Directors' and executive officers' remuneration (continued)

| Year | Base remuneration (salary & fees) | Short-term remuneration | | Post-employment contribution | Equity remuneration (B) | Total | Audited | | Not audited | |
|---------------------|-----------------------------------|-------------------------|-------------------|------------------------------|-------------------------|-----------|--|--|-------------|------|
| | | STI cash bonus (A) | Non-cash benefits | | | | Proportion of remuneration performance related | Value of equity remuneration as proportion of remuneration | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | Yes | Yes | 29.0% | 3.8% |
| 2006 | 154,263 | 70,000 | - | 8,044 | 9,200 | 241,507 | Yes | Yes | 29.0% | 3.8% |
| 2005 | - | - | - | - | - | - | Yes | Yes | - | - |
| 2006 | 201,200 | 100,000 | - | 12,139 | 17,787 | 331,126 | Yes | Yes | 30.2% | 5.4% |
| 2005 | 170,000 | 117,000 | - | 11,584 | - | 298,584 | Yes | Yes | 39.2% | - |
| 2006 | 170,000 | 70,556 | - | 12,139 | 15,333 | 268,028 | Yes | Yes | 26.3% | 5.7% |
| 2005 | 150,000 | 100,617 | - | 11,585 | - | 262,202 | Yes | Yes | 38.4% | - |
| 2006 | 151,201 | 104,209 | - | 12,139 | 14,413 | 281,962 | Yes | Yes | 37.0% | 5.1% |
| 2005 | 37,564 | 36,000 | - | 4,396 | - | 77,960 | Yes | Yes | 46.2% | - |
| Consolidated | | | | | | | | | | |
| 2006 | 385,717 | - | 99,760 | 18,017 | 12,573 | 516,067 | Yes | Yes | - | 2.4% |
| 2005 | 417,896 | - | 101,097 | 20,895 | - | 539,888 | Yes | Yes | - | - |
| 2006 | 178,716 | 66,015 | 39,107 | 12,139 | 9,200 | 305,177 | Yes | Yes | 21.6% | 3.0% |
| 2005 | 180,000 | 10,000 | 21,227 | 11,584 | - | 222,811 | Yes | Yes | 4.5% | - |
| 2006 | 1,241,097 | 410,780 | 138,867 | 74,617 | 78,506 | 1,943,867 | | | | |
| 2005 | 955,460 | 263,617 | 122,324 | 60,044 | - | 1,401,445 | | | | |

* Amounts remunerated in Great British Pounds and converted into Australian dollars at the exchange rate of £0.421

** Amounts remunerated in Singapore dollars and converted into Australian dollars at the exchange rate of SGD 1.230

Notes in relation to the table of directors' and executive officers' remuneration

(A) The short-term cash incentive bonus is for performance during the 2006 financial year using the criteria set out on page 28.

(B) The fair value of performance rights granted under the 2005 Executive Performance Rights Plan is calculated at the date of grant using a Monte Carlo Simulation 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 performance rights allocated to this reporting date. In valuing performance rights, 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.

Directors' Report

REMUNERATION REPORT *(continued)*

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

| Grant date | Expiry date | Fair value per right | Exercise price | Price of shares on grant date | Estimated volatility | Risk free interest rate | Dividend yield |
|------------|-------------|----------------------|----------------|-------------------------------|----------------------|-------------------------|----------------|
| 01-Jul-05 | 30-Jun-11 | \$0.92 | \$0 | \$1.82 | 45% | 5.11% | 5.0% |

Each performance right entitles the holder to acquire one ordinary share in the Company. All performance rights are subject to specified performance criteria of at least 10% TSR p.a. and a performance period of three years ending on 30 June 2008. The performance rights expire on the earlier of their expiry date of 30 June 2011 or termination of the employee's employment.

Analysis of bonuses included in remuneration (unaudited)

Details of the percentage of the available bonus in respect of the 2006 financial year to the five named Company executives and relevant group executives, and the percentage that was forfeited because the person did not meet the performance criteria is set out below. Non-executive directors do not participate in the short-term bonus scheme.

| | Short-term incentive | | |
|---------------------|-----------------------------|----------------|-------------------|
| | Included in remuneration \$ | Vested in year | Forfeited in year |
| Executives | | | |
| The Company | | | |
| Thomas Stianos | 225,000 | 100% | – |
| Stephen Kelly | 70,000 | 100% | – |
| Graham Lanphier | 100,000 | 100% | – |
| Paula Johnston | 70,556 | 86% | 14% |
| Jason Young | 104,209 | 55% | 45% |
| Consolidated | | | |
| Paul Cooper | – | – | 100% |
| Paradee Thomas | 66,015 | 100% | – |

Performance rights over equity instruments granted as compensation (audited)

Details on performance rights over ordinary shares in the Company that were granted as compensation and vested to each key management person during the reporting period are set out in the following table.

The performance rights were provided at no cost to the recipients and have a nil exercise price.

REMUNERATION REPORT (continued)

| | Granted during 2006 | Grant date | Vested during 2006 | Fair value per right at grant date | Expiry date |
|---------------------|---------------------|------------|--------------------|------------------------------------|-------------|
| Executives | | | | | |
| The Company | | | | | |
| Thomas Stianos | 100,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |
| Stephen Kelly | 30,000 | 21-Nov-05 | – | \$0.92 | 30-Jun-11 |
| Graham Lanphier | 58,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |
| Paula Johnston | 50,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |
| Jason Young | 47,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |
| Consolidated | | | | | |
| Paul Cooper | 41,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |
| Paradee Thomas | 30,000 | 01-Jul-05 | – | \$0.92 | 30-Jun-11 |

All performance rights expire on the earlier of their expiry date or termination of the individual's employment and vest three years from grant date subject to performance criteria being met. Details of the performance criteria are included in the long-term incentives explanation on pages 28 and 29.

No terms of equity-settled share based payment transactions have been altered or modified during the reporting period.

Exercise of options granted as compensation (audited)

During the reporting period, the following shares were issued on the exercise of options previously granted as compensation.

| | Number of shares | Amount paid per share |
|----------------------------|------------------|-----------------------|
| Directors | | |
| Laurence Cox | 200,000 | \$1.95 |
| Bruce Thompson | 60,000 | \$1.95 |
| Thomas Stianos | 78,000 | \$1.95 |
| Executives | | |
| The Company | | |
| Graham Lanphier | 13,800 | \$1.95 |
| Paula Johnston | 3,000 | \$1.95 |
| Consolidated entity | | |
| Paul Cooper | 43,000 | \$1.95 |
| Paradee Thomas | 20,800 | \$1.95 |

There are no amounts unpaid on the shares issued as a result of the exercise of options.

Directors' Report

REMUNERATION REPORT *(continued)*

Analysis of share-based payments granted as compensation (unaudited)

Details of the vesting profile of options/performance rights granted as compensation to each director of the Company and each of the five named Company executives and relevant group executives are detailed below.

| | Options/performance rights granted | | | | | | Value yet to vest | |
|----------------------------|------------------------------------|-----------|------------------|-----------------------|--------------------------------------|---------|-------------------|--|
| | Number | Date | % vested in year | Forfeited in year (A) | Financial years to which grant vests | \$ | | |
| | | | | | | Min (B) | Max (C) | |
| Directors | | | | | | | | |
| Laurence Cox | 200,000 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| Bruce Thompson | 60,000 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| Thomas Stianos | 78,000 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| | 150,000 | 28-Oct-02 | 33% | 100% | 30-Jun-07 | – | – | |
| | 100,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |
| Executives | | | | | | | | |
| The Company | | | | | | | | |
| Stephen Kelly | 30,000 | 21-Nov-05 | – | – | 30-Jun-08 | – | – | |
| Graham Lanphier | 13,800 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| | 4,000 | 01-Jul-02 | 20% | – | 30-Jun-07 | – | 3,120 | |
| | 58,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |
| Paula Johnston | 3,000 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| | 10,000 | 01-Jul-02 | 20% | – | 30-Jun-07 | – | 7,800 | |
| | 50,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |
| Jason Young | 47,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |
| Consolidated entity | | | | | | | | |
| Paul Cooper | 43,000 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| | 15,000 | 01-Jul-02 | 20% | – | 30-Jun-07 | – | 11,700 | |
| | 41,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |
| Paradee Thomas | 20,800 | 01-Jul-01 | – | – | 30-Jun-04 | – | – | |
| | 4,000 | 01-Jul-02 | 20% | – | 30-Jun-07 | – | 3,120 | |
| | 30,000 | 01-Jul-05 | – | – | 30-Jun-08 | – | – | |

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

(B) The minimum value of options/performance rights yet to vest is \$nil as the performance criteria may not be met and consequently the option/performance right 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, in the case of the July 2001 and July 2002 options, 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. Further, the maximum value of July 2005 performance rights yet to vest is \$nil as the performance criteria may not be met and consequently the performance right may not vest.

REMUNERATION REPORT *(continued)*

Analysis of movements in options and performance rights (unaudited)

The movement during the reporting period, by value, of options and performance rights over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant group executives is detailed below.

| | Value of options and performance rights | | | |
|---------------------|---|---------------------------------|----------------------------------|--|
| | Granted in year \$ (i) | Exercised in year \$ (ii) | Forfeited in year \$ (iii) | Total option value in year \$ |
| The Company | | | | |
| Directors | | | | |
| Laurence Cox | – | 224,000 | – | 224,000 |
| Bruce Thompson | – | 67,200 | – | 67,200 |
| Thomas Stianos | 92,000 | 49,920 | 114,975 | 256,895 |
| Executives | | | | |
| Stephen Kelly | 27,600 | – | – | 27,600 |
| Graham Lanphier | 53,360 | 15,456 | – | 68,816 |
| Paula Johnston | 46,000 | 3,450 | – | 49,450 |
| Jason Young | 43,240 | – | – | 43,240 |
| Consolidated | | | | |
| Paul Cooper | 37,720 | 44,720 | – | 82,440 |
| Paradee Thomas | 27,600 | 10,192 | – | 37,792 |

i. The value of options and performance rights granted in year is their fair value at grant date.

ii. The value of options exercised during the year is calculated as the market price of the shares of the Company as listed on the ASX at the close of trading on the date of exercise, after deducting the price paid to exercise. No performance rights were available for exercise during the year.

iii. The value of the options that lapsed during the year represents the benefit foregone and is calculated at the date the options lapsed using their fair value at grant date. No performance rights were forfeited during the year.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee has a documented charter, approved by the Board. All members must be non-executive directors with a majority being independent. The Chairman may not be the Chairman 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 (<i>Chairman</i>) | Independent Non-Executive |
| Nicole Birrell | Independent Non-Executive |
| Kerry Smith | Independent Non-Executive |

The external auditors, the Chairman of the Board, the CEO and CFO are invited to committee meetings at the discretion of the Committee. The Committee met twice during the year and Committee members' attendance record is disclosed in the table of directors' meetings on page 25.

The CEO and the CFO declared in writing to the Board that the financial records of the Company and the consolidated entity for the financial year have been properly maintained and that the Company's financial reports for the year ended 30 June 2006 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.

A summary of the Committee's role and responsibilities is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of the external audit engagement partner.

AUDIT, RISK AND COMPLIANCE COMMITTEE *(continued)*

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

- > The annual, half-year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Equivalents to International Reporting Standards (AIFRS), and assessing whether the financial information is adequate for shareholder needs;
- > Corporate risk assessment processes;
- > The Company's policies and procedures for convergence with AIFRS for reporting periods beginning on 1 July 2005;
- > 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 in relation to the audit which is consistent with Professional Statement F.1 of the Code of Professional Conduct as recognised by Australia's professional accounting bodies;
- > The nomination and performance of the external auditor;
- > The adequacy of the internal control framework and the Company's code of ethical standards;
- > The procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- > Any matters outstanding with auditors, Australian Taxation Office (ATO), Australian Securities and Investments Commission (ASIC), Australian Stock Exchange (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; and
- > As required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

RISK MANAGEMENT

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

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

Risk profile

The Audit, Risk and Compliance 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, 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 Company's internal compliance and control systems include:

- > *Operating unit controls* – Operating/business units confirm compliance with financial controls and procedures including information systems controls detailed in procedures manuals;

RISK MANAGEMENT *(continued)*

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

Comprehensive practices have been established to ensure:

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

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue with employees and senior management. A 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 and revised forecasts for the year are prepared regularly.

Convergence with Australian equivalents to AIFRS has been a key financial reporting project during the financial year ended 30 June 2006. The Board established a formal project, monitored by the Audit, Risk and Compliance Committee to ensure a smooth transition to AIFRS reporting.

Details of the impact of transition from Australian Generally Accepted Accounting Principles (AGAAP) to AIFRS on the financial report for the year ended 30 June 2006 are included in Note 28.

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 25.

Code of conduct

The consolidated entity has advised each director, manager and employee that they must comply with the Code of Conduct (Code). The Code 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, 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;
- > Conflicts of interest;

RISK MANAGEMENT *(continued)*

- > Corporate ethics such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- > Confidentiality of corporate information;
- > Fair dealing;
- > Protection and proper use of the Company's assets;
- > Compliance with laws; and
- > Reporting of unethical behaviour.

Trading in general Company securities by directors and employees

The key elements of the SMS Share Trading Policy by directors and employees are:

- > Identification of those restricted from trading – directors and senior executives may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:
 - Except between three and thirty days (including the day of the announcement) after either the release of the Company's half-year and annual results to the ASX, the Annual General Meeting or any major announcement; and
 - Whilst in possession of price sensitive information not yet released to the market.
- > Raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- > Requiring details to be provided of intended trading in the Company's shares;
- > Requiring details to be provided of the subsequent confirmation of the trade; and
- > Identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

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, CFO and 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 report is lodged with the ASIC and the ASX, and sent to any shareholder who requests it.
- > Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.
- > All announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX.
- > Analyst and media briefings and general meetings transcripts are released to the ASX and placed on the Company's website.
- > The full texts of notices of meetings and associated explanatory material are placed on the Company's website.
- > The external auditor attends the Annual General Meeting 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.

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's 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.

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

DIRECTORS' INTERESTS

The relevant interests of each director in the shares, rights or options over such instruments issued by the Company, as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report are as follows:

| | Ordinary shares | Options over ordinary shares | Performance rights over ordinary shares |
|----------------|-----------------|------------------------------|---|
| Laurence Cox | 402,400 | – | – |
| Thomas Stianos | 1,795,418 | – | 100,000 |
| Bruce Thompson | 80,000 | – | – |
| Kerry Smith | – | – | – |
| Nicole Birrell | 5,000 | – | – |

SHARE OPTIONS AND PERFORMANCE RIGHTS

Performance rights granted to CEO and officers of the Company

Since the end of the financial year, the Company has granted a further 714,000 Performance Rights under the Executive Performance Rights Plan for the 2007 financial year. The rights have been granted over issued (to be purchased on market) or unissued shares in SMS Management & Technology Limited.

Each right is subject to performance criteria over a period of three years commencing on 1 July 2006 and expiring on 30 June 2009. Each right has a nil consideration and is convertible into one ordinary share. These rights are non-transferable and unquoted.

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 | \$7.05 – \$30.00 | 717,600 |
| 30 June 2007 | \$1.95 | 294,720 |
| Total | | 1,012,320 |

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

There were 1,390,040 options converted into ordinary shares during or since the end of the financial year. Options expired and equity movements during the financial year are disclosed in detail in Note 14 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 2006 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 | |
|---|----------------|----------------|
| | 2006 \$ | 2005 \$ |
| Statutory audit | | |
| Auditors of the Company | | |
| – Audit and review of financial reports (KPMG Australia) | 102,000 | 134,200 |
| – Audit and review of financial reports (KPMG Overseas firms) | 17,000 | 16,000 |
| | 119,000 | 150,200 |
| Services other than statutory audit | | |
| – Taxation compliance services | 97,800 | 96,800 |
| – Other assurance services | 1,500 | 1,500 |
| – Recruitment services | 10,000 | 25,000 |
| – Other assurance services – KPMG overseas | 15,878 | 15,738 |
| | 125,178 | 139,038 |

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 2006 totalled \$1,912,533 (2005: \$2,538,166).

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 42 and forms part of the Directors' report for the year ended 30 June 2006.

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, unless otherwise stated.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne this 28th day of August 2006



Lead Auditor's Independence Declaration

under Section 307C of the Corporation Act 2001

To: the directors of SMS Management & 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 2006 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.

KPMG

Don Pasquariello
Partner

Melbourne
28 August 2006

Income Statements

For the year ended 30 June 2006

| | Notes | Consolidated | | The Company | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Revenue from rendering of services | | 127,126 | 109,157 | – | – |
| Finance income | | 756 | 1,332 | 19 | 44 |
| Dividend income | | – | – | 3,153 | 6,279 |
| Other income | | 486 | 270 | 81 | – |
| Total revenue | | 128,368 | 110,759 | 3,253 | 6,323 |
| Employee benefits expense | | (97,183) | (84,245) | – | – |
| Other project expense | | (4,074) | (4,648) | – | – |
| Depreciation expense | 11 | (399) | (538) | – | – |
| Finance expense | | (18) | (7) | – | – |
| Occupancy expense | | (2,111) | (2,388) | – | – |
| Other expenses | | (7,787) | (7,915) | (4) | (85) |
| Profit before tax | | 16,796 | 11,018 | 3,249 | 6,238 |
| Income tax (expense)/benefit | 4 | (4,948) | (3,494) | (4) | 12 |
| Profit for the year attributable to equity holders of the parent entity | 18 | 11,848 | 7,524 | 3,245 | 6,250 |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | | | | | |
| Basic earnings per share | 5 | 18.8 ¢ | 12.0¢ | | |
| Diluted earnings per share | 5 | 18.8 ¢ | 12.0¢ | | |

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The income statements are to be read in conjunction with the notes to the financial statements set out on pages 47 to 75.

Balance Sheets

As at 30 June 2006

| | Notes | Consolidated | | The Company | |
|--------------------------------------|-------|----------------|----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Current assets | | | | | |
| Cash and cash equivalents | 6 | 22,463 | 17,047 | – | – |
| Trade and other receivables | 7 | 24,179 | 21,753 | 1,211 | 3,791 |
| Other | 8 | 502 | 723 | – | – |
| Total current assets | | 47,144 | 39,523 | 1,211 | 3,791 |
| Non-current assets | | | | | |
| Receivables | 7 | – | – | 45 | 45 |
| Investments | 9 | – | – | 59,014 | 59,014 |
| Deferred tax assets | 10 | 1,669 | 1,188 | – | – |
| Plant and equipment | 11 | 1,137 | 1,000 | – | – |
| Intangible assets | 12 | 14,319 | 13,269 | – | – |
| Total non-current assets | | 17,125 | 15,457 | 59,059 | 59,059 |
| Total assets | | 64,269 | 54,980 | 60,270 | 62,850 |
| Current liabilities | | | | | |
| Trade and other payables | 13 | 8,531 | 8,445 | – | – |
| Income tax payable | 16 | 1,575 | 1,261 | 1,871 | 1,249 |
| Employee benefits | 14 | 3,206 | 3,140 | – | – |
| Dividend payable | | – | 3,768 | – | 3,768 |
| Other | 15 | 213 | – | 20,512 | 23,087 |
| Total current liabilities | | 13,525 | 16,614 | 22,383 | 28,104 |
| Non-current liabilities | | | | | |
| Employee benefits | 14 | 1,036 | 533 | – | – |
| Other | 15 | 333 | 313 | – | – |
| Total non-current liabilities | | 1,369 | 846 | – | – |
| Total liabilities | | 14,894 | 17,460 | 22,383 | 28,104 |
| Net assets | | 49,375 | 37,520 | 37,887 | 34,746 |
| Equity | | | | | |
| Issued capital | | 53,239 | 50,597 | 53,239 | 50,597 |
| Reserves | | 330 | (188) | 407 | – |
| Accumulated losses | | (4,194) | (12,889) | (15,759) | (15,851) |
| Total equity | 18 | 49,375 | 37,520 | 37,887 | 34,746 |

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 47 to 75.

Statement of Cash Flows

For the year ended 30 June 2006

| | Notes | Consolidated | | The Company | |
|---|-------|----------------|-----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers | | 137,607 | 110,750 | – | – |
| Payments to suppliers and employees | | (121,397) | (101,428) | (4) | – |
| Cash generated from operations | | 16,210 | 9,322 | (4) | – |
| Interest received | | 762 | 1,332 | 41 | 44 |
| Income taxes paid | | (4,761) | (2,627) | (4,755) | – |
| Borrowing costs paid | | (18) | – | – | – |
| Other | | 388 | 129 | – | (22) |
| Net cash inflow/(outflow) from operating activities | 24 | 12,581 | 8,156 | (4,718) | 22 |
| Cash flows from investing activities | | | | | |
| Acquisition of plant and equipment | 11 | (642) | (277) | – | – |
| Proceeds on disposal of plant and equipment | | 17 | – | – | – |
| Payment for investment | 12 | (1,050) | (650) | – | – |
| Net cash outflow from investing activities | | (1,675) | (927) | – | – |
| Cash flows from financing activities | | | | | |
| Payment of lease liabilities | | – | (222) | – | – |
| Amounts from controlled entities | | – | – | 10,208 | 26,877 |
| Dividends paid | | (6,921) | (6,279) | (6,921) | (6,279) |
| Proceeds from the issue of capital | | 1,431 | – | 1,431 | – |
| Capital return paid | 18 | – | (28,258) | – | (28,258) |
| Net cash inflow/(outflow) from financing activities | | (5,490) | (34,759) | 4,718 | (7,660) |
| Net increase/(decrease) in cash and cash equivalents | | 5,416 | (27,530) | – | (7,638) |
| Cash and cash equivalents at 1 July | 6 | 17,047 | 44,577 | – | 7,638 |
| Cash and cash equivalents at 30 June | 6 | 22,463 | 17,047 | – | – |

The statement of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 47 to 75.

Statements of Changes in Equity

For the year ended 30 June 2006

| | Notes | Consolidated | | The Company | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Total equity at the beginning of the year | 18 | 37,520 | 64,576 | 34,746 | 63,033 |
| Net exchange differences on translation of foreign operations | | 111 | (43) | – | – |
| Net income recognised directly in equity | | 111 | (43) | – | – |
| Profit for the year | | 11,848 | 7,524 | 3,245 | 6,250 |
| Total recognised income and expense for the year attributable to equity holders of the parent entity | | 11,959 | 7,481 | 3,245 | 6,250 |
| Transactions with equity holders in their capacity as ordinary equity holders: | | | | | |
| Share options exercised by employees | | 2,642 | – | 2,642 | – |
| Dividends paid or payable | | (3,153) | (6,279) | (3,153) | (6,279) |
| Equity settled share based payment transactions | | 407 | – | 407 | – |
| Return of equity, net of transaction costs | | – | (28,258) | – | (28,258) |
| Total equity at the end of the year | 18 | 49,375 | 37,520 | 37,887 | 34,746 |

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

The statements of changes in equity are to be read in conjunction with the notes to the financial statements set out on pages 47 to 75.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SMS Management & Technology Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the financial year ended 30 June 2006 comprise the Company and its subsidiaries together referred to as the 'consolidated entity'.

The financial report was authorised for issue by the directors on the 28 August 2006.

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* and comparatives for the year ended 30 June 2005 have been restated accordingly. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in Note 28. With effect from 1 July 2005, the consolidated entity has applied AASB 132 *Financial Instruments Disclosure and Presentation* and AASB 139 *Financial Instruments Recognition and Measurement* as a change in accounting policy with no financial impact of the consolidated entity.

(b) Basis of preparation

The financial report is presented in Australian dollars and is prepared under the historical cost convention.

Except for the revised AASB 119 *Employee Benefits* (issued December 2004), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006. No changes to current accounting policies are anticipated on application of these issued or revised Standards.

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

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These 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.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial report and in preparing an opening AIFRS balance sheet at 1 July 2004 for the purposes of the transition to Australian Accounting Standards – AIFRS.

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial report from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

(ii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

(e) Plant and equipment

(i) Owned assets

Items of plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)).

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of an item can be measured reliably. All other costs are charged to the income statement as an expense as incurred.

(iii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment.

The estimated useful lives in the current and comparative periods are as follows:

| | | | |
|---------------------|-----------|------------------------|-----------|
| Computer equipment | 2-4 years | Furniture and fittings | 3-8 years |
| Plant and equipment | 3-8 years | Leasehold improvements | 6-8 years |

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(f) Intangible assets – goodwill

Business combinations

Business combinations prior to 1 July 2004

Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 July 2004 has not been reconsidered in preparing the consolidated entity's opening AIFRS balance sheet at 1 July 2004 in accordance with the exemption provided under AIFRS 1.

Business combinations since 1 July 2004

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see accounting policy (g)).

Negative goodwill arising on an acquisition is recognised directly in the income statement.

(g) Impairment

The carrying amounts of the consolidated entity's assets, other than deferred tax assets (see accounting policy (n)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless the asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through the income statement.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill was tested for impairment at 1 July 2004, the date of transition to AIFRS, even though no indication of impairment existed.

(i) Calculation of recoverable amount

The recoverable amount of the consolidated entity's investments in held-to-maturity securities and receivables carried at amortised cost is 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.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversal of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is 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.

(h) Trade and other receivables

All trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy note (g)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

(j) Employee benefits

(i) Long-term service benefits

The consolidated entity's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs, experience of employee departures and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the balance sheet date which have maturity dates approximating to the terms of the consolidated entity's obligations.

(ii) Share based payment transactions

The 2005 Share Performance Rights Plan allows consolidated entity employees to earn shares in the Company. The fair value of shares granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares at the end of the performance period. The fair value of the shares granted is measured using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the shares were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The 2001 and 2002 share option plans allow consolidated entity employees to acquire shares of the company. All of the options were granted prior to 7 November 2002 and, as a consequence, AASB1 provides an exemption from the application of AASB2 to these equity instruments. Therefore no compensation cost is recognised in relation to the Employee Share Option Plan until the options are exercised, at which time the amounts received from employees are recognised as equity as share capital. Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise they are expensed. All other administrative costs are expensed.

(iii) Wages, salaries, annual leave and sick leave

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

(k) Provisions

A provision is recognised in the balance sheet when the consolidated entity has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(l) Revenue

Revenue from the services rendered is recognised in the income statement 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.

(m) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(n) Income tax

Income tax on the income statement for the periods presented comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment 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 amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor 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 is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2003 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is SMS Management & Technology Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the *stand alone* approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group). Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax consolidated group are recognised as amounts receivable or payable to other entities in the tax consolidated group in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution to, or distribution from the subsidiary.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised. Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability assumed from subsidiaries is recognised by the head entity only.

Nature of tax funding arrangements and tax sharing agreements

The head entity, in conjunction with other members of the tax-consolidated group, has entered into a tax funding arrangement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding arrangements require payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity, resulting in the head entity recognising an inter-entity receivable (payable) equal in amount to the tax liability (asset) assumed. The inter-entity receivable (payable) is at call.

Contributions to fund the current tax liabilities are payable as per the tax funding arrangement and reflect the timing of the head entity's obligation to make payments for tax liabilities to the relevant tax authorities.

The head entity in conjunction with other members of the tax-consolidated group, has also entered into a tax sharing agreement. The tax sharing agreement provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

NOTE 2 — SEGMENT REPORTING

Business segments

The Company and its controlled entities provide professional services in the areas of management consulting, project management, information technology services, business and systems integration, recruitment and contract labour. Professional services is viewed as one business segment.

Geographical segments

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

| | Australasia | | Europe | | Consolidated | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Geographical Segments | | | | | | |
| Segment revenue from rendering of services to external customers | 122,092 | 102,634 | 5,034 | 6,523 | 127,126 | 109,157 |
| Segment finance income | 724 | 1,295 | 32 | 37 | 756 | 1,332 |
| Segment other income | 353 | 270 | 133 | — | 486 | 270 |
| External segment revenue | 123,169 | 104,199 | 5,199 | 6,560 | 128,368 | 110,759 |
| Segment depreciation expense | 373 | 515 | 26 | 23 | 399 | 538 |
| Segment result | 11,476 | 7,628 | 372 | (104) | 11,848 | 7,524 |
| Segment assets | 62,914 | 52,460 | 1,355 | 2,520 | 64,269 | 54,980 |
| Segment liabilities | 14,473 | 16,704 | 421 | 756 | 14,894 | 17,460 |
| Capital expenditure | 626 | 277 | 16 | — | 642 | 277 |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 3 — AUDITORS' REMUNERATION

| | Consolidated | |
|---------------------------------------|----------------|----------------|
| | 2006 \$ | 2005 \$ |
| Audit services | | |
| Auditors of the Company | | |
| KPMG Australia: | | |
| Audit and review of financial reports | 102,000 | 134,200 |
| Overseas KPMG Firms: | | |
| Audit and review of financial reports | 17,000 | 16,000 |
| | 119,000 | 150,200 |
| Other services | | |
| Auditors of the Company | | |
| KPMG Australia: | | |
| Other assurance services | 1,500 | 1,500 |
| Taxation services | 94,470 | 96,800 |
| Recruitment services | 10,000 | 25,000 |
| Overseas KPMG Firms: | | |
| Other assurance services | 15,878 | 15,738 |
| Taxation services | 3,330 | – |
| | 125,178 | 139,038 |

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 2006 totalled \$1,912,533 (2005:\$2,538,166).

NOTE 4 — INCOME TAX EXPENSE

| | Notes | Consolidated | | The Company | |
|---|-------|----------------|----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Current tax expense | | | | | |
| Current year | | 5,422 | 3,565 | 4 | (12) |
| Adjustments for prior years | | 7 | 71 | – | – |
| | | 5,429 | 3,636 | 4 | (12) |
| Deferred tax expense | | | | | |
| Origination and reversal of temporary differences | | (469) | (142) | – | – |
| Adjustments for prior years | | (12) | – | – | – |
| | 10 | (481) | (142) | – | – |
| Total income tax expense/(benefit) in income statement | | 4,948 | 3,494 | 4 | (12) |

NOTE 4 — INCOME TAX EXPENSE (continued)

Numerical reconciliation between tax expense and pre-tax net profit

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Profit before tax | 16,796 | 11,018 | 3,249 | 6,238 |
| Income tax using the domestic tax rate of 30% (2005: 30%) | 5,039 | 3,305 | 975 | 1,871 |
| Increase in tax expense due to: | | | | |
| Non-deductible expenses | 173 | 113 | — | — |
| Effect of tax losses not brought to account | — | 45 | — | — |
| Other items | — | — | — | 1 |
| | 173 | 158 | — | 1 |
| Decrease in tax expense due to: | | | | |
| Dividend from Australian controlled entity | — | — | 946 | 1,884 |
| Other items | 33 | 40 | 25 | — |
| Effect on tax rate in foreign jurisdiction | 98 | — | — | — |
| Tax losses utilised not previously brought to account | 128 | — | — | — |
| | 259 | 40 | 971 | 1,884 |
| Income tax expense/(benefit) | 4,953 | 3,423 | 4 | (12) |
| Under/(over) provided in previous year | (5) | 71 | — | — |
| Income tax expense/(benefit) on pre-tax net profit | 4,948 | 3,494 | 4 | (12) |

NOTE 5 — EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share at 30 June 2006 was based on the profit attributable to ordinary shareholders of \$11,848,000 (2005:\$7,524,000) and the weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 62,880,386 (2005: 62,794,571), calculated as follows:

| | Consolidated | |
|---|-----------------|-----------------|
| | 2006 \$'000 | 2005 \$'000 |
| Profit attributable to ordinary shareholders | 11,848 | 7,524 |
| | Number '000s | Number '000s |
| Weighted average number of ordinary shares | | |
| Issued ordinary shares at 1 July | 62,795 | 313,973 |
| Effect of return of capital | — | (251,178) |
| Effect of shares issued during the year | 85 | — |
| Weighted average number of ordinary shares at 30 June | 62,880 | 62,795 |

Diluted earnings per share

The weighted average number of ordinary shares used to calculate diluted earnings per share is the same as the basic weighted average number of shares. Therefore there is no dilutive impact on earnings per share during the financial periods reported.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 6 — CASH AND CASH EQUIVALENTS

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Cash at bank and on hand | 19,863 | 14,447 | – | – |
| Deposits at call | 2,600 | 2,600 | – | – |
| Cash and cash equivalents in the statement of cash flows | 22,463 | 17,047 | – | – |

NOTE 7 — TRADE AND OTHER RECEIVABLES

Current

| | | | | |
|-------------------------|--------|--------|---|---|
| Trade receivables | 22,885 | 21,714 | – | – |
| Less: Impairment losses | – | (86) | – | – |
| | 22,885 | 21,628 | – | – |

| | | | | |
|-------------------|-------|-----|-------|-------|
| Other receivables | 1,224 | 13 | 1,211 | 3,768 |
| Accrued income | 70 | 112 | – | 23 |
| | 1,294 | 125 | 1,211 | 3,791 |

| | | | | |
|--|--------|--------|-------|-------|
| | 24,179 | 21,753 | 1,211 | 3,791 |
|--|--------|--------|-------|-------|

Non-current

| | | | | |
|--|---|---|----------|----------|
| Amounts receivable from related entities | – | – | 32,095 | 32,095 |
| Less: Impairment losses | – | – | (32,050) | (32,050) |
| | – | – | 45 | 45 |

NOTE 8 — OTHER CURRENT ASSETS

| | | | | |
|-------------------|-----|-----|---|---|
| Prepayments | 424 | 591 | – | – |
| Security deposits | 78 | 132 | – | – |
| | 502 | 723 | – | – |

NOTE 9 — INVESTMENTS

| | | | | |
|---|---|---|-----------|-----------|
| Shares in controlled entities – at cost | – | – | 392,235 | 392,235 |
| Less: Impairment losses | – | – | (333,221) | (333,221) |
| | – | – | 59,014 | 59,014 |

NOTE 10 — DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Consolidated | | | | | | |
| Trade and other receivables | – | – | 20 | (18) | 20 | (18) |
| Other current assets | – | – | 25 | – | 25 | – |
| Plant and equipment | – | – | 1 | – | 1 | – |
| Trade and other payables | (281) | – | 44 | – | (237) | – |
| Provisions | (100) | (94) | – | – | (100) | (94) |
| Employee entitlements | (1,256) | (1,076) | – | – | (1,256) | (1,076) |
| Other items | (122) | – | – | – | (122) | – |
| Tax (assets)/liabilities | (1,759) | (1,170) | 90 | (18) | (1,669) | (1,188) |
| Set off of tax | 90 | (18) | (90) | 18 | – | – |
| Net tax (assets)/liabilities | (1,669) | (1,188) | – | – | (1,669) | (1,188) |

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

| | Consolidated | | The Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Tax losses in foreign entities | 466 | 2,228 | – | – |

Deferred tax assets have not been recognised in respect of these items because it is not probable that the future taxable profit will be available against which the consolidated entity can utilise the benefits from.

Movement in temporary differences during the year

| | Consolidated | | | |
|-------------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | Balance 1 July 2004 \$'000 | Recognised in income \$'000 | Recognised in equity \$'000 | Balance 30 June 2005 \$'000 |
| Trade and other receivables | (14) | (4) | – | (18) |
| Other current assets | – | – | – | – |
| Plant and equipment | – | – | – | – |
| Trade and other payables | (68) | 68 | – | – |
| Provisions | (84) | (10) | – | (94) |
| Employee entitlements | (833) | (243) | – | (1,076) |
| Other items | (47) | 47 | – | – |
| Net tax (assets)/liabilities | (1,046) | (142) | – | (1,188) |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 10 — DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

| | Consolidated | | | |
|-------------------------------------|----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
| | Balance 1 July 2005 \$'000 | Recognised in income \$'000 | Recognised in equity \$'000 | Balance 30 June 2006 \$'000 |
| Trade and other receivables | (18) | 38 | – | 20 |
| Other current assets | – | 25 | – | 25 |
| Plant and equipment | – | 1 | – | 1 |
| Trade and other payables | – | (237) | – | (237) |
| Provisions | (94) | (6) | – | (100) |
| Employee entitlements | (1,076) | (180) | – | (1,256) |
| Other items | – | (122) | – | (122) |
| Net tax (assets)/liabilities | (1,188) | (481) | – | (1,669) |

NOTE 11 — PLANT AND EQUIPMENT

| | Consolidated | | | |
|---|-------------------------------------|--|---|-----------------|
| | Plant and equipment \$'000 | Leasehold Improve- ments \$'000 | Plant and equipment under finance lease \$'000 | Total \$'000 |
| Cost | | | | |
| Balance at 1 July 2004 | 6,079 | 3,198 | 1,951 | 11,228 |
| Additions | 277 | – | – | 277 |
| Disposals | (156) | – | – | (156) |
| Balance at 30 June 2005 | 6,200 | 3,198 | 1,951 | 11,349 |
| Balance at 1 July 2005 | 6,200 | 3,198 | 1,951 | 11,349 |
| Additions | 548 | 94 | – | 642 |
| Disposals | (446) | – | (1,951) | (2,397) |
| Balance at 30 June 2006 | 6,302 | 3,292 | – | 9,594 |
| Depreciation and impairment losses | | | | |
| Balance at 1 July 2004 | 5,075 | 2,858 | 1,885 | 9,818 |
| Depreciation charge for the year | 264 | 223 | 51 | 538 |
| Disposals | (7) | – | – | (7) |
| Balance at 30 June 2005 | 5,332 | 3,081 | 1,936 | 10,349 |
| Balance at 1 July 2005 | 5,332 | 3,081 | 1,936 | 10,349 |
| Depreciation charge for the year | 342 | 42 | 15 | 399 |
| Disposals | (340) | – | (1,951) | (2,291) |
| Balance at 30 June 2006 | 5,334 | 3,123 | – | 8,457 |
| Carrying amounts | | | | |
| At 1 July 2004 | 1,004 | 340 | 66 | 1,410 |
| At 30 June 2005 | 868 | 117 | 15 | 1,000 |
| At 1 July 2005 | 868 | 117 | 15 | 1,000 |
| At 30 June 2006 | 968 | 169 | – | 1,137 |

NOTE 12 — INTANGIBLE ASSETS

Consolidated

| | Goodwill \$'000 |
|--------------------------|--------------------|
| Cost | |
| Balance at 1 July 2004 | 364,728 |
| Acquisition of business | 800 |
| Balance at 30 June 2005 | 365,528 |
| Balance at 1 July 2005 | 365,528 |
| Acquisition of business | 1,050 |
| Balance at 30 June 2006 | 366,578 |
| Impairment losses | |
| Balance at 1 July 2004 | (352,259) |
| Impairment charge | — |
| Balance at 30 June 2005 | (352,259) |
| Balance at 1 July 2005 | (352,259) |
| Impairment charge | — |
| Balance at 30 June 2006 | (352,259) |
| Carrying amounts | |
| At 1 July 2004 | 12,469 |
| At 30 June 2005 | 13,269 |
| At 1 July 2005 | 13,269 |
| At 30 June 2006 | 14,319 |

SMS Consulting Group Limited is the only cash generating unit containing goodwill. The impairment test is based on fair value less costs to sell. In determining fair value the average price earnings ratio of the Company's shares listed on the Australian Stock Exchange has been applied to the earnings of the unit to determine recoverable amount. This recoverable amount significantly exceeds the carrying amount of the business unit including goodwill such that it is not reasonably possible for the assumed price/earnings ratio to change by a significant amount to eliminate this headroom.

NOTE 13 — TRADE AND OTHER PAYABLES

Consolidated

The Company

| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
|-------------------------------------|----------------|----------------|----------------|----------------|
| Trade payables | 3,638 | 3,493 | — | — |
| Other payables and accrued expenses | 4,893 | 4,952 | — | — |
| | 8,531 | 8,445 | — | — |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 14 — EMPLOYEE BENEFITS

| | Consolidated | | The Company | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Current | | | | |
| Liability for annual leave | 2,405 | 2,399 | – | – |
| Liability for long service leave | 801 | 741 | – | – |
| | 3,206 | 3,140 | – | – |
| Non-current | | | | |
| Liability for long service leave | 1,036 | 533 | – | – |
| | 1,036 | 533 | – | – |

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

Share based payments

July 2002 Employee Share Option Plan

No options have been issued during the financial year under the Company's Employee Share Option Plan.

In accordance with the Company's policy for Dealing in Company Securities (refer to the Corporate Governance Statement in the Annual Report), each option is convertible into one ordinary share. Options have been granted for no consideration. With an effective grant date of 1 July 2002, the exercise price of the options is \$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 2006.

Options once vested are exercisable subject to the exercise price. All options expire on 30 June 2007 or on the employee's termination. These options are non-transferable and unquoted. Amounts received 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.

NOTE 14 — EMPLOYEE BENEFITS (continued)

Movements in options during the year

Consolidated and parent entity 2006

| Grant date | Exercise date on or after | Expiry date | Exercise price | Number as at 1 July 2005 | Granted | Lapsed | Exercised | Number as at 30 June 2006 | Proceeds received \$ | Date issued | Number of shares issued |
|------------|---------------------------|-------------|----------------|--------------------------|---------|---------|-----------|---------------------------|----------------------|-------------|-------------------------|
| | | | | On Issue | | Vested | | | | | |
| 1-Jul-00 | 1-Jul-01 | 30-Jun-05 | \$10.00 | 5,800 | - | 5,800 | - | - | - | - | - |
| 1-Jul-00 | 1-Jul-01 | 30-Jun-10 | \$7.05-\$30.00 | 717,600 | - | - | - | 717,600 | - | - | - |
| 1-Jul-01 | 1-Jul-02 | 30-Jun-06 | \$1.95 | 1,245,820 | - | 264,560 | 981,260 | - | 1,913,457 | * | 981,260 |
| 12-Jul-01 | 1-Jul-02 | 30-Jun-06 | \$1.95 | 320,000 | - | 60,000 | 260,000 | - | 507,000 | * | 260,000 |
| 1-Jul-02 | 1-Jul-03 | 30-Jun-07 | \$1.95 | 650,080 | - | 168,640 | 113,340 | 368,100 | 221,013 | * | 113,340 |
| 28-Oct-02 | 1-Jul-04 | 30-Jun-07 | \$1.95 | 150,000 | - | - | - | 150,000 | - | - | - |
| | | | | 3,089,300 | - | 499,000 | 1,354,600 | 1,235,700 | 2,641,470 | | 1,354,600 |
| | | | | \$5.82 | \$0.00 | \$2.04 | \$1.95 | \$11.58 | \$13.41 | | |

* Issued at various dates throughout the 2006 financial year

No options were forfeited during the periods covered by the above options.

The weighted average share price at the date of exercise of the options was \$2.82.

The options remaining at the end of the period comprise 368,100 with a remaining contractual life of 12 months and a further 717,600 with a remaining contractual life of 4 years.

Consolidated and parent entity 2005

| Grant date | Exercise date on or after | Expiry date | Exercise price | Number as at 1 July 2004 | Granted | Lapsed | Exercised | Number as at 30 June 2005 | Proceeds received \$ | Date issued | Number of shares issued |
|------------|---------------------------|-------------|----------------|--------------------------|---------|---------|-----------|---------------------------|----------------------|-------------|-------------------------|
| | | | | On Issue | | Vested | | | | | |
| 1-Jul-00 | 1-Jul-01 | 30-Jun-05 | \$10.00 | 9,600 | - | 3,800 | - | 5,800 | - | - | - |
| 1-Jul-00 | 1-Jul-01 | 30-Jun-10 | \$7.05-\$30.00 | 717,600 | - | - | - | 717,600 | - | - | - |
| 1-Jul-01 | 1-Jul-02 | 30-Jun-06 | \$1.95 | 1,380,360 | - | 134,540 | - | 1,245,820 | - | - | - |
| 12-Jul-01 | 1-Jul-02 | 30-Jun-06 | \$1.95 | 320,000 | - | - | - | 320,000 | - | - | - |
| 1-Jul-02 | 1-Jul-03 | 30-Jun-07 | \$1.95 | 722,580 | - | 72,500 | - | 650,080 | - | - | - |
| 28-Oct-02 | 1-Jul-04 | 30-Jun-07 | \$1.95 | 150,000 | - | - | - | 150,000 | - | - | - |
| | | | | 3,300,140 | - | 210,840 | - | 3,089,300 | - | - | - |
| | | | | \$5.57 | \$0.00 | \$2.10 | \$0.00 | \$5.82 | \$5.51 | | |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 14 — EMPLOYEE BENEFITS (continued)

2005 Employee Share Rights Plan

During the financial year under the Company's Employee Share Rights Plan, all employees of the Company and its controlled entities were eligible to participate in this Plan.

Each right is subject to a performance period of three years commencing from the date of grant on 1 July 2005 and expiring on 30 June 2008. Each right has a nil consideration and once vested and exercised, is convertible into one ordinary share. Unexercised rights will lapse on 30 June 2011 or on the employee's termination. These rights are non-transferable and unquoted. There are no voting or dividend rights attached to these rights.

Movements in rights during the year

Consolidated and parent entity 2006

| Grant date | Exercise date on or after | Expiry date | Exercise price 1 July 2005 | Number as at 1 July 2005 | Granted | Lapsed | Exercised | On Issue 30 June 2006 | Number as at 30 June 2006 | Vested | Proceeds received \$ | Date issued | Number of shares issued |
|---------------------------------|---------------------------|-------------|----------------------------|--------------------------|-----------|---------|-----------|-----------------------|---------------------------|--------|----------------------|-------------|-------------------------|
| 1-Jul-05 | 1-Jul-08 | 30-Jun-11 | \$0.00 | - | 1,661,500 | 203,500 | - | - | 1,458,000 | - | - | - | - |
| Weighted average exercise price | | | | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | | | |

Consolidated and parent entity 2005 – Nil

Fair value measurement

The fair value of the 2005 Employee Share Rights Plan was assessed using the following parameters for Executives and Employees:

| | Executives 2006 | Employees 2006 |
|---|-----------------|----------------|
| Grant date | 1-Jul-05 | 1-Jul-05 |
| Share price at grant date | \$1.82 | \$1.82 |
| Fair value at measurement date ⁽¹⁾ | \$0.92 | \$1.57 |
| Exercise price | \$0.00 | \$0.00 |
| Expected volatility ⁽²⁾ | 45% | 45% |
| Life | 3 years | 3 years |
| Expected dividend yield p.a. ⁽³⁾ | 5% | 5% |
| Risk free interest rate p.a. ⁽⁴⁾ | 5.11% | 5.11% |

⁽¹⁾ The Executive Performance Rights Plan incorporates an absolute Total Shareholder Return (TSR) performance hurdle. To allow for the TSR hurdle, the Monte Carlo simulation was used to value the rights.

⁽²⁾ Expected volatility based on historical daily share price for the period from 2 July 1997 to 1 July 2005.

⁽³⁾ Expected dividend yield % p.a. is based on historic yield and expected future yield at the grant date.

⁽⁴⁾ Risk Free Interest Rate p.a. is based on the yields on Treasury Bonds using data from the Reserve Bank of Australia.

NOTE 14 — EMPLOYEE BENEFITS *(continued)***Employee expenses**

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Expense arising on employee rights – equity settled | 407 | – | – | – |
| Total expense recognised as employee costs | 407 | – | – | – |

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 \$30.00. Expiry and exercise dates also varied on a contract by contract basis. All options have been issued for nil consideration and are convertible into one ordinary share. The employees' entitlements to the options are vested (i.e. they are not conditional on future employment) as soon as they become exercisable and the options are non-transferable and unquoted.

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

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.

NOTE 15 — OTHER LIABILITIES

| | Consolidated | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Current | | | | |
| Revenue received in advance | 213 | – | – | – |
| Amounts payable to controlled entities | – | – | 20,512 | 23,087 |
| | 213 | – | 20,512 | 23,087 |
| Non-current | | | | |
| Rent accrual | 333 | 253 | – | – |
| Other liabilities | – | 60 | – | – |
| | 333 | 313 | – | – |

NOTE 16 — CURRENT TAX LIABILITIES

The current tax liability for the consolidated entity of \$1,575,000 (2005: \$1,261,000) and for the Company of \$1,871,000 (2005: \$1,249,000) represent the amount of income taxes payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax-consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

NOTE 17 — FINANCING FACILITIES

This note provides information about the contractual terms of the consolidated entity's financing facilities. For information about the consolidated entity's exposure to interest rate risk, please see Note 19.

Assets pledged as security

Assets pledged as security comprise the security deposits disclosed in Note 8 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.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 17 — FINANCING FACILITIES *(continued)*

Unrestricted access was available at balance date to the following facilities:

| | Consolidated | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Total facilities | | | | |
| Interchangeable lease facility | 2,300 | 2,300 | – | – |
| Bank indemnity/guarantee facility | 694 | 856 | – | 162 |
| Encashment and clean credit facility | – | 33 | – | – |
| | 2,994 | 3,189 | – | 162 |
| Facilities utilised at reporting date | | | | |
| Interchangeable lease facility | – | – | – | – |
| Bank indemnity/guarantee facility | 499 | 434 | – | 162 |
| Encashment and clean credit facility | – | – | – | – |
| | 499 | 434 | – | 162 |
| Facilities not utilised at reporting date | | | | |
| Interchangeable lease facility | 2,300 | 2,300 | – | – |
| Bank indemnity/guarantee facility | 195 | 422 | – | – |
| Encashment and clean credit facility | – | 33 | – | – |
| | 2,495 | 2,755 | – | – |

NOTE 18 — EQUITY

Reconciliation of movement in capital and reserves attributable to equity holders of the parent entity:

| | Consolidated | | | | |
|--------------------------------------|-------------------------|-------------------------------|---------------------------------------|-----------------------------|-----------------|
| | Share capital \$'000 | Translation reserve \$'000 | Equity compensation reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
| Balance at 1 July 2004 | 449,399 | (145) | – | (384,678) | 64,576 |
| Total recognised income and expense | – | (43) | – | 7,524 | 7,481 |
| Capital reduction* | (370,544) | – | – | 370,544 | – |
| Capital return ** | (28,258) | – | – | – | (28,258) |
| Dividends to shareholders | – | – | – | (6,279) | (6,279) |
| Balance at 30 June 2005 | 50,597 | (188) | – | (12,889) | 37,520 |
| Balance at 1 July 2005 | 50,597 | (188) | – | (12,889) | 37,520 |
| Total recognised income and expense | – | 111 | – | 11,848 | 11,959 |
| Employee performance rights | – | – | 407 | – | 407 |
| Share options exercised by employees | 2,642 | – | – | – | 2,642 |
| Dividends to shareholders | – | – | – | (3,153) | (3,153) |
| Balance at 30 June 2006 | 53,239 | (77) | 407 | (4,194) | 49,375 |

* 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

** 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

NOTE 18 — EQUITY *(continued)*

| | The Company | | | | |
|--|-------------------------|-------------------------------|---------------------------------------|-----------------------------|-----------------|
| | Share capital \$'000 | Translation reserve \$'000 | Equity compensation reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
| Balance at 1 July 2004 | 449,399 | – | – | (386,366) | 63,033 |
| Total recognised income and expense | – | – | – | 6,250 | 6,250 |
| Capital reduction* | (370,544) | – | – | 370,544 | – |
| Capital return ** | (28,258) | – | – | – | (28,258) |
| Dividends to shareholders | – | – | – | (6,279) | (6,279) |
| Balance at 30 June 2005 | 50,597 | – | – | (15,851) | 34,746 |
| Balance at 1 July 2005 | 50,597 | – | – | (15,851) | 34,746 |
| Total recognised income and expense | – | – | – | 3,245 | 3,245 |
| Employee performance rights | – | – | 407 | – | 407 |
| Share options exercised by employees and directors | 2,642 | – | – | – | 2,642 |
| Dividends to shareholders | – | – | – | (3,153) | (3,153) |
| Balance at 30 June 2006 | 53,239 | – | 407 | (15,759) | 37,887 |

* 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

** 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

Share capital

| <i>In thousands of shares</i> | The Company | |
|---|---------------|---------------|
| | 2006 | 2005 |
| On issue at 1 July | 62,795 | 313,973 |
| Return of capital | – | (251,178) |
| Conversion of options to ordinary shares with \$1.95 exercise price | 1,354 | – |
| On issue at 30 June – fully paid | 64,149 | 62,795 |

The consolidated entity has also issued share options and share rights (see Note 14).

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is different to the presentation currency of the reporting entity.

Equity compensation reserve

This represents the cumulative value of employee services rendered for the issue of share options and performance rights.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 18 — EQUITY *(continued)*

Dividends

Dividends recognised in the current year by the Company are:

| | Cents per share | Total amount \$'000 | Franked/unfranked | Date of payment |
|-----------------------|-----------------|---------------------|-------------------|-----------------|
| 2006 | | | | |
| Interim 2006 ordinary | 5.0 | 3,153 | Franked | 06 Apr 06 |
| Total | 5.0 | 3,153 | | |
| 2005 | | | | |
| Interim 2005 ordinary | 4.0 | 2,511 | Franked | 06 Apr 05 |
| Final 2005 ordinary | 6.0 | 3,768 | Franked | 16 Sep 05 |
| Total | 10.0 | 6,279 | | |

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

Dividend franking account

| | The Company | |
|--|-------------|-------------|
| | 2006 \$'000 | 2005 \$'000 |
| Dividend franking account | | |
| 30% franking credits available to shareholders of SMS Management & Technology Limited for subsequent financial years | 11,964 | 8,676 |

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the balance sheet date but not recognised as a liability is to reduce it by \$2,749,000 (2005:\$nil). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$11,964,000 (2005:\$8,676,000) franking credits.

NOTE 19 — FINANCIAL INSTRUMENTS

Exposure to credit, interest rate and currency risk arises in the normal course of the consolidated entity's business.

(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 balance sheets, is generally the carrying amount, net of any impairment losses.

The consolidated entity minimises concentrations of credit risk by undertaking transactions with a large number of reputable 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.

NOTE 19 — FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk

Effective interest rates and repricing analysis

At the balance sheet date, the consolidated entity is not exposed to significant interest rate risk. In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they will reprice.

| Consolidated | Notes | 2006 | | 2005 | | | |
|-------------------------|-------|---------------------------|--------------|---------------------------|---------------------------|--------------|---------------------------|
| | | Effective interest rate % | Total \$'000 | Six months or less \$'000 | Effective interest rate % | Total \$'000 | Six months or less \$'000 |
| Financial assets | | | | | | | |
| Cash | 6 | 5.2% | 19,863 | 19,863 | 5.0% | 14,447 | 14,447 |
| Cash deposits* | 6 | 5.6% | 2,600 | 2,600 | 5.0% | 2,600 | 2,600 |
| | | | 22,463 | 22,463 | | 17,047 | 17,047 |

* This asset bears interest at a fixed interest rate

All amounts are stated at their carrying amount, which is the same as fair value.

(c) Foreign currency risk

The consolidated entity is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currency other than AUD. The currencies giving rise to this risk are primarily British Pounds, Singapore Dollars and New Zealand Dollars.

The consolidated entity ensures that the exposure is kept to an acceptable level.

NOTE 20 — OPERATING LEASES

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | Consolidated | |
|--|--------------|-------------|
| | 2006 \$'000 | 2005 \$'000 |
| Within one year | 1,921 | 2,097 |
| One year or later and no later than five years | 5,123 | 5,883 |
| Later than five years | 323 | — |
| | 7,367 | 7,980 |

NOTE 21 — CONTINGENCIES

Details of contingent liabilities are as follows:

Disputes and minor claims

From time to time, 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 22.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 21 — CONTINGENCIES *(continued)*

Bank guarantees

Bank guarantees of \$499,000 (2005: \$434,000) 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. In November 2005 the second payment of \$1,050,000 was made as performance criteria were exceeded. The third and final payment of \$875,000 will be made in November 2006 provided the performance criteria are met.

NOTE 22 — 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 2006 and 30 June 2005 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 2006 and 30 June 2005 effectively comprise the full Income Statement and Balance Sheet included in this Annual Report.

NOTE 23 — CONSOLIDATED ENTITIES

| | Country of Incorporation | Class of Shares | Ownership Interest | |
|--|--------------------------|-----------------|--------------------|--------|
| | | | 2006 % | 2005 % |
| Parent entity | | | | |
| SMS Management & Technology Limited | Australia | | | |
| Entities under control of SMS Management & Technology Limited | | | | |
| SSH Financial Services Pty Ltd * | Australia | Ordinary | 100 | 100 |
| SMS Administration Pty Ltd * | Australia | Ordinary | 100 | 100 |
| SMS M&T Pte Ltd | Singapore | Ordinary | 100 | 100 |
| SMS Management & Technology Sdn Bhd | Malaysia | Ordinary | 100 | 100 |
| Maximo Go Pty Ltd * | Australia | Ordinary | 100 | 100 |
| GMD Group Pty Ltd * | Australia | Ordinary | 100 | 100 |
| SMS Consulting Group Limited * | Australia | Ordinary | 100 | 100 |
| Entities under control of SMS M&T Pte Ltd | | | | |
| SMS Management & Technology Limited | Hong Kong | Ordinary | 100 | 100 |
| Entities under control of Maximo Go Pty Ltd | | | | |
| SMS Technology Pty Ltd | Australia | Ordinary | 100 | 100 |

NOTE 23 — CONSOLIDATED ENTITIES (continued)

| | Country of Incorporation | Class of Shares | Ownership Interest | |
|---|--------------------------|-----------------|--------------------|--------|
| | | | 2006 % | 2005 % |
| Entities under control of GMD Group Pty Ltd | | | | |
| 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 |
| Entities under control of SMS Consulting Group Limited | | | | |
| SMS Management & Technology Limited | UK | Ordinary | 100 | 100 |
| SMS Employees Pty Ltd | Australia | Ordinary | 100 | 100 |
| Entities under control of SSH Financial Services Pty Ltd | | | | |
| eVend Inc | USA | Ordinary | 100 | 100 |

(a) Acquisition of controlled entities in 2006

There were no acquisitions during the 2006 financial year.

(b) 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 22.

NOTE 24 — RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

| | Consolidated | | The Company | |
|--|---------------|---------------|----------------|-------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Cash flows from operating activities | | | | |
| Profit after tax | 11,848 | 7,524 | 3,245 | 6,250 |
| <i>Adjustments for:</i> | | | | |
| Unrealised foreign exchange (gain)/loss | – | – | (81) | 63 |
| Depreciation expense | 399 | 538 | – | – |
| Loss on disposal of plant and equipment | 88 | 92 | – | – |
| Writeback of provision for excess lease space | – | (75) | – | – |
| Dividend received from controlled entities | – | – | (3,153) | (6,279) |
| Bad and doubtful debts | – | 71 | – | – |
| Equity settled share based payment transactions | 407 | – | – | – |
| Finance expense | 18 | 7 | – | – |
| Income tax expense | 4,948 | 3,494 | 4 | (12) |
| Operating profit/(loss) before changes in working capital and provisions | 17,708 | 11,651 | 15 | 22 |
| Decrease (increase) in trade and other receivables | (1,216) | (6,135) | 22 | – |
| Decrease (increase) in other assets | 221 | 365 | – | – |
| Increase (decrease) in trade payables, prepaid revenue, other current liabilities and provisions | 1,000 | 4,902 | – | – |
| Increase (decrease) in withholding tax | (353) | – | – | – |
| Borrowing costs paid | (18) | – | – | – |
| Income taxes paid | (4,761) | (2,627) | (4,755) | – |
| Net cash inflow/(outflow) from operating activities | 12,581 | 8,156 | (4,718) | 22 |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 25 — KEY MANAGEMENT PERSONNEL DISCLOSURES

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were the key management personnel for the entire period:

Non-executive directors

| | |
|----------------------------------|---------------------------|
| Laurence Cox (<i>Chairman</i>) | Independent Non-Executive |
| Bruce Thompson | Independent Non-Executive |
| Nicole Birrell | Independent Non-Executive |
| Kerry Smith | Independent Non-Executive |

Executive directors

| | |
|----------------|-------------------------|
| Thomas Stianos | Chief Executive Officer |
|----------------|-------------------------|

Executives

| | |
|-----------------|---|
| Stephen Kelly | Chief Financial Officer (commenced November 2005) |
| Graham Lanphier | Regional Director |
| Paula Johnston | Managing Director M&T Resources |
| Jason Young | Manager Technology Services |
| Paul Cooper | Managing Director UK (until April 2006) |
| Paradee Thomas | Managing Director Singapore |

Key management personnel compensation

The key management personnel compensation included in “employee benefits expense” are as follows:

| | Consolidated | |
|------------------------------|------------------|------------------|
| | 2006 \$ | 2005 \$ |
| Short-term employee benefits | 2,636,723 | 2,066,267 |
| Post-employment benefits | 104,756 | 86,241 |
| Equity compensation benefits | 109,173 | – |
| | 2,850,652 | 2,152,508 |

Individual directors' and executives' compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instrument disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 is provided in the Remuneration Report section of the Directors' report on pages 28 to 35.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Loans to key management personnel and their related parties (consolidated)

There were no loans to or from key management personnel and their related parties during the reporting period.

Other key management personnel transactions with the Company or its controlled entities

There were no other transactions with key management personnel and their related parties during the reporting period.

NOTE 25 — KEY MANAGEMENT PERSONNEL DISCLOSURES *(continued)*

Options and rights over equity instruments

The movement during the reporting period in the number of rights over ordinary shares in SMS Management & Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Name | Held at 1 July 2005 *** | Granted as compen- sation | Exercised | Other changes * | Held at 30 June 2006 | Vested during the year | Vested and exercisable at 30 June 2006 |
|-------------------|-------------------------------|------------------------------------|-----------|--------------------|----------------------------|------------------------------|---|
| Directors | | | | | | | |
| Laurence Cox | 200,000 | — | (200,000) | — | — | — | — |
| Bruce Thompson | 60,000 | — | (60,000) | — | — | — | — |
| Nicole Birrell | — | — | — | — | — | — | — |
| Kerry Smith | — | — | — | — | — | — | — |
| Thomas Stianos** | 228,000 | 100,000 | (78,000) | (150,000) | 100,000 | 50,000 | — |
| Executives | | | | | | | |
| Stephen Kelly | — | 30,000 | — | — | 30,000 | — | — |
| Graham Lanphier | 17,800 | 58,000 | (13,800) | — | 62,000 | 800 | 2,400 |
| Paula Johnston | 13,000 | 50,000 | (3,000) | — | 60,000 | 2,000 | 6,000 |
| Jason Young | — | 47,000 | — | — | 47,000 | — | — |
| Paul Cooper | 58,000 | 41,000 | (43,000) | — | 56,000 | 3,000 | 9,000 |
| Paradee Thomas | 24,800 | 30,000 | (20,800) | — | 34,000 | 800 | 2,400 |

* Other changes represent options that expired or were forfeited during the year

** The 150,000 options held by Thomas Stianos are vested but not exercisable as they are subject to the fulfilment of exercise criteria

*** The balance held at 1 July 2005 is the same as the balance held at 1 July 2004 as no options were issued during 2005

No options were held by key management person related parties.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 25 — KEY MANAGEMENT PERSONNEL DISCLOSURES *(continued)*

Movement in shares

The movement during the reporting period in the number of ordinary shares in SMS Management & Technology Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| Name | Held at 1 July 2005 | Received on exercise of options | Purchases | Sales | Shares held as at 30 June 2006 |
|-------------------|---------------------------|---------------------------------------|-----------|--------|---|
| Directors | | | | | |
| Laurence Cox | 183,800 | 200,000 | — | — | 383,800 |
| Bruce Thompson | 20,000 | 60,000 | — | — | 80,000 |
| Nicole Birrell | — | — | 5,000 | — | 5,000 |
| Kerry Smith | — | — | — | — | — |
| Thomas Stianos | 110,916 | 78,000 | — | — | 188,916 |
| Larison Pty Ltd* | 1,606,502 | — | — | — | 1,606,502 |
| Executives | | | | | |
| Stephen Kelly | — | — | 6,500 | — | 6,500 |
| Graham Lanphier | 6,528 | 13,800 | — | — | 20,328 |
| Paula Johnston | 500 | 3,000 | — | — | 3,500 |
| Jason Young | — | — | — | — | — |
| Paul Cooper | 6,640 | 43,000 | — | — | 49,640 |
| Paradee Thomas | — | 20,800 | — | 20,800 | — |

* *Larison Pty Ltd is an Australian company controlled by Thomas Stianos*

No shares were granted to the above named key personnel during the reporting period as compensation in 2005 or 2006. No other shares were held by key management person related parties.

Changes in key management personnel in the period after the reporting date and prior to the date when the financial report is authorised for issue

There were no changes in key management personnel after the reporting date and prior to the date when the financial report was authorised for issue.

NOTE 26 — NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The classes of non-key management personnel 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 other related entities.

The wholly-owned group consists of SMS Management & Technology Limited and its consolidated entities as set out in Note 23. The ultimate parent entity in the owned group is SMS Management & Technology Limited.

All transactions with non-key management personnel related parties are on normal terms and conditions. These transactions consisted of amounts 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 5.6% p.a. (2005 5.3% 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 7 and 15.

NOTE 27 — SUBSEQUENT EVENTS

No matter or circumstance has arisen since 30 June 2006 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

NOTE 28 — EXPLANATION OF TRANSITION TO AIFRS

As stated in Note 1 (a), these are the consolidated entity's first consolidated financial statements prepared in accordance with AIFRS.

The policies set out in the significant accounting policies section of this report have been applied in preparing the financial statements for the financial year ended 30 June 2006, the comparative information presented in these financial statements for the financial year ended 30 June 2005 and in the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening AIFRS balance sheet, the consolidated entity has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP). An explanation of how the transition from previous GAAP to AIFRS has affected the consolidated entity's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 28 — EXPLANATION OF TRANSITION TO AIFRS (continued)

Reconciliation of equity

| | Notes | Consolidated | | | | | |
|--------------------------------------|-------|---------------|-------------------------------|---------------|---------------|-------------------------------|---------------|
| | | Previous GAAP | Effect of transition to AIFRS | AIFRS | Previous GAAP | Effect of transition to AIFRS | AIFRS |
| | | 1 July 2004 | | | 30 June 2005 | | |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Current assets | | | | | | | |
| Cash and cash equivalents | | 44,577 | – | 44,577 | 17,047 | – | 17,047 |
| Trade and other receivables | | 15,618 | – | 15,618 | 21,753 | – | 21,753 |
| Other | | 1,088 | – | 1,088 | 723 | – | 723 |
| Total current assets | | 61,283 | – | 61,283 | 39,523 | – | 39,523 |
| Non-current assets | | | | | | | |
| Receivables | | – | – | – | – | – | – |
| Investments | | – | – | – | – | – | – |
| Deferred tax assets | (c) | 1,019 | 37 | 1,056 | 1,112 | 76 | 1,188 |
| Plant and equipment | | 1,410 | – | 1,410 | 1,000 | – | 1,000 |
| Intangible assets | (a) | 12,469 | – | 12,469 | 12,411 | 858 | 13,269 |
| Total non-current assets | | 14,898 | 37 | 14,935 | 14,523 | 934 | 15,457 |
| Total assets | | 76,181 | 37 | 76,218 | 54,046 | 934 | 54,980 |
| Current liabilities | | | | | | | |
| Trade and other payables | | 4,233 | – | 4,233 | 8,445 | – | 8,445 |
| Interest bearing liabilities | | 222 | – | 222 | – | – | – |
| Income tax payable | | 220 | – | 220 | 1,261 | – | 1,261 |
| Employee benefits | | 2,390 | – | 2,390 | 3,140 | – | 3,140 |
| Dividend payable | | 3,843 | – | 3,843 | 3,768 | – | 3,768 |
| Other | (c) | – | – | – | – | – | – |
| Total current liabilities | | 10,908 | – | 10,908 | 16,614 | – | 16,614 |
| Non-current liabilities | | | | | | | |
| Employee benefits | | 508 | – | 508 | 533 | – | 533 |
| Deferred tax liabilities | | 11 | – | 11 | – | – | – |
| Other | (b) | 90 | 125 | 215 | 60 | 253 | 313 |
| Total non-current liabilities | | 609 | 125 | 734 | 593 | 253 | 846 |
| Total liabilities | | 11,517 | 125 | 11,642 | 17,207 | 253 | 17,460 |
| Net assets | | 64,664 | (88) | 64,576 | 36,839 | 681 | 37,520 |
| Equity | | | | | | | |
| Issued capital | | 449,399 | – | 449,399 | 50,597 | – | 50,597 |
| Reserves | | (145) | – | (145) | (188) | – | (188) |
| Accumulated losses | | (384,590) | (88) | (384,678) | (13,570) | 681 | (12,889) |
| Total Equity | | 64,664 | (88) | 64,576 | 36,839 | 681 | 37,520 |

Reconciliation of equity *(continued)*

| | | The Company | | | | | |
|--------------------------------|--------|--------------------|-------------------------------------|---------------|------------------|-------------------------------------|---------------|
| | | Previous GAAP | Effect of transition to AIFRS | AIFRS | Previous GAAP | Effect of transition to AIFRS | AIFRS |
| | | 1 July 2004 | | | 30 June 2005 | | |
| Notes | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Current assets | | | | | | | |
| | | 7,638 | – | 7,638 | – | – | – |
| | | 3,768 | – | 3,768 | 3,791 | – | 3,791 |
| | | – | – | – | – | – | – |
| | | 11,406 | – | 11,406 | 3,791 | – | 3,791 |
| Non-current assets | | | | | | | |
| | | 45 | – | 45 | 45 | – | 45 |
| | | 59,014 | – | 59,014 | 59,014 | – | 59,014 |
| | (c) | 1,019 | (1,019) | – | 1,112 | (1,112) | – |
| | | – | – | – | – | – | – |
| | (a) | – | – | – | – | – | – |
| | | 60,078 | (1,019) | 59,059 | 60,171 | (1,112) | 59,059 |
| | | 71,484 | (1,019) | 70,465 | 63,962 | (1,112) | 62,850 |
| Current liabilities | | | | | | | |
| | | – | – | – | – | – | – |
| | | – | – | – | – | – | – |
| | | 220 | – | 220 | 1,249 | – | 1,249 |
| | | – | – | – | – | – | – |
| | | 3,768 | – | 3,768 | 3,768 | – | 3,768 |
| | (c) | 4,452 | (1,008) | 3,444 | 24,199 | (1,112) | 23,087 |
| | | 8,440 | (1,008) | 7,432 | 29,216 | (1,112) | 28,104 |
| Non-current liabilities | | | | | | | |
| | | – | – | – | – | – | – |
| | | 11 | (11) | – | – | – | – |
| | (b) | – | – | – | – | – | – |
| | | 11 | (11) | – | – | – | – |
| | | 8,451 | (1,019) | 7,432 | 29,216 | (1,112) | 28,104 |
| | | 63,033 | – | 63,033 | 34,746 | – | 34,746 |
| Equity | | | | | | | |
| | | 449,399 | – | 449,399 | 50,597 | – | 50,597 |
| | | – | – | – | – | – | – |
| | | (386,366) | – | (386,366) | (15,851) | – | (15,851) |
| | | 63,033 | – | 63,033 | 34,746 | – | 34,746 |

Notes to the Financial Statements

For the year ended 30 June 2006

NOTE 28 — EXPLANATION OF TRANSITION TO AIFRS (continued)

Reconciliation of profit for 2005

| | Consolidated | | | The Company | | | |
|--|---------------|---|---|---|---|---|--------------|
| | Previous GAAP | Effect of transition to AIFRS | AIFRS | Previous GAAP | Effect of transition to AIFRS | AIFRS | |
| | Notes | For the year ended 30 June 2005 \$'000 | For the year ended 30 June 2005 \$'000 | For the year ended 30 June 2005 \$'000 | For the year ended 30 June 2005 \$'000 | For the year ended 30 June 2005 \$'000 | |
| Revenue from rendering services | | 109,157 | – | 109,157 | – | – | – |
| Finance income | | 1,332 | – | 1,332 | 44 | – | 44 |
| Dividend income | | – | – | – | 6,279 | – | 6,279 |
| Other income | | 270 | – | 270 | – | – | – |
| Total Revenue | | 110,759 | – | 110,759 | 6,323 | – | 6,323 |
| Employee benefits expense | | (84,245) | – | (84,245) | – | – | – |
| Other project expense | | (4,648) | – | (4,648) | – | – | – |
| Depreciation and amortisation expenses | (a) | (1,396) | 858 | (538) | – | – | – |
| Finance expense | | (7) | – | (7) | – | – | – |
| Occupancy expense | (b) | (2,260) | (128) | (2,388) | – | – | – |
| Other expenses | | (7,915) | – | (7,915) | (85) | – | (85) |
| Profit before tax | | 10,288 | 730 | 11,018 | 6,238 | – | 6,238 |
| Income tax (expense)/benefit | (b) | (3,533) | 39 | (3,494) | 12 | – | 12 |
| Profit for the year attributable to equity holders of the parent entity | | 6,755 | 769 | 7,524 | 6,250 | – | 6,250 |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | | | | | | | |
| Ordinary shares | | 11¢ | | 12¢ | | | |
| Diluted earnings per share | | 11¢ | | 12¢ | | | |

Notes to the reconciliation of equity and reconciliation of profit

(a) Goodwill

Under previous GAAP, goodwill was required to be amortised on a systematic basis over the best estimate of its useful life, but not greater than 20 years. Under AIFRS, amortisation of goodwill is prohibited and is replaced by an annual impairment test focusing on the cash flows of the related cash generating unit.

The effect in the consolidated entity is to write back the goodwill amortised of \$858,000 for the financial year ended 30 June 2005 (presented within depreciation and amortisation expenses) and increase the carrying value of intangible assets at 30 June 2005.

(b) Property rent expense

Under AIFRS, rent expense on leased premises that have fixed rent increases are to be expensed on a straight line basis over the lease term. All rent expenses under previous GAAP policy were expensed as they were incurred.

The initial effect at 1 July 2004 in the consolidated entity was to increase other non-current liabilities by \$125,000, recognise a deferred tax asset of \$37,000, and increase accumulated losses by \$88,000. For the year ended 30 June 2005, the effect was to recognise additional expense of \$128,000 and additional income tax benefit of \$39,000, increase other non-current liabilities by \$128,000 and increase the deferred tax asset by \$39,000.

NOTE 28 — EXPLANATION OF TRANSITION TO AIFRS (continued)

Notes to the reconciliation of equity and reconciliation of profit (continued)

- (c) The consolidated entity had applied UIG 52 for tax consolidation purposes under previous GAAP, resulting in the Company as the head entity of the tax-consolidated group recognising both current and deferred tax in relation to the wholly-owned subsidiaries in the tax-consolidated group.

Under AIFRS, the consolidated entity has adopted UIG 1052 which requires the subsidiaries to initially recognise both current and deferred taxes before recognising the head entity's assumption of the current tax liability (asset) and deferred tax assets from tax losses. Under AIFRS the subsidiaries are now required to recognise deferred tax assets relating to temporary differences, other than for tax losses.

Under previous GAAP, the tax funding arrangements assets and liabilities were recognised as inter-entity tax-related balances whereas tax funding arrangements expenses and revenues were recognised as a component of income tax expense or revenue.

Upon adoption of UIG 1052 under AIFRS, all tax funding arrangements amounts are recognised as inter-entity amounts, giving rise to a contribution by or distribution to equity participants to the extent they differ from the amounts assumed by the head entity from subsidiaries. The entities in the Australian tax-consolidated group have revised the tax funding arrangement to address only current tax amounts and deferred tax assets from tax losses/credits so that no net contributions or distributions to equity participants are expected to arise in the future.

The effect of the above in the Company at 1 July 2004 is to decrease deferred tax liability by \$11,000, decrease inter-company payable by \$1,008,000 and decrease deferred tax asset by \$1,019,000. The effect in the Company at 30 June 2005 is to decrease inter-company payable and deferred tax asset by \$1,112,000.

For the consolidated entity, the impact of moving from UIG 52 to UIG 1052 is the same as the impact of moving to AASB 112. There is no impact on the consolidated entity from the tax funding arrangement changes as upon consolidation the inter-company balances are eliminated.

- (d) The effect of the above adjustments on retained earnings is as follows:

| | Notes | Consolidated | |
|---|-------|--------------------------|---------------------------|
| | | 1 July 2004 \$'000 | 30 June 2005 \$'000 |
| Intangible asset | (a) | – | 858 |
| Other non-current liabilities | (b) | (125) | (253) |
| Deferred tax asset | (b) | 37 | 76 |
| Total adjustment to equity attributable to equity holders of the parent entity | | (88) | 681 |

Refer to the reconciliation of profit on page 74.

Explanation of material adjustments to the cash flow statement for 2005

There are no differences between the cash flow statements presented under AIFRS and the cash flow statements presented under previous GAAP.

Directors' Declaration

1. In the opinion of the directors of SMS Management & Technology Limited ("the Company"):
 - (a) the financial statements and notes set out on pages 43 to 75 and the remuneration disclosures that are contained in sections identified as audited within the Remuneration Report on pages 28 to 35 of the Directors' Report, 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 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) the remuneration disclosures that are contained on pages 28 to 35 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*
 - (c) 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 23 will be able to meet any obligations or liabilities 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 2006.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne this 28th day of August 2006

Independent Audit Report

to the Members of SMS Management & Technology Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the income statements, statements of changes in equity, balance sheets, statements of cash flows, accompanying notes 1 to 28 to the financial statements and the directors' declaration for both SMS Management & Technology Limited (the "Company") and SMS Management & Technology Limited and its Controlled Entities (the "Consolidated Entity"), for the financial year ended 30 June 2006. The Consolidated Entity comprises both the Company and the entities it controlled during that financial year.

As permitted by the *Corporations Regulations 2001*, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in the Directors' Report and not in the financial report.

The Remuneration Report also contains information not required by Australian Accounting Standard AASB 124 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 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. The directors are responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. The directors are also responsible for the remuneration disclosures contained in the Directors' 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 that the remuneration disclosures comply with AASB 124. 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*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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

- (1) In our opinion the financial report of SMS Management & Technology Limited is in accordance with:
 - a) the *Corporations Act 2001*, including:
 - i) giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and,
 - ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - b) other mandatory financial reporting requirements in Australia.
- (2) The remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

KPMG

Don Pasquariello
Partner

Melbourne, 28 August 2006

Shareholder Information

TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS AS AT 21 AUGUST 2006

| Rank | Name | No. of Ordinary Shares Held | % of Issued Capital |
|----------------------------------|--|-----------------------------|---------------------|
| 1 | National Nominees Limited | 9,611,869 | 14.97 |
| 2 | J P Morgan Nominees Australia Limited | 6,762,250 | 10.53 |
| 3 | ANZ Nominees Limited | 6,203,505 | 9.66 |
| 4 | Citicorp Nominees Pty Limited | 5,498,881 | 8.56 |
| 5 | Queensland Investment Corporation | 4,565,149 | 7.11 |
| 6 | Cogent Nominees Pty Limited | 2,527,924 | 3.94 |
| 7 | AMP Life Limited | 1,999,183 | 3.11 |
| 8 | Larison Pty Ltd/Stianos | 1,795,418 | 2.81 |
| 9 | Westpac Custodian Nominees Limited | 1,705,474 | 2.66 |
| 10 | Glennfield Pty Ltd | 1,629,914 | 2.54 |
| 11 | Bond Street Custodians Limited | 856,035 | 1.34 |
| 12 | UBS Nominees Pty Ltd | 599,463 | 0.93 |
| 13 | MR Steven Bryce Outtrim | 500,000 | 0.78 |
| 14 | Invia Custodian Pty Limited | 415,855 | 0.65 |
| 15 | M F Custodians Ltd | 402,400 | 0.63 |
| 16 | MR Michael Phillip Thompson + MRS Tracie Jane Thompson | 301,312 | 0.47 |
| 17 | Equity Trustees Limited | 274,303 | 0.43 |
| 18 | RBC Dexia Investor Services Australia Nominees Pty Limited | 244,076 | 0.38 |
| 19 | Merrill Lynch (Australia) Nominees Pty Limited | 228,555 | 0.36 |
| 20 | Calliston Consultants Pty Ltd | 200,000 | 0.31 |
| Total Top Holders Balance | | 46,321,566 | 72.17 |

UNQUOTED EQUITY SECURITIES

There are no unquoted fully paid or partly paid ordinary shares as at 21 August 2006.

Corporate Directory

REGISTERED OFFICE

Level 18, IBM Centre
60 City Road
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SHARE REGISTRY

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Abbotsford Vic 3067
+61 3 9415 5000

AUDITOR

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147 Collins Street
Melbourne Vic 3000
+61 3 9288 5555

COMPANY SECRETARY

Debra Connor

SMS Management & Technology Limited
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