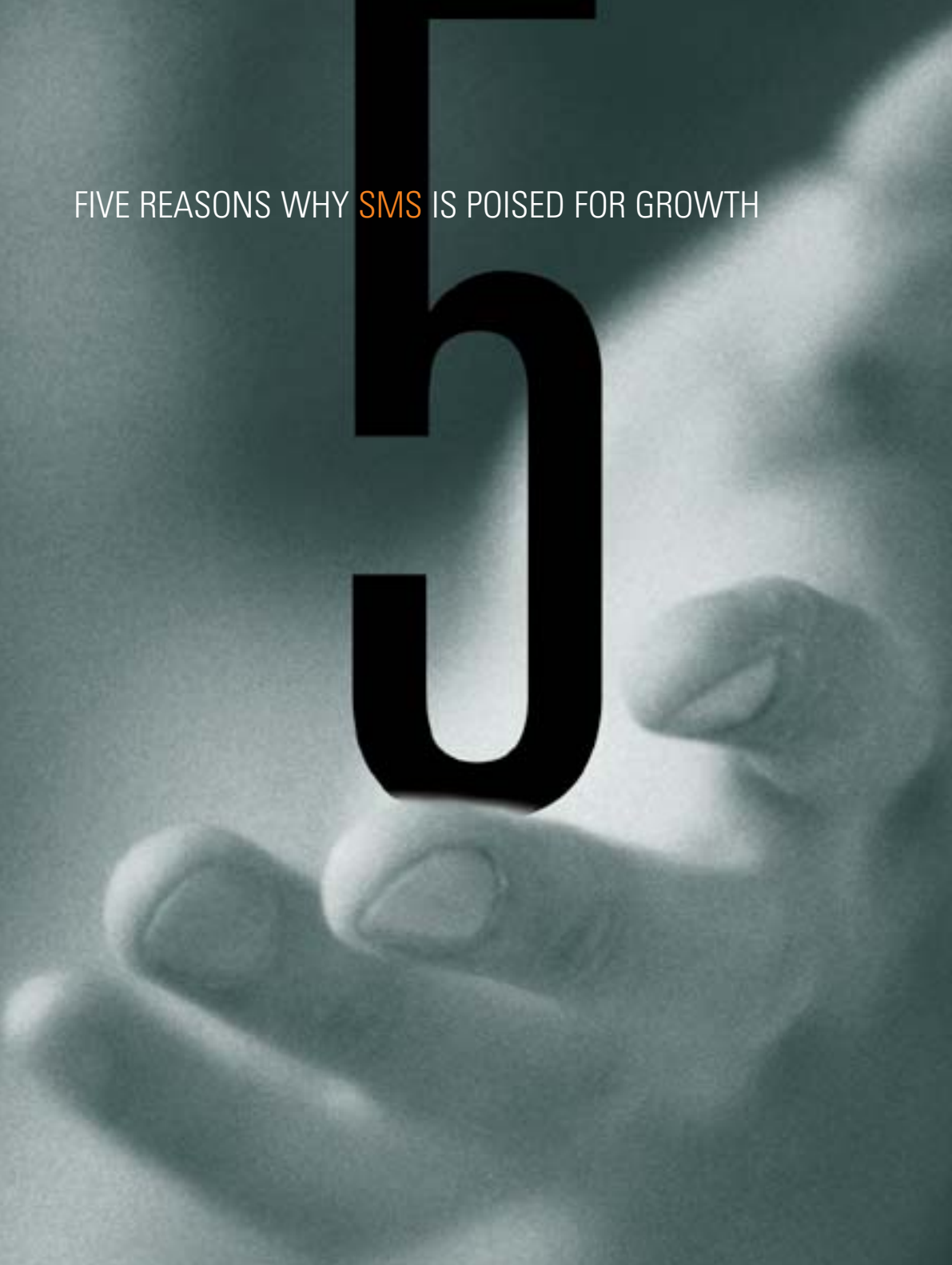


FIVE REASONS WHY **SMS** IS POISED FOR GROWTH

5



Contents

- 02 Reason #1 - Renewed Focus
- 04 Reason #2 - Competitive Advantages
- 06 Reason #3 - Our People
- 08 Reason #4 - Market Leader
- 10 Reason #5 - Financial Position
- 12 The Year in Review
- 15 Board of Directors
- 16 A Selection of Projects
- 18 Financial Statements

A photograph of a person's hands holding binoculars, looking through them. The image is in a dark, orange-tinted style.

Who we are

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

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

2003

Looking forward >>>

Last year was a year of consolidation and reform; of positioning SMS for the future.

The future is now upon us. Let's look at what it holds.

The market for IT and management consulting services remains difficult. And while many industry experts are predicting an imminent upswing, the immediate outlook for demand is still unclear. As a result of reforms made over the past two years, SMS is well placed to succeed—whether demand improves or not.

Our financial position is strong and our business cash flow positive. We have streamlined and restructured our operations to maximise our competitive advantages. We have maintained a significant market presence and capability (while many competitors faltered). Our culture and ethics remain strong and retain their value.

We believe there are five key reasons why SMS is poised for growth.

Here they are >>>



#

We have renewed our focus

Thomas Stianos, CEO, SMS Management & Technology,
employee since 1989 and shareholder since 1991

“The core business of SMS continues to deliver. It maintains its strong leadership position in key markets.”

Thomas Stianos – CEO, SMS Management & Technology Limited.

Playing to our strengths

SMS has returned to its traditional business of management and IT consulting services. All non-core businesses have been divested. We are now focused on growing the business we have operated successfully for 17 years.

Reflecting a major shift in the worldwide market for consulting services, our businesses in Australia, Asia and the United Kingdom are now concentrating their efforts on selected industries and specialty services. These are the industries in which we have the deepest knowledge and the services we provide the best.

Our clients are increasingly coming to appreciate the integrity, impartiality and objectivity of our service delivery. We will continue to adhere to ethical practices in everything we do. But we will also back up this promise with a new and vigorous commitment to client outcomes.

A great team with focus

SMS has always been recognised for the calibre of its people. Last year we committed to a comprehensive growth strategy – project “Full Potential” – to clarify our direction and transform our great people into a focused, results-driven team.

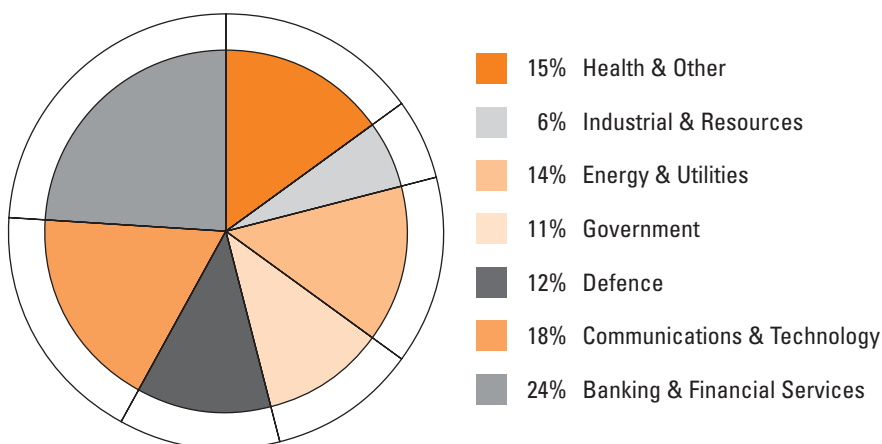
We are forming globally-based industry units to combine the intellectual property and talent of all geographic regions, providing a stronger service offering to chosen sectors.

Our diligent approach to research means we are continually tracking developments in technology, the regulatory environment, industry and business practices to refine and improve our services.

To maximise the value of this research and product development - to both our Company and our clients - we have introduced new systems to leverage our intellectual property, resources and skills.

Reflecting our innovative approach to business solutions, we have designed new commercial engagement models, giving clients alternative ways of engaging SMS as a partner, and offering different levels of risk/reward sharing.

Our Key Markets by Revenue %





We are leveraging our competitive advantages

Paul Salathiel, Senior Consultant, SMS Management & Technology,
consultant to Warwick Foster since 1995

“I’ve seen SMS’ work at three global corporations now where they have consistently delivered practical solutions to our business challenges. I value their agility and initiative in responding to our needs.”

Warwick Foster – CIO, Prudential Ltd, UK.

Competitive advantages

Through deep experience and by building the right industry teams, we have established a competitive position in selected industries. We are now leveraging this position to broaden our client base and further penetrate our chosen service markets.

- 1** As a respected partner and pioneer in new engagement models, we have been able to provide strategic guidance to Australian and international defence ministries in areas of logistics, finance, occupational health and safety and major acquisitions.
- 2** Our expanding capability in the banking, finance and insurance sector, particularly in the area of process and service frameworks to improve certainty of outcomes for the client, is a major differentiator in the market.
- 3** Our expertise and increasingly mature capabilities across delivery and technology environments in the telecommunications industry, together with our detailed product knowledge, give us an edge in providing a range of services from business transition to IT cost management.
- 4** Having delivered important projects, including upgrades to infrastructure and core services, knowledge and change management, we have a track record of excellence in service provision to the government sector.
- 5** Through our significant contribution to recent reforms in the gas and electricity industries, we have established ourselves as a key partner to clients across the sector, from generation to the retail business.
- 6** Our IT contracting and recruitment arm, M&T Resources, adds depth and breadth to the Company. By providing temporary resources or permanent recruitment solutions directly to clients, and adding strength to selected SMS project teams, M&T Resources significantly enhances our product offering.



#3

**We have
empowered
our greatest
strength -
our people**

**Philippa Taylor, Director, People Development, SMS Management
& Technology. Employee and shareholder since 1997.**

“Our people are our business. It’s as simple as that. For us to be competitive, both our people and our management of them have to be the best. We think they are.”

Philippa Taylor – Director, People Development, SMS Management & Technology Limited.

We don’t just write values, we live them

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

- **Enhance Reputation.** Our people do more than just work hard; they stake their reputations on the outcomes they achieve. They strive to do a superb job every time; no matter if the task is big or small, complex or simple.
- **Add Value.** Our people focus on the whole problem, not just the immediate issue, so the outcomes they achieve are appropriate and sustainable over the long-term.
- **Maintain Unity.** Many clients comment on the strength of collaboration and team spirit our consultants bring to their organisations, and how easy it is to work with them.

Consultants for the long term

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

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

Our consultants work closely with our clients across all facets of a project: from discovery, through design to delivery. With our consistently low voluntary separation rates and high average tenures, our clients are assured of continuity of service. They benefit from long-term relationships and the expertise and experience our consultants bring from other clients.

Humanity, integrity and continuity

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

The realities of the business environment over the last few years have required some hard decisions on our part that directly impact our people. We have made these decisions, including having to retrench a number of staff and implementing a salary freeze across the organisation. We’re proud that we managed and implemented these decisions with humanity and integrity. Indeed, many of the consultants who have left SMS have become clients through their new employers.

Just as importantly, we have been careful not to lose our core assets of knowledge and experience. We have captured and preserved transferable knowledge wherever possible and held on to irreplaceable skills and experience.

A close-up, high-angle photograph of a person wearing glasses, looking down at a document. The person's face is partially visible, and their hand is resting on the document. The document contains a bar chart with several vertical bars of varying heights and a table of numbers. A large, bold, black '#4' is superimposed over the left side of the image, with a white '#' symbol to its left.

#4

**SMS is the leader
in a market that
is ready to grow**

“Contrary to popular belief, the Australian IT market has not been all negative. In fact, the settling experienced in 2001 and 2002 will allow for a more prolonged — albeit less dynamic — growth cycle and will allow for the creation of new solutions for the later part of the decade.”

Brooke Galloway — Research Director, IDC Australia.

Several years of difficult trading conditions, in conjunction with residual fallout from the technology boom, have prompted businesses at all levels and in all sectors of the economy to tighten IT budgets; cut overheads and either cancel or defer new capital expenditure.

This has placed great pressure on the IT and consulting markets and driven many established firms from the market. But it has not slowed the pace of innovation and progress. New technologies, applications and methodologies are constantly making their way to market; many with the potential to revolutionise business processes and drive significant efficiencies.

At some point, short-term savings will be overwhelmed by long-term financial and opportunity costs. Companies will have to reinvest if they are to remain competitive.

00

It wasn't a case of if, but when: the Nasdaq plummets, with the investors who had so eagerly inflated the dot-com bubble panicking to extricate themselves as swiftly as possible. This coupled with a hangover from Y2K and companies begin to feel the pain of their unrelenting late-1990s spending on new 'enterprise software solutions' to protect themselves from the Millennium Bug.

01

The IT backlash begins: budgets are slashed as CEOs demand real returns from the money they pour into IT. Workers feel the pinch as jobs are cut, but a modest recovery is expected by the end of the year. Then, September 11. Cautious optimism turns to the grim reality of a global downturn. A new focus on security emerges, stifling innovation.

02

As spending on technology stagnates, the new economy has a new reality. Consolidation is the order of the day. For vendors, a new, service-driven vocabulary is emerging. With outsourcing becoming the norm, solutions providers selling software look outdated. Now service providers start to talk of partnership.

03

Consolidation continues and the solutions providers selling software find the market extremely competitive. Security still poses a threat but innovation is returning. A return to the pre-2000 days is clearly unlikely. But smart companies are making business-driven investments which are really paying off. Smart IT consultancies now know they are accountable.



#5

We are in the financial position
to support our growth

“SMS generated positive operating cash flow and restructured the balance sheet to clear the way for the future.”

Vivian Clark – CFO, SMS Management & Technology Limited.

Adjusted for the write-down and amortisation of goodwill, the Company delivered a net loss after tax of \$1.9m. This included provisions for future rent for surplus lease space and the full costs of all restructuring.

The core Australian business continued its history of profitability to deliver an EBITDA profit of \$7.7m

Financial Performance \$m	2003
Reported Net Loss after Tax	(106.8)
Add back amortisation and goodwill write-down	104.8
Net Loss after Amortisation and Goodwill write-down	(1.9)
Add back provision for surplus lease space	1.4
Add back restructuring costs	3.2
Add back loss from discontinued business	2.3
Adjusted Net Profit	5.0

Balance Sheet Strengthens

We have strengthened the balance sheet with the write-down of goodwill to have net tangible assets of \$50m, the majority in cash and receivables.

There are no major borrowings or creditors within the group except for the normal trade creditors and employee provisions.

Financial Position \$m	2003	2002
Current Assets	53.9	71.6
Non Current Assets	16.7	123.4
Current Liabilities	6.3	9.6
Non Current Liabilities	0.9	1.2
Net Assets/ Equity	63.4	184.2

Cash Flow Generation

The business, while generating an after tax loss before amortisation and goodwill write-down, is still cashflow positive by \$2m even with the difficult trading conditions.

The major cash flow item for the period was the share buyback scheme where \$13.9m in cash was used to purchase 38.83m shares.



2003

The Year in Review

Laurence Cox, Chairman
Thomas Stianos, Chief Executive Officer

“SMS remains in a sound financial position, net tangible assets of \$50m with cash surplus to current requirements. The total cash balance is \$36m. The business is in good shape to deal with an uncertain market, but also well tuned to a potential pick up in business for its services.”

SMS has restored its focus and optimised its operations.

The METHOD business has been discontinued, bringing SMS back to its traditional business of management and IT consulting services – a business it has operated profitably for many years.

Trading conditions for the consulting and IT services market worsened in 2003, hitting their lowest point in 20 years. While SMS fared better than many of its competitors in this environment, it has been adversely affected.

In response, the business has been streamlined. Corporate overheads have been cut from \$10m to \$5m in the last two years. The loss making UK operation has been restructured and new management installed, resulting in a return to positive cash flow.

Overall revenue has declined, due to the divestment of non-core businesses and the reduction in demand for IT and consulting services. Despite this, results from SMS's continuing Australian operations were sufficient to produce an EBITDA of \$7.7m before restructuring costs and provisions for surplus lease space.

Revenue \$000	2003	2002
Operating revenue from SMS	80,563	99,637
Operating revenue from METHOD (now discontinued)	1,854	8,170
Revenue from divested businesses	181	21,245
Interests, government grants & other sundry income	2,248	2,116
Divestment of non-core businesses	–	1,589
Total Revenue	84,846	132,757

In order to maximise future profits available for distribution to shareholders, SMS has reduced the carrying value of goodwill by \$98m. This reduction cuts the annual amortisation charge from \$7.0m to \$0.8m pa, leaving greater scope for dividend payments from future profits.

Earnings from Operations \$000	2003	2002
Core Australian operations	7,725	17,076
METHOD (now discontinued)	(2,306)	(4,870)
International operations	(1,903)	(1,510)
Divested businesses & proceeds of divestment	–	(1,343)
EBITDA before:	3,516	9,353
Restructuring (including International)	(3,252)	–
Provision for future rent (to December 2004)	(1,398)	–
EBITDA	(1,134)	9,353
Depreciation and amortisation	(2,444)	(3,823)
Interest	1,701	1,141
Income Tax (expense)/benefit	(88)	635
Profit before amortisation and write-down of goodwill	(1,965)	7,306
Amortisation and write-down of goodwill	(104,843)	(7,317)
Net Profit/(Loss)	(106,808)	(11)

“The business today has a healthy spread of revenue across a number of industries. There is enough diversity to avoid dependence on a single industry and sufficient focus to permit deep knowledge and targeted product offerings.”

Market Leader

+

Financial Strength

+

Committed Team

+

Great Clients

+

Increased Demand

=

Significant opportunity to build shareholder value

SMS has grown its presence in a number of sectors including Government, Mining and Defence.

The Telecommunications and Banking sectors experienced the greatest contraction in demand although they remain significant areas of operation for SMS and are expected to grow in the future.

The business today has a healthy spread of revenue across a number of industries. There is enough diversity to avoid dependence on a single industry and sufficient focus to permit deep knowledge and targeted product offerings.

During the year, SMS undertook a strategic study and commenced a number of initiatives aimed at driving sales growth. These initiatives include developing new service offerings better targeted to current client needs, establishing global industry teams to combine intellectual property and talent, introducing innovative engagement models and enhancing systems for managing and utilising SMS IP, resources and skills.

In summary, SMS remains in a sound financial position, with cash surplus to current requirements. The business is in good shape to deal with an uncertain market, but also well tuned to a potential pick up in business for its services.



Thomas Stianos
Chief Executive Officer



Laurence Cox
Chairman

Thomas Stianos

Executive Director & Chief Executive Officer

Bachelor of Applied Science (Melbourne University)

Tom Stianos joined SMS in January 1989 and was appointed CEO in March 2002. During his 14 years with SMS he has led many growth initiatives into different industries and practice areas.

Tom previously held the position of Regional Director Victoria, Regional Director Consulting New South Wales, Regional Director Consulting ACT and led the establishment of SMS in Singapore. Immediately prior to his current appointment he was Managing Director of SMS Australia. Since becoming CEO, Tom has completed the divestment of non-core businesses and restructured the Company to focus on its two successful core businesses.

Laurence G Cox AO

Non-Executive Director and Chairman,

Bachelor of Commerce (Melbourne University);
FCPA; FSIA

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). He is a Chairman of Transurban Group and the Murdoch Children's Research Institute and is a Director of Macquarie Bank Limited and Smorgon Steel Limited.



Board of Directors

James Carnegie

Non-Executive Director

Bachelor of Commerce Degree (Melbourne University) Master of Business Administration (Harvard University)

James Carnegie joined the Board of SMS Management & Technology in November 2002. He is Division Director of Macquarie Direct Investment Limited (MDI), and is responsible for sourcing and completing profitable private equity investments for the Macquarie Investment trusts. James joined MDI in 1999 after completing his MBA at Harvard. Before attending Harvard, James worked for three years as a Funds Manager with the hedge fund Platinum Asset Management, and has previously worked in the Australian retail industry. Currently James is on the Board of a number of portfolio companies and has primary responsibility for Signature Security Holdings and Staging Connections.

John Murphy

Non-Executive Director

Bachelor of Commerce, Master of Commerce (University of NSW), Fellow of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia

John Murphy joined the Board of SMS Management & Technology in May 2001. He is Managing Director of Investec Wentworth Private Equity Pty Limited which manages two investment funds, MGB Equity Growth Trust and Investec Wentworth Private Equity Fund, specialising in investing in established corporations with good growth potential and sound management. John sits on the Boards of all seven fund investments. John is a member of the Institute of Chartered Accountants and a Fellow of the Australian Society of Certified Practising Accountants. Prior to founding the MGB fund in 1998, he spent 25 years with Arthur Andersen, including 14 years as a global partner. John held the position of Managing Partner of the Economic and Financial Consulting Divisions in both Australia and Asia Pacific.

Bruce Thompson

Non-Executive Director

Bachelor of Economics (Monash University);
FCPA; FAICD

Bruce joined the Board of SMS Management & Technology in October 2000. He was the Chairman and Managing Director of Hewlett-Packard Australia Ltd until his retirement in August 2000. Bruce is also Chairman of Innovonics Ltd, a publicly listed Melbourne based technology company and the Chief Executive Officer of Keycorp Limited, a publicly listed Sydney based payment solutions company. He is a Trustee of the Melbourne Cricket Ground Trust, Chairman of the Federal Government's Electronic Industry Action Group and a council and Board member of the Box Hill TAFE Council.

A selection of projects successfully completed by SMS

Management Consulting

Requirement:

SMS was commissioned by a large federal government department to conduct an extensive review of its logistics environment to ensure that this complex amalgam of technology, process, organisation and people was operating as efficiently and effectively as possible and would continue to provide the comprehensive and flexible logistics capability it required for the future.

Approach:

SMS conducted in-depth analysis across the entire logistics operation and baselined it against similarly sized commercial organisations. Against aggressive timeframes, SMS delivered key insights and reports on options for the future and a recommended 'roadmap' to guide the department's logistics development.

Outcome:

All recommendations were accepted and approved by the minister responsible as being the most effective way forward. SMS has been re-engaged as part of an integrated project team to implement the road map.

Business Transformation

Requirement:

SMS was engaged to deliver the organisational change program for the implementation of a CRM system in a national medical insurance provider. The project was a significant two-year program involving integration with legacy systems, multiple vendors and a business environment with many conflicting priorities.

Approach:

The program involved stakeholder impact analysis, facilitation, mentoring and liaison across all levels of the organisation. A large number of integrated initiatives were planned and delivered including an organisational change roadmap, federated implementation approach, roles and responsibilities review with resulting organisational changes. Comprehensive project communications including branding, national roadshows, tailored presentations and briefings, newsletters, intranet homepage and content were key activities. Mechanisms such as a feedback working party, change champion program, business process transition mapping and foundation training were also used to create and increase customer relationship management awareness and understanding.

Outcome:

The business was transformed from a position of actively resisting the changes to accepting and proactively preparing for them. The program was implemented successfully providing increased collaboration across divisions. 1300 people were trained with a confidence rating of 82%, immediately prior to deployment. Processes were standardised nationally and across divisions through one integrated system resulting in significant operational savings.

Business Integration

Requirement:

When a major financial services organisation acquired a significant general insurance provider, SMS was engaged to manage the integration and transformation of two critical areas of the amalgamated business operation – financial management systems and call centre services.

Approach:

SMS was engaged near the end of the investigation phase when the program was on the verge of failure due to high cost, uncertain requirements and uncontrolled scope. SMS undertook the obligation to act as an independent and trusted partner to ensure firstly the feasibility of the program objectives, and secondly the delivery of the key capabilities within the tight timeframes demanded by the market. SMS filled key roles across the transformation program, including program director and project management roles, program and project office, commercial negotiations and deployment and implementation.

Outcome:

The program was reoriented with the right commitment, business focus and an integrated business and IT approach. The program objectives were met within the required timeframes delivering savings of more than \$40m.

An upgraded integrated financial system was implemented delivering increased functionality, along with the standardisation or redesign of financial business processes.

New call centres were established and existing business operations, environments and technology were rationalised. New IVR, workforce management and Virtual Call Centre Technology was implemented and Business Continuity Planning carried out.

2003

Systems Integration Management

Requirement:

Acknowledging SMS's past work in disaggregation of the electricity and gas utilities sector, a significant Victorian based energy company chose to utilise SMS staff as part of their program for the transition to Full Retail Contestability (FRC) for electricity and gas in both the Victorian and South Australian marketplaces.

Approach:

The introduction of FRC mandated large scale organisational change and required re-engineering of systems capabilities, as well as a fundamental review of business processes, supporting systems and interfaces. This was further complicated by tight regulatory deadlines and a host of external stakeholders and dependencies. SMS consultants were engaged in key areas including delivery of strategic replacement systems, development of industry standards and external interface requirements, business process redesign and training, and program and project management of capability delivery, deployment and implementation activities.

Outcome:

The client transitioned to mass market operation in the Victorian jurisdiction with minimal disruption to existing business operations allowing them to market aggressively in the newly competitive environment.

Project Management

Requirement:

A telecommunications company determined to sell outsourced service arrangements to major corporate clients for the delivery of telecommunications services including Voice, Data and Desktop projects. SMS was engaged to establish a project in support of the first of these arrangements to be developed with a global bank. Concurrently, SMS consultants were undertaking project directorship and project management of significant customer projects delivered under the developing arrangement.

Approach:

Consultants facilitated the framing of the initial proposal and participated in subsequent commercial discussions to establish the contract. Upon execution, SMS managed the transition of customer staff into the provider organisation. They also designed, developed and implemented specific business processes and infrastructure required to effectively and efficiently support performance of the arrangement. This included a Program Management & Professional Services delivery framework to be applied to the project delivered under the outsource agreement.

Outcome:

The pilot became the largest IT & T outsource project in Australia. However, SMS's depth of experience in telecommunications products and service delivery and knowledge of the service providers organisation, processes and tools, combined with our expertise in Program/Project Management have to date enabled mutual satisfaction of all stakeholders. The provider is now well placed to reuse the infrastructure created to enter into similar service delivery arrangements with other major corporate clients.

Service Management

Requirement:

A global corporation required an improvement in the IT service provided through their existing outsourcing arrangements. SMS was engaged to manage the delivery of a suite of operational service improvement projects.

Approach:

Rather than adopt a confrontational approach and retender the services, it was decided to deal with the problems by strengthening the working relationship between the prime outsourced IT vendor and the business, and formalising and standardising processes employed.

The scope for each improvement project was developed by identifying "Hot Spots" through interviews with both the business and the service provider. The issues identified were resolved by applying best practice service management principles including IT vendor Help Desk operation, establishing a governance and reporting framework, effective problem and change management, support agreements and configuration management.

SMS also introduced an online facility for procurement of IT products and services and established principles for project engagement between business and IT services. In addition an account improvement plan was developed and agreed.

Outcome:

The working relationship between business users and the IT outsourcer was strengthened with new and revised roles/responsibilities clearly defined and commercial governance processes formally agreed and documented. Hot Spots were fixed, delivering tangible, visible improvement to the end user. Improved configuration management and financial management systems improved invoice accuracy and reduced costs.



Financial Statements

Contents

- 19** Directors' Report
- 28** Corporate Governance Statement
- 32** Statements of Financial Performance
- 33** Statements of Financial Position
- 34** Statements of Cash Flows
- 35** Notes to the Financial Statements
- 63** Directors' Declaration
- 64** Independent Audit Report
- 65** Shareholder Information
- 68** Corporate Directory

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Your 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 year ended 30 June 2003 and the auditor's report thereon.

Directors

Details of Directors who have held office during the financial year and after the financial year up to the date of this report are provided in Note 34 to the Financial Statements.

Principal Activities

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

Dividends

No dividends have been paid or provided for by the parent entity in the year ended 30 June 2003.

State of Affairs

Significant changes in the state of affairs of the consolidated entity during the financial year were as follows:

- Changes to fully paid ordinary shares:
 - During the year the Company purchased back 38,835,504 ordinary shares for total consideration of \$13,969,766 under the terms of the buyback agreement approved by shareholders on 28 October 2002.
 - During the year 446,980 options over ordinary shares were exercised at various exercise prices.

Details of all share and option movements during the financial year are provided in Note 22 to the Financial Statements.

- Changes to the carrying value of Goodwill:
 - In December 2002, the remaining goodwill, \$4.4m relating to SMS Technology Pty Limited (formerly METHOD Corporation Pty Ltd) was written off.
 - At June 30, 2003 the Directors as required, considered the value of goodwill relating to the SMS Consulting Group Ltd and agreed to write-down the value by \$93.6M to \$13.3M.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Review of Operations

SMS has restored its focus and optimised its operations. The METHOD business has been discontinued, bringing SMS back to its traditional business of management and IT consulting services – which it has operated profitably for 17 years.

Trading conditions for the consulting and IT services market worsened in 2003, hitting their lowest point in 20 years.

In response, the business has been streamlined. Corporate overheads have been cut over the last two years. The loss making UK operation has been restructured and new management installed, resulting in a return to positive operating cash flows.

Overall revenue has declined from the previous year, due to the divestment of non-core businesses and the reduction in demand for IT and consulting services.

Revenue

	2003 \$'000	2002 \$'000
Operating revenues from SMS (continuing business)	80,563	99,637
Operating revenues from METHOD (now discontinued)	1,854	8,170
Revenue from divested businesses	181	21,245
Interest, government grants and other sundry income	2,248	2,116
Divestment of non-core businesses	–	1,589
Total revenue	84,846	132,757

Despite this, results from SMS's Australian operations were sufficient to produce an EBITDA before restructuring costs of \$7.7m. \$3.3m was spent in restructuring and retrenchments in the Australian and international businesses. The Company also booked a provision of \$0.854m covering rent for offices which have been vacated as well as the write-down of assets associated with these vacated offices of \$0.544m. These costs provide for the eventuality that the vacated offices will not be sublet for the remaining period of the leases.

SMS has written down the carrying value of goodwill by \$98m. This reduction cuts the annual amortisation charge from \$6.8m to \$0.8m pa.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Earnings from Operations

	2003 \$'000	2002 \$'000
Australian operations	7,725	17,076
METHOD	(2,306)	(4,870)
International operations	(1,903)	(1,510)
Divested businesses & proceeds of divestment	–	(1,343)
EBITDA before:	3,516	9,353
Restructuring (Australia & International)	(3,252)	–
Provision for surplus lease space/asset write-downs	(1,398)	–
EBITDA	(1,134)	9,353
Depreciation and Amortisation	(2,444)	(3,823)
Net interest revenue	1,701	1,141
Income tax (expense)/benefit	(88)	635
Profit before amortisation and write-down of goodwill	(1,965)	7,306
Amortisation and write down of goodwill	(104,843)	(7,317)
Net Profit/(Loss)	(106,808)	(11)

Cash movements for the year are summarised in the table below. Business operations generated positive operating cash flows for the year. Net movements in cash balances were primarily due to buy back of the Company's shares as part of the capital management strategy.

Cash Movements for the Year

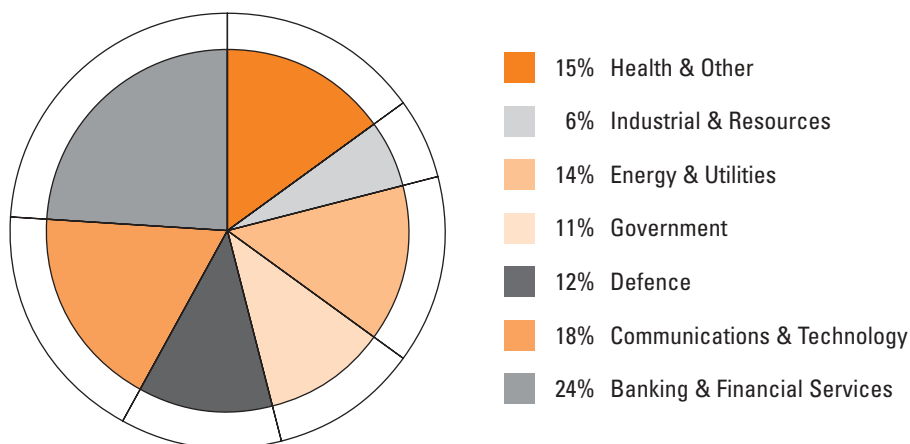
	\$'000
Opening balance at 1 July 2002	47,668
Proceeds received on divestment activities	1,117
Operational cash flows for the financial year	2,299
Repayment of lease liabilities	(874)
Buy back of Company shares	(13,970)
Conversion of options into shares	115
Payments for plant & equipment	(322)
Proceeds from sale of plant & equipment	58
Closing balance as at 30 June 2003	36,091

SMS has grown its presence in a number of sectors including Government, Mining, and Defence. The Telecommunications and Banking sectors experienced the greatest contraction in demand although they remain significant areas of operation for SMS.

The business today has a healthy spread of revenue across a number of industries. There is enough diversity to avoid dependence on a single industry or client and sufficient focus to permit deep knowledge and targeted product offerings.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003



During the year, SMS undertook a strategic study and commenced a number of initiatives aimed at driving sales growth. These initiatives include:

- Developing new service offerings better targeted to current client needs;
- Establishing global industry teams – in Defence, Banking & Financial Services, Energy & Utilities, Government and Telecommunications - to combine the Intellectual Property and talent of all geographic regions and provide a stronger offering to chosen sectors;
- Introducing innovative commercial engagements giving clients alternative ways of engaging SMS as a partner in varying levels of risk/reward sharing; and
- Enhancing systems for managing and utilising SMS IP, resources and skills.

There has been some early success with each of these initiatives. Examples of some early wins include:

- Sale of a business integration product for organisations acquiring or divesting subsidiaries;
- Establishing SMS's presence in the UK Defence market; and
- Introducing SMS "Biblio" knowledge management system, enabling consultants to leverage experience, capabilities and knowledge for the benefit of customers.

In summary, SMS remains in a sound financial position, with cash surplus to current requirements. The business is in good shape to deal with an uncertain market, but also well tuned to a potential pick up in business for its services.

Matters Subsequent to Reporting Date

There are no matters that have arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of the affairs of the consolidated entity in future years.

Information on Directors

The name, qualifications, experience and special responsibilities of each Director have been outlined under "Board of Directors" in this Annual Report. The particulars of Directors' interests in shares and options as at the date of this report are the same as at balance date and are detailed in Note 34(e).

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Meetings of Directors

The numbers of meetings of the Company's Directors (including meetings of formally constituted committees of Directors) held during the year ended 30 June 2003 and the numbers of meetings attended by each Director are set out in the following table.

Number of meetings held:	Meetings of Directors		Meetings of Committees			
	Meetings attended	Eligible to attend	Audit & Compliance		Remuneration	
			Attended	Eligible to attend	Attended	Eligible to attend
Laurence Cox	13	13	-	-	2	2
John Murphy	13	13	2	2	-	-
Bruce Thompson	12	13	2	2	2	2
Thomas Stianos	13	13	-	-	-	-
James Carnegie	8	9	2	2	1	1
Michael Traill*	3	4	-	-	1	1

* Michael Traill resigned as a member of the SMS Management & Technology Ltd Board of Directors and respective committees on 25 November 2002 and was replaced by James Carnegie on 25 November 2002

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

During the year, James Carnegie was appointed a Director by the Board of Directors. In accordance with clause 56.2 of the Company's constitution, a Director appointed by the Board holds office until the annual general meeting and is then eligible for re-election. James Carnegie seeks re-election as a Director of the Company at the AGM to be held on Monday 27 October 2003.

Directors' and Executives' Emoluments

The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

Executive remuneration and other terms of employment are reviewed annually by the Remuneration Committee having regard to performance against goals set at the beginning of the year, relevant comparative information and independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's activities. Executives are eligible to participate in the SMS Management & Technology Limited Employee Share Option Plan.

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time, which is currently \$200,000 per annum. Non-executive Directors are eligible to participate in the SMS Management & Technology Limited Employee Share Option Plan subject to prior approval from the shareholders.

Details of the nature and amount of each element of the emoluments of each Director of SMS Management & Technology Limited and each of the 5 officers of the Company and the consolidated entity receiving the highest emoluments are set out in the following tables.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Emoluments of Non-Executive Directors of SMS Management & Technology Limited

Name	Directors' Base Fee \$	Super-annuation \$	Options* \$	Total \$
Laurence Cox	62,500	5,625	30,000	98,125
Bruce Thompson	25,000	2,250	9,000	36,250
John Murphy	25,000	2,250	9,000	36,250
James Carnegie (appointed 25/11/02)	14,583	-	-	14,583
Michael Traill (resigned 25/11/02)	10,417	-	-	10,417

Emoluments of Executive Directors of SMS Management & Technology Limited

Name	Base Salary/ Consulting Fee \$	Super-annuation \$	Other benefits \$	Options* \$	Total
Thomas Stianos	309,685	10,519	15,315	85,128	420,647

* Details of options issued to Executive and Non-Executive Directors are tabled at page 25 of this Directors' Report.

Emoluments of other Executives of SMS Management & Technology Limited

Name	Base Salary \$	Allowances \$	Super-annuation \$	Other benefits \$	Options* \$	Total \$
Stephen Clark - National Director Consulting	250,000	-	10,519	-	24,389	284,908
Stephen Lennon - Regional Director Consulting NSW	210,000	-	10,519	-	11,139	231,658
Giselle Rowe - Regional Director Consulting VIC	184,650	-	10,519	-	2,639	197,808
Catherine Ford - Regional Director Consulting QLD	160,000	-	10,519	-	15,854	186,373
Vivian Clark - Company Secretary (appointed 26/04/2003), Group Finance & IT	140,000	-	10,519	-	7,760	158,279

Emoluments of Other Executives of the Consolidated Entity

Name	Base Salary/ \$	Allowances \$	Super-annuation \$	Other benefits \$	Options* \$	Total \$
Paul Cooper - Managing Director Europe (appointed 30/11/2002) #	292,955	70,072	12,466	30,868	19,104	425,465
Bruce Plaice-Leary - Managing Director Europe (resigned 30/11/2002) #	239,860	15,403	9,374	4,577	24,320	293,534
Hilton Holloway - Managing Director Asia ##	171,248	65,368	9,443	17,125	21,889	285,073

See Page 25 for details on options issued

Amounts remunerated in Great Britain Pounds and converted into Australian dollars at the exchange rate on 30 June 2003 of A\$1 = £0.40.

Amounts remunerated in Singapore dollars and converted into Australian dollars at the exchange rate on 30 June 2003 of A\$1 = S\$1.17.

* Details of options issued to other executives are tabled on page 25 of this Directors' Report.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

The amounts disclosed in the previous table of this Directors' Report for remuneration relating to options, are the assessed fair values of options at the date they were granted.

Fair values have been computed using the Monte-Carlo simulation technique option pricing model. Factors taken into account include the exercise price, the term of the options, the current price and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Options issued to Executive Directors and Non-Executive Directors

Thomas Stianos was issued with 750,000 options in his capacity as Managing Director after approval by shareholders on 28 October 2002. These options have an exercise price of \$0.48 each and expire on 30 June 2007. They are subject to vesting conditions and are also linked to performance hurdles that have been set in place by the Board of Directors.

The terms and conditions of the ESOP issue are detailed below.

Option Strategy and Rationale

The Company has pursued a strategy of seeking to align employee and executive interests with those of the Company and shareholders in order to achieve a long-term competitive advantage. In the industry in which SMS operates, staff retention is a key factor in long term performance. The ESOP is intended and structured to deliver benefit to participants in the longer term and has a 5-year horizon. Short-term incentives are based on salary and bonuses, not options.

All executives who report directly to the CEO for the fiscal year 2003 have a component of their total remuneration which is "at risk", that is, the quantum of the payment depends on achieving EBITDA targets. This provides a short-term performance incentive and therefore options are used to encourage loyalty and retention from the individual. From the Company's perspective, retention of key employees avoids the significant costs of Executive recruitment and the disruption associated with having key positions unfilled, transitioning of roles and training of new personnel.

Recognising that the contribution of an employee increases with longevity of service, the ESOP has a delayed vesting period such that any value derived from options cannot be realised if an employee departs prior to the vesting period. Where key employees depart SMS prior to vesting, the options lapse thus having no impact on share capital or on shareholders. Where key employees stay with the Company long enough to exercise options, the employee is expected to have contributed such value to the Company that the issue will be in the best interests of shareholders.

The key criteria used to determine the allocation to staff are a combination of criticalness to the business, ability to influence future results, demonstrated performance and contribution and the issues associated with replacement of that employee.

No accounting entries are made in relation to the options until they are exercised, at which time the exercise amounts receivable from employees are recognised in the Statement of Financial Position.

There is no commitment to make an allocation under the ESOP every year and it is the Board's intention that the total of options on issue under the ESOP not exceed 7% of the issued capital of the Company. 2003 financial year issues of options to Executives are detailed below.

Options issued to Executives of SMS Management & Technology Limited and of the consolidated entity

Unless otherwise stated, options issued to the Executives tabled below were issued on 24 September 2002 pursuant to the ESOP. The exercise price of the options is fixed at \$0.48 with no re-pricing options and the expiry date 30 June 2007. The exercise price was set at \$0.48. Vesting occurs progressively over the next three years to 1 July 2006 subject to the employee's continued employment with the Company as at the date of vesting. Unvested options expire on departure from the Company other than by way of retirement or redundancy. Upon departure from the Company, the employee has 90 days to exercise vested options after which time they lapse.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

No options have been granted since the end of financial year.

Executives of SMS Management & Technology Limited

	No of options Issued
Stephen Clark - National Director Consulting	100,000
Stephen Lennon - Regional Director Consulting NSW	100,000
Giselle Rowe - Regional Director Consulting VIC	10,000
Catherine Ford - Regional Director Consulting QLD	75,000
Vivian Clark - Company Secretary (appointed 26/02/2003), Group Finance & IT	25,000

Other Executives of the consolidated entity

	No of options Issued
Paul Cooper - Managing Director Europe (appointed 30/11/2002)	75,000
Bruce Plaice-Leary - Managing Director Europe (resigned 30/11/2002)	50,000
Hilton Holloway - Managing Director Asia	100,000

Directors' interests

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

	2003	
	Shares No	Options No
Laurence Cox	854,000	1,000,000
Thomas Stianos	11,047,090	1,140,000
Bruce Thompson	100,000	300,000
John Murphy	130,000	300,000
Michael Traill (resigned 25/11/02)	-	-
James Carnegie (appointed 25/11/02)	1,178,068	-

Shares under option

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

- 3,588,000 options pertaining to employment contracts which are exercisable at various prices and with various expiry dates.
- 48,000 options with a \$2.00 exercise price pursuant to the former Employee Share Option Plan, expiring 30 June 2005.
- 7,864,300 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2002, 1 July 2003 and 1 July 2004 pursuant to the SMS Management & Technology Limited Employee Share Option Plan and expiring on 30 June 2006.

- 3,999,400 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2003, 1 July 2004, 1 July 2005 and 1 July 2006 pursuant to the SMS Management & Technology Limited Employee Share Option Plan and expiring on 30 June 2007.
- 1,600,000 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2002, 1 July 2003 and 1 July 2004 issued to non-executive Directors and expiring on 30 June 2006.
- 750,000 options with an exercise price of \$0.48 and exercisable progressively on 1 July 2003, 1 July 2004, 1 July 2005 and 1 July 2006 issued to Thomas Stianos and expiring on 30 June 2007.

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

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2003

Shares issued on exercise of options

During or since the end of financial year, the Company issued ordinary shares as a result of exercise of options as follows:

- During the year options over 206,980 ordinary shares were exercised at nil consideration.
- During the year options over 240,000 ordinary shares were exercised at \$0.48.

Likely Developments and Expected Results of Operations

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors undertake to immediately inform the market of any potentially price sensitive development in accordance with their continuous disclosure requirements.

Insurance of Officers

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 2003 included the Directors and Company Secretary. Disclosure of the quantum of the premium is prohibited by the contract with the insurer.

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

Rounding of Amounts to Nearest Thousand Dollars

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

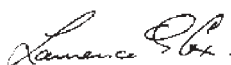
Environmental Regulation

The consolidated entity is not subject to any significant environmental regulation.

Auditor

KPMG is in office as at the date of this Directors' Report in accordance with section 327 of the Corporations Act 2001.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne this day of 25th August 2003

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2003

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors and its Committees

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 its strategic direction, establishing goals for management and monitoring the achievement of these goals.

Board Processes

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

The full Board currently holds 12 scheduled meetings each year, plus strategy and planning meetings and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman, CEO and Company Secretary. Standing items include the CEO's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Executives are regularly involved in board discussions and Directors have other opportunities, including visits to operations, for contact with a wider group of employees.

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

Composition of the Board

The names of the Directors of the Company in office at the date of this Statement are set out in the Directors' report on pages 19 to 27 of the financial report.

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

- A minimum of five Directors, with a broad range of expertise both nationally and internationally;
- Mr Cox is a non-executive Director of Macquarie Bank Limited (MDL). Macquarie Direct Investment Limited (MDIL) is a controlled entity of MBL, which holds 8.81% in SMS Management & Technology Limited. MBL is technically required to disclose the substantial shareholding, although MDIL, as the shareholder, must manage the interest for the benefit of other parties.

Thus the board has considered that this relationship would not materially affect Mr Cox's ability to exercise independent judgement in the interest of the company.

- A majority of non-executive Directors.
- Enough Directors to serve on various committees without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

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

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated, directly or indirectly, with a substantial shareholder 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 significant supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a significant 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.

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. Where the Board believes that a significant conflict exists, the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Nomination Committee

The Nomination Committee oversees the appointment and induction process for Directors. It reviews annually the composition of the Board and makes recommendations on the appropriate skill mix, personal qualities, expertise and diversity. 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. Potential candidates are identified by the Committee. The Board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders. The Nomination Committee is also responsible for the selection, appointment and succession planning process of the Company's Chief Executive Officer "CEO".

Corporate Governance Statement

CONTINUED

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 facilities and meet with management to gain a better understanding of business operations.

Director dealings in Company shares

Directors and senior management may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options:

- except between 3 and 30 days after either the release of the Company's half-year and annual results to the Australian Stock Exchange ("ASX"), the annual general meeting or any major announcement; and
- whilst in possession of price sensitive information.

Directors must obtain the approval of the Chairman of the Board and notify the Company Secretary before they sell or buy shares in the Company, and it is subject to Board veto. Directors must advise the ASX of any transactions conducted by them in shares in the Company.

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 Chairman, may seek independent professional advice at the consolidated entity's expense. A copy of advice received by the Director is made available to all other members of the Board.

Remuneration Committee

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and Directors themselves. It evaluates the performance of the Managing Director and monitors management succession planning. It is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract and retain the most qualified and experienced Directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally.

The members of the Remuneration Committee during the year were:

Laurence Cox (Chairman)
James Carnegie (appointed 25 November 2002)
Bruce Thompson
Michael Traill (resigned 25 November 2002)

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

The Remuneration Committee meets once a year and as required. The Committee met twice during the year.

Further details of Directors' remuneration, superannuation and retirement payments are set out in the Directors' report and Note 32 to the financial statements.

Audit Committee

The Audit 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 control and appropriate ethical standards for the management of the consolidated entity.

The members of the Audit Committee during the year were:
John Murphy (Chairman)
James Carnegie (appointed 25 November 2002)
Bruce Thompson
Michael Traill (resigned 25 November 2002)

The external auditors, the Managing Director and Group Finance Manager, are invited to Audit Committee meetings at the discretion of the Committee. The Committee met twice during the year.

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

The Audit Committee also conducts an annual review of its processes and current performance against its Charter to ensure that it has carried out its functions in an effective manner. The Charter is available to members on request.

The responsibilities of the Audit Committee include:

- Reviewing the annual and half-year and other financial information distributed externally, including new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Monitoring corporate risk assessment processes;
- Considering 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;
- Reviewing the nomination and performance of the external auditor. The external auditors were appointed at the 2002 AGM (28th October 2002). The external audit engagement partner was then appointed;
- Monitoring the establishment of an appropriate internal control framework, and appropriate ethical standards;
- Monitoring the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and

Corporate Governance Statement

CONTINUED

- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

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

- 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.

Prior to announcement of results:

- To 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.

To finalise half-year and annual reporting:

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

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board has instigated the following internal control framework:

- Financial reporting – Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.
- Continuous disclosure – A comprehensive policy and process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the ASX and post them on the Company's web site. The CEO, the Group Finance Manager and the Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX.
- Quality and integrity of personnel – Written confirmation of compliance with policies in the Ethical Standards Manual is obtained from all operating units. Formal appraisals are conducted at least annually for all employees.
- Functional speciality reporting – Key areas subject to regular reporting to the Board include Treasury, Financial, Legal and Insurance matters.
- 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.

Business Risk Management

The Audit Committee advises the Board and reports on the status of business risks. Major business risks arise from such matters as actions by competitors, government policy changes and the purchase, development and use of information systems.

The consolidated entity's risk management policies and procedures cover occupational health and safety, property, financial reporting and internal control. Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of co-operation and constructive dialogue within employees and senior management. A formal succession plan is also in place to ensure senior positions are filled by competent and knowledgeable employees when retirements or resignations occur.

Comprehensive practices are established such that:

- Capital expenditure and revenue commitments above a certain size require prior Board approval;
- Financial exposures are controlled;
- Occupational health and safety standards and management systems are monitored and reviewed to achieve high standards of performance and compliance with regulations; and
- Business transactions are properly authorised and executed.

Ethical standards

The consolidated entity has advised each Director, manager and employee they must comply with the Ethical Standards Manual.

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. The manual is reviewed regularly by the Board and processes are in place to promote and communicate these policies.

Corporate Governance Statement

CONTINUED

The Role of Shareholders

The Board informs shareholders of all major developments affecting the consolidated entity's state of affairs as follows:

- The full annual financial report is distributed to shareholders, including relevant information about the operations of the consolidated entity during the year, changes in the state of affairs and details of future developments.
- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the period. The half-year audited financial report is lodged with the Australian Securities and Investments Commission and the ASX, and sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.

All documents that are released publicly are made available on the consolidated entity's internet web site at www.smsmt.com.au

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. To assist shareholders in communicating issues to the Board, reply paid question cards are issued with the annual report.

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

Statements of Financial Position

AS AT 30 JUNE 2003

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Current Assets					
Cash assets	9	36,091	47,668	7,638	28,877
Receivables	10	16,972	22,339	50	105
Deferred tax assets	6(c)	-	632	-	-
Other	11	872	1,002	-	-
Total Current Assets		53,935	71,641	7,688	28,982
Non-Current Assets					
Receivables	12	-	-	29	17,788
Other financial assets	13	-	-	59,014	150,481
Property, plant and equipment	14	2,151	4,489	-	-
Deferred tax assets	6(c)	1,237	774	-	-
Intangible assets	15	13,300	118,143	-	-
Total Non-Current Assets		16,688	123,406	59,043	168,269
Total Assets		70,623	195,047	66,731	197,251
Current Liabilities					
Payables	16	2,795	5,113	-	202
Interest bearing liabilities	17	340	798	-	-
Current tax liabilities	6(c)	-	40	-	-
Provisions	18	3,177	3,242	-	-
Other	19	-	419	3,645	24,265
Total Current Liabilities		6,312	9,612	3,645	24,467
Non-Current Liabilities					
Interest bearing liabilities	20	333	650	-	-
Deferred tax liabilities	6(c)	-	82	-	-
Provisions	21	563	456	-	-
Total Non-Current Liabilities		896	1,188	-	-
Total Liabilities		7,208	10,800	3,645	24,467
Net Assets		63,415	184,247	63,086	172,784
Equity					
Contributed equity	22	449,399	463,254	449,399	463,254
Reserves	23(a)	(129)	40	-	-
Accumulated losses	24(b)	(385,855)	(279,047)	(386,313)	(290,470)
Total Equity		63,415	184,247	63,086	172,784

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

Statements of Cash Flows

AS AT 30 JUNE 2003

	Notes	Consolidated		Parent Entity	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash Flows from Operating Activities					
Receipts from customers		98,003	148,035	55	-
Payments to suppliers and employees		(96,083)	(131,836)	(392)	-
		1,920	16,199	(337)	-
Interest received		1,776	1,457	226	390
Government grants		-	77	-	-
Interest and finance charges paid		(74)	(317)	-	-
Income taxes paid		(1,323)	(520)	-	-
Net cash inflow (outflow) from Operating Activities	30	2,299	16,896	(111)	390
Cash Flows from Investing Activities					
Payments for plant and equipment		(322)	(1,259)	-	-
Proceeds from sale of plant and equipment		58	66	-	-
Net proceeds from discontinued operations		-	2,799	-	-
Proceeds from divestment of other controlled entities and business		1,117	232	700	1,418
Net cash inflow (outflow) from Investing Activities		853	1,838	700	1,418
Cash Flows from Financing Activities					
Proceeds from issues of fully paid shares		-	15,640	-	15,640
Conversion of options into shares	22(b)	115	286	115	286
Buy back of ordinary shares under buy back scheme	22(b)	(13,970)	(3,796)	(13,970)	(3,796)
Borrowings received from/(lent to) controlled entities		-	-	(7,973)	14,777
Repayment of director and other borrowings		-	(3,711)	-	-
Repayment of lease liabilities		(874)	(1,481)	-	-
Net cash inflow (outflow) from Financing Activities		(14,729)	6,938	(21,828)	26,907
Net (Decrease) / Increase in Cash Held		(11,577)	25,672	(21,239)	28,715
Cash at the beginning of the financial year		47,668	21,996	28,877	162
Cash at the end of the Financial Year	9	36,091	47,668	7,638	28,877

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 1 Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

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

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

(b) Principles of Consolidation

Controlled entities

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

Transactions eliminated on consolidation

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

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

Changes in ownership interest

Loss of control or significant influence

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

(c) Revenue recognition

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

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

(i) *Consulting services*

Consulting services revenue is recognised on a billing entitlement basis and is matched against

related costs incurred. Where fixed price contracts are used, revenue recognition is based on stage of completion. The stage of completion is measured by reference to labour hours incurred to date as a percentage of estimated total labour hours.

(ii) *Interest*

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

(iii) *Sale of non-current assets*

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

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

(d) Goods and services tax

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

Receivables and payables are stated with the amount of GST included.

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

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

(e) Foreign currency

Transactions

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

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

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

Translation of controlled foreign operations

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

(f) Borrowing costs

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

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

(g) Taxation – Note 6

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

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

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt, or if relating to tax losses when realisation is virtually certain.

(h) Earnings per share

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

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

(i) Acquisitions of assets

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

(j) Revisions of accounting estimates

Revisions to accounting estimates are recognised prospectively in current and future periods only.

(k) Receivables – Note 10

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

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to the quantum or timing of collection exists.

(l) Work in progress

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

(m) Investments – Note 13

Controlled entities

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

(n) Leased assets

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

Finance leases – Note 17 & 20

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

Operating leases

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

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

(o) Goodwill – Note 15

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

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

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

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

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

(q) Depreciation and amortisation

Useful lives

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

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

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

	2003	2002
Furniture and fittings	3-8 years	3-8 years
Computer equipment	2-4 years	2-4 years
Leasehold improvements	6-8 years	6-8 years
Plant and equipment	3-8 years	3-8 years

(r) Payables – Note 16

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

(s) Employee entitlements – Note 31

Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on

remuneration wage and salary rates that the consolidated entity expects to pay as at reporting date including related on-costs.

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

Long service leave

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

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

Employee share and option plans

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

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

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

Superannuation

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

(t) Provisions – Note 18

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

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

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

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

Surplus leased premises

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

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

Note 2 Changes in Accounting Policies

Employee entitlements

The consolidated entity has applied the revised AASB 1028 Employee Benefits for the first time from 1 July 2002.

The liability for annual leave is now calculated using the remuneration rates the Company expects to pay as at each reporting date, not wage and salary rates current at reporting date.

The change in accounting standard has not had a material impact for the current financial year ended 30 June 2003, as well as the opening retained earnings at 1 July 2002.

Note 3 Revenue

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from operating activities				
Sales of goods	-	5,334	-	-
Sales of services	82,540	123,718	-	-
	82,540	129,052	-	-
Revenue from outside operating activities				
Sale of non-current assets	58	1,589	-	-
Interest revenue	1,776	1,457	226	390
Government grants	-	77	-	-
Other	472	582	-	5,211
	2,306	3,705	226	5,601
Total revenue from ordinary activities	84,846	132,757	226	5,601

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 4 Loss from ordinary activities before income tax expense

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(a) Individually significant expenses/(revenues) included in loss from ordinary activities before income tax expense				
Write-down of goodwill to recoverable amount	98,042	-	-	-
Forgiveness of intercompany debt	-	-	-	(4,547)
Provision for non-recovery of intercompany debt	-	-	4,365	1,474
Write-down of investments to recoverable amount	-	-	91,514	10,569
Total	98,042	-	95,879	7,496
(b) Loss from ordinary activities before income tax expense has been arrived at after charging /(crediting) the following items				
Cost of sales	-	1,336	-	-
<i>Depreciation of:</i>				
Plant and equipment	817	2,363	-	-
	817	2,363	-	-
<i>Amortisation of:</i>				
Plant and equipment under finance lease	1,076	498	-	-
Leasehold improvements	551	962	-	-
Goodwill	6,801	7,317	-	-
	8,428	8,777	-	-
Total depreciation and amortisation	9,245	11,140	-	-
<i>Borrowing Costs</i>				
Finance charges relating to finance leases	55	189	-	-
Interest payable on interest bearing loans	19	128	-	-
	74	317	-	-
Bad and doubtful debts	53	373	-	-
Foreign exchange loss/(gain)	14	-	191	-
Net (gain)/loss on disposal of business	-	(1,504)	-	4,880
Net (gain)/loss on disposal of plant and equipment	158	356	-	-
Rental expense relating to operating leases	3,131	4,973	-	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 5 Remuneration of Auditors

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Audit Services				
Auditors of the company				
KPMG Australia:				
- audit and review of financial reports	90,000	220,403	-	-
Overseas KPMG Firms:				
- audit and review of financial reports	20,000	38,310	-	-
	110,000	258,713	-	-
Other Services				
Auditors of the company				
KPMG Australia:				
- other assurance services	-	15,665	-	-
- taxation services	13,700	177,977	-	-
Overseas KPMG Firms:				
- other assurance services	-	41,429	-	-
- taxation services	-	102,095	-	-
	13,700	337,166	-	-

* Note all comparative figures for the 2002 financial year related to PricewaterhouseCoopers

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 work with the Government Department began during August 2002 and was completed during May 2003.

The amounts paid or payable to KPMG under these arrangements for the year ended 30 June 2003 totalled \$2,036,187 (2002 \$nil).

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 6 Income Tax

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(a) Income Tax expense/(benefit)				
Prima facie income tax expense for the financial year differs from the amount calculated on the operating profit (loss). The differences are reconciled as follows:				
Profit (loss) from ordinary activities before income tax expense	(106,720)	(646)	(95,843)	(11,986)
Income tax calculated at 30% (2002 at 30%)	(32,016)	(194)	(28,753)	(3,596)
Tax effect of permanent differences:				
Non-deductible entertainment	128	179	-	-
Non-deductible taxable profit of divested entities	-	334	-	-
Non-deductible legal fees and acquisition/divestment costs	1	54	-	-
Non-deductible amortisation expense	2,040	2,195	-	-
Write-down of carrying value of goodwill (individually significant item)	29,413	-	-	-
Gain/(loss) on disposal of divested entities	-	(453)	-	-
Provision for non-recovery of intercompany debt (individually significant item)	-	-	1,310	442
Write-down of investments to recoverable amount (individually significant item)	-	-	27,454	3,171
Other items	17	167	57	(134)
Income tax adjusted for permanent differences	(417)	2,282	68	(117)
Transfer of tax losses from controlled entities	-	-	(68)	117
Benefit of tax losses not brought to account /(brought to account)	780	(2,917)	-	-
Under / (over) provision in previous year	(275)	-	-	-
Income tax expense/(benefit)	88	(635)	-	-
(b) Future income tax benefit not taken into account				
The potential future income tax benefit in foreign controlled entities arising from tax losses has not been recognised as an asset because recovery of tax losses is not virtually certain.	1,341	561	-	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

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

- i. the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- ii. the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- iii. no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(c) Tax assets and liabilities				
Current asset - Deferred tax assets				
Future income tax benefit	-	632	-	-
Non-Current asset - Deferred tax assets				
Future income tax benefit	1,237	774	-	-
Current liability - Current tax liabilities				
Provision for income tax	-	40	-	-
Non-current liability - Deferred tax liabilities				
Provision for deferred income tax	-	82	-	-

Note 7 Earnings per share

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

	Consolidated	
	2003 \$'000	2002 \$'000
Earnings	(106,808)	(11)
Basic earnings (loss) per share	(\$0.33)	(\$0.00)
Diluted earnings (loss) per share	(\$0.33)	(\$0.00)
Weighted average number of shares used as the denominator		
<i>Number for basic earnings per share</i>		
Ordinary shares	321,914,508	334,731,220
<i>Number for diluted earnings per share</i>		
Ordinary shares	321,914,508	334,731,220
Effect of share options on issue	43,450	328,640
	321,957,958	335,059,860

Notes to the Financial Statements

AS AT 30 JUNE 2003

During the year 446,980 options were converted to ordinary shares. The diluted EPS calculations include that portion of options issued for nil consideration, weighted with reference to the date of conversion.

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

Issue Date	Number of options at 30 June 2003	Number of options at 30 June 2002
01 July 2000	48,000	44,000
01 July 2000	-	40,000
01 July 2000	3,588,000	4,520,000
12 July 2000	-	226,000
01 July 2001	7,909,900	11,917,500
12 July 2001	1,600,000	1,600,000
01 July 2002	4,032,900	-
28 October 2002	750,000	-

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

Note 8 Segment Reporting

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

For the financial year ended 30 June 2003, SMS Management & Technology Limited and its controlled entities operated predominantly in Australia. Whilst there are overseas subsidiaries they are not material to the consolidated group result. Accordingly, the predominant geographical segment of operations is considered to be Australia.

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 9 Current Assets - Cash Assets

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Cash at bank and on hand	18,144	16,281	7,638	-
Deposits at call	17,947	31,387	-	28,877
	36,091	47,668	7,638	28,877

The above figures are reconciled to cash at the end of the financial year as shown in the Statements of Cash Flows.

The deposits are bearing interest rates of between (4.38% and 4.85%) (2002: 4.23% and 4.98%).

Note 10 Current Assets - Receivables

Trade debtors	13,800	21,077	-	-
Less: Provision for doubtful debts	(35)	(552)	-	-
	13,765	20,525	-	-
Sundry and other debtors	151	74	50	-
Income taxes refundable	2,867	1,544	-	-
Accrued income	189	196	-	105
	3,207	1,814	50	105
	16,972	22,339	50	105

Note 11 Current Assets - Other

Prepayments	770	782	-	-
Security deposits	102	220	-	-
	872	1,002	-	-

Note 12 Non-Current Assets - Receivables

Amounts receivable from related entities	-	-	32,079	45,473
Less: provision for diminution	-	-	(32,050)	(27,685)
	-	-	29	17,788

Note 13 Non-Current Assets - Other financial assets

Shares in controlled entities - at cost	-	-	392,235	392,188
Less: provision for diminution	-	-	(333,221)	(241,707)
	-	-	59,014	150,481

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 14 Non-Current Assets - Property, Plant & Equipment

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Plant and equipment – at cost	5,967	3,680	-	-
Less: Accumulated depreciation	(4,599)	(1,621)	-	-
	1,368	2,059	-	-
Leasehold improvements – at cost	3,198	3,289	-	-
Less: Accumulated amortisation	(2,574)	(2,116)	-	-
	624	1,173	-	-
Plant and equipment under finance lease	1,951	4,155	-	-
Less: Accumulated amortisation	(1,792)	(2,898)	-	-
	159	1,257	-	-
	2,151	4,489	-	-

Reconciliations

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

	Plant and equipment equipment	Leasehold Improvements	Plant and equipment under finance lease
	\$'000	\$'000	\$'000
Consolidated Entity			
Carrying amount at 1 July 2002	2,059	1,173	1,257
Additions	283	39	-
Disposals	(157)	(37)	(22)
Depreciation / Amortisation charge	(817)	(551)	(1,076)
Carrying amount at 30 June 2003	1,368	624	159

Note 15 Non-Current Assets Intangibles

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Goodwill	364,728	364,728	-	-
Less: Accumulated amortisation	(253,386)	(246,585)	-	-
Less: Write-down carrying value of goodwill	(98,042)	-	-	-
	13,300	118,143	-	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 16 Current Liabilities – Payables

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Trade creditors	2,250	2,142	-	-
Other creditors and accruals	545	2,971	-	202
	2,795	5,113	-	202

Note 17 Current Liabilities – Interest bearing liabilities

Lease liabilities	340	798	-	-
	340	798	-	-

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

Note 18 Current Liabilities – Provisions

Surplus lease space	854	-	-	-
Employee entitlements	2,323	3,242	-	-
	3,177	3,242	-	-

Reconciliations

Reconciliations of the carrying amount of each class of provision, except for employee benefits, are set out below:

Reconciliations

Surplus lease space

Carrying amount at beginning of year	-	-	-	-
Provisions made during the year	854	-	-	-
Carrying amount at end of year	854	-	-	-

Note 19 Current Liabilities – Other

Amounts payable to controlled entities	-	-	3,645	24,265
Prepaid revenue	-	419	-	-
	-	419	3,645	24,265

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 20 Non-Current Liabilities – Interest bearing liabilities

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Lease liabilities	333	650	-	-
	333	650	-	-

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

Assets pledged as security

Assets pledged as security comprise the security deposits referred to in Note 11 plus a Standard Authority to Appropriate and Set-Off Term Deposits held by SMS Consulting Group Limited to the equivalent value of the amount used with regard to the facilities detailed below to a maximum limit of \$2,600,000.

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

Total facilities

Interchangeable lease facility	2,300	2,600	-	-
Bank Indemnity / Guarantee facility	856	806	162	162
Encashment and Clean Credit facility	149	155	-	-
	3,305	3,561	162	162

Used at balance date

Interchangeable lease facility	6	81	-	-
Bank Indemnity / Guarantee facility	798	681	162	162
Encashment and Clean Credit facility	-	-	-	-
	804	762	162	162

Unused at balance date

Interchangeable lease facility	2,294	2,519	-	-
Bank Indemnity / Guarantee facility	58	125	-	-
Encashment and Clean Credit facility	149	155	-	-
	2,501	2,799	-	-

Note 21 Non-Current Liabilities – Provisions

Employee entitlements	563	456	-	-
	563	456	-	-

Note 22 Contributed equity

(a) Share capital	Parent Entity		Parent Entity	
	2003 '000	2002 '000	2003 \$'000	2002 \$'000
Ordinary shares - fully paid	313,967	353,073	449,399	463,601
To be cancelled	-	(718)	-	(347)
	313,967	352,355	449,399	463,254

Notes to the Financial Statements

AS AT 30 JUNE 2003

Terms and Conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meeting.

In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

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

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

A total of 206,980 ordinary shares were issued during the financial year as a consequence of conversion of options with a nil exercise price. There were 240,000 ordinary shares issued during the financial year following the conversion of options at an exercise price of \$0.48 for total proceeds of \$115,200 as reflected in the Statements of Cash Flows.

On 28 October 2002 the Company announced its intention to extend its on market share buy back within the Section 254B(4) Corporations Act 2001 10% in 12 months limit commencing not earlier than 15 November 2002. During the year ended 30 June 2003, a total of 38,835,504 shares had been purchased. A total of 39,553,653 were cancelled during the year 718,149 of which related to the prior year. The total purchase price paid was \$13,969,766 for the cancelled shares and \$347,068 for those shares relating to the prior year.

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

Date	Details	Number of Shares	Issue Price	\$'000
1 July 2001	Opening balance	323,373,813	-	451,326
7 Sept 2001	Conversion of options to ordinary shares with \$0.20 exercise price	35,000,000	\$0.20	7,000
14 May 2002	Conversion of partly paid shares to fully paid	-	-	8,640
Various	Conversion of options with nil exercise price	1,635,300	NIL	-
Various	Conversion of options with \$0.48 exercise price	595,000	\$0.48	286
Various	Cancellation of shares bought back under share buy back scheme	(7,530,870)	Avg \$0.48	(3,651)
30 June 2002	Closing Balance	353,073,243		463,601

Notes to the Financial Statements

AS AT 30 JUNE 2003

(d) Movements in options during the year

Grant Date	Exercise Date on or After	Expiry Date	Exercise Price	Number of options at 1 July 2002	Options Granted	Options Lapsed	Options Exercised	Options as at 30 June 2003 On Issue	Number of Options Vested	Proceeds received \$	Date Issued	Number of shares Issued	Fair value per share \$	Fair value aggregate \$
01-Jul-99	01-Jul-00	01-Jul-03	NIL	328,640	-	78,210	206,980	43,450	43,450	-	Various	206,980	\$0.32	66,234
01-Jul-00	01-Jul-01	30-Jun-05	\$2.00	44,000	18,000	14,000	-	48,000	48,000	-	-	-	-	-
01-Jul-00	01-Jul-01	30-Jun-05	\$2.50-\$3.00	40,000	-	40,000	-	-	-	-	-	-	-	-
01-Jul-00	01-Jul-01	30-Jun-10	\$1.50-\$6.00	4,520,000	-	932,000	-	3,588,000	3,588,000	-	-	-	-	-
12-Jul-00	12-Jul-00	30-Jun-10	\$2.00	226,000	-	226,000	-	-	-	-	-	-	-	-
01-Jul-01	01-Jul-02	30-Jun-06	\$0.48	11,917,500	692,500	4,460,100	240,000	7,909,900	2,610,267	115,200	05-Sep-02	240,000	\$0.49	117,600
12-Jul-01	01-Jul-02	30-Jun-06	\$0.48	1,600,000	-	-	-	1,600,000	533,333	-	-	-	-	-
01-Jul-02	01-Jul-03	30-Jun-07	\$0.48	-	5,333,900	1,301,000	-	4,032,900	-	-	-	-	-	-
28-Oct-02	01-Jul-04	30-Jun-07	\$0.48	-	750,000	-	-	750,000	-	-	-	-	-	-
				18,676,140	6,794,400	7,051,310	446,980	17,972,250	6,823,050	115,200		446,980		183,834

(e) Post balance date movements in equity

The following significant movements in equity have occurred since 30 June 2003 and up to the date of this report.

- 43,450 options with a nil exercise price issued pursuant to a former Employee Option Plan have expired on 1 July 2003 and have been cancelled.
- 45,600 options with an exercise price of \$0.48 issued pursuant to a former Employee Option Plan have expired and been cancelled.
- 33,500 options with an exercise price of \$0.48 issued under the current Employee Option Plan have expired and been cancelled.

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 23 Reserves and Retained Profits

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
(a) Reserves:				
Foreign Currency Translation reserve	(129)	40	-	-
	(129)	40	-	-
Nature and purpose of foreign currency translation reserve:				
Exchange differences arising on translation of wholly owned subsidiaries SMS Management & Technology Limited (incorporated in UK), SMS M&T Pte Ltd (incorporated in Singapore) and SMS Management & Technology Sdn Bhd (incorporated in Malaysia) are taken to the foreign currency translation reserve in accordance with accounting policy Note 1(e).				
Movements in reserve:				
Foreign Currency Translation Reserve				
Balance at beginning of year	40	223	-	-
Foreign currency translation of foreign controlled entities	(169)	(183)	-	-
Balance at end of year	(129)	40	-	-
(b) Retained Profits				
Accumulated losses at the beginning of the financial year	(279,047)	(280,433)	(290,470)	(279,881)
Net loss for the year	(106,808)	(11)	(95,843)	(11,986)
Transfer from Capital Profits Reserve	-	100	-	100
Transfer from Options Premium Reserve	-	1,297	-	1,297
Accumulated losses at the end of the financial year	(385,855)	(279,047)	(386,313)	(290,470)

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 24 Dividends

No dividends have been paid or provided for by the parent entity in the year ended 30 June 2003.

Dividend franking account

	Parent Entity	
	2003 \$'000	2002 \$'000
30% franking credits available to shareholders of SMS Management & Technology Limited for subsequent financial years.	7,106	16,581

Change in measurement of dividend franking account

In accordance with the New Business Tax System (Imputation) Act 2002, the measurement basis of the dividend franking account changed on 1 July 2002 from an after-tax profits basis to an income tax paid basis.

The amount of franking credits available to shareholders disclosed as at 30 June 2003 has been measured under the new legislation and represents income tax paid amounts available to frank distributions. The balance disclosed as at 30 June 2002 has been measured under the legislation existing at 30 June 2002 and represents after-tax profits able to be distributed fully franked at the current tax rate.

The change in the basis of measurement does not change the underlying value of franking credits or tax offsets available to shareholders from the dividend franking accounts.

Comparative information has not been restated for this change in measurement. Had the comparative information been calculated on the new basis, the "franking credits available" balance as at 30 June 2002 would have been \$7,106,000.

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 25 Financial Instruments

(a) Credit Risk Exposures

Credit risk represents the loss that would be recognised if counter parties failed to perform as contracted. The credit risk on financial assets of the consolidated entity which have been recognised on the Statement of Financial Position is generally the carrying amount, net of any provisions for doubtful debts.

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

(b) Interest Rate Risk Exposures

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

Fixed interest maturing in:

	Note	Floating Interest Rate	1 Year or less	1 to 5 years	More than 5 years	Non-Interest Bearing	Total
2003		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash and deposits	9	33,581	2,510	-	-	-	36,091
Trade and other receivables	10,11	-	-	-	-	17,844	17,844
		33,581	2,510	-	-	17,844	53,935
Weighted average interest rate		4.7%	4.7%				
Financial Liabilities							
Trade and other creditors	16	-	-	-	-	2,795	2,795
Lease liabilities	17, 20	-	340	333	-	-	673
Employee entitlements	18,21	2,886	-	-	-	-	2,886
		2,886	340	333	-	2,795	6,354
Weighted average interest rate		5.2%	7.8%	7.8%			

Fixed interest maturing in:

	Note	Floating Interest Rate	1 Year or less	1 to 5 years	More than 5 years	Non-Interest Bearing	Total
2002		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets							
Cash and deposits	9	45,158	2,510	-	-	-	47,668
Trade and other receivables	10,11	-	-	-	-	23,341	23,341
		45,158	2,510	-	-	23,341	71,009
Weighted average interest rate		4.5%	4.2%				
Financial Liabilities							
Trade and other creditors	16	-	-	-	-	5113	5,113
Lease liabilities	17, 20	-	798	650	-	-	1,448
Employee entitlements	18,21	3,698	-	-	-	-	3,698
		3,698	798	650	-	5,113	10,259
Weighted average interest rate		5.2%	7.8%	7.8%			

Notes to the Financial Statements

AS AT 30 JUNE 2003

(c) Net Fair Value of Financial Assets and Liabilities

(i) Recognised financial instruments

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

Note 26 Commitments for Expenditure

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Lease Commitments				
Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	2,625	2,851	-	-
Later than one year but not later than 5 years	1,869	2,817	-	-
Later than 5 years	-	426	-	-
Total Commitments	4,494	6,094	-	-
* Includes surplus lease space provision amounting to \$854,000 (Note 18).				
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	375	912	-	-
Later than one year but not later than 5 years	339	665	-	-
Minimum lease payments	714	1,577	-	-
Less: future finance charges	(41)	(129)	-	-
Total lease liabilities	673	1,448	-	-
Representing lease liabilities:				
Current (Note 17)	340	798	-	-
Non-current (Note 20)	333	650	-	-
	673	1,448	-	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 27 Contingent Liabilities

Details of contingent liabilities are as follows:

(a) Disputes and minor claims

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

(b) Cross Guarantees

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

(c) Bank guarantees

Bank guarantees of \$636,000 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.

Note 28 Deed of Cross Guarantee

SMS Management & Technology Limited, SSH Financial Services Pty Ltd, SMS Consulting Group Limited, SMS Technology 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 2003 and 30 June 2002 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 2003 and 30 June 2002 effectively comprise the full Statement of Financial Performance and Statement of Financial Position included in this Annual Report.

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 29 Investment in Controlled Entities

Name of Entity	Country of corporation	Class of Shares	Equity Holding	
			2003 %	2002 %
SSH Financial Services Pty Ltd (vii)	Australia	Ordinary	100	100
SMS Administration Pty Ltd #	Australia	Ordinary	100	100
Sausage Software (USA) Inc. (i)	USA	Ordinary	-	-
SMS M&T Pte Ltd (ii)	Singapore	Ordinary	100	100
SMS Management & Technology Sdn Bhd (iii)	Malaysia	Ordinary	100	-
Maximo Go Pty Ltd (iv)	Australia	Ordinary	100	100
GMD Group Pty Ltd (v) #	Australia	Ordinary	100	100
SMS Consulting Group Limited (vi) #	Australia	Ordinary	100	100

- (i) Sausage Software (USA) Inc. was de-registered on 31 December 2002.
- (ii) SMS M&T Pte Ltd holds a 100% beneficial interest in SMS Management & Technology Limited, a company incorporated in Hong Kong.
- (iii) SMS Management & Technology Sdn Bhd was incorporated on 24th August 2002 and is a wholly owned subsidiary of SMS Management & Technology Ltd.
- (iv) Maximo Go Pty Ltd held a 100% interest in SMS Technology Pty Ltd at balance date. SMS Technology Pty Ltd is a company incorporated in Australia.
- (v) GMD Group Pty Ltd held interests at balance date as set out following.

	Country of Incorporation	Class of Shares	Equity Holding	
			2003 %	2002 %
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

Garner MacLennan Design Pty Ltd was sold on 2 July 2002. The loss on disposal is not material given the net assets of the company were written down to recoverable value as at 30 June 2002.

- (vi) SMS Consulting Group Limited held a 100% interest in SMS Management & Technology Limited, a company incorporated in the United Kingdom.
SMS Consulting Group Limited held a 100% interest in SMS Employees Pty Ltd, a company incorporated in Australia.
- (vii) SSH Financial Services Pty Ltd held a 100% interest in eVend Inc, a company incorporated in the United States America.

(b) Acquisition of Controlled Entities in 2003

There were no acquisitions during the 2003 financial year.

(c) Class Order Relief

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 30 Reconciliation of Operating Loss after Income Tax to Net Cash Inflow (Outflow) from Operating Activities

Notes	Consolidated		Parent Entity	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Operating profit (loss) after income tax	(106,808)	(11)	(95,843)	(11,986)
<i>Add / (less) non cash items</i>				
Depreciation and amortisation	9,245	11,140	-	-
Net (profit) / loss on disposal or write-down of non-current assets	98,042	914	-	-
Net (profit) / loss on divestment of non-core businesses	-	(1,504)	-	4,880
Intercompany debt forgiveness	-	-	-	(4,547)
Provision for diminution of investments	-	-	91,514	10,569
Exchange rate movements in foreign currency translation reserve	(169)	(183)	-	-
Provision for non-recovery of intercompany debt	-	-	4,365	1,474
Bad and Doubtful Debts	53	18	-	-
Provision of security deposits	-	(130)	-	-
<i>Changes in assets and liabilities</i>				
Decrease (increase) in trade and other debtors	5,884	7,527	55	-
Decrease (increase) in inventories	-	(535)	-	-
Decrease (increase) in other assets	130	(757)	-	-
Increase (decrease) in trade creditors, prepaid revenue and provisions	(2,802)	1,571	(202)	-
Decrease (increase) in prepaid income tax	(1,323)	(248)	-	-
Decrease (increase) in future income tax benefit	169	(679)	-	-
Increase (decrease) in provision for income tax	(40)	(87)	-	-
Increase (decrease) in provision for deferred income tax	(82)	(140)	-	-
Net cash inflow (outflow) from operating activities	2,299	16,896	(111)	390

Note 31 Employee Entitlements

Employee entitlement liabilities

Provision for employee entitlements – current (Note 18)	2,323	3,242	-	-
Provision for employee entitlements – non-current (Note 21)	563	456	-	-
Aggregate employee entitlement liability	2,886	3,698	-	-
Employee numbers	No.	No.	No.	No.
Number of employees at reporting date	351	541	-	-

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

The following assumptions were adopted in measuring present values:

Weighted average rates of increase in annual employee entitlements to settlement of the liabilities	6%	6%	-	-
Weighted average discount rates	5.2%	5.2%	-	-
Settlement term (years)	15	15	-	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

Employee Share Option Plan

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

In accordance with the Company's policy for dealing in Company Securities (Refer Corporate Governance Statement in the Annual Report), each option is convertible into one ordinary share. Options have been granted for no consideration. With an effective grant date of 1 July 2002, the exercise price of the options is \$0.48 and the entitlements become exercisable progressively to 1 July 2006.

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

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

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

Employment contracts

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

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

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

Superannuation

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

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 32 Remuneration of Directors

	Directors of Entities in the Consolidated Entity		Directors of Parent Entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Income paid or payable, or otherwise made available, to Directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities"	483,144	501,047	483,144	501,047

Excluding executives of the parent entity who are only directors of wholly-owned Australian controlled entities and comprises only amounts paid whilst holding office of Director.

Directors' income includes amounts paid by the Company during the year to indemnify Directors, and an allocation of insurance premiums paid by the Company or related parties in respect of Directors' and officers' liabilities and legal expenses insurance contracts in accordance with common commercial practice.

The numbers of parent entity Directors whose total income from the parent entity or related parties was within the specified bands are as follows:

			2003 No	2002 No
\$	\$			
0	-	9,999	-	1
10,000	-	19,999	2	1
20,000	-	29,999	2	2
60,000	-	69,999	1	1
70,000	-	79,999	-	1
280,000	-	289,999	-	1
330,000	-	339,999	1	-

The remuneration bands above are not consistent with the emoluments disclosed in the Directors' report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

Thomas Stianos received 750,000 options in his capacity as Managing Director after approval by shareholders on 28 October 2002. These options have an exercise price of \$0.48 each and expire on 30 June 2007. They are subject to vesting conditions and are also linked to performance hurdles that have been set in place by the board of Directors.

No options issued to Directors have been exercised during the financial year.

There were no retirement benefits paid to Directors during the financial year (2002: \$nil).

Notes to the Financial Statements

AS AT 30 JUNE 2003

Note 33 Remuneration of Executives

	Executive Officers of the Consolidated Entity		Executive Officers of the Parent Company	
	2003 \$	2002 \$	2003 \$	2002 \$
Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian based executive officers (including Directors) whose remuneration was at least \$100,000:				
Executive officers of the parent entity *	1,601,802	1,553,417	1,601,802	1,553,417
Executive officers of other entities in the consolidated entity	938,756	1,511,140	-	-
	2,540,558	3,064,557	1,601,802	1,553,417

* Salaries of executive officers are paid by a wholly owned controlled entity within the consolidated entity.

Executive officers are those officers involved in the strategic direction, general management or control of the business at a company or operating division level.

Executives' remuneration includes amounts paid by the Company during the year to indemnify Executives and an allocation of insurance premiums paid by the Company or related parties in respect of Directors' and officers' liabilities and legal expenses insurance contracts in accordance with common commercial practice.

The numbers of Australian based executive officers (including Executive Director) whose remuneration from entities in the consolidated entity and related parties was within the specified bands are as follows:

	Executive Officers of the Consolidated Entity		Executive Officers of the Parent Company	
	2003 \$ No	2002 \$ No	2003 \$ No	2002 \$ No
\$ 110,000 - 119,999	-	2	-	2
130,000 - 139,999	2	-	2	-
150,000 - 159,999	1	-	1	-
170,000 - 179,999	1	-	1	-
190,000 - 199,999	1	-	1	-
200,000 - 209,999	-	1	-	1
220,000 - 229,999	1	-	1	-
230,000 - 239,999	-	1	-	1
260,000 - 269,999	1	-	1	-
280,000 - 289,999	-	2	-	2
310,000 - 319,999	-	1	-	1
330,000 - 339,999	1	-	1	-

Notes to the Financial Statements

AS AT 30 JUNE 2003

The remuneration bands above are not consistent with the emoluments disclosed in the Directors' report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

Options have been granted to certain executive officers in accordance with terms and conditions negotiated in employment contracts, details of which are set out in Note 31. Executive officers are also entitled to participate in the SMS Management & Technology Limited Employee Option Share Plan which commenced after the 2002 financial year with the first options issued during July 2002.

A summary of the options issued during the financial year to executive officers pursuant to employment contracts and the SMS Management & Technology Limited Employee Option Plan is set out below.

	Options Granted	Options Exercised	Options Expired	Options Outstanding At 30 June 2003
	No.	No.	No.	No.
Australian based executive officers of the parent entity	1,240,000	-	-	1,240,000
Executive officers of other entities in the consolidated entity	225,000	-	50,000	175,000
	1,465,000	-	50,000	1,415,000

Note 34 Related Parties

(a) Directors

The following persons were Directors of SMS Management & Technology Limited during the financial year and up to the date of this report. Details of Options are found at Note 22(d) and Note 31. Share and Option transactions with related parties are included below.

Laurence G Cox (Chairman)

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

Michael Traill

Mr Traill was appointed as a non-executive Director on 26 November 2001. He resigned as a director on 25 November, 2002. Mr Traill was an Executive Director of MDIL but took sabbatical leave from this position. MDIL is the holder of 27,656,233 ordinary shares.

James Carnegie

Mr Carnegie was appointed as a non-executive Director upon the resignation of Mr Michael Traill on 25 November 2002. In accordance with Article 56.2 of the Company's Constitution. Mr Carnegie retires as a director at the Annual General meeting and will be seeking re-election. Mr Carnegie is a Director of Macquarie Direct Investment Limited (MDIL). MDIL is the holder of 27,656,233 ordinary shares.

Notes to the Financial Statements

AS AT 30 JUNE 2003

John Murphy

Mr Murphy is a non-executive Director and is Managing Director of MGB Equity Growth Pty Ltd (MGB), a company which holds 12,975,637 ordinary shares.

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

Bruce Thompson was a non-executive Director for the entire year.

Option details are provided at Note 22(d) and Note 31.

(b) Remuneration and Retirement Benefits

Information on Remuneration of Directors is disclosed in Note 32.

(c) Loans to and from Directors and Director-related entities

There were no loans either to or from Directors or Director-related entities during the year.

There were no other amounts payable to Directors or their related entities at balance date.

(d) Transactions of Directors and Director-Related Entities Concerning Shares or Share Options

Acquisitions are detailed in Note 22. There were no disposals of securities by Directors during the financial year ended 30 June 2003 (2002: Nil).

(e) Holdings at balance date

Aggregate number of shares and share options of the Company held directly, indirectly or beneficially by Directors of the Company of the consolidated entity, or their Director-related entities at balance date:

	2003		2002	
	Shares No	Options No	Shares No	Options No
Laurence Cox	854,000	1,000,000	854,000	1,000,000
Thomas Stianos	11,047,090	1,140,000	11,047,090	390,000
Bruce Thompson	100,000	300,000	100,000	300,000
John Murphy	130,000	300,000	130,000	300,000
Michael Traill (resigned 25/11/02)	-	-	184,000	-
James Carnegie	1,178,068	-	-	-

(f) Other Transactions with Directors and Director-Related Entities

There were no other transactions involving Directors or Director-related entities during the financial year.

Notes to the Financial Statements

AS AT 30 JUNE 2003

(g) Wholly-owned Group

The wholly-owned group consists of SMS Management & Technology Limited and its wholly controlled entities as set out in Note 29. Transactions between SMS Management & Technology Limited and other entities in the wholly-owned group during the year ended 30 June 2003 consisted of loans advanced by and repaid to SMS Management & Technology Limited and provision of services on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by and to SMS Management & Technology Limited.

Parent entity aggregate amounts receivable from and payable to subsidiaries in the wholly-owned group at balance date are set out in Notes 12 and 19.

(h) Controlling Entities

The ultimate parent entity in the wholly owned group is SMS Management & Technology Limited.

(i) Ownership interests in related parties

Interests held in related parties are set out in Note 29.

Note 35 Events Occurring After Balance Date

No matter or circumstance has arisen since 30 June 2003 that has significantly affected, or may significantly affect:

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

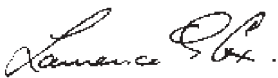
Directors' Declaration

AS AT 30 JUNE 2003

Directors' Declaration

1. In the opinion of the Directors of SMS Management & Technology Limited ("the Company"):
 - (a) the financial statements and notes, set out on pages 19 to 62 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 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001: and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 29 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the company and those controlled entities pursuant to ASIC Class Order 98/1418.

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



Laurence G Cox
Director



Thomas Stianos
Director

Signed at Melbourne this 25th day of August 2003

Independent Audit Report

FOR THE YEAR ENDED 30 JUNE 2003

To the members of SMS Management & Technology Limited

Scope

We have audited the financial report of SMS Management & Technology Limited ("the Company") for the financial year ended 30 June 2003, consisting of the statements of financial performance, statements of financial position, statements of cash flows, accompanying notes 1 to 35 and the directors' declaration set out on pages 19 to 63. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.


The audit opinion expressed in this report has been formed on the above basis.

Audit opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


KPMG


Don Pasquariello
Partner

Melbourne
25 August 2003

Shareholder Information

AS AT 30 JUNE 2003

The shareholder information set out below was applicable as at **18 August 2003**.

A Substantial Shareholders

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

Substantial Shareholders

	Ordinary Shares	
	Number Held	Percentage %
D Lloyd Roberts and associated interests	45,543,105	14.5
Macquarie Bank Limited and interests	27,656,233	8.8
National Nominees Ltd	16,080,933	5.1

B Voting Rights

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

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

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

C Distribution of Equity Securities

(a) Analysis of numbers of equity security holders by size of holding:

	Ordinary Shares
1-250	931
251-500	1,811
501-1,000	3,291
1,001-2,000	2,870
2,001-5,000	2,994
5,001-10,000	1,553
10,001-100,000	1,607
100,001 and over	210
	<hr/>
	15,267

(b) There were 9,031 holders of less than a marketable parcel of 2,273 ordinary shares.

On-market buy-back

There is no current on-market buy-back.

Shareholder Information

AS AT 30 JUNE 2003

D Equity security holders

Twenty largest quoted equity security holders as at 18 August 2003.

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares
Riotek Pty Ltd	33,654,000	10.72
National Nominees Limited	16,080,933	5.12
Macquarie Direct Investment B Limited	13,873,056	4.42
Macquarie Direct Investment A Limited	13,783,177	4.39
MGB Equity Growth Nominees Pty Limited	12,975,637	4.13
Peter Doyle & Associates Pty Ltd	10,278,830	3.27
JP Morgan Nominees Australia Limited	10,014,911	3.19
Glennfield Pty Ltd	9,000,000	2.87
Larison Pty Ltd	5,781,700	1.84
Larison Pty Ltd	4,710,810	1.50
ANZ Nominees Limited	4,703,599	1.50
Riotek Pty Ltd	4,512,000	1.44
Commonwealth Custodial Services Limited	3,847,054	1.23
RBC Global Services Australia Nominees Pty Ltd	3,659,434	1.17
Mr D Lloyd Roberts	3,578,370	1.14
Mr Steven Bryce Outtrim	3,390,000	1.08
Queensland Investment Corporation	2,963,331	0.94
Mr David George Ford	2,852,529	0.91
Westpac Custodian Nominees Limited	2,464,414	0.78
Niako Investments Pty Ltd	2,417,867	0.77
	164,541,652	52.41

Shareholder Information

AS AT 30 JUNE 2003

Unquoted equity securities

There are no unquoted fully paid or partly paid ordinary shares as at 21 August 2003.

	Options Held
Options issued in July 2001 to Directors after approval by shareholders on 25 June 2001	1,600,000
Options issued on 28 October 2002 to the Managing Director after approval by shareholders on 28 October 2002	750,000
Options issued to the Chief Executive Officer pursuant to the SMS Management & Technology Limited Employee Share Option Plan prior to appointment as a Director	390,000
Options issued pursuant to the SMS Management & Technology Limited Employee Share Option Plan in which no person holds more than 20% of the options and excluding Directors	11,521,700
Options pertaining to employment contracts which are exercisable at various prices, with various expiry dates and in which no person holds more than 20% of the options	3,588,000
	<hr/> 17,849,700

Corporate Directory

FOR THE YEAR ENDED 30 JUNE 2003

Corporate Directory

Registered Office:

Level 18, IBM Centre

60 City Road

Southbank VIC 3006

Australia

+61 3 9696 9700

Share Registry:

Computershare Investor Services Pty Ltd

Level 12

565 Bourke Street

Melbourne VIC 3000

Australia

+61 3 9611 5711

Auditor:

KPMG

161 Collins Street

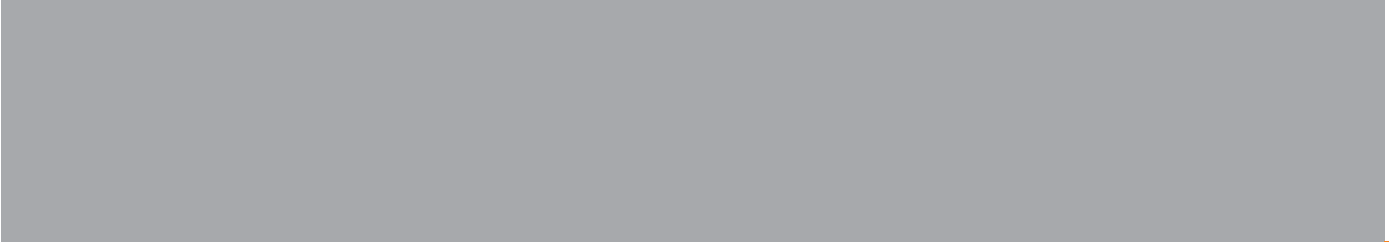
Melbourne VIC 3000

Australia

+61 3 9288 5555

Company Secretary:

Vivian Clark





SMS

www.smsmt.com