



ANNUAL REPORT 2001



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Company Secretary

Alan M Boyd

SMS Management & Technology is a leading IT services and business management company with major clients in the private and public sectors. Project Management and Systems Integration are the cornerstones of our business and we have built our reputation on excellence of delivery and value for money.

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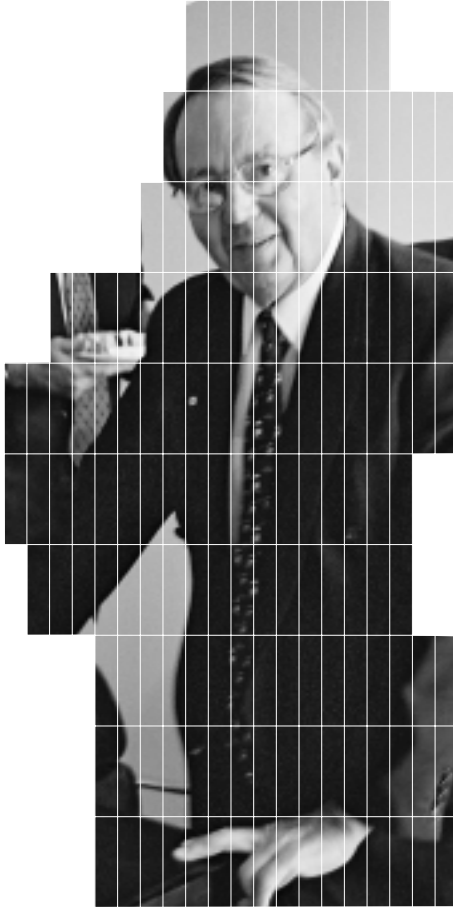
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**CHAIRMAN'S AND
CHIEF EXECUTIVE OFFICER'S REPORT**



D Lloyd Roberts
Chief Executive Officer



Laurence G Cox AO
Chairman



HIGHLIGHTS OF THE YEAR

The financial year ending June 2001 was one of rationalisation and consolidation. In the aftermath of the technology industry shake-out the acquisition of SMS Consulting Group Ltd injected a workable structure into the publicly listed company that was Sausage (the Company) and eradicated many of the problems that existed at that time. The new Company emerged as a stronger, more viable company.

DURING THE YEAR

- the Board was restructured and strengthened with the addition of three non-executive directors
- Lloyd Roberts was appointed Chief Executive
- a new management team with many years of experience in the information technology industry was installed
- the Company was turned around from one that was losing money in the first half of the year to positive EBITDA in the second half
- unprofitable products and services were rationalised resulting in a clear focus for the Company
- staff numbers were reduced
- the Company changed its name to more closely reflect its core business

The name SMS Management & Technology Limited (SMX) was chosen to leverage off the superior reputation of the SMS brand in providing quality management and information technology delivery and integration services to government and business enterprises.

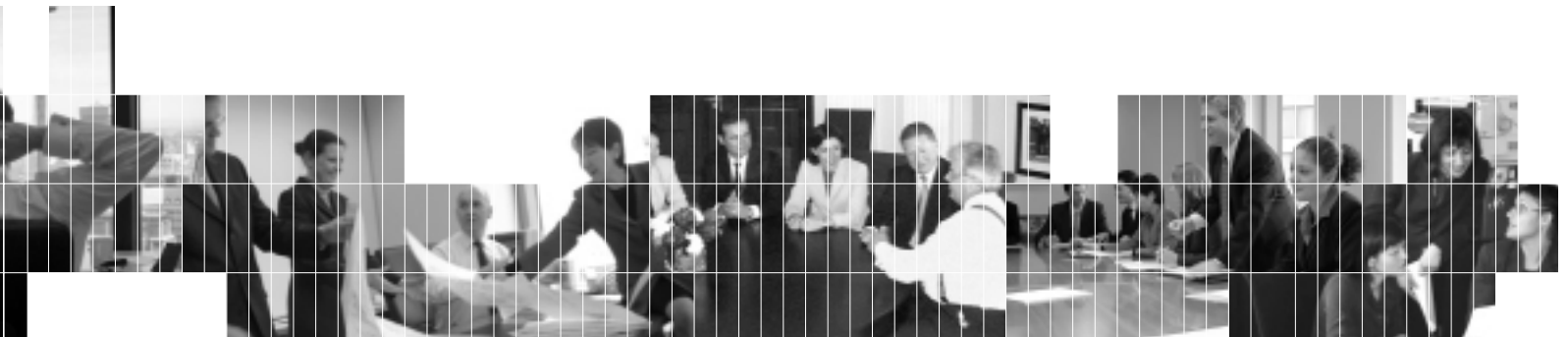
The first half of the financial year was heavily directed towards the integration of the former Sausage and SMS. Management emphasis was on delivering shareholder value by concentrating on the core business.

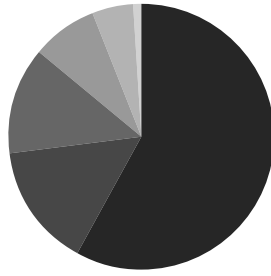
The Company takes the view that the interests of shareholders are best served by a highly focused approach to building businesses. The following guidelines were vigorously applied in rationalising our business during the year:

- Is the product or service consistent with our core capability?
- Are the culture and values consistent with the culture and values set by the Company?
- Is the business delivering an acceptable level of profitability?
- Is there strong, experienced management in place that is committed to the business?
- Does the business generate sufficient cashflow to be self-sustaining?
- Does the business have significant prospects for growth?

These principles continue to be used and will guide the Company when considering potential investments in current or future products and services.

Consistent with the emphasis on shareholder value internal governance was strengthened with a reformed board from May 2001. This included the introduction of strategic investors signalling a vote of confidence in the Company and its future.





■ SMS	58%
■ M&T RESOURCES	15%
■ PRONTO	13%
■ METHOD	8%
■ GMD & TRIBAL	5%
■ INTERNET PRODUCTS	1%

FINANCIAL RESULTS

It was pleasing to see positive results beginning to flow through from the restructuring and rationalisation activities that were undertaken in the first half of the year. The business returned earnings before interest, tax, depreciation and amortisation (EBITDA) of \$4.7m in the six months to 30 June 2001, compared to a loss of \$8.3m for the six months to 31 December 2000. An EBITDA loss of \$8.9m was recorded for the full year, which includes \$5.3m of one-time costs related to restructuring activities during the first half year.

Operating revenue for the year was \$152.6m. Revenue levels were maintained in the six month period to 30 June 2001 even though trading conditions remained difficult during this time. This outcome was achieved by focusing on our core business and key customer relationships.

An extensive review of assets and carrying values was conducted during the year. This led to a writedown of goodwill and other non-performing assets of \$237m. A net loss after tax of \$264m was recorded for the full year.

Overall the financial results were impacted by under performance of certain parts of the business, the extent of restructuring that was required, and the effect of the economic slowdown on business generally.

THE YEAR IN REVIEW

By July 2000 Sausage had absorbed SMS Consulting Group Ltd following an aggressive acquisition program by the Company during the previous 12 months. This coincided with the demise of the 'new technology' sector leaving the Company in need of new strategic directions.

The most likely candidate for a consolidated focus was SMS. As shown in the diagram over half the Company's total revenue was generated by this business. Reliance on SMS is central to both profitability and cashflow.

The business model of SMS was integrated into other areas, eg METHOD, with the aim of building on existing operational capabilities. By June 2001 the Company was concentrating on its core businesses namely SMS, METHOD and M&T Resources. While the economic climate remained subdued this core capability exceeded the revenues of the previous year accounting for 80% or \$122m of revenues for the Company.

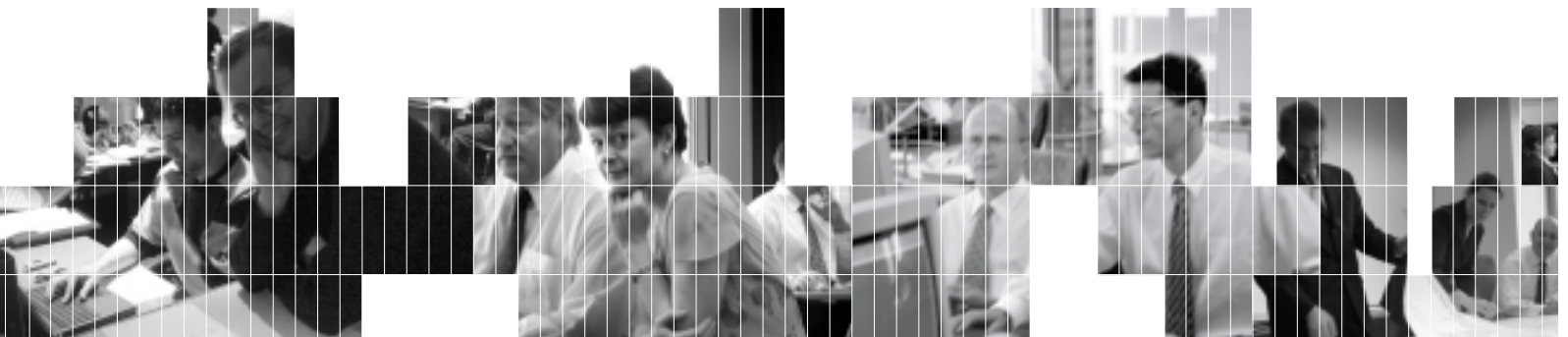
AUSTRALIAN BUSINESS

The original SMS which was established in 1986 had for many years enjoyed a high profile in Australia. From the outset SMS maintained a firm policy of only recruiting people of outstanding ability and integrity.

The unique SMS culture based on equality and trust was nurtured over the years and now exists across the entire Company. The successful establishment of our overseas offices can be directly attributed to the adoption of the original Australian SMS model.

There are currently five SMS offices operating across Australia, the most recently established being Perth. Melbourne is the longest established office (1986) followed by Sydney (1989), Canberra (1995) and Brisbane (1996). Each office operates independently on a day to day basis and shares its intellectual property. Consultants are generally assigned to home based projects but when the need arises can be available to assist their interstate associates.

In spite of the economic downturn the Company has continued to win significant new business within its traditional client base of banking, government, utilities and telecommunications. It has also expanded into new business areas of health, manufacturing and transportation. Such expansion proves that while times are difficult there is still business to be won for companies like SMS with a successful track record of delivering quality results in a timely manner.



AUSTRALIAN BUSINESS (CONTINUED)

Melbourne remains the largest office in the Company and understandably has the broadest range of clients across most industries. During the year Melbourne established several key alliances with organisations in recognition of the growing trend for clients to engage consortiums to undertake major projects. In this era of globalisation few companies have the depth and breadth of expertise on the scale required to undertake these initiatives.

Sydney is increasingly winning work in cost reduction projects whereby clients are seeking to improve the level of measurable performance. This is a clear recognition by our clients that SMS is not restricted only to technology related work.

The Canberra office has extended its presence in the Defence sector particularly in the architecture and systems development fields. This, together with our inclusion on several major Defence panels, has us well positioned to enter into a co-sourced relationship with Defence to deliver major projects.

A highlight in the year for Brisbane was directing and managing the establishment of a National Contact Centre for a large Queensland utility. The centre has already been nominated for a number of awards relating to innovative facilities, technology and communications.

During the year the Company strengthened relationships with its clients and has positioned itself to capitalise on the expected increase in demand for services when economic conditions rebound.

INTERNATIONAL

In October 2000 an office was opened in Singapore. We have been pleased with the early results. Following the successful establishment of the office in London in 1998 we take this as further evidence that our business model is transportable to offshore environments. Our experience in the banking and finance, and telecommunications industries particularly provides a sound basis for entering markets in Europe and Asia-Pacific.

Revenues from international operations comprised 7% of total revenues for the year. Together with our offices in the UK and Singapore further selective expansion will see an increase in the proportion of revenues derived from international operations.

OUTLOOK FOR 2002

Looking forward, trading conditions in 2002 continue to be challenging. Economic conditions globally are uncertain and the outlook for the future is unpredictable. However, we will focus on what we do best. We will provide challenging and fulfilling employment for our staff, build and maintain superior client relationships and through these deliver shareholder value.

We have proved that the SMS business model can be successful in different environments. Since July offices have been extended into Birmingham and Edinburgh. Further opportunities in Europe and Asia will be explored in 2002.

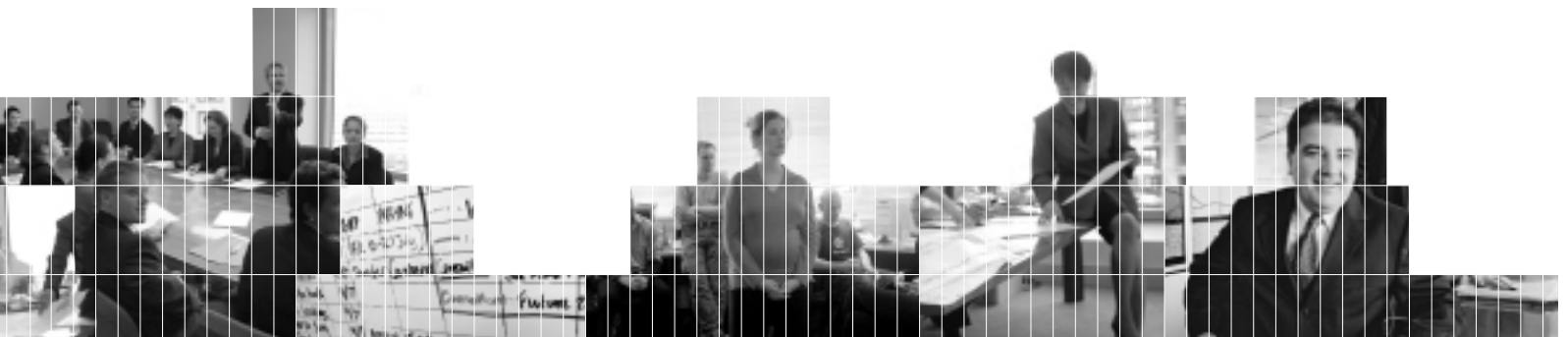
The work undertaken over the last 12 months to restructure the Company and position it as SMS Management & Technology provides us with a sound base going forward. We have a strong management team in place that understands the business. Our people are talented, energetic, and committed to quality and delivering results for our clients. These factors should ensure that we restore value to our shareholders.



Laurence G Cox
Chairman



D Lloyd Roberts
Chief Executive Officer





BOARD OF DIRECTORS

LAURENCE G COX AO CHAIRMAN

Bachelor of Commerce (Melbourne); FCPA; FSIA

Laurie Cox is a director of Macquarie Bank and Co-Chairman of its Corporate Finance Group. Prior to joining Macquarie in 1996 Mr Cox was Executive Chairman of the Potter Warburg Group of Companies. In 1982 Mr Cox was elected to the board of the Melbourne Stock Exchange and was involved soon after with the merging of the six state-based stock exchanges to form the Australian Stock Exchange (ASX). He became Chairman of the ASX in 1989, retaining the post for five years and was also appointed to the international advisory board of the NASDAQ Stock Market. Mr Cox is also Chairman of Transurban City Link Ltd and the Murdoch Children's Research Institute and a Director of Smorgon Steel Group Ltd. Mr Cox was appointed Chairman in May 2001.

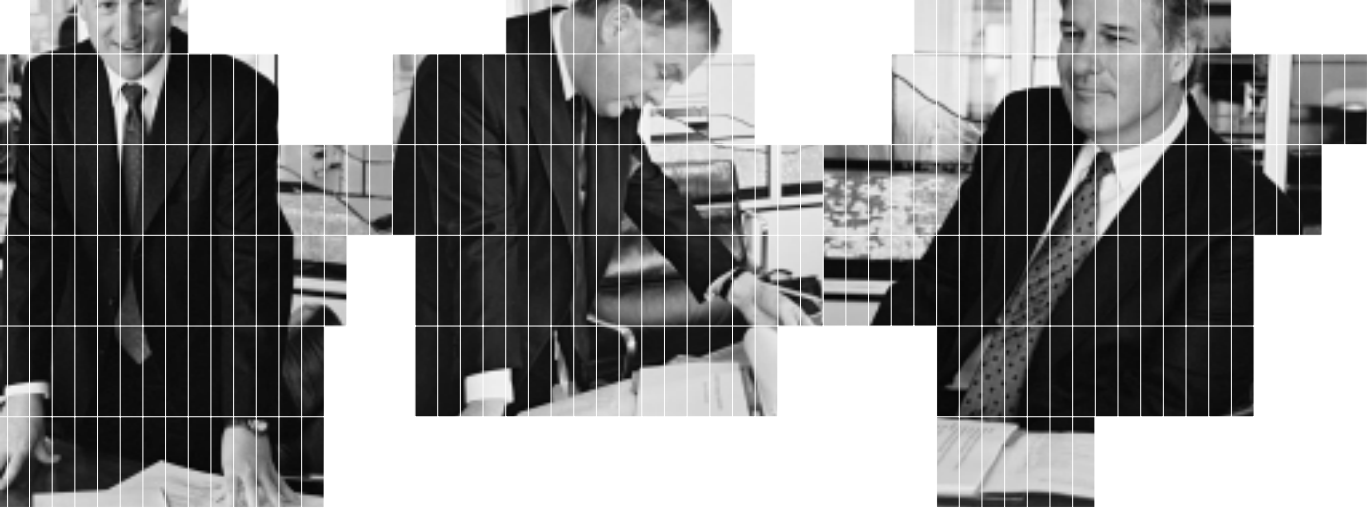
D LLOYD ROBERTS EXECUTIVE DIRECTOR & CHIEF EXECUTIVE OFFICER

Bachelor of Commerce (Concordia, Montreal);
Certificate of Electronic Engineering Technology

Lloyd Roberts was appointed CEO in July 2000. Prior to his current role Mr Roberts was the founder and CEO of SMS Consulting Group the firm he established in 1986. He oversaw the growth of this Company from its original two employees to a company of 700 people including an office in the UK. A Canadian by birth, Mr Roberts emigrated to Australia in the early 1980s when he helped establish a Canadian owned IT management consulting company. His early career was in the banking industry in Montreal.

Earlier this year Mr Roberts was appointed by the Federal Government to the Advisory Panel to steer the development of a new Information and Communications Technology (ICT) Centre of Excellence.





GERRY SUTTON
NON-EXECUTIVE DIRECTOR

Bachelor of Science (Monash)

Gerry Sutton was appointed a Director to the Sausage Software Limited Board in December 1999. Mr Sutton is Executive Director, Telstra Media, Legal & Regulatory and joined Telstra as Managing Director CB Next in the Telstra Convergent Business Group in November 1999. Prior to joining Telstra Mr Sutton spent 25 years with Kodak most notably as Director of Worldwide Sales and Imaging, and President and CEO of Eastman Software (a Kodak Software Subsidiary) in Boston. Mr Sutton is currently a Director on several Telstra boards namely Telstra CB Holdings Limited, Telstra CB Com Limited, Telstra CBFS Limited and Telstra CB net Limited.

BRUCE THOMPSON
NON-EXECUTIVE DIRECTOR

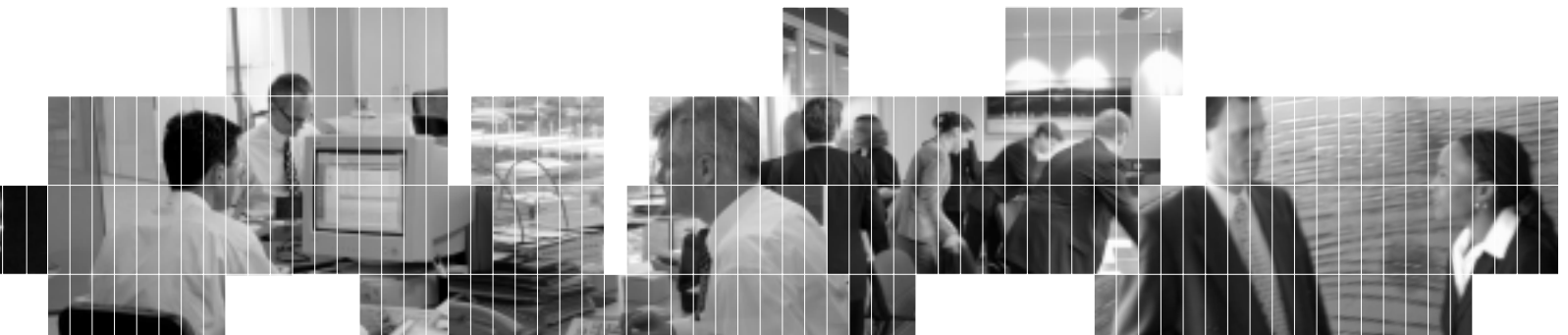
Bachelor of Economics (Monash); FASCP; FAICD

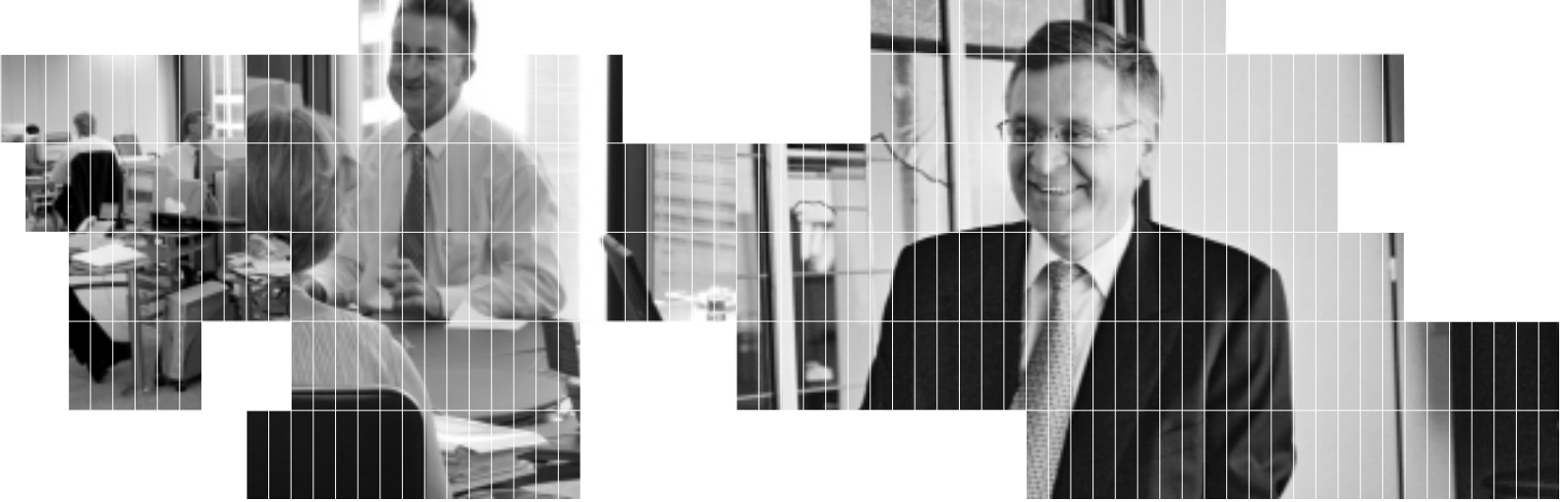
Bruce Thompson is the former Chairman and Managing Director of Hewlett-Packard Australia Limited. He worked with Hewlett-Packard for 32 years in Australia and overseas until his retirement in August 2000. Mr Thompson is Chairman of Innovonics Limited, a publicly listed Melbourne-based IT company and a Director of KeyCorp Ltd. He is a Trustee of the Melbourne Cricket Ground Trust, a member of Senator Alston's Information Economy Advisory Council and a member of the Box Hill TAFE Council. Mr Thompson joined the Board in October 2000.

JOHN MURPHY
NON-EXECUTIVE DIRECTOR

Bachelor of Commerce, Master of Commerce (University of NSW)

John Murphy is Managing Director of MGB Equity Growth Pty Limited – a Sydney based private equity fund. MGB specialises in investing in established corporations with good growth potential and sound management. Prior to establishing MGB, Mr Murphy spent 25 years with Arthur Andersen, including 14 years as a global partner. He held the position of Managing Partner of the Economic and Financial Consulting Divisions in both Australia and the Asia Pacific region. Mr Murphy joined the Board in May 2001.





**SMS MANAGEMENT & TECHNOLOGY
OUR BUSINESS**

AUSTRALIA

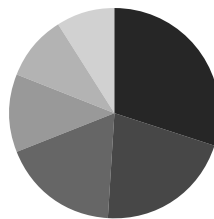
SMS Management and Technology is engaged in a number of projects that capitalise on the synergies between the original SMS, M&T Resources and METHOD.

The weak market conditions have affected results for the year to 30 June 2001. Nevertheless marginal increases in revenue compared with 2000 were achieved. By the fourth quarter of 2000-2001, profitability margins returned to near traditional levels. However demand is not expected to improve noticeably until well into the new year.

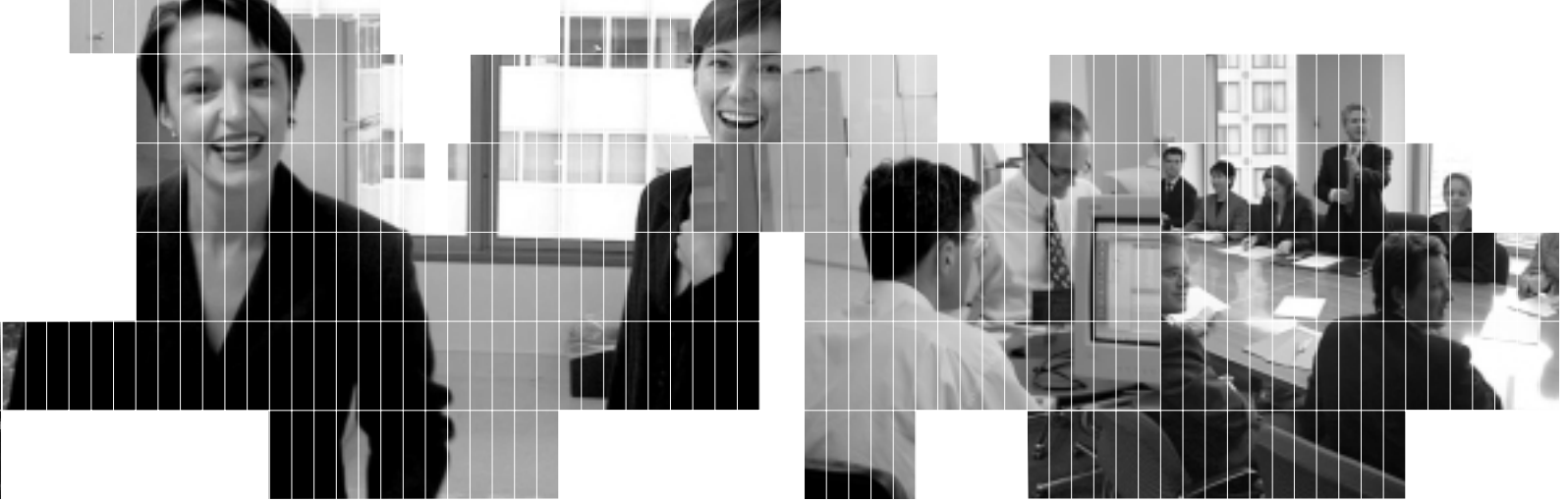
SMS has positioned itself as a project delivery and implementation company. The diagram shows the profile of work undertaken by the Company in this area.

SMS differentiates itself from competitors by specialising in the delivery of business and technology outcomes rather than simply the provision of consultancy advice. This has earned SMS a reputation for being a reliable manager of business projects whether they be the implementation of new information technology, the re-engineering of business processes or the development of strategy and design.

Even in tight market conditions SMS is able to sustain utilisation levels by providing a more cost-effective alternative than its competitors. Our competitive advantage is derived through operating with low overheads, leveraging our tools of trade and intellectual property and by recruiting and retaining outstanding individuals.



■ PROGRAM MANAGEMENT	30%
■ PRODUCT DELIVERY	21%
■ SYSTEMS DEVELOPMENT	18%
■ PROCESS DEVELOPMENT	12%
■ STRATEGY & ADVICE	10%
■ PRODUCT DEVELOPMENT	9%

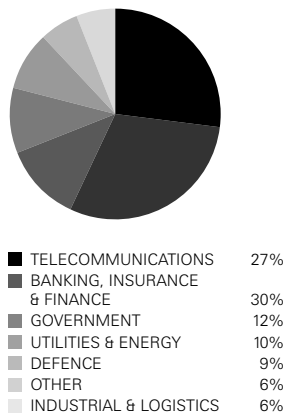


SIGNIFICANT PROJECTS

- Management of the mobile communications infrastructure for the Sydney Olympics and Paralympics
- Management of the largest personnel and payroll system implementation in Australia
- Management of the outsourcing of systems valued at \$200m pa for a large corporation
- Development of a commercialisation and cost reduction strategy for a telecommunications company
- Management of the merger and integration of systems for two separate financial institutions
- Development of a satellite communications network
- Development of innovative Short Message Service data products for a telecommunications company
- Design of major enhancements to the IT infrastructure of two large corporations
- Preparation of a number of electricity suppliers for customer contestability

REVENUE FROM A HEALTHY SPREAD OF CLIENTS

SMS has established deep relationships with many blue chip corporate and government clients. Revenue is derived from a healthy spread of industries as indicated in the diagram.



INTELLECTUAL PROPERTY AND CENTRES OF EXCELLENCE

We have invested in developing our Intellectual Property and repeatable business offerings through our Centres of Excellence and the development of specialty areas of management and technology expertise. These include:

Core Business Services

- IT Management
- Project Management
- Management Consulting
- E-business Development & Integration

Specialty Business Services

- Systems Integration
- Program Management
- Business Transformation
- Enterprise Solutions
- IT Co-sourcing
- Risk Management

FOUNDATIONS FOR GROWTH

The consolidation of the past year, provides a sound platform for continued growth by:

- Further developing business in large systems integration and outsourcing projects and
- Focusing on existing markets where there is considerable scope for further growth (eg Sydney)



UK

Our London office has completed another highly successful and profitable year that has seen a consolidation of the business in London and the opening of offices in Edinburgh and more recently Birmingham. Our business has been active across Europe including work in Germany and Holland and also in Eastern Europe with projects in Slovenia and Poland.

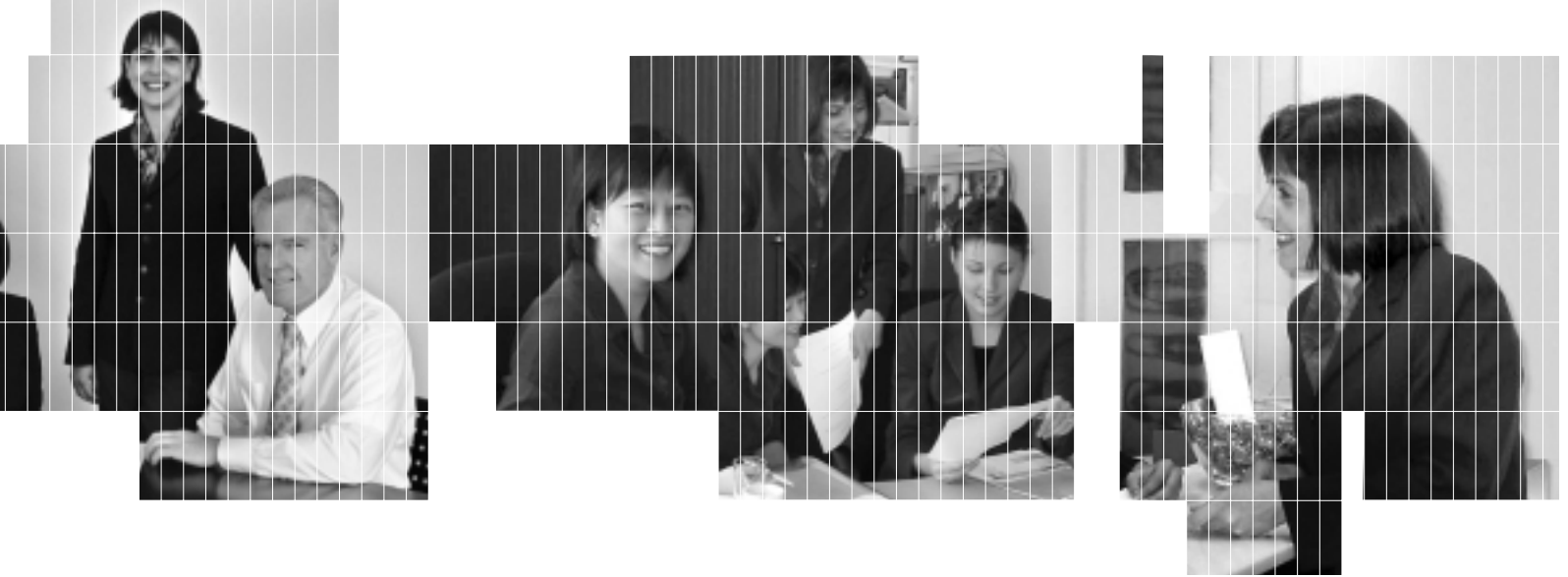
The original client base has remained loyal and has been expanded to include the equities trading company of a major Swiss Bank, a USA company operating in the trade finance market, an automotive supplies company, the Euro Bankers Association, a global finance software company and a European bank.

A wide range of projects has been undertaken that includes operational due diligences for investors involved in acquisitions and developments particularly relating to trading websites. Other activities include business process improvement, major project management, project office establishment, system implementation, white papers on e-commerce and the management of a European wide platform roll-out.

SMS is active in the automotive, payments, banking, insurance, equities and information technology industries. With accreditation by SWIFT, Bolero, Identrus and CLS we are exceptionally well placed to benefit from the emerging cross industry electronic Straight Through Processing. Our aim is to establish solutions for end to end operational effectiveness for our clients.

We have consistently recruited high calibre staff which is reflected in the way clients value our skills and capabilities.

Original plans to expand into Eastern Europe and to the USA on the back of our existing relationships and work with USA clients, will need a more cautious approach and may need to be delayed. The uncertainty generated by recent world events will have a major effect on the economies of all potential candidates for expansion and the USA in particular. Our first significant overtures have been made to the UK Government where we have suggested an approach to the streamlining of generic processes to maintain the competitiveness of British industry and reduce vulnerabilities.



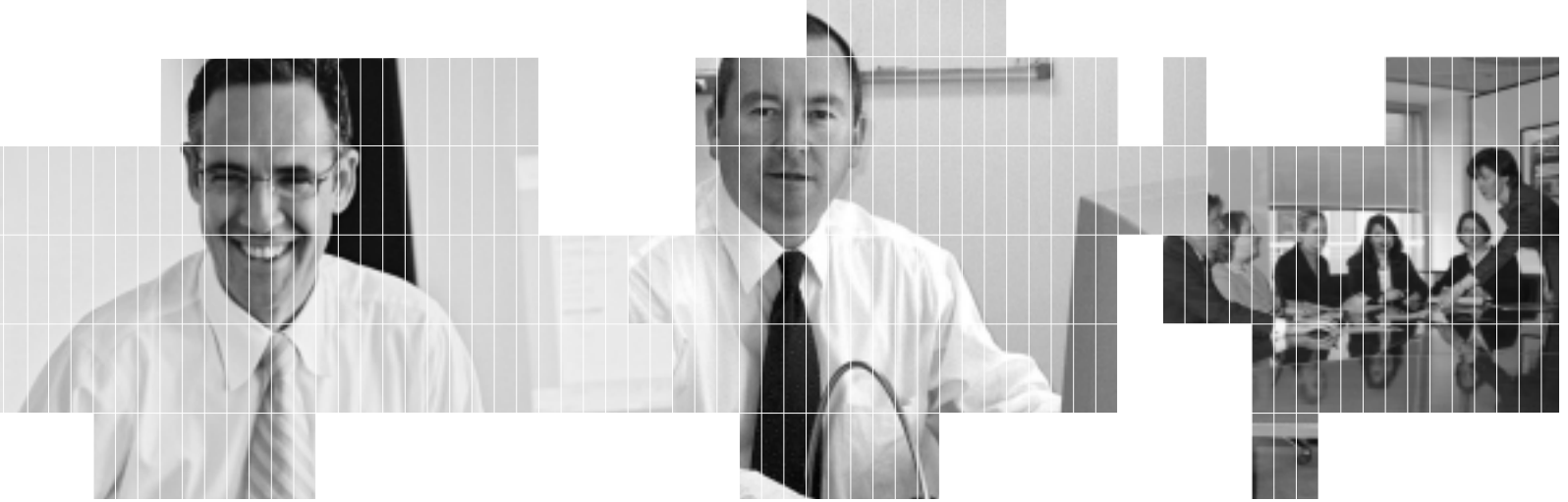
SOUTH EAST ASIA

Our Singapore office has achieved a satisfactory start to its operations, recording revenues of \$1.3m since the office was opened in October 2000. The focus is on the traditional consulting business and, when an appropriate opportunity presents itself, our e-business and integration services.

The strategy in Asia is to establish businesses in relatively safe and stable markets and to pursue opportunities in other countries. Prospects are being pursued in Bangkok with China being a potential source of opportunities over the next twelve months.

In the Asian environment business opportunities will arise from the development, change and deregulation of various industries. The banking and finance industry is undergoing rationalisation through mergers and financial institutions are upgrading existing infrastructure and systems to meet competitive and regulatory pressures. Expansion of the telecommunications sector will continue across the region and several countries are deregulating their utility industries. SMS is well positioned to service these industries, given our long history of working with clients in banking and finance, telecommunications and utilities.

Recruitment has proceeded on a satisfactory basis and we have established an excellent team of local and expatriate staff. Where necessary Singapore staff have been augmented by consultants from Australia and the UK.



METHOD

During the year the Company consolidated its development operations to form METHOD, a solutions delivery business specialising in e-business application development and systems integration.

METHOD leverages the strong synergies across the Company to form solutions teams to deliver on the most complex and challenging projects. An example is netwealth.com.au, a state-of-the-art wealth management system for Australian investors. SMS business analysts and project managers worked with METHOD solutions architects and developers to successfully deliver the project which covered a number of geographic centres and involved a number of IT vendors.

In the past year METHOD has been engaged to deliver on large scale e-business projects for some of Australia's largest corporations including Telstra, ING, Woodside and Chevron.

While the initial demand for web development services softened during the year, demand is expected to grow for enterprise e-business solutions and integration of applications both within an enterprise and externally to suppliers and distributors. Enabling technologies such as XML will play an important part in the many integration projects that will ensue.

METHOD aims to be the leading e-developer and integrator in the region providing e-business solutions to corporations and government and across industries including financial services, telecommunications, health, media and the resources sector.

M&T RESOURCES

M&T Resources was formed by the merger of SMS Contracting and Savant Data Networks. This union created an IT&T contracting and recruitment business employing twenty recruitment professionals across all major cities in Australia, with access to a database of 5000 IT professionals.

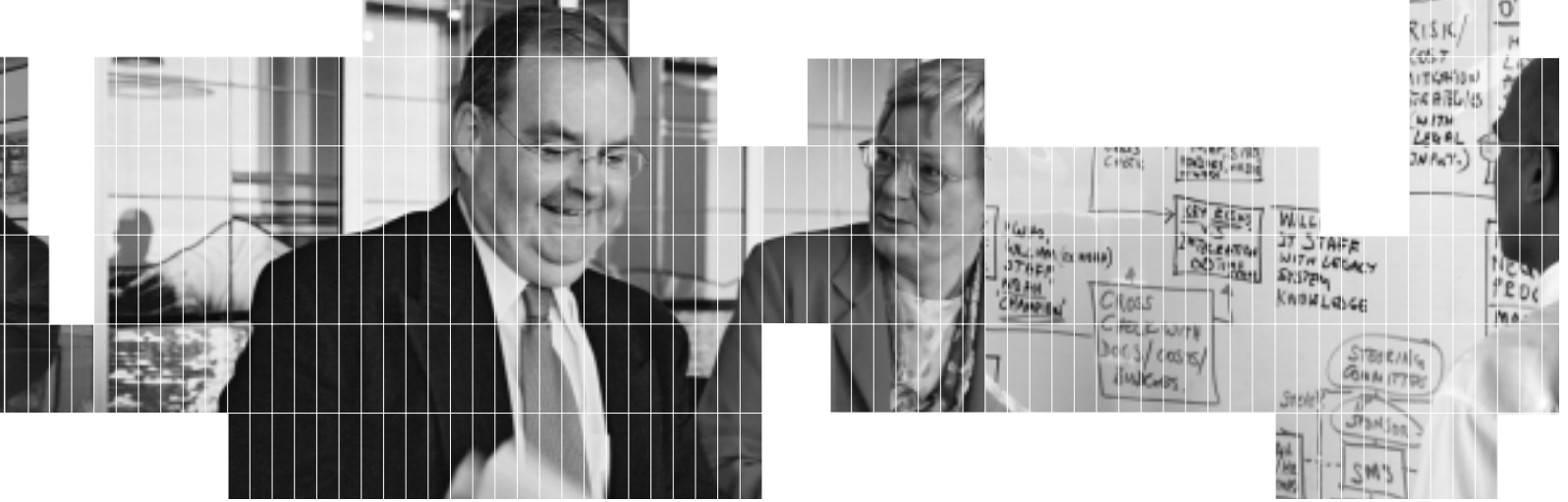
The business is nationally focused with its own unique corporate identity. As well as leveraging its traditional business synergies within SMS, M&T Resources is targeting new contracting and permanent opportunities in selected market segments.

We have developed a national client database, identifying major opportunities for M&T Resources to become a recruiter of choice to these organisations via preferred supplier panels.

Other strategies for growth in the year ahead are twofold:

- Increase our penetration within existing clients via established relationships
- Target new clients who share our values of teamwork, professional ethics and commitment to delivering quality results

M&T Resources is determined to be different. We work with our clients to gain a clear understanding of their business and resource requirements thus maximising our potential to find the right person. Our recruitment professionals work in a collegiate environment and ensure that the interests of our clients are never compromised. M&T Resources is in the truest sense a business partner to all our clients.



PRONTO

In a world that has changed significantly over the past year PRONTO has been at the forefront of technological advances. The success of PRONTO lies in its ability to provide real-time integrated modules for both large global organisations and small businesses.

Revenue for the past year was derived from a result of sales in four key areas – software, services, maintenance and hardware. The introduction of e-commerce functionality provided clients with not only the traditional ERP modules but also with tools to be able to present their products to a wider audience. During the past year we also secured an alliance with a major supplier of middleware, Software AG, which will expedite the connectivity of PRONTO to a wider range of devices anywhere, anytime. The year 2001 saw the consolidation of our USA operation which has also established a distribution network. Existing channels throughout Asia and the UK continued to expand an already sizeable client base with a steady sales stream.

The revenue for services grew with the implementation of many large projects. PRONTO Software, with its philosophy of providing a total solution, boasts a large professional project team to service its clients. This team provides resources in terms of consulting, training and implementation.

The outlook for the forthcoming year is encouraging as we attempt to expand our global network. Continued software development and expansion of our alliance network will see growth in the four key areas referred to above. PRONTO's continued growth is evidence of the recognition of the quality software and services it provides to the Australian and international business community.



SAUSAGE SOFTWARE

Sausage Software Internet Products, Business in a Box (BiB), the HotDog suite and Zeo Works were the only products to which a commitment was maintained during the year.

At year-end the status of these products was as follows:

- Business in a Box did not live up to expectations and at year-end the Company was seriously considering its options.
- The development and beta testing of Zeo Works (an email messaging engine) continued late into the financial year and was successfully trialed with selected customers for permission-based marketing. The engine is now stable and available for inclusion in broader customer solutions as reusable intellectual property.
- HotDog, the Sausage flagship product, continued as one of the most popular web authoring tools and remained profitable throughout the year. However with sales at less than 1% of total Company revenues and a significant R&D effort required to simply maintain its position, the Company was reconsidering its commitment to the product.

GMD

During the last financial year GMD experienced growth due to a renewed emphasis on business development and process management. This growth reinforced GMD's position as one of the leading postproduction companies in the Asia Pacific region, deriving 40% of its revenues from overseas markets.

Significant work produced by GMD during the year included:

- A high profile, global branding campaign for Computer Associates International Inc and
- The design and production of the new Hoyts title sequence

During the year GMD won seven awards at the International Broadcast Design Awards held in Miami.

GMD's Broadcast Design and New Media Unit continues to develop in the areas of branding strategy, design and programming with a view to extending into interactive markets.

TRIBAL

Tribal is a media production house.

One of the most successful projects completed by Tribal during the year was the branding and interface design for Pacific Online titles: Girlfriend, TV Week, TV Hits, K Zone and Home Beautiful. Tribal provides video and presentation needs for the Company, TV Commercial production, corporate communication production and interactive development.

CORPORATE SERVICES

The year saw considerable investment by Finance in new systems and processes which will facilitate further growth in the years ahead. SMS completed implementation of:

- new infrastructure for IT support
- uniform financial systems covering all businesses in the Company
- practice management systems
- knowledge management systems and processes

The development of a new corporate strategy emphasised the importance of focusing on core business. As a consequence the Company has embarked on a program of divesting non-core businesses and closed down unprofitable ones. A stringent criteria for evaluating potential mergers and acquisitions was put in place and continues to be used for assessing opportunities. In line with the new corporate direction the placement of shares to Macquarie Bank and MGB was completed.

The decision to change the Company name during the year required a new corporate logo and branding image. Marketing material and stationery was redesigned while the Company Intranet was repurposed to cater for a larger user base. The process will be completed later in 2001 when a new corporate website is launched.

METHOD also rebranded during the year creating a new logo, website and marketing material.

A Company-wide staff newsletter was launched which showcases business activities across the organisation.



OUR PEOPLE

Ask our people why they like working for SMS and the likely answer will be 'the people'. Our people are our most valuable asset and are the major contributor to the success of our Company.

The past year has been difficult for most of our employees. While the integration of several businesses, most notably SMS Consulting Group, was a sound commercial move it impacted on our people in various ways. Many people were concerned that the integration of their business would dilute their own Company's distinctive characteristics as each had its own history, culture and values.

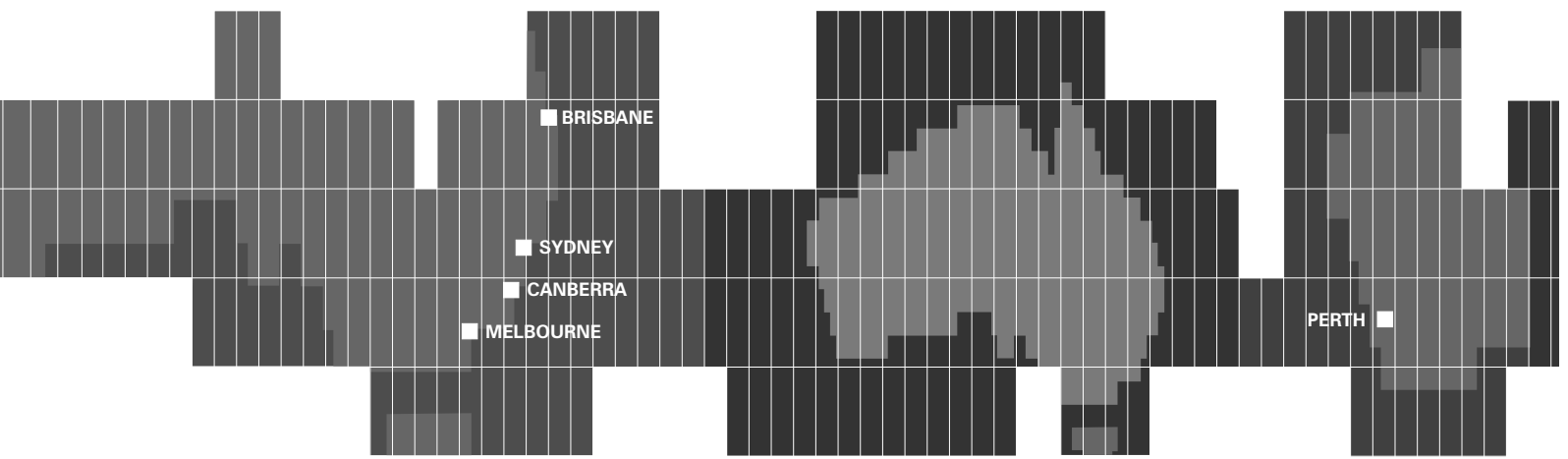
A number of people left the Company during this period resulting in a leaner and more focused workforce prepared to support the new management initiatives introduced by CEO Lloyd Roberts. It is to our people's credit that they maintained their commitment throughout an extraordinary period in which the Company rationalised a number of disparate businesses, expanded internationally, survived the 'tech wreck' and rebranded.

What has become apparent during the past year is that regardless from which part of the organisation people came, they share similar values. These values form the basis of the unique culture that exists in the Company today.

The SMS culture is one of friendliness and support to fellow employees and clients. It is a culture that nurtures and rewards people who consistently add value to the Company. It is a culture that has at its core, values such as openness, honesty, integrity and ethical behaviour. It is a culture that encourages caring about the wider community.

This unique culture attracts outstanding individuals to the Company and provides an underlying personal connectivity for all our people across the Company. This will be the one constant for our people as we continue to grow, change and move towards our goal of being a leading management and technology company.

SMS Management & Technology is now a united group of hard working and committed professionals. From the young energetic and talented technicians to the mature experienced management executive, our people are helping to build a bigger, better SMS.



BUSINESS OUTLOOK

AUSTRALIA

There was a reduction in new projects during the year to 30 June 2001. This was largely due to many projects being brought forward into the previous year as part of Y2K and the introduction of systems to cope with the GST. Following completion of the GST work, demand dropped significantly and remained flat for most of the year until the June quarter. By the last quarter of the financial year there were signs that the Australian IT market was firming.

The economy improved in the June quarter and was showing more strength than many other parts of the world. Many clients had new IT projects in the pipeline however some have been postponed due to uncertainty about the world economy. This has created a situation where there is a backlog that will fuel demand for IT services when sentiment about the world economy improves. This underpins a robust mid-term outlook although the short-term trend remains unclear.

The Company has a healthy spread of work in Australia both in terms of geography and industry. Industries where SMS has a particular focus include:

- Telecommunications
- Financial Services
- Health Care
- Defence
- Government
- Utilities

The Australian IT market has seen significant outsourcing of IT infrastructure. Increasingly, the market is requiring IT services firms to deliver tightly bundled services including systems integration, applications integration, management and outsourcing. Demand for these services is complemented with a number of common 'enabling technologies' in addition to business-specific applications. SMS has established capabilities to offer services in these enabling technologies, which cover:

- Enterprise Application Integration
- Customer Relationship Management (CRM)
- Supply Chain Management
- Security
- Mobile and E-commerce

CRM is not expected to be a significant driver of demand as was the case with Enterprise Resource Management (ERM), however all these technologies complement SMS's core services of project management, program management and systems integration. These are particularly relevant to the longer-term growth from systems integration and outsourcing. SMS has adopted the innovative outsourcing offering termed "co-sourcing" which gives clients greater flexibility while leveraging the benefits of traditional outsourcing.

Industry sources have projected the following annual growth in Australia over the next five years:

SERVICE AREA	GROWTH PA
IT Consulting (Management)	12%
Systems Integration (Implementation)	15%
IS Outsourcing	12%
Application Outsourcing	45%

Historically, consolidation, merger and acquisition of businesses have led to significant demand for traditional SMS project management and integration services. This is expected to be a continuing theme in the Australian business environment.

EDINBURGH

BIRMINGHAM

LONDON

SINGAPORE

EUROPE AND USA

Business in Europe is facing many challenges – highly competitive markets, innovators utilising technology to compete against established business and the move to full monetary union by January 2002. Competition in consulting services is already intense and the market is over-served. The downturn in the USA will have a major effect on current activities and a further reduction in demand should be anticipated.

The effect of these market influences is forcing major change on many industries throughout Europe. The telecommunications industry is facing critical decisions with regard to debt, under performing revenue expectations, the need to continue to develop new services and an investment in cable that is showing little sign of a return in a reasonable period.

The automotive industry is globally over-served leading to tough competition. Over supply is forcing price pressures that provide thin margins. Indeed the major manufacturers make more money out of finance than producing vehicles. The key will be flexibility, distribution and servicing the client not just with their own brand but any brand.

The banking industry is facing many challenges. The advent of Continuous Linked Settlement (CLS) is intended to remove intra-day settlement risk within the international markets. For correspondent banks this can create a liquidity management risk coupled with short cash markets.

The challenges facing banks are a plethora of solutions developed by bank groupings and commercial entities, the emergence of serious “e contenders” and the need to address disintermediation as a serious problem.

CRM, ERP and EDI are seen as key applications that will enable organisations to establish true multi industry Straight Through Processing (STP). Driven by the developing rules of international Internet business supported by the underlying XML formats, it is possible for the various parties involved in real trade to cover all purchase, transport, certification, insurance, payment and delivery in a perfectly secure manner on the generation of a single transaction. This is the market that we believe offers SMS the best opportunity for future growth.

ASIA PACIFIC

The Singapore market is primarily banking and finance followed by telecommunications. The leading local organisations in these industries have been very acquisitive, both domestically and overseas, which should provide additional opportunities for SMS.

Of the more than 5000 multinational corporations (MNCs) in Singapore, many have set up regional headquarters there. The Asian region has tremendous potential for growth, fuelled primarily by China. Furthermore, applications such as ERP and CRM systems will eventually be driven to similar take-up levels as those seen in other areas of the world. The ability to support global clients and their regional offices is seen as key to the development of our business. This is true of our ability to support American, European and Australian multinationals in Asia Pacific as well as supporting Asia Pacific companies elsewhere in the world.

Other countries in the region that present the best potential in the short term are Thailand, Hong Kong and Korea. Opportunities in other South East Asian countries (eg Vietnam) may arise over the short to medium term.