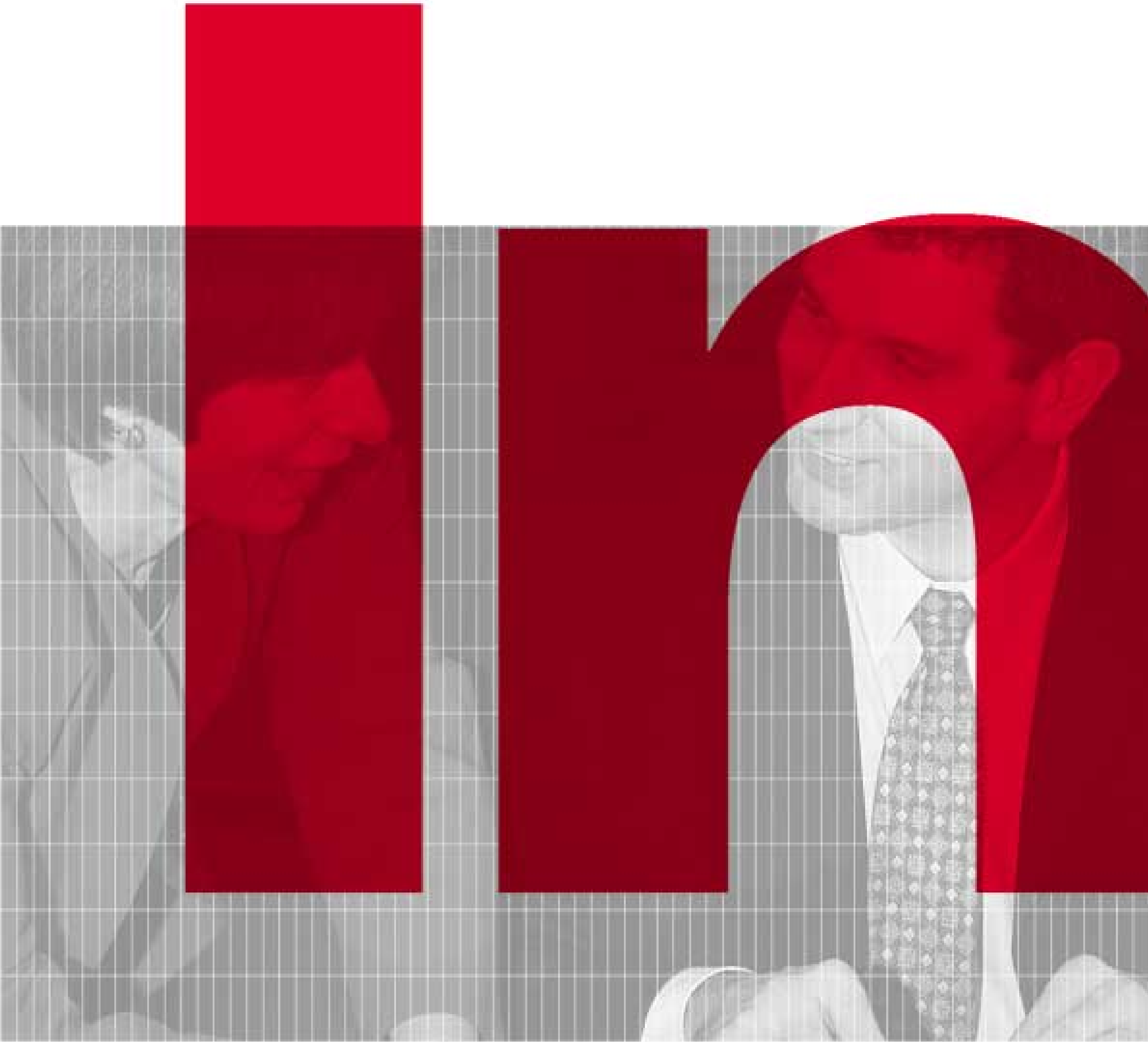
annual report 02

sims

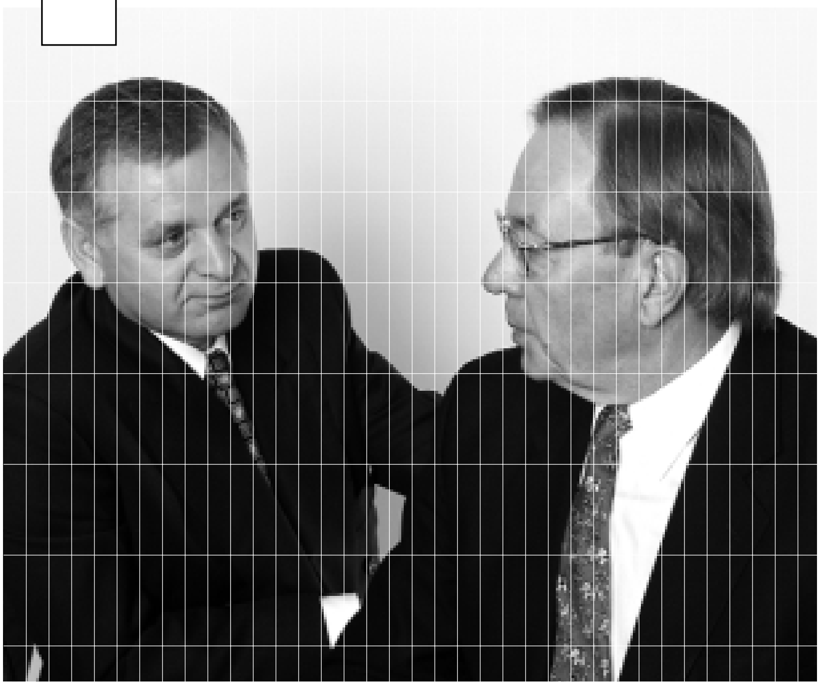


SMS Management & Technology Limited
ACN 009 558 865

Integrity has, and remains, a key issue for the business community. At SMS we have always strived for the highest standards. Clients, shareholders and government agencies understand our objectivity and impartiality. SMS continues to recognise the importance of ethical practices in everything it undertakes. From implementation of a new IT system, or recommending a new management structure, a single word sums up the SMS approach – INTEGRITY.

Contents

Chairman's and Chief Executive Officer's Report



The SMS division was able to increase its market share particularly in the non-telecommunications sector …

The 12 months to June 2002 saw SMS complete its consolidation. The Company now operates three tightly focused and integrated divisions:

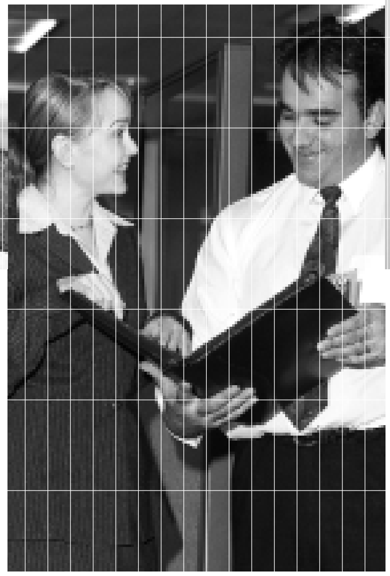
SMS
Management and IT services

M&T Resources
IT contract labour and recruitment

METHOD
Applications development and systems integration

Product businesses have been sold and the Company is now well positioned to benefit from a recovery in IT spending. The financial position is strong with a cash balance of $48m at 30 June 2002. Financial performance has also improved from the previous year delivering positive $9m EBITDA compared with a negative $9m EBITDA in FY2001.

Total revenue for the year was $132m, down from $152m in FY2001. Divested businesses contributed $21m to the FY2002 sales. Revenue from the three core businesses was $108m compared with $122m in the previous year. Much of the decline in revenue was associated with the contraction of demand from the telecommunications sector and in the METHOD and M&T Resources divisions. The SMS division was able to increase its market share particularly in the non-telecommunications sector.



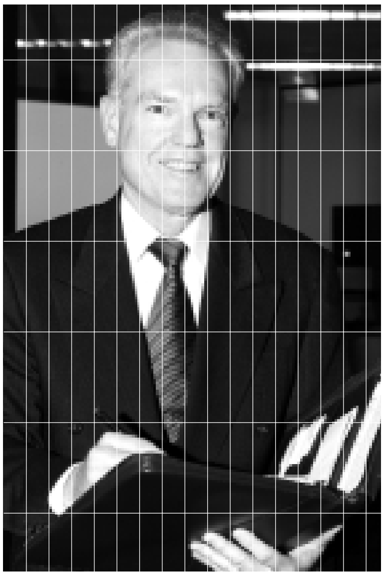
The second half was more profitable than the first despite significant costs involved in divesting non-core businesses and a depressed market. The way is now clear for a stronger performance in the current year.

Some of the significant events during the year include:

- Thomas Stianos was appointed CEO on the retirement of SMS founder D Lloyd Roberts. Mr Stianos was previously the Managing Director of SMS Consulting and a new management structure was established
- We completed the sale of non-core businesses and all costs and liabilities associated with divestments and closures are fully accounted for in FY2002
- Staff numbers have been reduced now that the Company is focusing entirely on the traditional businesses and premises have been consolidated
- A share buy back was commenced as part of a program of capital management. 8m shares were purchased up to 30 June 2002 and a further 13m in the first week of July 2002
- Revenue from the non-telecommunications sector increased resulting from a more diversified client base
- METHOD was restructured (including the closure of the Perth office) and is now more closely integrated with SMS's core business of professional service delivery. METHOD losses were eliminated by year end
- SMS traditional business increased earnings from $12m to $17m in spite of difficult market conditions
- International operations suffered from the market downturn but rationalisation saw an improvement by year end

The second half was more profitable than the first …

Overview of SMS Management & Technology



The Company is now focused on three lines of business that are highly synergistic, service the same client sectors and are well understood by the management team. This consolidates the SMS track record and trusted reputation in these fields.

Company Structure

SMS Management & Technology

SMS

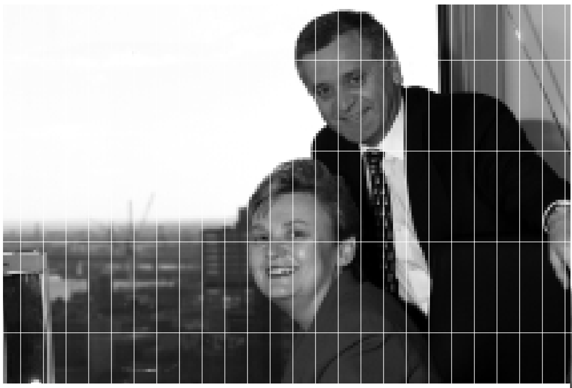
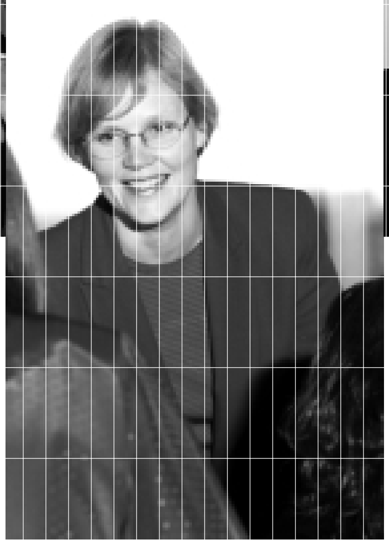
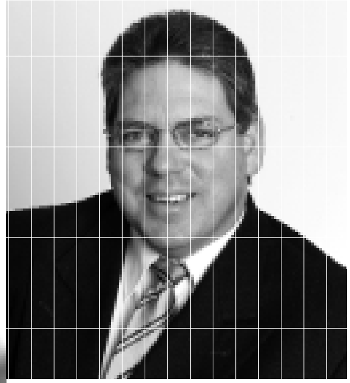
- Project Management
- Information Technology Management
- Management Consulting
  - *Change Management*
  - *Business Strategy*
  - *Business Process Improvement*
  - *Performance Improvement*
- Implementation Services
- IT Strategy & Architecture

METHOD

- Application Development
- E-business Development and Integration

M&T Resources

- IT Contracting
- Project Resourcing
- Recruitment

Management Structure

Chief Executive Officer

Tom Stianos

- Corporate Services/CFO
- Market Development
- People Development
- SMS International
  - Europe
  - Asia
- SMS Australia
  - NSW
  - VIC
  - ACT
  - QLD
- METHOD
  - NSW
  - VIC
- M&T Resources
  - NSW
  - VIC
  - ACT
  - QLD

Sale and divestment of non-core and unprofitable businesses

The following businesses have been sold or closed during the year:

■ HotDog	Sold November 2001
■ Tribal	Sold December 2001
■ PRONTO	Sold February 2002
■ METHOD Perth	Closed March 2002
■ Business in a Box	Closed June 2002

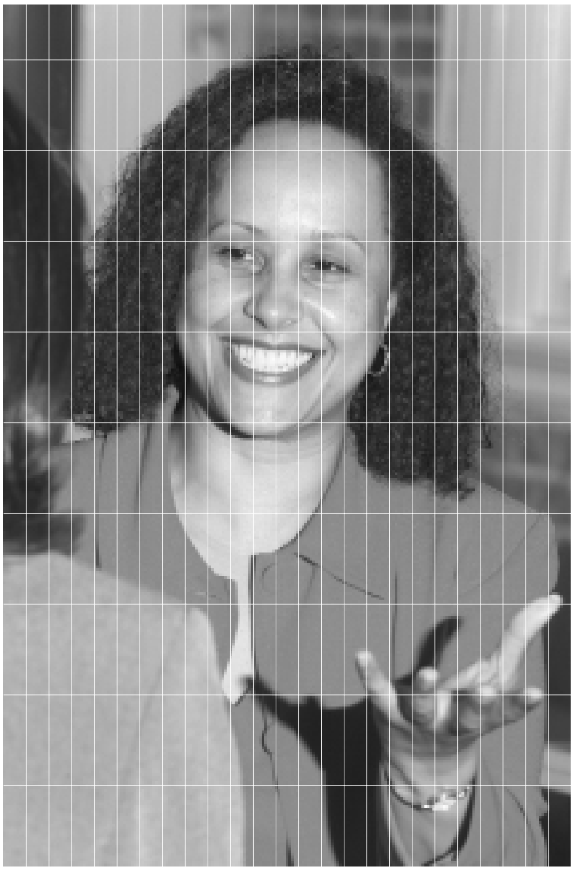
(GMD sold 2 July 2002)

Overview of SMS Management & Technology

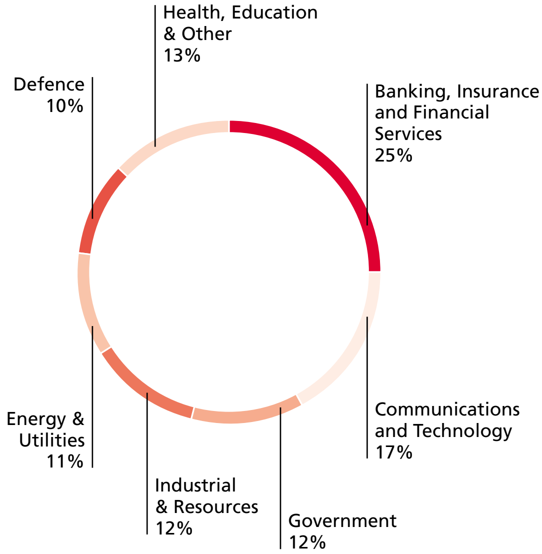
continued

Client base has been diversified

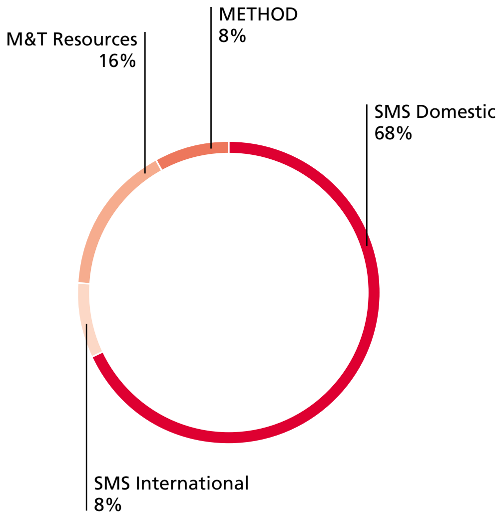
The diversification of SMS's client base has further reduced exposure providing the Company with a stronger business base. Most significant has been the diversification away from telecommunications as illustrated in the chart opposite.



Revenue by industry segment



Sales by Division for the core business



Outlook for FY2003

Demand for IT and management consulting services remains depressed. However SMS is now structured to cope with these difficult conditions. Furthermore, SMS has demonstrated a strategic advantage over its international competitors and we plan to capitalise on our key differentiators, namely:

- More cost effective offering through lower overhead structures
- Market niche exploitation through our focus on excellence in business solutions delivery rather than broader range of work such as audit, legal etc. While SMS offers strategic business and IT services, it is best known as a specialist in project delivery
- High utilisation through emphasis on project work ensuring SMS is able to maintain acceptable margins while offering competitive rates to clients

We are pursuing three strategies to achieve future growth:

1. ***Increased Market Focus***
   In FY2002 underlying revenue from all sectors excluding telecommunications has grown by 23%. In FY2003 we plan to achieve further market share growth through aggressive marketing

2. ***Prime Contract Management***
   With our proven capability in implementing large scale projects we will aggressively pursue this line of business. This will better leverage SMS's project management talent

3. ***Integrated Growth***
   Grow earnings from our established international offices

We aim to be a dominant systems integration and project management company with vigorous international growth.

Overview of SMS Management & Technology

continued

A selection of projects successfully completed by SMS

Service	***Projects Completed***
IT Management	
	Managed the delivery of calling number display system components for a major telecommunications company
	Developed the IT strategy for a large government department designed to meet the needs of 30 different agencies and business units
	Managed a full upgrade program of a UK flagship company of an international insurance group. This covered over £4b in funds under management and 17 unit trusts
Management Consulting	
	Addressed organisation and business process issues at a large paper manufacturing plant
	Conducted a rigorous business evaluation of a government funded support and referral service
	Conducted site surveys for three international banks to assess viability of interconnection with a new international banking service. This assessed Nostro and Vostro transaction processing, liquidity management and payment systems
	Analysed and mapped the business processes for a multinational media services company as a precursor to the implementation of a new ERP system
	Developed a business case for successful implementation of video conferencing technologies into a geographically dispersed client
Project Management	
	Delivered an IT centralisation project for a leading banking organisation
	Provided strategic project management advice for a global oil company outsourcing an international software development project
	Supplied project direction, planning and management for the consolidation of a call centre following the convergence of six regional energy providers
	Project managed implementation of an HR system for one of Australia’s largest employers
	Managed the implementation of new technology products for a broadband service provider
E-business Development & Integration	
	Developed and implemented an Internet and Intranet strategy for a large insurance organisation
	Designed, developed and implemented the largest Intranet management facility in the southern hemisphere
	Developed and implemented an integrated end-to-end online ordering system for an office equipment and supply company
	Developed and implemented an online home loan facility for an international bank
	Developed and implemented an extensive database driven health information website, designed to provide users with quality-assured health information and to allow authorised health professionals to submit, edit and maintain content in their subject areas

A selection of projects successfully completed by SMS *continued*

Service	*Projects Completed*
Systems Integration	
	Successfully managed the integration of two banking systems following the merger of two major banks
	Project managed the delivery of a new SAP accounting system across an organisation's 7,500 users located across Australia, London and Washington
	Assumed a number of key roles in the integration of the information systems of two merged insurance companies involving over 800,000 policies across three lines of business and a team of 200 people
Program Management	
	Program managed a marketing and customer services joint pilot project for a major telecommunications company to establish an integrated inbound/outbound marketing capability
	Implemented an applications project office for a large banking and insurance organisation to provide senior management with a consolidated view of all IT projects occurring across our client's group of companies
	Program managed an e-Commerce team charged with the responsibility of integrating, delivering and supporting content and applications for online channels for a telecommunications company
Business Transformation	
	Managed the transformation of a municipal council resulting in a refocused and restructured organisation
	Worked closely with a government tourism authority to review its existing business strategy. Developed a market-focused business model to position the organisation more effectively and achieve global market outcomes
Risk Management	
	Reviewed processes for providing IT security access and user rights for over 6,000 front line staff for a major telecommunications company
	Worked with a banking client to evaluate a global security strategy to support current and future Internet, Intranet and Extranet applications
	Delivered operational disaster recovery strategies for an international global investment banking firm across Australia, New Zealand, China, Malaysia, Singapore, Korea and Japan
Enterprise Solutions	
	Worked with a large health insurance organisation to manage the business process changes associated with the implementation of a new CRM system
	Facilitated a strategic supply chain review for a national agricultural board so that it could optimise and protect its market from competitive threats
	Managed the largest PeopleSoft implementation in Australia including all aspects of application delivery and business transformation

SMS

SMS Market Differentiation

SMS is positioned as a project delivery and implementation company serving blue chip corporate and government clients. SMS differentiates itself from competitors by specialising in delivery of business and technology outcomes rather than solely the provision of advice. This has earned SMS an enviable reputation for being a reliable manager of business projects whether they involve implementation of information technology, the design of business processes or the development of strategy and advice.

Staffing

Success in this industry is dependent on retaining good people and delivering sound processes and good risk management systems. SMS has a clear advantage not only because of the calibre and experience of our people but because we retain a range of skills. Only 40% of our people have IT backgrounds, the rest bring experience from a wide range of sectors including banking, insurance, government, defence, telecommunications and others.

This blend of capabilities enables SMS to assemble optimal teams which understand a client's business as well as relevant technologies and tools. A further point of differentiation is that today SMS derives no revenue from equipment and systems suppliers. While this means we miss out on revenue from product sales, it maintains our independence.

With the depressed state of the IT market, SMS paused its ongoing recruitment program which allowed staff numbers to reduce moderately through natural attrition. This enabled SMS to continue to achieve good utilisation without having to engage in mass redundancies which were common in the industry.

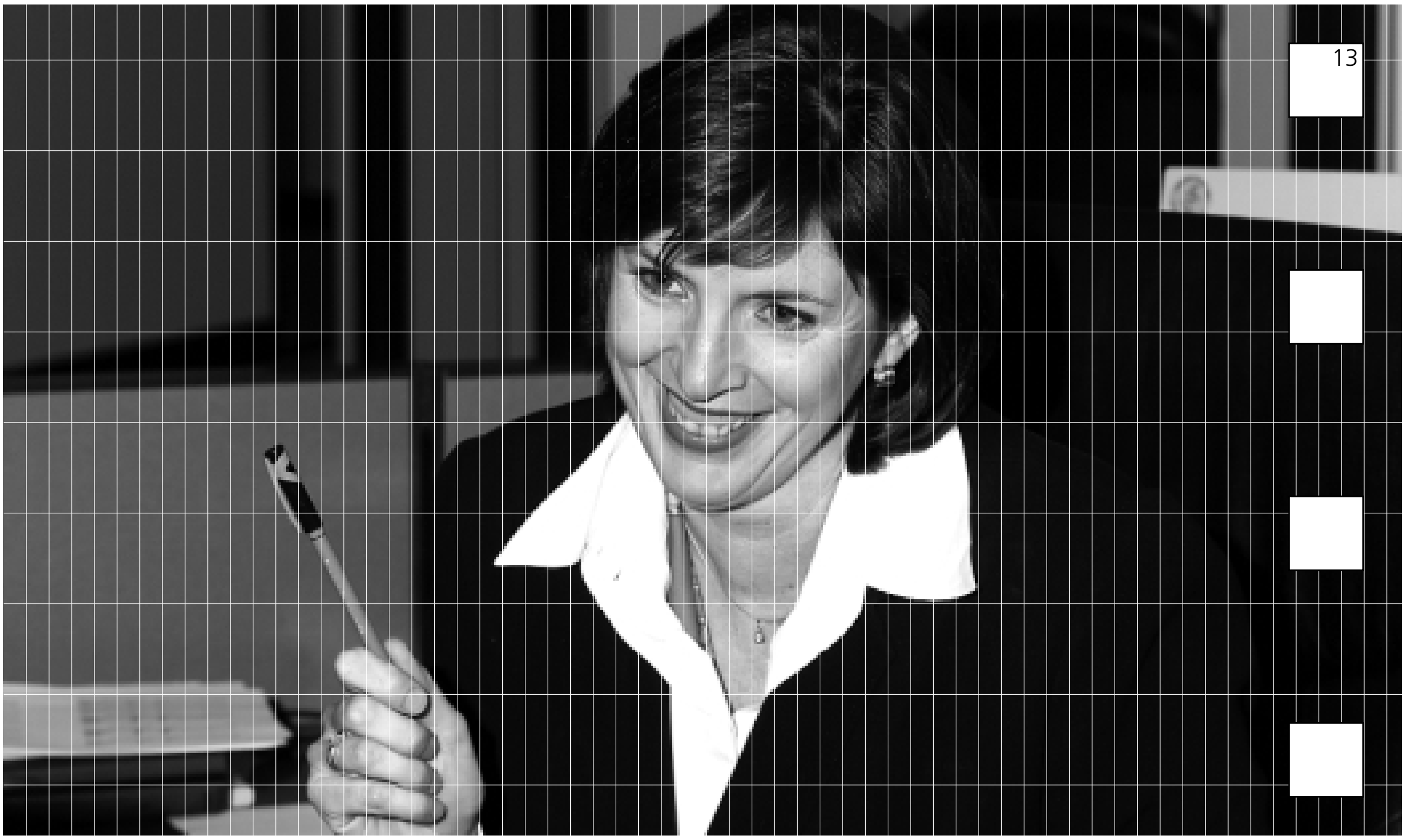
SMS Sector Performance

Resources

SMS achieved significant new sales in the resources sector involving program and project management on global service delivery projects. These have involved managing operations across Australia, USA, UK, Chile and The Netherlands.

Banking and Insurance

Banking and insurance continued to be a major component of our business and has remained so since SMS delivered its first project for the ANZ bank in 1986. During FY2002 SMS was engaged by two of the four major banks, several regional banks and a number of financial institutions. SMS is a preferred supplier with several financial institutions.



Telecommunications

Revenue from the telecommunications sector contracted considerably during the year and was only partly offset by increased sales in other sectors. Nevertheless, this remains a strong service area. SMS received three awards from a major telecommunications company for outstanding performance following our involvement with a project which delivers an online standard operating environment (SOE) across Messaging Payments, Contract Management and Customer Management.

Utilities

SMS has a significant involvement with the utilities sector in all Australian offices. During the year we assisted in the implementation of electricity and gas full retail contestability in Victoria. In Brisbane SMS has been engaged with both electricity generators and retailers with many of the projects requiring our staff to work throughout regional Queensland.

Government

We saw strong growth in both the federal and state government sectors. During the year SMS won a place on the NSW Government Electronic Self Service (ESS) Panel which has led to SMS being engaged by six NSW government agencies. Federal government continues to be a major part of our Canberra business which has not been subject to the economic cycle affecting other offices. Our Brisbane and Melbourne offices also have active government accounts which effectively complement our private sector practices.

Defence

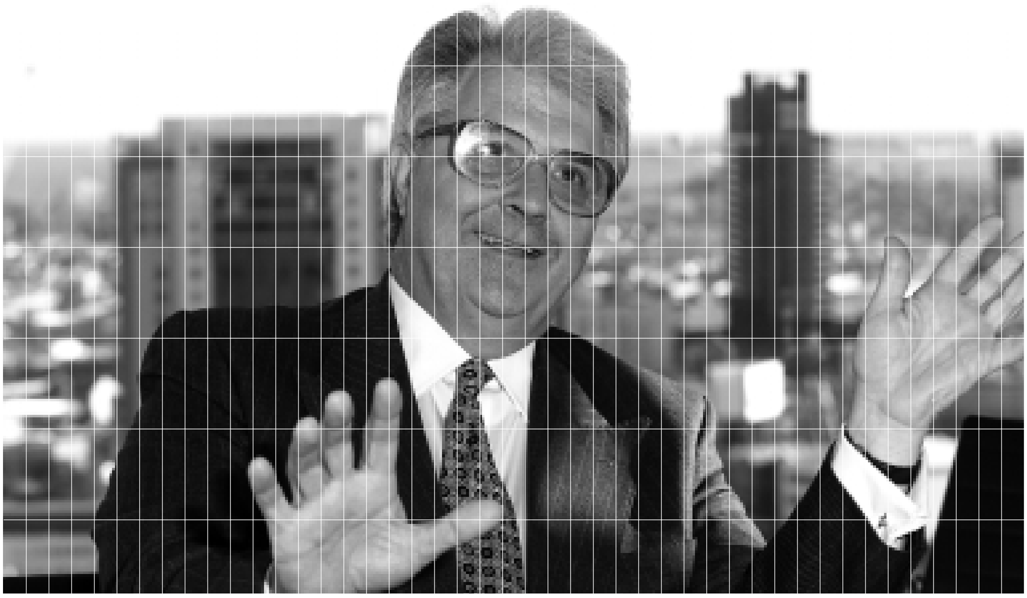
SMS has a strong relationship with the Department of Defence and during the year we helped Defence deliver an integrated personnel system to the Navy and Air Force. The Army implementation will follow in the new financial year. SMS's involvement has covered all phases of project life cycle including requirements, solution selection, project management, testing, data migration and business transition. Other defence projects have covered logistics, program management, materiel management and workplace safety.

SMS International

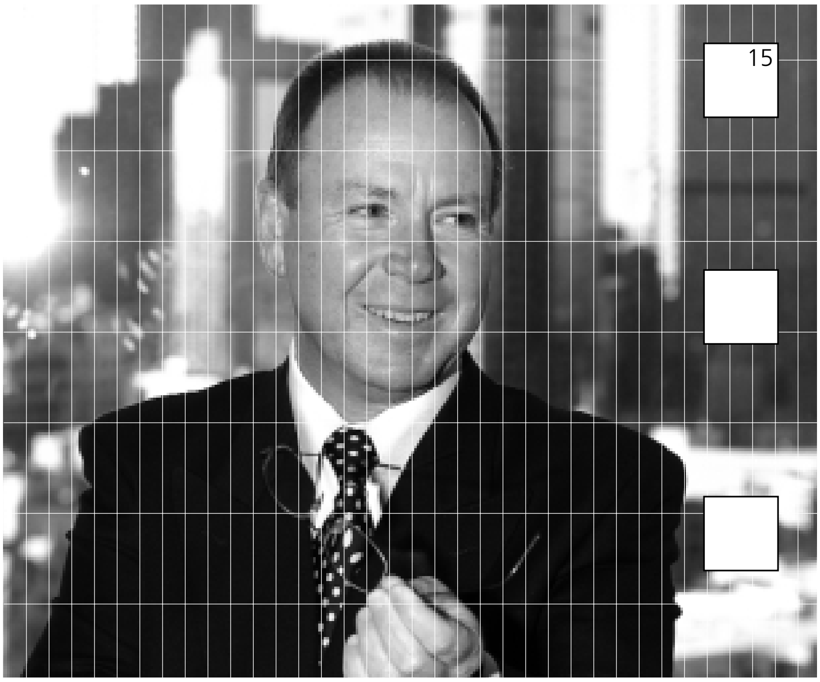
Our London business has a well-established reputation in the banking sector including accreditation with several world standards on bank settlement systems. SMS completed three bank reviews for Real Time Nostro Services (RTNS) contributing $1m in revenue. Current delays in investment decisions among the banks has been deferred. We also see future growth opportunities driven by the Basel Accord, operational risk management and the implementation of Continuous Linked Settlement. We remain confident about the opportunities in the UK and Europe as these markets promise to provide SMS with significant growth in the future.

FY2002 was the first full year of our Singapore business which was adversely affected by the economic contraction of the Singapore economy. Despite the sudden downturn in Singapore, SMS was able to retain its two most important clients, a large local bank and an international financing corporation. In the final quarter of the year we won a 15 month applications development and implementation project that will secure a positive outcome for FY2003.

Our Singapore business now has signed work to underpin its current capacity and is seeking further growth opportunities. Again, we see the Asian region as a source of future growth for SMS and consequently we are taking a long-term perspective on this business. In the meantime our Singapore and London offices are budgeting for a positive EBITDA for FY2003.



METHOD



METHOD specialises in systems integration, e-business development and electronic enablement of core systems.

As the industry demand for web development softened, business focus shifted to electronic enablement and integration with core business systems. Online enablement allows business to increase the value of existing IT assets without having to replace all systems.

METHOD has been restructured in the last 12 months with the introduction of rigorous IT processes and standards. This has helped METHOD achieve profitable operations by year end and successfully refocus its service offering from web development for the SME (small to medium enterprise) market to significant applications development for corporate clients.

The combination of SMS project managers and METHOD solutions architects and developers has delivered strong results to clients. This has also resulted in the size of projects growing from an average of $40,000 to an average of $800,000. Examples include an online mortgage system for a bank and Intranet management facilities for a major telecommunications company.

The Perth office of METHOD was closed as part of the rationalisation of the Group. Although this involved incurring further costs to achieve the close down, it has placed METHOD in a much stronger position going forward. Rationalisation during the year included relocating the Melbourne operation from Flinders Lane into the SMS offices at Southbank. METHOD's target market is now aligned with that of SMS, which includes all levels of government, financial services, telecommunications, utilities and resources.

M&T Resources

M&T Resources is the contracting and recruitment division of SMS Management & Technology. M&T Resources does not compete head-to-head with the high volume contracting agencies; rather it concentrates on high quality and high value work where it is able to establish deeper client relationships.

M&T Resources has capitalised on being a provider of specialist technical resources to SMS projects where people are required for fixed term engagements. In this way it allows SMS to resource peaks without being encumbered with unproductive resources when projects complete.

Most of the fall in revenue in our Australian business has been absorbed by M&T Resources thus allowing our domestic SMS business to maintain high utilisation of our tenured employees. In this way SMS uses the M&T Resources division as a buffer to volatility in demand.

As well as leveraging its traditional business with SMS and METHOD, M&T Resources is targeting new contracting and permanent recruitment opportunities in selected market segments. With a national database of over 10,000 professionals, M&T Resources specialises in developing innovative solutions for large private and public sector organisations.

Its focus on higher value, lower volume work allows M&T Resources to provide high levels of service, quality assurance and account management which underpins strong client relationships. The Company works closely with its clients to gain a clear understanding of their business and the outcomes they want to achieve. This together with a well developed recruitment methodology ensures that M&T Resources offers the right people – both from a skills and culture perspective.

Corporate Services

FY2002 was a year of consolidation for the Corporate Services division. Significant savings were achieved through property relocation, standardisation of IT infrastructure and the rationalisation of business investments. At the same time simplified payroll, treasury and budget/forecast processes were implemented throughout the Group resulting in improved accuracy and response times. The rollout of standard processes was concurrent with the regional appointment of management accountants.

While systems development is important, FY2002 remained a year of tight cost control. This included increased reliance on inhouse resource requirements and job consolidation. Staff were willing, cooperative and inventive in the common goal of cost minimisation in the face of difficult market conditions. Staff departures were not replaced and reliance on external advice was reduced.

As well as cost containment the Company refocused on the needs of its staff and business development. A Manager, People Development has been appointed to address all aspects of employment in the Company and a Manager, Market Development will work towards lifting the Company profile and increasing market share. The introduction of formal alignment of personnel practices and customer focus is aimed at keeping SMS constantly attuned to the market needs and expectations. It is also intended to retain the best people so that SMS will move forward as the Company of choice for the provision of professional services in management and technology.

Our People

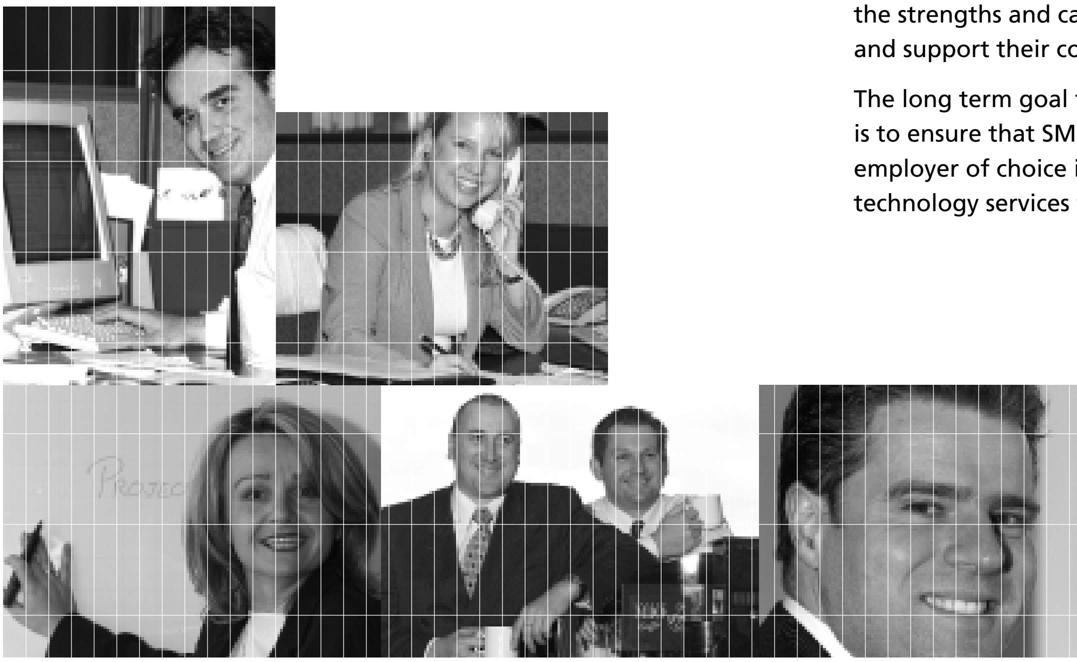
It is a tribute to the strength and passion of our people that SMS has successfully navigated the challenges of the past two years. We are now well positioned to build on future opportunities.

SMS was built on a spirit of ‘anything is possible’: a spirit that is still fundamental to our success. Over the years, our highly effective recruitment strategy has continued to attract and retain some of the finest management, technology and business professionals working today: people who strive to reinforce this spirit.

Our culture has always been one of friendliness and support for colleagues and clients. What binds our people are our core values that emphasise openness, honesty, loyalty, working hard and having fun. This unique culture is what sets us apart from other organisations and attracts outstanding individuals who are seeking a place that offers more than ‘just a job’. It provides a collegiate atmosphere that encourages personal connectivity across SMS. It offers our people a high level of autonomy and flexibility to carry out their day to day work with an absolute minimum of bureaucracy, thus encouraging people to achieve their full potential.

As part of SMS’s commitment to our people, SMS Chief Executive Officer Tom Stianos created a new role of Manager, People Development. This has given people issues and initiatives a sponsor at the Executive level. The Manager works closely with each of the regional management teams to support, initiate and facilitate projects that will enhance our relationship with our people and ensure we retain our spirit and our culture. Already a new remuneration strategy has been put in place to remove any inequities that previously existed as a result of the acquisition program that had taken place in previous years. A new leadership and professional development model is being implemented to build on the strengths and capabilities of our people and support their continuing success.

The long term goal for People Development is to ensure that SMS is recognised as an employer of choice in the management and technology services field around the world.



Board of Directors

LAURENCE G COX AO

Chairman and Non-Executive Director

B. Comm.; FCPA; FSIA; FAICD

Laurie Cox has many years experience in Australian and international financial markets. He is the immediate past Chairman of the Australian Stock Exchange Limited (1989-1994) and was Executive Chairman of the Potter Warburg Group of Companies (1989-1995) and a Director of S G Warburg Securities of London.

Mr Cox is also Chairman of Transurban Group and the Murdoch Childrens Research Institute. He is a director of Macquarie Bank Ltd and Smorgon Steel Ltd

THOMAS STIANOS

Executive Director and Chief Executive Officer

B. App.Sc

Tom Stianos was appointed CEO in March 2002 following the retirement of his predecessor and founder of SMS D Lloyd Roberts. Tom has been a key executive with SMS for 14 years and previously held the position of Regional Director in Victoria, Director Consulting in New South Wales and Director ACT. Tom led the establishment of SMS in Singapore. Immediately prior to his current appointment he was Managing Director of SMS Australia. Since taking up his CEO appointment Tom has implemented a new management structure designed to serve the needs of SMS's three core businesses.

MICHAEL TRAILL

Non-Executive Director

BA (Hons); MBA (Harvard University)

Michael Traill was appointed to the Board of SMS Management & Technology in November 2001. He joined Macquarie Bank as a corporate advisor, and is now an Executive Director of Macquarie Direct Investment, the venture and capital development arm of Macquarie Bank, which he was involved in founding. He is a Director of Dimension Data Australia, Associated Media Investments, Hardie Grant Publishing and Infochoice. Michael began his career with Kodak and spent a year in Canberra working for Andrew Peacock, MP.

Board of Directors

continued

BRUCE THOMPSON

Non-Executive Director

B. Ec.; FCPA; 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. Bruce is Chairman of Innovonics Limited, 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 Box Hill TAFE.

JOHN MURPHY

Non-Executive Director

B. Comm.; M. Comm.; Fellow of ASCPA and ICA in Australia.

John Murphy is Managing Director of Investec Wentworth Private Equity Pty Limited. This company manages two investment funds: the MGB Equity Growth Trust and Investec Wentworth Private Equity Fund. The funds have access to over $100m and specialise in investing in established corporations with good growth potential and sound management. Prior to establishing MGB fund four years ago John 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.

SMS Management & Technology Limited
(ABN 49 009 558 865)
and controlled entities

ANNUAL REPORT
30 June 2002

Directors' Report

Your Directors present their report on the consolidated entity consisting of SMS Management & Technology Limited and the entities it controlled at the end of, or during, the year ended 30 June 2002.

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 33 to the Financial Statements.

Principal Activities

At the commencement of the financial year the principal activities of the consolidated entity consisted of the provision of Consulting Services, Interactive Multimedia, Information Technology services, Enterprise Resource Planning (ERP), and Software Development and e-Commerce Solutions.

The divestment of non-core businesses during the financial year has constituted a significant change in the mix of activities conducted by the consolidated entity such that the continuing core businesses consists of Management and IT services, IT contract labour and recruitment and Applications Development and Systems Integration.

Earnings per Share

	2002 cents	2001 cents
Basic earnings (loss) per share	**(0.00)**	(91.65)
Diluted earnings (loss) per share	**(0.00)**	Note 39(b)

There have been no items of an extraordinary nature or which correct a fundamental error that would give rise to an alternative basic or diluted earnings per share.

Dividends

No dividends have been paid or provided for by the parent entity in the year ended 30 June 2002.

Review of Operations

A summary of consolidated revenues and results is set out below:

	2002 $'000	2001 $'000
Operating revenues from SMS	**99,637**	110,297
Operating revenues from METHOD	**8,171**	12,448
Operating revenues from non-core businesses	**21,245**	27,954
Investment, government grants and other sundry income	**2,116**	1,897
Divestment of non-core businesses	**1,588**	–
Total revenue	**132,757**	152,596

The decrease in operating revenues compared to the prior year reflects the progressive cessation of revenues from divested businesses and difficult trading conditions. The core SMS businesses showed great resilience in the aftermath of last year's "Tech Crash".

Much of the fall in SMS Domestic revenue occurred in M&T Resources which employs contract labour, thereby allowing it to expand or contract in line with demand without making or incurring commitments of tenure to employees. As a consequence, high levels of utilisation were achieved and profitability maintained on a lower revenue base.

The following table details the results of the core business and separately identifies the financial impact of non-recurring activities.

	2002 $'000 First half	**2002 $'000 Second half**	**2002 $'000 Full year**	2001 $'000 Full year
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA):				
Core business:				
SMS Domestic	**8,317**	**8,759**	**17,076**	12,036
SMS International	**(359)**	**(1,151)**	**(1,510)**	480
METHOD	**(2,821)**	**(2,049)**	**(4,870)**	1,773
EBITDA subtotal for core businesses retained	**5,137**	**5,559**	**10,696**	14,289
Results of divested businesses up to date of disposal	**(1,105)**	**(63)**	**(1,168)**	(17,396)
Garner MacLennan Design Pty Ltd (sold after balance date on 2 July 2002)	**(433)**	**4**	**(429)**	(479)
Profit on divestment net of asset writedown and divestment cost	**–**	**254**	**254**	–
Abnormal Items (applicable only to first half of 2001 financial year)	**–**	**–**	**–**	(5,293)
EBITDA	**3,599**	**5,754**	**9,353**	(8,879)
Depreciation	**(1,174)**	**(943)**	**(2,117)**	(2,964)
Earnings before interest, taxation and amortisation	**2,425**	**4,811**	**7,236**	(11,843)
Amortisation other than goodwill	**(455)**	**(1,251)**	**(1,706)**	(5,043)
Net interest received	**513**	**628**	**1,141**	446
Taxation (expense)/credit	**(12)**	**647**	**635**	(80)
Profit after income tax but before amortisation and write down of goodwill	**2,471**	**4,835**	**7,306**	(16,520)
Amortisation of goodwill	**(3,703)**	**(3,614)**	**(7,317)**	(16,218)
Write down of goodwill	**–**	**–**	**–**	(231,614)
Profit (loss) attributable to members of SMS Management & Technology Limited	**(1,232)**	**1,221**	**(11)**	(264,352)

The Board of Directors determined prior to the start of the year that the core business going forward will consist of:

- SMS – Management and IT services
- M&T Resources – IT contract labour and recruitment
- METHOD – Applications Development and Systems Integration

Having made this decision, the Company embarked on a programme of divestment encompassing all Products operations and any peripheral or non-performing service businesses. The sale on 2 July 2002 of Garner MacLennan Design Pty Ltd concluded this divestment programme and even though the sale occurred after balance date, the financial impact of the sale has been reflected in the results of Garner MacLennan Design Pty Ltd whose assets have been written down to their recoverable amount.

During the course of the 2002 financial year the HotDog business was sold, subsidiaries PRONTO Software Pty Ltd and Tribal Pty Ltd were sold, Business in a Box and all e-commerce products either closed down or sold. The METHOD Perth office closed down.

Directors' Report *continued*

The SMS Management & Technology and M&T Resources domestic businesses contributed $17.1 million of EBITDA for the year, compared to $12.0 million last year. The Directors have continued confidence in the fundamental business model for the core IT consulting business and are generally pleased with this result in a very difficult market for these services.

The overseas consulting operations are expected to continue to grow but have been adversely affected by harsh economic conditions, particularly in the UK. Despite the poor second half year performance, marketing and cost saving initiatives have been taken to restore profitability and the Directors remain confident of the growth opportunities in these overseas markets. The operations in both the UK and Singapore are budgeting for a positive EBITDA contribution for 2003.

METHOD revenues and results for the year are disappointing, however the second half performance of negative EBITDA $2.0 million includes all of the costs associated with the closure of the METHOD Perth operation. The second half performance, when compared to the first half negative $2.8 million, reflects the lower cost structure achieved through progressive cost saving measures and a more targeted marketing strategy. Perth operations, share of corporate overheads and closure costs incurred $3.1 million of the total METHOD EBITDA loss of $4.9 million for the 2002 year.

METHOD has been rationalised and refocused to service SMS's client base and is now an efficient Applications Developer and Systems Integrator. The core METHOD offering now concentrates on the Melbourne and Sydney markets whilst servicing client commitments in the ACT, Queensland and overseas from the two prime locations. Both METHOD Melbourne and Sydney were profitable in May and June of 2002 and are budgeting to make a positive contribution in 2003.

Now that the divestment programme has been concluded, all Board and management effort can be focused on strategies to both grow the operations and improve the profitability of the core businesses going forward.

Financial Overview

As reflected in the Statement of Financial Position, current assets of $71.6 million exceed current liabilities of only $9.6 million by $62.0 million, generating a current asset ratio of 7.4 compared to 3.0 as at 30 June 2001.

Cash balances have increased by $25.7 million over the year. This reflects a cash injection of $15.6 million which comprises $7 million through the exercise of 35 million options exercisable at $0.20 in the first half of the year and the final payment of $8.6 million on the 36 million partly paid shares. Cash reserves of $3.8 million have been used to purchase shares during the financial year and a further $5.2 million used to repay SMS Consulting Group Limited loans.

In addition to the equity movements, cash inflows from operations have contributed to the cash balance of $47.7 million at 30 June 2002. This balance represents cash funding of $0.13 per share at 30 June 2002 and compares favourably to the cash positions of $22.0 million at 30 June 2001 and $28.4 million as at 31 December 2001. A summary of major movements follows.

Cash movements for the year	**$ million**
Opening balance at 1 July 2001	**22.0**
Conversion of 35 million twenty cent options in September 2001	**7.0**
Funds received on final payment of partly paid shares and exercise of options	**8.9**
Proceeds received on divestment activities net of cash balances of entities divested	**3.0**
Operational cash flow for the financial year	**17.0**
Repayment of loans	**(5.2)**
Buy back of Company shares	**(3.8)**
Asset acquisitions	**(1.2)**
Closing balance as at 30 June 2002	**47.7**

Matters Subsequent to the end of the Financial Year

Following a competitive tender process and by way of Share Sale Agreement, on 2 July 2002 Garner MacLennan Design Pty Ltd was sold to a third party. Assets have been written down to their anticipated recoverable amount during the financial year ended 30 June 2002. Garner MacLennan Design Pty Ltd was removed from the Closed Group as disclosed in Note 35 effective from 2 July 2002.

Equity and option movements after balance date are provided in Note 22.

Except for the matters referred to above, no other matter or circumstance has arisen since 30 June 2002 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.

Significant Changes in the State of Affairs

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

Material Cash Injections and Changes to Issued Capital and fully diluted capital

On 14 May 2002, the Company received $8.6 million being the balance of $0.24 per share payable with regard to the 36 million ordinary shares partly paid to 24 cents issued during the 2001 financial year pursuant to a placement of shares to interests associated with Macquarie Direct Investment Limited (MDIL) (24 million) and MGB Equity Growth Pty Ltd (MGB) (12 million). Fully paid ordinary shares were then issued to the respective parties and quotation sought and obtained from the ASX. Funds derived from equity issues have been placed on deposit to cover any future working capital requirements or expansion activities.

There were 1,635,300 ordinary shares issued during the financial year as a consequence of conversion of options with a nil exercise price and a further 595,000 shares issued following conversion of options with an exercise price of 48 cents for total proceeds of $285,600. On 7 September 2001, 35 million options with an exercise price of $0.20 each were duly exercised, generating proceeds of $7 million.

A total of 43,170,164 options with an exercise price of $1.35 and 7,351,217 options with an exercise price of $2.00 expired and were cancelled on 9 September 2001. A further 20,419,670 options with various exercise prices expired and were cancelled during the financial year.

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

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 33(e).

Directors' Report *continued*

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 2002 and the numbers of meetings attended by each Director are set out in the following table.

	Meetings of Directors		Meetings of Committees			
	Meetings attended	**Eligible to attend**	**Audit & Compliance**		**Remuneration**	
Number of meetings held:			Attended	Eligible to attend	Attended	Eligible to attend
Laurence G Cox	12	12	–	–	1	1
Thomas Stianos	3	3	–	–	–	–
Bruce Thompson	11	12	4	4	1	1
John Murphy	12	12	4	4	–	–
Michael Traill	7	8	4	4	1	1
D Lloyd Roberts	9	9	–	–	–	–
Gerry Sutton	3	4	–	–	–	–

Election of Directors

Mr Michael Traill was elected as a director at the Annual General Meeting held on 26 November 2001. Mr Gerry Sutton retired by rotation at the same meeting.

Mr Lloyd Roberts resigned effective 25 March 2002 and was replaced as Managing Director by Mr Thomas Stianos also on 25 March 2002. Having been appointed other than by the shareholders Mr Stianos is required to resign at the Annual General Meeting and seek re-election.

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 five officers of the Company and the consolidated entity receiving the highest emoluments are set out in the following tables.

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

Name	Directors' Base Fee $	Super-annuation $	Options $	Total $
Laurence G Cox	62,500	5,000	*	67,500
Gerry Sutton *(retired 26 November 2001)*	–	–	*	–
Bruce Thompson	25,000	2,000	*	27,000
John Murphy	25,000	2,000	*	27,000
Michael Traill *(appointed 26 November 2001)*	14,966	1,197	*	16,163

Mr M Traill received no remuneration in the capacity as Alternate Director for Mr L G Cox prior to his appointment as a Director on 26 November 2001.

Emoluments of Executive Directors of SMS Management & Technology Limited

Name	Base Salary/ Consulting Fee $	Long Service Leave $	Super-annuation $	Other Benefits $	Options $	Total $
D Lloyd Roberts (Resigned 25 March 2002)	208,573	69,808	6,566	2,237	*	287,184
Thomas Stianos (Appointed Director 25 March 2002)	73,836	–	2,364	–	*	76,200

Emoluments disclosed for Mr Stianos are for the period from 25 March 2002 to 30 June 2002 only. Mr Stianos received total emoluments of $213,000 as an Executive Officer prior to his appointment as Managing Director. The excluded amounts are made up of: Base salary $201,164, Superannuation $6,440 and other benefits $5,396.

* Details of options issued to Executive and Non-Executive Directors are tabled at page 28 of this Directors' Report.

Emoluments of Other Executives of SMS Management & Technology Limited

Name	Base Salary $	Allowances $	Super-annuation $	Other Benefits $	Options $	Total $
Tony Azzopardi (Manager Mergers and Acquisitions to 5/6/02)	213,487	–	10,455	86,613	*	310,555
Joh Barker (Manager Corporate Services)	225,000	–	8,803	–	*	233,803
John Hassett (Manager Marketing to 10/12/01)	109,936	–	3,866	86,792	*	200,594
John Glenn (Manager Market Development) #	110,656	–	8,803	–	*	119,459
Philippa Taylor (Manager People Development) #	104,000	301	8,320	–	*	112,621

Salaries included for full year; roles as stated commenced on 6 May 2002 for John Glenn and 2 April 2002 for Philippa Taylor.

Directors' Report *continued*

Emoluments of Other Executives of the Consolidated Entity

Name	Base Salary $	Allowances $	Super-annuation $	Other Benefits $	Options $	Total $
Bruce Plaice-Leary (Manager International) #	492,631	137,828	24,631	5,670	*	660,760
Hilton Holloway (Manager Singapore) # #	199,329	98,371	8,803	19,933	*	326,436
Tony Azzopardi (Manager Mergers and Acquisitions)	213,487	–	10,455	86,613	*	310,555
Stephen Langsford (Manager METHOD)	276,373	–	6,365	–	*	282,738
Steve Clark (Regional Manager Victoria)	181,667	–	8,803	60,000	*	250,470

Amounts remunerated in Great Britain Pounds and converted into Australian dollars at an average exchange rate for the year of 0.3664.

Amounts remunerated in Singapore dollars and converted into Australian dollars at an average exchange rate for the year of 0.9532.

"Other Executives" are officers other than Executive Directors who are involved in, concerned in, or who take part in, the management of the affairs of SMS Management & Technology Limited.

* Details of options issued to other executives are tabled on page 29 of this Directors' Report.

Options issued to Executive Directors and Non-Executive Directors

Name	Valuation $	No of Options Issued	Date of Issue
Laurence G Cox, Chairman	90,000	1,000,000	12 July 2001
Thomas Stianos	58,500	390,000	31 July 2001
D Lloyd Roberts (Resigned 25 March 2002 and options cancelled)	90,000	1,000,000	12 July 2001
Michael Traill	–	–	–
Bruce Thompson	27,000	300,000	12 July 2001
John Murphy	27,000	300,000	12 July 2001

Options issued to Directors were approved by way of ordinary resolution at a General Meeting of shareholders held on 25 June 2001. Note Mr Stianos received his options as an Executive Officer under the SMS Management & Technology Limited Employee Share Option Plan (ESOP) prior to his appointment as a Director and Chief Executive Officer (CEO).

The terms and conditions of the ESOP issue are detailed on page 29 of this Directors' Report.

Option Strategy and Rationale

The Company has pursued and continues to pursue 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 five 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 criticality to the business, ability to influence future results, demonstrated performance and contribution and the issues associated with replacement of that employee.

In accordance with Accounting Policy 1(l), 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. 2002 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 31 July 2001 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 2006. The exercise price was set at the level adopted for the placement of shares in the 2001 financial year to interests associated with Macquarie and MGB. Vesting occurs progressively over the next three years to 1 July 2004 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.

Executives of SMS Management & Technology Limited	**Remuneration value of options $**	**No of Options Issued**
Tony Azzopardi	**36,000**	240,000
Joh Barker	**54,750**	365,000
John Hassett	**56,250**	375,000
John Glenn	**13,200**	88,000
Philippa Taylor	**4,350**	29,000

The 375,000 options issued to John Hassett on 10 March 2002 are fully vested and have an exercise price of $0.48 and expire on 31 March 2003. Mr Hassett holds no options under the SMS Management & Technology Limited Employee Share Option Plan.

Other Executives of the consolidated entity	**Remuneration value of options $**	**No of Options Issued**
Bruce Plaice-Leary	**56,250**	375,000
Hilton Holloway	**32,250**	215,000
Tony Azzopardi	**36,000**	240,000
Stephen Langsford (all options exercised and sold during the year)	**52,500**	350,000
Steve Clark	**39,750**	265,000

Directors' Report *continued*

The amounts disclosed above and 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 during the year ended 30 June 2002. Fair values have been computed using the Black-Scholes 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.

Effect of Director and Executive Options on issued capital

At balance date, the number of options on issue to the Executive Director and to present (and past) Executives as listed was 2,342,000, less than 0.7% of total issued capital. A further 1,600,000 options remained on issue to Non-Executive Directors (0.4%). The total of Non-Executive Director, CEO and noted Executives options is 3,942,000 which represents 1.1% of balance date issued capital.

The Board has approved the allocation of up to 6,325,000 options to all staff under the ESOP scheme by way of Short Form Prospectus and a further 750,000 options to the CEO subject to shareholder approval at the Annual General Meeting and subject to satisfying the performance hurdles attaching to these options. This figure includes an allocation to Executives whose role may have changed since the July 2001 allocation. Issue of the full allocation of options to Executives and the CEO would increase the total number of options on issue to Non-Executive Directors, CEO and Executives to 5,217,000 which represents 1.5% of balance date issued capital.

Shares under option

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

- 4,315,000 options pertaining to employment contracts which are exercisable at various prices and with various expiry dates.
- 68,000 options with a minimum $2.00 exercise price pursuant to the former Employee Share Option Plan.
- 12,610,000 options with an exercise price of $0.48 and exercisable progressively on 1 July 2001, 1 July 2002, 1 July 2003 and 1 July 2004 issued pursuant to the SMS Management & Technology Limited Employee Share Option Plan and expiring on 30 June 2006.
- 320,740 options with an exercise price of nil issued pursuant to the former Employee Share Option Plan.
- 1,600,000 options with an exercise price of $0.48 issued to Directors.

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.

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 2002 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 98/0100 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

PricewaterhouseCoopers continues 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

Melbourne this 28th day of August 2002

Corporate Governance Statement

The Directors of SMS Management & Technology Limited aspire to the highest standards of corporate governance.

A description of the Company's main corporate governance practices is set out below. Unless otherwise stated, all these practices were in place for the entire year.

1. The Board of Directors ('The Board')

The Board is elected by, and accountable to, the shareholders to represent all shareholders. It is a Director's responsibility, in all decisions he is called upon to make concerning the Company's affairs, to conscientiously weigh the interests of shareholders in light of the circumstances and to consider the effects of such decisions on the interests of all shareholders. The Directors also have a duty to act in the best interests of the Company at all times and a statutory duty not to gain benefit through the improper use of information gained from being a Director. The responsibility to the shareholders for the short and long term performance of the Company can sometimes give rise to competing objectives which have to be balanced to ensure that all decisions taken are in the best interests of the Company as a whole.

Role of the Board

In accordance with the Company's Statement of Corporate Governance Principles, the role of the Board is to direct and monitor the Company with a view to optimising Company performance and to increase shareholder value, by:

- Reviewing strategic direction;
- Adopting corporate strategy;
- Adopting corporate policy, and leading by example, to ensure that an appropriate culture incorporating the highest standard of ethical values is followed in dealing with customers, suppliers and staff, and with due regard to the interests of the wider community;
- Monitoring:
  - performance of the Company;
  - performance of senior management;
  - communications with the shareholders;
  - the effectiveness of internal controls in managing risks;
  - compliance with key policies, laws and regulations; and
- Appointing and appraising the Chief Executive Officer and other executives.

The responsibility for managing and promoting the profitable operation and development of the Company, consistent with the primary objective of enhancing long term shareholder value, is delegated to the Chief Executive Officer, who is accountable to the Board.

Composition of the Board

The Board includes individuals who qualify as unrelated or independent Directors and so ensure that the Board can bring, and be perceived to bring, quality judgements which are free of bias to all issues.

Potential Board membership candidates are nominated by agreement of the Chairman and the Chief Executive Officer, taking into account, amongst other things, the necessary mix of skills and experience to guide the Company.

One-third of the Directors must retire from office at each Annual General Meeting. The Directors to retire are those persons who have been longest in office. Where eligible, retiring Directors may stand for re-election.

Chairman of the Board

It is expected that the Chairman will be an independent, non-executive Director. If the Chairman is not an independent Director, the independent Directors will appoint one of their number as a 'lead Director' to monitor and report to them on issues falling within the normal purview of a Non-Executive Chairman. The Chairman is elected by the full Board and meets regularly with the Chief Executive Officer.

Board Committees

It is the role of the Board to oversee the management of the Company and it may establish appropriate committees to assist in this role.

The committees which have been established to date are the Audit and Compliance Committee and the Remuneration Committee.

Audit and Compliance Committee

At the date of this report, the Audit and Compliance Committee consisted of the following Directors and Alternate Director throughout the financial year and up to the date of this report:

John Murphy (Chairman)
Bruce Thompson
Michael Traill

The role of this Committee is to review external and internal audits, and it is charged with assessing the adequacy of the Company's financial and operating controls and compliance with legal requirements affecting the Company and corporate governance practices. It also makes recommendations to the Board regarding the appointment of the external auditors and the level of their fees.

Remuneration Committee

The Remuneration Committee consisted of the following Directors and Alternate Director throughout the financial year and up to the date of this report:

Laurence G Cox (Chairman)
Gerry Sutton *(resigned 26 November 2001)*
Michael Traill
Bruce Thompson *(appointed 22 April 2002)*

This Committee reviews the performance and remuneration of executive management, including Executive and Non-Executive Directors. Executive Directors review the remuneration of Non-Executive Directors and Non-Executive Directors review the remuneration of Executive Directors. Remuneration is set by reference to independent data, the Company's circumstances and the requirement to attract and retain high calibre management.

Whilst there is no formal Nomination Committee, responsibility for the composition of the Board of Directors is assumed collectively by the Chairman and Chief Executive Officer. The Company's Constitution requires that any directors appointed outside of a General Meeting are to seek re-election at the next meeting of shareholders.

Advice to Directors

To enable the Directors to perform their duties effectively, each Director or senior officer has the right to seek independent professional advice at the Company's expense, subject to prior consultation with the Chairman and subject to the requirement being in connection with their duties and responsibilities. Such independent professional advice is made available to all Directors.

Risk Management

There is no specific Risk Management Committee. Management is charged with the responsibility of reviewing and reporting to the Board on the implementation and operation of risk assessment and risk management practices as they apply to security, disaster recovery, third party liability and all other significant risks. From time to time, an independent review by professional risk management consultants may be commissioned.

Corporate Governance Statement *continued*

2. Code of Conduct

Corporate Policy

It is the policy of the Company for all Directors and employees to observe the highest possible standards of conduct and ethical behaviour in all the Company's activities, including its dealings with employees, customers, suppliers, business partners and the general community in which it operates.

Fair Dealings and Related Party Transactions

Directors, as well as senior management, must confirm by their actions to all shareholders that integrity and effective control must not be compromised when dealing with related parties.

A Director, or an entity in or over which a Director has a significant interest and/or influence, who proposes to enter a transaction with the Company must make full prior disclosure to the Board.

Disclosure of Information

The Company has an objective of honest and open disclosure of information in dealing with shareholders, subject to appropriate commercial considerations associated with competitive and sensitive information. Such disclosure may exceed statutory requirements.

The Company Secretary has been appointed as the person responsible for communications with the Australian Stock Exchange (ASX). This person is also responsible for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX.

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

Dealings in Company Securities

It is the individual responsibility of each Director and other officers to ensure that they comply with the spirit and the letter of the insider trading laws. However, the Board has adopted the following policy in relation to dealings in the Company's securities by Directors and Executives:

- trading (short term and/or frequent purchase and sale) in the Company's securities is prohibited;
- dealings in the Company's securities is prohibited when the person is in possession of information which is or could reasonably be considered to be insider information;
- Directors must notify the Chairman before buying or selling securities in the Company, except where such purchases or sales are made within one month after:
  - the announcement of the Company's half-yearly or annual results, or
  - the holding of the Annual General Meeting; and
- similar approval is required to be obtained from the Chief Executive Officer (or his nominee) by Executives who wish to purchase or sell the Company's securities.

Even when approval is not required pursuant to the foregoing, the Directors must notify the Board and the Australian Stock Exchange of each of their purchases or sales.

As part of the induction process and as a pre-condition of employment, new employees are required to confirm in writing their acceptance of the Company's ethical code embodied within the terms and conditions of employment with regard to dealing in the Company's securities.

Statements of Financial Performance

For the year ended 30 June 2002

	Notes	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
Revenue from ordinary activities	3	**132,757**	152,596	**5,601**	48
Cost of goods sold		**(1,336)**	(2,722)	**–**	–
Employee benefits expense		**(99,139)**	(121,745)	**–**	–
Depreciation and amortisation expenses		**(11,140)**	(255,839)	**–**	–
Borrowing costs expense		**(317)**	(634)	**–**	–
Other expenses from ordinary activities		**(21,471)**	(35,928)	**(17,587)**	(266,388)
Profit (loss) from ordinary activities before income tax expense	4	**(646)**	(264,272)	**(11,986)**	(266,340)
Income tax (expense)/credit	5	**635**	(80)	**–**	–
Net profit (loss) from ordinary activities after income tax expense attributable to members of SMS Management & Technology Limited	23 (b)	**(11)**	(264,352)	**(11,986)**	(266,340)
Net exchange differences on translation of financial report of foreign controlled entities	23 (a)	**(183)**	319	**–**	–
Total revenues, expenses and valuation adjustments attributable to members of SMS Management & Technology Limited recognised directly in equity		**(183)**	319	**–**	–
Total changes in equity other than those resulting from transactions with owners as owners		**(194)**	(264,033)	**(11,986)**	(266,340)

		Cents	Cents
Basic earnings (loss) per share	39	**(0.00)**	(91.65)
Diluted earnings (loss) per share	39	**(0.00)**	Note 39(b)

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

Statements of Financial Position

As at 30 June 2002

	Notes	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
Current Assets					
Cash assets	7	**47,668**	21,996	**28,877**	162
Receivables	8	**22,339**	32,908	**105**	–
Inventories	9	**–**	54	**–**	–
Deferred tax asset	5	**632**	–	**–**	–
Other	10	**1,002**	608	**–**	–
Total Current Assets		**71,641**	55,566	**28,982**	162
Non-Current Assets					
Receivables	11	**–**	–	**17,788**	20,313
Other financial assets	12	**–**	–	**150,481**	161,853
Property, plant and equipment	13	**4,489**	9,346	**–**	–
Deferred tax assets	5	**775**	728	**–**	–
Intangible assets	14	**118,142**	127,723	**–**	–
Other	15	**–**	3	**–**	–
Total Non-Current Assets		**123,406**	137,800	**168,269**	182,166
Total Assets		**195,047**	193,366	**197,251**	182,328
Current Liabilities					
Payables	16	**5,113**	6,397	**202**	–
Interest bearing liabilities	17	**798**	5,305	**–**	–
Current tax liabilities	5	**40**	329	**–**	–
Provisions	18	**3,242**	5,024	**–**	–
Other	19	**419**	1,559	**24,265**	9,486
Total Current Liabilities		**9,612**	18,614	**24,467**	9,486
Non-Current Liabilities					
Interest bearing liabilities	20	**650**	1,484	**–**	–
Deferred tax liabilities	5	**82**	281	**–**	–
Provisions	21	**456**	474	**–**	–
Total Non-Current Liabilities		**1,188**	2,239	**–**	–
Total Liabilities		**10,800**	20,853	**24,467**	9,486
Net Assets		**184,247**	172,513	**172,784**	172,842
Equity					
Contributed equity	22	**463,254**	451,326	**463,254**	451,326
Reserves	23	**40**	1,620	**–**	1,397
Accumulated losses	23	**(279,047)**	(280,433)	**(290,470)**	(279,881)
Total Equity		**184,247**	172,513	**172,784**	172,842

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

Statements of Cash Flows

For the year ended 30 June 2002

	Notes	Consolidated 2002 $'000	Consolidated 2001 $'000	Parent Entity 2002 $'000	Parent Entity 2001 $'000
Cash Flows from Operating Activities					
Receipts from customers		**148,036**	166,961	–	–
Payments to suppliers and employees		**(131,836)**	(171,930)	–	(214)
		16,200	(4,969)	–	(214)
Interest received		**1,457**	1,080	**390**	48
Government grants		**76**	88	–	–
Interest and finance charges paid		**(317)**	(279)	–	–
Other		–	(71)	–	–
Income taxes paid (net of refunds received)		**(520)**	(9,493)	–	–
Net cash inflow (outflow) from Operating Activities	37	**16,896**	(13,644)	**390**	(166)
Cash Flows from Investing Activities					
Payments for plant and equipment		**(1,259)**	(2,761)	–	–
Proceeds from sale of plant and equipment		**66**	169	–	–
Loans to related entities		–	–	–	(7,665)
Payments for purchase of controlled entities net of cash acquired		–	(185)	–	(260)
Deferred settlement and incidental costs from prior year acquisitions		–	(2,359)	–	(1,559)
Research and development costs capitalised		–	(752)	–	–
Net proceeds from discontinued operations	6	**2,799**	–	–	–
Proceeds from divestment of other controlled entities and businesses		**232**	–	**1,418**	–
Net cash inflow (outflow) from Investing Activities		**1,838**	(5,888)	**1,418**	(9,484)
Cash Flows from Financing Activities					
Proceeds from issues of fully paid shares	22 (b)	**15,926**	819	**15,926**	819
Proceeds from issues of partly paid shares	22 (c)	–	8,640	–	8,640
Share issue and transaction costs	22 (c)	–	(3)	–	(3)
Employee share plan loan repayments		–	249	–	243
Cash flow to buy back ordinary shares under buy back scheme	22 (b)	**(3,796)**	–	**(3,796)**	–
Dividends paid to former shareholders of controlled entity		–	(4,325)	–	–
Borrowings received from controlled entities		–	–	**14,777**	–
Repayment of director and other borrowings		**(3,711)**	(3,659)	–	–
Repayment of lease liabilities		**(1,481)**	(2,040)	–	–
Net cash inflow (outflow) from Financing Activities		**6,938**	(319)	**26,907**	9,699
Net (Decrease)/Increase in Cash Held		**25,672**	(19,851)	**28,715**	49
Cash at the beginning of the financial year		**21,996**	41,847	**162**	113
Effects of exchange rate changes on cash		–	–	–	–
Cash at the end of the Financial Year	7	**47,668**	21,996	**28,877**	162

Financing arrangements (Notes 17 and 20)

Non-cash financing and investing activities (Note 38)

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

Notes to the Financial Statements

30 June 2002

Note 1. Summary of Significant Accounting Policies

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

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by SMS Management & Technology Limited ('Company' or 'parent entity') as at 30 June 2002 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated Statement of Financial Performance from the date on which control commences. Where control of an entity ceases during the financial year its results are included for that part of the year during which control existed.

Investments in associated entities are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of profits or losses of associates is recognised as revenue in the consolidated Statement of Financial Performance. Associates are those entities over which the consolidated entity exercises significant influence but not control.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the Statement of Financial Performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Foreign Currency Translation

(i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are brought to account in determining the profit or loss for the year.

(ii) Foreign Controlled Entities

Integrated overseas operations are accounted for using the temporal method whereby monetary assets and liabilities are translated at current exchange rates each balance date. Other balances are translated at the rate which was applicable on the date of the transaction. Exchange gains or losses are brought to account in determining the profit or loss for the year.

Self sustaining overseas operations are accounted for using the current rate method whereby assets and liabilities are translated into Australian currency at rates of exchange current at balance date. Revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

(d) Acquisitions of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition.

Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the date of acquisition or their value as determined using the Black-Scholes option pricing model in the case of options being issued.

Goodwill is brought to account on the basis described in Note 1 (k)(i).

(e) Revenue Recognition

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) Licence fee revenue

Licence fees are recognised upon signing of a customer contract subject to the following criteria:

i) delivery has occurred by balance date;

ii) the software pertaining to the licence is fully developed and does not require modification or customisation to the customer's specification; and

iii) the licence fee is fixed and collectability of the economic benefits arising from the issue of the licence is assured beyond reasonable doubt.

(iii) Electronic Software Distribution

Cash licensing fees for software that has been electronically distributed are only recognised when details of a customer's credit card have been authorised by an independent clearing house. Where software distributed electronically is licensed on credit terms, licence revenue is recorded when goods and a registration key have been transmitted to a customer, and the associated benefit in the licence to use the software has been passed to the customer.

(iv) Product sales

Product sales revenue is recognised upon transfer of legal title in the product, which may occur upon the issuance of a sales invoice, delivery of a physical product or the provision of access to a product accessible via the Internet by way of a key that enables the purchaser of the product to activate the product.

(v) Maintenance and Support Services

Revenue received in relation to maintenance and service contracts is initially credited to deferred revenue and is then recognised on a straight line basis over the life of the contract.

(vi) Government Grants

Income from government grants is recognised in the period in which the corresponding project expenditure is incurred.

(f) Receivables

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

(g) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in the determination of profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values using a market-determined, risk-adjusted discount rate.

(h) Depreciation of Property, Plant and Equipment

Depreciation is calculated on a straight line and diminishing value basis to write off the net cost of each item over its expected useful life. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The estimated useful lives used for each class of depreciable assets within Plant and Equipment are:

- furniture and fittings 3-8 years
- motor vehicles 4-8 years
- computer equipment 2-4 years

(i) Leased Non-Current Assets

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A leased asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The leased asset is amortised over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the expected useful life of the asset. Leased assets held at the reporting date are being amortised over periods ranging from 2-4 years.

Operating lease payments are charged to the Statement of Financial Performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(j) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the Statement of Financial Performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in Note 1(a).

(k) Intangible Assets and Expenditure Carried Forward

(i) Goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and is amortised on a straight line basis over its expected useful life, being the period during which the benefits are expected to arise.

The estimated life of the goodwill arising on existing acquisitions ranges from 10-20 years, depending on the nature of the acquired assets.

(ii) Research and Development

All research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond reasonable doubt, in which case it is deferred and amortised over the shorter of the period in which the related benefits are expected to be realised or 5 years.

All deferred research and development expenditure is reviewed annually to determine any amounts that are no longer recoverable. All such amounts are written off.

(iii) Intellectual Property

Intellectual property is stated at cost in the financial statements. At balance date, all intellectual property was fully amortised.

Notes to the Financial Statements *continued*

Note 1. Summary of Significant Accounting Policies *continued*

(iv) Patents

Costs associated with patents and trademarks are deferred and amortised on a straight line basis over the periods of their expected benefit of not more than 3 years. At balance date, all patents were fully amortised.

(l) Employee Entitlements

(i) Wages and Salaries and Annual Leave

Liabilities for wages and salaries and annual leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Superannuation

There are no persons employed by the Company or any of its subsidiaries who are members of a defined benefit superannuation plan.

(iii) Long Service Leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(iv) Ownership-based remuneration

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 32.

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. Refer Note 1 (q) for accounting policy in respect of the impact of ownership-based remuneration schemes on Directors' and Executive Remuneration as disclosed in Notes 26 and 27.

(m) Cash

For purposes of the Statements of Cash Flows, cash includes deposits at call, which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, other than exchange variations.

(n) Earnings per Share

(i) Basic Earnings per Share

Basic earnings per share is determined by dividing the operating profit or loss after income tax attributable to members of SMS Management & Technology Limited by the weighted average number of ordinary shares outstanding during the financial year.

(ii) Diluted Earnings per Share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Change in the basis of determining earnings per share

In previous years, basic earnings per share was determined using the profit from ordinary activities after income tax attributable to members of the Company, thereby excluding extraordinary items from earnings. Diluted earnings per share in previous years adjusted the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and earnings that would have arisen had the dilutive options been exercised during the financial year rather than adjusting the weighted average number of shares to include potential ordinary shares assumed to have been issued for no consideration.

The change in the basis for calculating earnings per share figures was made to comply with AASB 1027 Earnings per Share, issued in June 2001.

The earnings per share information for the year ended 30 June 2001 has been recalculated to present the comparative amounts on a consistent basis with the current financial year.

(o) Trade and Sundry Creditors

Trade and sundry creditors represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid at balance date. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

(p) Interest Bearing Liabilities

Interest bearing loans are carried at their principal amounts, which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and payable and is paid every six months.

(q) Directors' and Executives' Remuneration

Directors' and executives' remuneration disclosed in the financial statements have been calculated in accordance with UIG Abstract 14 Directors' Remuneration. In particular, remuneration excludes monetary amounts for options granted on the basis that the granting of options does not involve a cost to the consolidated entity.

This basis of calculation differs from the remuneration disclosed in the Directors' Report due to the requirements of ASIC Practice Note 68 to value options granted on the basis of benefits received by Directors and executives.

(r) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value.

(s) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter period. Leasehold improvements held at the reporting date are being amortised over periods of between one and eleven years.

(t) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- Finance lease charges;
- Interest on unsecured loans; and
- Interest on any bank overdrafts and short term borrowings.

(u) Website costs

Costs in relation to websites controlled by entities in the consolidated entity are charged as expenses in the period in which they are incurred.

(v) Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 2. Segment Information

Business Segments

The consolidated entity is organised on a global basis into the following divisions.

Consulting Services – Information technology and management consulting services

Products – Sales and service of enterprise solutions products.

Geographical Segments

The consolidated entity is managed on a global basis through Australia which is the largest geographical area. Other areas are not of sufficient materiality to require separate segmented reporting.

Primary Reporting – Business Segments

2002 $'000	Consulting Services	Discontinued Products Operation	Inter-segment Eliminations/ unallocated	Consolidated
Sales to External customers	115,778	13,270	–	129,048
Inter-segment sales	3,105	33	(3,138)	–
Total Sales Revenue	**118,883**	**13,303**	**(3,138)**	**129,048**
Other revenue	671	(8)	–	663
Total Segment Revenue	**119,554**	**13,295**	**(3,138)**	**129,711**
Segment Results	**5,080**	**(580)**	–	**4,500**
Add unallocated revenue less unallocated expenses				(5,146)
Profit/(loss) from ordinary activities before Income Tax Expense				**(646)**
Income Tax (Expense)/Credit				635
Net Profit/(Loss)				**(11)**
Segment Assets	**75,498**	–	–	**75,498**
Unallocated Assets				119,549
Total Assets				**195,047**
Segment Liabilities	**9,230**	–	–	**9,230**
Unallocated Liabilities				1,570
Total Liabilities				**10,800**
Acquisitions of Property, Plant and Equipment, intangibles and other non current segment assets	**752**	**507**	–	**1,259**
Depreciation and Amortisation Expense	**3,400**	**423**	–	**3,823**
Unallocated Amortisation				7,317
Total Depreciation and amortisation expense				**11,140**
Other Non Cash Expenses	**3**	**64**	–	**67**
Profit on sale of Products Segment before Income tax	–	**1,409**	–	**1,409**

Notes to the Financial Statements *continued*

Note 2. Segment Information *continued*

2001 $'000	Consulting Services	Products	Inter-segment Eliminations/ unallocated	Consolidated
Sales to External customers	131,369	19,330	–	150,699
Inter-segment sales	4,252	21	(4,273)	–
Total Sales Revenue	**135,621**	**19,351**	**(4,273)**	**150,699**
Other revenue	1,735	162	–	1,897
Total Segment Revenue	**137,356**	**19,513**	**(4,273)**	**152,596**
Segment Result	**(10,640)**	**(5,932)**	**–**	**(16,572)**
Add unallocated revenue less unallocated expenses				(247,700)
Profit/(loss) from ordinary activities before Income Tax Expense				**(264,272)**
Income Tax Expense				(80)
Net Profit/(Loss)				**(264,352)**
Segment Assets	**62,478**	**8,819**	**(6,382)**	**64,915**
Unallocated Assets				128,451
Total Assets				**193,366**
Segment Liabilities	**9,510**	**10,326**	**(6,382)**	**13,454**
Unallocated Liabilities				7,399
Total Liabilities				**20,853**
Acquisitions of Property, Plant and Equipment, intangibles and other non current segment assets	**2,400**	**361**	**–**	**2,761**
Depreciation and Amortisation Expense	**5,926**	**1,768**	**–**	**7,694**
Unallocated amortisation and writedown of Goodwill				248,146
Total Depreciation and amortisation expense				**255,840**
Other Non Cash Expenses	**1,146**	**(15)**	**–**	**1,131**

Notes to and forming part of the segment information

(a) Accounting policies and Inter-segment Transfer

Segment information is prepared in conformity with accounting policies of the entity as disclosed in Note 1 and the revised segment reporting standard, AASB 1005 *Segment Reporting*, which has been applied for the first time in the year ended 30 June 2002. The business segments identified in the primary reporting disclosures are not materially different to the industry segments identified in previous years. The comparative information has been restated to present the information on a consistent basis with the current year disclosures.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions.

Segment liabilities consist primarily of trade and other creditors, employee entitlements and provision for service warranties. Segment assets and liabilities do not include income taxes.

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms length" length basis and are eliminated on consolidation.

Note 3. Revenue

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Revenue from Operating Activities				
Sales of goods	**5,334**	9,213	**–**	–
Sales of services	**123,718**	141,486	**–**	–
	129,052	150,699	**–**	–
Revenue from outside the Operating Activities				
Sale of non current assets	**1,589**	169	**–**	–
Interest	**1,457**	1,080	**390**	48
Government grants	**77**	88	**–**	–
Foreign exchange gains (net)	**–**	158	**–**	–
Other	**582**	402	**5,211**	–
	3,705	1,897	**5,601**	48
Revenue from ordinary activities	**132,757**	152,596	**5,601**	48

Note 4. Profit/Loss from ordinary activities

(a) Net gains and expenses

Profit (loss) from ordinary activities before income tax expense includes the following specific net gains and expenses:

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Net gains				
Foreign exchange gains	**–**	158	**–**	–
Net gain/(loss) on sale of businesses	**1,504**	–	**(4,880)**	–
	1,504	158	**(4,880)**	–
Expenses				
Cost of sales of goods	**1,336**	2,722	**–**	–
Amortisation – Intangibles (Note 14):				
Goodwill excluding writedowns	**7,317**	16,217	**–**	–
Patents and trademarks	**–**	20	**–**	–
Brand names	**–**	34	**–**	–
Total Amortisation of Intangibles	**7,317**	16,271	**–**	–
Research and development (excludes writedown of $1,695,000 in 2001)	**–**	1,946	**–**	–
Plant and equipment under finance lease	**498**	468	**–**	–
Leasehold improvements	**962**	881	**–**	–
Total amortisation of Other Non-Current Assets	**1,460**	3,295	**–**	–
Depreciation Plant and equipment (Note 13)	**2,352**	2,964	**–**	–
Bad and doubtful debts – trade debtors	**373**	616	**–**	–
Borrowing costs				
Finance charges relating to finance leases	**189**	278	**–**	–
Interest payable on interest bearing loans	**128**	356	**–**	–
Borrowing costs expensed	**317**	634	**–**	–
Net loss on disposal of plant and equipment	**356**	111	**–**	–
Other provisions – Employee entitlements	**48**	659	**–**	–
Rental expense relating to operating leases (including property leases)	**4,973**	4,854	**–**	–

Notes to the Financial Statements *continued*

Note 4. Profit/Loss from ordinary activities *continued*

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
(b) Individually significant items				
Expenses/Revenues				
Write down of goodwill following reassessment of carrying values	–	231,614	–	–
Write off of Research and Development costs previously capitalised	–	1,695	–	–
Termination costs of restructure	–	1,452	–	–
Write off of non-performing, non-current assets	–	3,840	–	–
Forgiveness of intercompany debt	–	–	**(4,547)**	4,020
Provision for non-recovery of intercompany debt	–	–	**1,474**	26,210
Write down of investments to recoverable amount (Note 34)	–	–	**10,569**	235,944
Total	–	238,601	**7,496**	266,174

Note 5. Income tax

(a) Income Tax expense

The income tax expense for the financial year differs from the amount calculated on the operating profit (loss). The differences are reconciled as follows:

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Profit (loss) from ordinary activities before income tax expense	**(646)**	(264,272)	**(11,986)**	(266,340)
Income tax calculated @ 30% (2001@34%)	**(194)**	(89,852)	**(3,596)**	(90,555)
Tax effect of permanent differences:				
Non-deductible entertainment	**179**	416	–	–
Non-deductible taxable profit/loss of divested entities	**334**	–	–	–
Non-deductible legal fees and acquisition/divestment costs	**54**	1	–	1
Non-deductible amortisation and write-downs of non current assets	**2,195**	85,597	**3,479**	80,265
Gain/(loss) on disposal of divested entities	**(453)**	–	–	–
Provision for non-recovery of intercompany loans	–	–	–	8,911
Research and development	–	–	–	–
Other items	**167**	97	–	1,393
Income tax adjusted for permanent differences	**2,282**	(3,741)	**(117)**	15
Benefit of tax losses not brought to account/(brought to account)	**(2,917)**	4,169	**117**	(15)
Net adjustment to deferred income tax liabilities and assets to reflect the decrease in company tax rate to 30%/34%	–	127	–	–
Under/(over) provision in previous year	–	(475)	–	–
Aggregate income tax expense/(credit)	**(635)**	80	–	–

(b) Income Tax benefits

The Directors estimate that the potential future income tax benefit at 30 June 2002 in respect of tax losses not brought to account and tax effected @ 30% (2001@30%) are:	**561**	2,794	–	–

Note 5. Income tax *continued*

This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions for the losses to be realised; or

(ii) the losses are transferred to an eligible entity in the consolidated entity; and

(iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Future income tax benefits attributable to tax losses recognised at 30 June 2002 of $632,000 (2001 $Nil) have been included in Note 5(d).

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
(c) Franking Credits available for subsequent financial years	**16,581**	16,166	–	4,277
The above amounts represent the balances of the franking accounts as at the end of the financial year, which do not require adjustment for payment of taxes or dividends. The balances of the franking account disclosed are based on a tax rate of 30%.				
(d) Tax assets and liabilities				
Current asset – Deferred tax assets				
Future income tax benefit	**632**	–	–	–
Non-Current asset – Deferred tax assets				
Future income tax benefit	**775**	728	–	–
Current liability – Current tax liabilities				
Provision for income tax	**40**	329	–	–
Non-current liability – Deferred tax liabilities				
Provision for deferred income tax	**82**	281	–	–

Note 6. Discontinuing Operations

On 8 November 2001, the Sausage Software HotDog products business was sold for a cash consideration of $105,503. On 28 December 2001, 100% ownership of Tribal Pty Ltd was disposed of by the Company for a consideration of $142,253. Neither disposal is deemed to be material to the consolidated entity.

On 6 February 2002, the Company announced that an agreement to sell 100% ownership of controlled entity PRONTO Software Pty Ltd had been signed. The sale was concluded on 22 February 2002 and is consistent with the focus on the core business of IT strategic management with specialist integration and development. PRONTO Software Pty Ltd operated the business of providing enterprise management solutions predominantly in Australia and constituted the reportable Products segment of the consolidated operations. The PRONTO Software Pty Ltd operating result up to the 22 February 2002 date of disposal has been included in the determination of the consolidated result. All assets and liabilities of PRONTO Software Pty Ltd were removed from the consolidated balances as at 22 February 2002 as part of the calculation of the profit on sale.

Financial information relation to discontinued operations for the reporting period to the date of disposal is included in the Statements of Financial Performance and Statements of Cash Flows.

Notes to the Financial Statements *continued*

Note 6. Discontinuing Operations *continued*

	$'000
(i) The carrying amounts of PRONTO Software Pty Ltd assets and liabilities as at the 22 February 2002 date of sale and calculation of profit on sale are shown following:	
Cash	5,201
Trade and other Debtors	3,500
Inventory and Accrued Income	169
Other Current Assets	524
Property Plant & Equipment	1,070
Total Assets	**10,464**
Accounts Payable	1,244
Current borrowings from related parties	6,725
Current borrowings from third parties	47
Employee Entitlements and provisions	2,068
Other current liabilities	2,709
Non-current borrowings from third parties	68
Total Liabilities	**12,861**
Net Liabilities	**(2,397)**
Details of the sale are as follows:	
Consideration:	
Cash to acquire ordinary shares	1,275
Cash repayment of current borrowings from related parties	5,925
Cash loan repayment receivable by 30 June 2002	400
Cash loan repayment receivable by 31 December 2002	400
	8,000
Cash Divested	**(5,201)**
Net proceeds from discontinued operations	**2,799**

At 30 June 2002, both the loan repayment receivable by 30 June 2002 of $400,000 and that of $400,000 receivable by 31 December 2002 had been repaid in full by PRONTO Software Pty Ltd. The charge over the assets, undertaking and rights of PRONTO Software Pty Ltd, both present and future, securing the repayment of both amounts was duly released prior to 30 June 2002.

Details of the gain on sale are as follows:

	Consolidated $'000	Parent Entity $'000
Proceeds from sale of shares	1,275	1,275
Cost of Investment	–	(12,714)
Reversal of provision for diminution	–	12,101
Carrying amount of net liabilities sold	2,397	–
Profit on sale before income tax	3,672	662
Income tax expense	–	–
Unamortised balance of PRONTO goodwill written off	(2,263)	–
Consolidated profit on sale after income tax expense	**1,409**	**662**

Note 6. Discontinuing Operations *continued*

	$'000
(ii) The PRONTO Software Pty Ltd revenues and expenses incorporated in the determination of the consolidated operating result for the financial year ended 30 June 2002 were as follows:	
Revenues	13,295
Expenses	(13,441)
Profit/(loss) before income tax, interest, depreciation and amortisation	(146)
Interest received and receivable	64
Depreciation	(410)
Amortisation	(13)
Profit/(loss) before income tax	(505)
Income tax expense	–
Profit/(loss) after income tax	**(505)**

(iii) The PRONTO Software Pty Ltd operating, investing and financing cash flows during the period to 22 February 2002 were as follows:

Operating cash flows	2,395
Financing cash flows	1
Investing cash flows	(493)
Increase in cash balances for the period	1,903
Cash balances as at 1 July 2001 held by PRONTO Software Pty Ltd	3,298
Cash balances held by PRONTO Software Pty Ltd as at 22 February 2002	**5,201**

Note 7. Current Assets – Cash Assets

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Cash at bank and on hand	**16,281**	8,251	–	–
Deposits at call	**31,387**	13,745	**28,877**	162
	47,668	21,996	**28,877**	162

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 4.23% and 4.98% (2001: 4.5% and 5.5%)

Note 8. Current Assets – Receivables

Trade debtors	**21,077**	30,479	–	–
Less: Provision for doubtful debts	**(552)**	(647)	–	–
	20,525	29,832	–	–
Sundry and other debtors	**74**	770	–	–
Less: Provision for doubtful debts	–	(146)	–	–
	74	624	–	–
Income taxes refundable	**1,544**	1,434	–	–
Accrued income	**196**	1,018	**105**	–
	22,339	32,908	**105**	–

Note 9. Current Assets – Inventories

Stock on hand, at cost	–	54	–	–

Notes to the Financial Statements *continued*

Note 10. Current Assets – Other

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Prepayments	**782**	480	**–**	–
Security deposits	**220**	128	**–**	–
	1,002	608	**–**	–

Note 11. Non-Current Assets – Receivables

Amounts receivable from related entities (Note 33)	**–**	–	**45,473**	46,523
Less: provision for recoverability	**–**	–	**(27,685)**	(26,210)
	–	–	**17,788**	20,313

Note 12. Non-Current Assets – Other financial assets

Unlisted investments (Note 34)

Shares in controlled entities – at cost	**–**	–	**392,188**	406,797
Less: Provision for diminution	**–**	–	**(241,707)**	(244,944)
	–	–	**150,481**	161,853

Note 13. Non-Current Assets – Property, plant and equipment

Plant and equipment – at cost	**3,680**	5,790	**–**	–
Less: Accumulated depreciation	**(1,621)**	(2,474)	**–**	–
	2,059	3,316	**–**	–
Leasehold improvements – at cost	**3,289**	3,179	**–**	–
Less: Accumulated amortisation	**(2,116)**	(1,159)	**–**	–
	1,173	2,020	**–**	–
Plant and equipment under finance lease	**4,155**	4,486	**–**	–
Less: Accumulated amortisation	**(2,898)**	(476)	**–**	–
	1,257	4,010	**–**	–
	4,489	9,346	**–**	–

Reconciliations

Reconciliations of the carrying amount of property, 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 property, plant or equipment.

Consolidated Entity	**Plant and Equipment $'000**	**Leasehold Improvements $'000**	**Plant and equipment under finance lease $'000**
Carrying amount at 1 July 2001	**3,316**	**2,020**	**4,010**
Additions	**1,079**	**115**	**65**
Disposals	**(402)**	**(6)**	**(129)**
Writedown to recoverable amount	**(557)**	**–**	**–**
Disposals through divestment	**(1,103)**	**–**	**(105)**
Depreciation/Amortisation charge	**(2,352)**	**(956)**	**(506)**
Transfers	**2,078**	**–**	**(2,078)**
Carrying amount at 30 June 2002	**2,059**	**1,173**	**1,257**

Note 13. Non-Current Assets – Property, plant and equipment *continued*

During the period the carrying amount of the assets of Garner MacLennan Design Pty Ltd, a controlled entity, have been written down to their recoverable amounts in accordance with *AASB 1010 Recoverable amount of non-current assets*.

Garner MacLennan Design Pty Ltd	Plant and Equipment $'000	Leasehold Improvements $'000
Carrying amount at 1 July 2001	**961**	**41**
Additions	**285**	–
Depreciation/Amortisation charge	**(643)**	**(11)**
Writedown to recoverable amount	**(557)**	–
Carrying amount at 30 June 2002	**46**	**30**

Note 14. Non-Current Assets – Intangibles

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Goodwill	**364,728**	375,683	–	–
Less: Accumulated amortisation	**(246,586)**	(247,960)	–	–
	118,142	127,723	–	–

Note 15. Non-Current Assets – Other

Security deposits and other sundry assets	–	3	–	–

Note 16. Current Liabilities – Payables

Trade creditors	**2,142**	2,133	–	–
Other creditors	**2,971**	4,264	**202**	–
	5,113	6,397	**202**	–

Note 17. Current Liabilities – Interest bearing liabilities

Lease liability (Note 31)	**798**	1,612	–	–
Director loans	–	2,800	–	–
Other loans	–	893	–	–
	798	5,305	–	–

Director loans, which included loans from entities associated with Directors, and Other loans were unsecured, repayable at call and bore interest for the forthcoming month based on the published cash rate as at the close of business on the last day of the previous month. Refer Note 33 for movements in Director loans.

The lease liability is secured by a lien over the assets subject to the finance lease arrangement.

Note 18. Current Liabilities – Provisions

Employee entitlements (Note 32)	**3,242**	5,024	–	–

Note 19. Current Liabilities – Other

Amounts payable to controlled entities (Note 33)	–	–	**24,265**	9,486
Prepaid revenue	**419**	1,559	–	–
	419	1,559	**24,265**	9,486

Amounts payable to controlled entities are unsecured.

Notes to the Financial Statements *continued*

Note 20. Non-Current Liabilities – Interest bearing liabilities

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Lease liabilities (Note 31)	**650**	1,484	**–**	–

The lease liability is 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 Notes 10 and 15 plus a Standard Authority to Appropriate and Set-Off a Term Deposit 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 $2,500,000.

Financing Arrangements

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

	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Total facilities				
Interchangeable lease facility	**2,600**	100	**–**	–
Bank Indemnity/Guarantee facility	**806**	876	**162**	162
Encashment and Clean Credit facility	**155**	404	**–**	–
	3,561	1,380	**162**	162
Used at balance date				
Interchangeable lease facility	**81**	–	**–**	–
Bank Indemnity/Guarantee facility (Note 30)	**681**	820	**162**	162
Encashment and Clean Credit facility	**–**	–	**–**	–
	762	820	**162**	162
Unused at balance date				
Interchangeable lease facility	**2,519**	100	**–**	–
Bank Indemnity/Guarantee facility	**125**	56	**–**	–
Encashment and Clean Credit facility	**155**	404	**–**	–
	2,799	560	**–**	–

Note 21. Non-Current Liabilities – Provisions

Employee entitlements (Note 32)	**456**	474	**–**	–

Note 22. Contributed equity

	Parent Entity		Parent Entity	
	2002 Shares '000	2001 Shares '000	**2002 $'000**	2001 $'000
(a) Share capital				
Ordinary shares – fully paid	**353,073**	287,197	**463,601**	442,186
– partly paid to 24 cents	**–**	36,000	**–**	8,640
– to be issued	**–**	177	**–**	500
– to be cancelled	**(718)**	–	**(347)**	–
	352,355	323,374	**463,254**	451,326

Note 22. Contributed equity *continued*

The 36 million ordinary shares partly paid to $0.24 as at 30 June 2001 were fully paid on 14 May 2002 with the receipt of the $0.24 per share balance of issue price payable.

The $500,000 equity to be issued at 30 June 2001 reflected the final issue of shares as consideration for the acquisition of the Tribal business which occurred on 25 July 2001.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of a company in proportion to the number of and amounts paid on shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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

Date	Details	Number of Shares	Issue Price	$'000
1 July 2001	Opening balance	323,373,813	Various	**451,326**
7 Sept 2001	Conversion of 35 million options	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)	Various	**(3,651)**
30 June 2002		353,073,243		**463,601**

A total of 1,635,300 ordinary shares were issued during the financial year as a consequence of conversion of options with a nil exercise price. There were 595,000 ordinary shares issued during the financial year following the conversion of options at an exercise price of $0.48 for total proceeds of $285,600 as reflected in the Statements of Cash Flows. The balance of 24 cents per shares payable on 36 million shares partly paid to 24 cents each at 30 June 2001 was received on 14 May 2002 and the shares converted to fully paid, quoted, ordinary shares at that date.

On 30 October 2001 the Company announced its intention to carry out an On Market share buy back within the Section 254B(4) Corporations Act 2001 10% in 12 months limit commencing not earlier than 15 November 2001. During the period to balance date, a total of 8,249,019 shares had been purchased by the company of which 7,530,870 were cancelled during the year with the balance of 718,149 cancelled on 4 July 2002. The total purchase price paid was $3,650,992 for the cancelled shares and $347,068 for those shares cancelled on 4 July 2002 and reflected at balance date as shares and equity to be cancelled.

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

Date	Details	Number of Shares	Issue Price	$'000
July 2000	Opening balance	283,490,223	–	**440,469**
July 2000	Issue to acquire Tribal business	353,409	$2.83	**1,001**
Aug 2000 to Oct 2000	Issue of scrip for services with equity value recognised in prior year	131,336	–	–
Oct 2000 and May 2000	Issue of shares pursuant to employment contract	25,000	–	–
Dec 2000	Issue of shares to acquire Content Corporation Limited	489,000	$0.82	**400**
Various	Conversion of options with nil exercise price	2,350,645	–	–
Various	Conversion of options with exercise prices between $1.00 and $2.00	534,200	Various	**819**
17 May 2001	Issue of ordinary shares partly paid to $0.24	24,000,000	$0.48	**5,760**
29 June 2001	Issue of ordinary shares partly paid to $0.24	12,000,000	$0.48	**2,880**
Various	Less: Transaction costs arising on share issues	–		**(3)**
		323,373,813		**451,326**

Notes to the Financial Statements *continued*

Note 22. Contributed equity *continued*

(d) Movements in options during the year

	Balance at beginning of year No	Converted into ordinary shares No	Expired during financial year No	Issued during year No	Balance at end of year No
Exercise price of $0.20 and expiry date of September 2001	35,000,000	(35,000,000)	–	–	–
Exercise price of $2.00 and expiry date of 9 September 2001	7,351,217	–	(7,351,217)	–	–
Exercise price of $1.35 and expiry date of 9 September 2001	43,170,164	–	(43,170,164)	–	–
Employment contract options with various exercise prices and expiry dates	7,377,500	–	(3,282,500)	425,000	4,520,000
Issued to acquire GMD Group Pty Ltd with expiry date of 18 and 20 September 2001	741,105	–	(741,105)	–	–
Exercise price of $nil issued pursuant to former Employee Option Plan	2,108,905	(1,635,300)	(144,965)	–	328,640
Exercise price of $2.00 and expiry date of 30 June 2010	2,670,000	–	(2,626,000)	–	44,000
Exercise price of $2.00 and expiry date of 30 June 2005	3,996,000	–	(3,770,000)	–	226,000
Exercise price of $2.00/ $2.50/ $3.00 and expiry date of 30 June 2005	2,720,000	–	(2,680,000)	–	40,000
Exercise price of $0.48 and expiry date of 30 June 2006 issued to employees	–	(595,000)	(6,175,100)	18,687,600	11,917,500
Exercise price of $0.48 and expiry date of 30 June 2006 issued to Directors	–	–	(1,000,000)	2,600,000	1,600,000
	105,134,891	(37,230,300)	(70,941,051)	21,712,600	18,676,140

(e) Post balance date movements in equity

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

- 17,950,553 shares have been cancelled between 1 July 2002 and 28 August 2002 in respect of the share buy back scheme. Total cash outlay to acquire the shares was $8,208,216 of which $144,600 was paid pre balance date.
- 205,000 options issued pursuant to employment contracts have expired and been cancelled.
- 202,000 options with an exercise price of $2.00 issued pursuant to the former Employee Share Option Plan have expired and been cancelled.
- 692,500 options with an exercise price of $0.48 issued pursuant to the SMS Management & Technology Limited Employee Share Option Plan have been issued. The expiry date is 30 June 2006 and vesting occurs progressively on 1 July 2002, 1 July 2003 and 1 July 2004.

Note 23. Reserves and retained profits

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
(a) Reserves:				
Capital Profits reserve	**–**	100	**–**	100
Options Premium reserve	**–**	1,297	**–**	1,297
Foreign Currency Translation reserve	**40**	223	**–**	–
	40	1,620	**–**	1,397

Note 23. Reserves and retained profits *continued*

Nature and purpose of reserves:

$500,000 of the Options Premium reserve arose following the issue of options on 9 September 1996. The balance of the reserve of $797,000 arose following the acquisition of the GMD Group during the 2000 financial year and comprises a Black-Scholes valuation of options granted as part of the consideration given to acquire that group of entities. There has been no movement in the reserve during the 2002 or 2001 financial years. The Board resolved to transfer this amount to retained profits for the year ended 30 June 2002.

The Capital Profits reserve arose prior to the listing of the Company in 1996 and there has been no movement in either the 2002 or 2001 financial years. The Board resolved to transfer this amount to retained profits for the year ended 30 June 2002.

Exchange differences arising on translation of wholly owned subsidiaries SMS Management & Technology Limited (formerly M86 Limited and incorporated in the UK) and SMS M&T Pte Ltd (formerly Sausage Software Pte Ltd and incorporated in Singapore) are taken to the foreign currency translation reserve in accordance with accounting policy Note 1(c).

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Movements in reserves:				
Foreign Currency Translation Reserve				
Balance at beginning of year	**223**	(96)	–	–
Foreign currency translation of SMS Management & Technology Limited and SMS M&T Pte Ltd operations	**(183)**	319	–	–
Balance at end of year	**40**	223	–	–
Capital Profits Reserve				
Balance at beginning of year	**100**	100	**100**	100
Transfer to Retained Profits/(Losses)	**(100)**	–	**(100)**	–
Balance at end of year	–	100	–	100
Options Premium Reserve				
Balance at beginning of year	**1,297**	1,297	**1,297**	1,297
Transfer to Retained Profits/(Losses)	**(1,297)**	–	**(1,297)**	–
Balance at end of year	–	1,297	–	1,297
(b) Retained profits:				
Accumulated losses at the beginning of the financial year	**(280,433)**	(16,081)	**(279,881)**	(13,541)
Net loss attributable to members of SMS Management & Technology Limited	**(11)**	(264,352)	**(11,986)**	(266,340)
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	**(279,047)**	(280,433)	**(290,470)**	(279,881)

Note 24. Dividends

No dividends have been paid or provided for by the parent entity in the year ended 30 June 2002.

Note 25. Financial Instruments

(a) Credit Risk Exposures

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.

(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. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

Notes to the Financial Statements *continued*

Note 25. Financial Instruments *continued*

(c) Net Fair Value of Financial Assets and Liabilities

(i) On the Statements of Financial Position

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.

(ii) Off the Statements of Financial Position

There are no financial assets or liabilities not recorded in the Statements of Financial Position which have a measurable net fair value. The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 30. As explained in that Note, no material losses are anticipated in respect of any of those contingencies.

			Fixed interest maturing in:				
2002	**Note**	**Floating Interest Rate $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Non Interest bearing $'000**	**Total $'000**
Financial Assets							
Cash and deposits	7	45,150	2,510	–	–	8	47,668
Trade and other Receivables	8	–	–	–	–	22,339	22,339
		45,150	**2,510**	**–**	**–**	**22,347**	**70,007**
Weighted average interest rate		**4.5%**	**4.17%**				
Financial Liabilities							
Trade and other creditors	16	–	–	–	–	5,113	5,113
Lease liabilities	17, 20	–	798	650	–	–	1,448
Prepaid revenue	19	–	–	–	–	419	419
Director and Other Loans	17	–	–	–	–	–	–
		–	**798**	**650**	**–**	**5,532**	**6,980**
Weighted average interest rate			**7.8%**	**7.8%**			
Net financial assets/(liabilities)		**45,150**	**1,712**	**(650)**	**–**	**16,815**	**63,027**

			Fixed interest maturing in:				
2001	**Note**	**Floating Interest Rate $'000**	**1 year or less $'000**	**1 to 5 years $'000**	**More than 5 years $'000**	**Non Interest bearing $'000**	**Total $'000**
Financial Assets							
Cash and deposits	7	16,856	5,105	–	–	35	21,996
Trade and other debtors	8	–	–	–	–	30,456	30,456
Receivables – other	8	–	–	–	–	2,452	2,452
		16,856	**5,105**	**–**	**–**	**32,943**	**54,904**
Weighted average interest rate		**4.9%**	**4.8%**				
Financial Liabilities							
Trade and other creditors	16	–	–	–	–	6,397	6,397
Lease liabilities	17, 20	–	1,612	1,484	–	–	3,096
Prepaid revenue	19	–	–	–	–	1,559	1,559
Director and Other Loans	17	3,693	–	–	–	–	3,693
		3,693	**1,612**	**1,484**	**–**	**7,956**	**14,745**
Weighted average interest rate		**8.25%**	**7.13%**	**7.13%**			
Net financial assets/(liabilities)		**13,163**	**3,493**	**(1,484)**	**–**	**24,987**	**40,159**

Note 26. Remuneration of Directors

	Directors of Entities in the Consolidated Entity		Directors of Parent Entity	
	2002	2001	**2002**	2001
	$	$	**$**	$
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	**2,372,129**	1,774,464	**501,047**	417,405

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' Remuneration excludes any monetary amounts for options granted on the basis that the granting of the options does not involve a cost to the consolidated entity and consistent with the accounting policy referred to in Notes 1(l) and 1(q). Directors' Remuneration also excludes the Directors and Officers Liability insurance premium paid by the parent entity as the contracts do not specify premiums paid in respect of individual Directors or officers. Information relating to the insurance contracts is provided in the Directors' Report.

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

$		$	**2002** **No**	2001 No
0	–	9,999	**1**	5
10,000	–	19,999	**1**	–
20,000	–	29,999	**2**	2
60,000	–	69,999	**1**	–
70,000	–	79,999	**1**	–
80,000	–	89,999	**–**	1
270,000	–	279,999	**–**	1
280,000	–	289,999	**1**	–

Options are granted to Directors subject to shareholder approval. The following issues of options were made to Directors during the financial year with an exercise price of $0.48, a five year term and vesting one third on 1 July 2002, one third on 1 July 2003 and the final third on 1 July 2004 as approved by shareholders on 25 June 2001:

Laurence G Cox	1,000,000
D Lloyd Roberts	1,000,000
Bruce Thompson	300,000
John Murphy	300,000

In addition to the 1,000,000 options disclosed above, Mr Cox has a further 500,000 options to acquire existing ordinary shares by way of private arrangement with Macquarie Bank Limited.

Options issued to D Lloyd Roberts were cancelled following his resignation on 25 March 2002.

390,000 options were issued under the SMS Management & Technology Limited Employee Share Option Plan on 31 July 2001 to Mr Thomas Stianos in his capacity as Executive Officer prior to his appointment as a Director. The issue was pursuant to the SMS Management & Technology Limited Employee Share Option Plan exercisable at $0.48 and vesting 20,000 immediately on issue, 135,500 on 1 July 2002, 115,500 on 1 July 2003 and 119,000 on 1 July 2004.

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

There were no retirement benefits paid to Directors during the financial year (2001: $nil).

Notes to the Financial Statements *continued*

Note 27. Remuneration of Executives

	Executive Officers of the Consolidated Entity		Executive Officers of the Parent Entity	
	2002	2001	**2002**	2001
	$	$	**$**	$
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 *	**1,553,417**	1,369,134	**1,553,417**	1,369,134
Executive officers of other entities in the consolidated entity	**1,511,140**	1,172,693	**–**	–
	3,064,557	2,541,827	**1,553,417**	1,369,134

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

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 32. Executive officers are also entitled to participate in the SMS Management & Technology Limited Employee Share Option Plan which commenced after the 2001 financial year with the first options issued on 31 July 2001.

A summary of the options and shares issued during the financial year to executive officers pursuant to employment contracts and the SMS Management & Technology Limited Employee Share Option Plan is set out below. No valuation of the options has been taken into account in the aggregate or individual remuneration figures as presented in this note in accordance with the accounting policy outlined in Note 1(q).

	Options Granted No	**Options Exercised No**	**Options Expired No**	**Options Outstanding at balance date No**
Australian based executive officers of the parent entity	2,487,000	–	1,000,000	1,487,000
Australian based executive officers of other entities in the consolidated entity	1,615,750	350,000	–	1,265,750
	4,102,750	**350,000**	**1,000,000**	**2,752,750**

Executive Remuneration excludes any monetary amounts for options granted on the basis that the granting of the options does not involve a cost to the consolidated entity and consistent with the accounting policy referred to in Note 1 (l). Executive Remuneration also excludes the Directors and Officers Liability insurance premium paid by the parent entity as the contracts do not specify premiums paid in respect of individual Directors or officers. Information relating to the insurance contracts is provided in the Directors' Report.

The numbers of Australian based executive officers (including Directors) 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 Entity	
			2002	2001	**2002**	2001
$		$	**No**	No	**No**	No
110,000	–	119,999	**2**	–	**2**	–
120,000	–	129,999	**1**	–	**–**	–
130,000	–	139,999	**2**	–	**–**	–
170,000	–	179,999	**1**	–	**–**	–
200,000	–	209,999	**3**	3	**1**	1
230,000	–	239,999	**1**	2	**1**	2
250,000	–	259,999	**1**	–	**–**	–
260,000	–	269,999	**–**	2	**–**	1
270,000	–	279,999	**–**	1	**–**	1
280,000	–	289,999	**3**	1	**2**	–
310,000	–	319,999	**1**	–	**1**	–
350,000	–	359,999	**–**	1	**–**	–

Note 28. Remuneration of Auditors

	Consolidated		Parent Entity	
	2002	2001	**2002**	2001
	$	$	**$**	$
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers – Australian firm				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**220,403**	323,590	**220,403**	323,590
Advisory services	**15,665**	60,365	**–**	–
Taxation	**177,977**	347,985	**–**	–
Total Remuneration	**414,045**	731,940	**220,403**	323,590
Related practices of PricewaterhouseCoopers – Australian firm (including overseas PricewaterhouseCoopers firms)				
Audit or review of financial reports of the entity or any entity in the consolidated entity	**38,310**	33,267	**–**	–
Advisory Services	**41,429**	–	**–**	–
Taxation Services	**102,095**	181,569	**–**	–
Total Remuneration	**181,834**	214,836	**–**	–
Remuneration of other auditors of controlled entities for the audit or review of financial reports of any entity in the consolidated group	**–**	64,549	**–**	–

It is the consolidated entity's policy to employ PricewaterhouseCoopers 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.

Note 29. Receivables and Payables Denominated in Foreign Currencies

	Consolidated		Parent Entity	
	2002	2001	**2002**	2001
	$'000	$'000	**$'000**	$'000
Amounts not effectively hedged				
Receivables: Current, not effectively hedged in $AUD equivalent				
United States dollars	**80**	546	**–**	–
Euro currency	**–**	72	**–**	–
Singapore dollars	**505**	1,291	**–**	–
Great Britain pounds	**975**	1,816	**–**	–
New Zealand dollars	**28**	–	**–**	–
	1,588	3,725	**–**	–
Payables: Current, not effectively hedged in $AUD equivalent				
United States dollars	**–**	–	**–**	–
Singapore dollars	**120**	11	**–**	–
Great Britain pounds	**345**	299	**–**	–
New Zealand Dollars	**3**	–	**–**	–
	468	310	**–**	–

Notes to the Financial Statements *continued*

Note 30. 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 35.

(c) Bank guarantees

Bank guarantees of $681,345 have been provided as security for performance of property rental covenants (Note 20). The bank guarantees are secured by a Standard Authority to Appropriate and Set-Off Term Deposits to the equivalent facility value.

Note 31. Commitments for Expenditure

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Lease Commitments				
Operating Leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	**2,851**	3,013	**–**	–
Later than one year but not later than 5 years	**2,817**	5,419	**–**	–
Later than 5 years	**426**	–	**–**	–
Commitments not recognised in the financial statements	**6,094**	8,432	**–**	–
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	**912**	1,832	**–**	–
Later than one year but not later than 5 years	**665**	1,568	**–**	–
Minimum lease payments	**1,577**	3,400	**–**	–
Less: Future finance charges	**(129)**	(304)	**–**	–
Total lease liabilities	**1,448**	3,096	**–**	–
Representing lease liabilities:				
Current (Note 17)	**798**	1,612	**–**	–
Non-current (Note 20)	**650**	1,484	**–**	–
	1,448	3,096	**–**	–
Capital commitments				
Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**–**	–	**–**	–

Note 32. Employee Entitlements

	Consolidated		Parent Entity	
	2002 **$'000**	2001 $'000	**2002** **$'000**	2001 $'000
Employee entitlement liabilities				
Provision for employee entitlements – current (Note 18)	**3,242**	5,024	**–**	–
Provision for employee entitlements – non-current (Note 21)	**456**	474	**–**	–
Aggregate employee entitlement liability	**3,698**	5,498	**–**	–

	No	No	**No**	No
Employee numbers				
Number of employees at reporting date	**541**	1,005	**–**	–
As explained in Note 1(l), 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	**6.16%**	6.16%	**–**	–

Employee Share Option Plan

Options have been issued during the financial year under the SMS Management & Technology Limited Employee Share Option Plan (the Plan). All full time 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 2001, the exercise price of the options is $0.48 and the entitlements become exercisable progressively to 1 July 2004. The employees' entitlements to the options are vested as soon as they become exercisable subject to forfeiture provisions. The options expire on 30 June 2006 and are non-transferable and unquoted. No options were issued during the prior year ended 30 June 2001 pursuant to the Plan which came into effect during the 2002 financial year. Amounts receivable on the exercise of the options are recognised as share capital.

	Consolidated		Parent Entity	
	2002 **No**	2001 No	**2002** **No**	2001 No
Options issued to full and permanent part time employees	**18,687,600**	–	**–**	–
Less: Ordinary shares issued to employees on the exercise of options granted under the Plan	**595,000**	–	**–**	–
Less: Options expired and cancelled during the financial year	**6,175,100**	–	**–**	–
Unissued ordinary shares under the Plan options at balance date	**11,917,500**	–	**–**	–
Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	**$285,600**	–	**–**	–
Market value of shares issued to employees on the exercise of their options as at their issue date	**$291,550**	–	**–**	–

The market price per ordinary share at balance date was $0.495.

Notes to the Financial Statements *continued*

Note 32. Employee Entitlements *continued*

Employment contracts

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 issued during the financial year ranged from $0.48 to $3.00. 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 (ie they are not conditional on future employment) as soon as they become exercisable and the options are non-transferable and unquoted.

During the financial year, a total of 425,000 options were issued pursuant to employment contract terms and conditions. There were no conversions of employment contract options into ordinary shares during the financial year and a total of 3,282,500 employment contract options expired and were cancelled during the financial year such that the total number of employment contract-related options outstanding at balance date was 4,520,000 for employees and former employees.

Superannuation

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

Note 33. Related Parties

(a) Directors

The following persons were Directors of SMS Management & Technology Limited during the whole of the financial year and up to the date of this report. Details of Options are found at Note 26. 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 acquired 5,234,175 ordinary shares on market during the financial year ended 30 June 2002. On 14 May 2002, MDIL made the final payment on 22,422,058 partly paid shares to acquire 22,422,058 fully paid, quoted, ordinary shares.

Michael Traill

Mr Traill was Alternate Director for Mr L G Cox until appointed as a Director on 26 November 2001. He continues in office as at the date of this report. Mr Traill is an Executive Director of MDIL but is currently taking sabbatical leave from this position. As referred to in Note 26, and above, an equity position was taken during the 2001 financial year by MGB and interests associated with MDIL.

John Murphy

Mr Murphy is Managing Director of MGB Equity Growth Pty Ltd (MGB). MGB, an entity for which John Murphy is Managing Director, acquired 975,637 shares on market during the financial year ended 30 June 2002 and on 14 May 2002 made the final payment on 12 million partly paid shares to acquire 12 million fully paid, quoted, ordinary shares.

D Lloyd Roberts was Managing Director from the commencement of the financial year until his resignation on 25 March 2002.

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 Director for the entire year.

Gerry Sutton was a Director until his retirement on 26 November 2001.

(b) Remuneration and Retirement Benefits

Information on Remuneration of Directors is disclosed in Note 26.

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

Controlled entity SMS Consulting Group Limited received loans from its founder members, including a loan from founder and former Director D Lloyd Roberts (Note 17). These loans attracted interest at the published cash rate, were unsecured and were repayable at call. The balance of the loan principal and interest payable to D Lloyd Roberts and associated interests was repaid in full on 31 July 2001.

Note 33. Related Parties *continued*

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

	Consolidated		Parent Entity	
	2002	2001	**2002**	2001
	$	$	**$**	$
Unsecured loan at beginning of year	**2,799,997**	3,700,000	**–**	–
Interest capitalised during the year	**16,534**	268,036	**–**	–
Advances during the year	**–**	2,314,572	**–**	–
Repayments during the year	**(2,816,531)**	(3,482,611)	**–**	–
Unsecured loan at end of year (Note 17)	**–**	2,799,997	**–**	–

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 26 and 33(a) above. There were no disposals of securities by Directors during the financial year ended June 2002 (nil disposals: 2001)

(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 or the consolidated entity, or their Director-related entities at balance date:

	2002		2001	
	Shares	**Options**	Shares	Options
	No	**No**	No	No
Laurence G Cox	**875,000**	**1,000,000**	875,000	–
Thomas Stianos	**11,047,190**	**390,000**	–	–
Bruce Thompson	**100,000**	**300,000**	100,000	–
John Murphy	**130,000**	**300,000**	–	–
Michael Traill	**184,000**	**–**	184,000	–
Gerry Sutton	**–**	**–**	–	–
D Lloyd Roberts	**–**	**–**	49,141,968	1,000,000

Laurence G Cox is a Director of Macquarie Bank. Michael Traill is a Director of MDIL. At the date of this report, MDIL held a total of 27,656,233 ordinary shares.

John Murphy is Managing Director of MGB a company which holds 12,975,637 ordinary shares.

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

Except for the event occurring after balance date referred to in Note 36, there were no other transactions involving Directors or Director-related entities during the financial year.

(g) Wholly-owned Group

The wholly-owned group consists of SMS Management & Technology Limited and its wholly controlled entities as set out in Note 34. Transactions between SMS Management & Technology Limited and other entities in the wholly-owned group during the year ended 30 June 2002 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 11 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 34.

Notes to the Financial Statements *continued*

Note 34. Investment in Controlled Entities

(a) Investments in controlled entities

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding		Cost of Parent Entity's Investment	
			2002 %	2001 %	**2002 $'000**	2001 $'000
SSH Financial Services Pty Ltd (formerly Sausage Software (Holdings) Pty Ltd) #	Australia	Ordinary	**100**	100	**10,537**	10,537
SMS Administration Pty Ltd (formerly Sausage Software (Administration) Pty Ltd) #	Australia	Ordinary	**100**	100	**–**	–
Sausage Software (Special Developments) Pty Ltd (i)	Australia	Ordinary	**–**	100	**–**	–
Tribal Pty Ltd (ii)	Australia	Ordinary	**–**	100	**–**	7,000
Sausage Software (USA) Inc. (i)	USA	Ordinary	**–**	100	**–**	–
Evend Inc. (iii)	USA	Ordinary	**100**	100	**–**	–
SMS M&T Pte Ltd (iv)	Singapore	Ordinary	**100**	100	**106**	106
PRONTO Software Pty Ltd (v)	Australia	Ordinary	**–**	100	**–**	12,714
Maximo Go Pty Ltd (vi)	Australia	Ordinary	**100**	100	**6,363**	6,363
GMD Group Pty Ltd (vii) #	Australia	Ordinary	**100**	100	**20,978**	15,473
SMS Consulting Group Limited (viii) #	Australia	Ordinary	**100**	100	**354,204**	354,204
Content Corporation Ltd (i)	Australia	Ordinary	**–**	100	**–**	400
Cost of parent entity's investment					**392,188**	406,797
Less provision for diminution in investments held by parent entity (ix)					**(241,707)**	(244,944)
Carrying value of investments					**150,481**	161,853

(i) Content Corporation Limited, Final Scores Pty Ltd (a subsidiary of Content Corporation Limited) and Sausage Software (Special Developments) Pty Ltd were de-registered on 30 December 2001. Sausage Software (USA) Inc. is in the process of de-registration.

(ii) The business of Tribal was acquired during the 2001 financial year by controlled entity Kercado Pty Ltd which then changed its name to Tribal Pty Ltd. Tribal Pty Ltd was sold on 28 December 2001. A consolidated profit of $13,932 after sale expenses was incurred on the disposal.

(iii) The Sausage Software Internet products business was sold during the year ended 30 June 2002 however 100% ownership of Evend Inc. was retained and excluded from the sale agreement.

(iv) SMS M&T Pte Ltd (formerly Sausage Software Singapore Pte Ltd) was incorporated in Singapore during the 2001 financial year and holds a 100% beneficial interest in SMS Management & Technology Limited (formerly SMS Alliance Limited), a company incorporated in Hong Kong.

(v) PRONTO Software Pty Ltd was sold on 22 February 2002. Details of the sale are disclosed in Note 6, Discontinuing Operations. PRONTO Software SASU was incorporated in France during the 2001 financial year and is wholly owned by PRONTO Software Pty Ltd as is PRONTO Inc, a company incorporated in the USA.

(vi) Maximo Go Pty Ltd held a 100% interest in Method Corporation Pty Ltd (#) at balance date. Method Corporation Pty Ltd is a company incorporated in Australia.

(vii) GMD Group Pty Ltd held interests at balance date as set out following.

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding	
			2002 %	2001 %
Garner MacLennan Design Pty Ltd #	Australia	Ordinary	**100**	100
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 Interactive Pty Ltd held a non-controlling 50% interest in GMI.DW Pty Ltd at balance date. GMI.DW Pty Ltd is a company incorporated in Australia and has been equity accounted for in the financial statements. The investment in GMI.DW Pty Ltd is $1 and profits are distributed in full.

Garner MacLennan Design Pty Ltd was sold after balance date on 2 July 2002.

Note 34. Investment in Controlled Entities *continued*

(viii) SMS Consulting Group Limited held a 100% interest in SMS Management & Technology Limited (formerly M86 Limited), a company incorporated in the UK.

(ix) Provisions have been raised to write down the carrying value of investments held by parent entity SMS Management & Technology Limited to reflect the underlying net assets of subsidiaries held plus any unamortised balance of goodwill attributed to those subsidiaries.

(b) Acquisition of Controlled Entities and Business Assets in 2002

There were no acquisitions during the 2002 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 35.

Note 35. Deed of Cross Guarantee

SMS Management & Technology Limited, SSH Financial Services Pty Ltd (formerly Sausage Software (Holdings) Pty Ltd), SMS Consulting Group Limited, Method Corporation Pty Ltd, GMD Group Pty Ltd, Garner MacLennan Interactive Pty Ltd, Garner MacLennan Design Pty Ltd and SMS Administration Pty Ltd (formerly Sausage Software (Administration) Pty Ltd) are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others. PRONTO Software Pty Ltd, Content Corporation Limited and Tribal Pty Ltd were party to the Deed as at 30 June 2001 but were removed from the Closed Group during the financial year ended 30 June 2002 upon disposal or deregistration accordingly.

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 2002 and 30 June 2001 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 2002 and 30 June 2001 effectively comprise the full Statement of Financial Performance and Statement of Financial Position included in this Annual Report.

Note 36. Events Occurring After Balance Date

Following a competitive tender process and by way of Share Sale Agreement, on 2 July 2002 Garner MacLennan Design Pty Ltd was sold to a third party of which Director John Murphy is a Director. Mr Murphy declared his interest and was duly excluded from all discussion and decision making concerning the sale. No accounting profit or loss is expected to be recorded in respect of the sale in the year ended 30 June 2003 given that write downs totalling $557,158 of the assets of Garner MacLennan Design Pty Ltd to their recoverable amount have been brought to account during the financial year ended 30 June 2002 (Note 13). Estimated proceeds from the sale are $1,300,000. Garner MacLennan Design Pty Ltd was removed from the Closed Group as disclosed in Note 35 effective from 2 July 2002.

Subsequent to balance date and up to the date of this report, a total of 692,500 options have been issued pursuant to the SMS Management & Technology Limited Employee Share Option Plan, of which none have been converted into ordinary shares. These options have an exercise price of $0.48 and vest progressively on 1 July 2002, 1 July 2003 and 1 July 2004. A total of 447,000 options have expired and been cancelled and 7,900 converted in the same period.

Subsequent to balance date and up to 28 August 2002, a total of 17,232,404 shares have been bought back by the Company for a total cash consideration of $7,861,148 in accordance with the share buy back scheme referred to in Note 22.

Except for the matters noted above, no other matter or circumstance has arisen since 30 June 2002 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.

Notes to the Financial Statements *continued*

Note 37. Reconciliation of Operating Profit (Loss) after Income Tax to Net Cash Inflow (Outflow) from Operating Activities

	Consolidated		Parent Entity	
	2002 $'000	2001 $'000	**2002 $'000**	2001 $'000
Operating profit (loss) after income tax	**(11)**	(264,352)	**(11,986)**	(266,340)
Depreciation and amortisation	**11,140**	255,839	**–**	–
Net (profit)/loss on disposal or write down of non-current assets	**356**	3,951	**–**	–
Net (profit)/loss on divestment of non core businesses (Note 4(a))	**(1,504)**	–	**4,880**	–
Intercompany debt forgiveness (Note 4(b))	**–**	–	**(4,547)**	4,020
Provision for diminution of investments (Note 4(b))	**–**	–	**10,569**	235,944
Exchange rate movements in foreign currency translation reserve	**(182)**	319	**–**	–
Provision for non-recovery of intercompany loans (Note 4(b))	**–**	–	**1,474**	26,210
Capitalised loan interest payable	**–**	355	**–**	–
Bad and Doubtful Debts	**18**	616	**–**	–
Provision of security deposits for operating activities	**(130)**	–	**–**	–
Provision for non-recovery of Garner MacLennan Design Pty Ltd assets	**557**	–	**–**	–
Decrease (increase) in trade and other debtors	**7,527**	(517)	**–**	–
Decrease (increase) in inventories	**(535)**	16	**–**	–
Decrease (increase) in other assets	**(757)**	1,601	**–**	–
Increase (decrease) in trade creditors, prepaid revenue and Provisions	**1,571**	(3,451)	**–**	–
Decrease (increase) in prepaid income tax	**(248)**	–	**–**	–
Decrease (increase) in future income tax benefit	**(679)**	963	**–**	–
Increase (decrease) in provision for income tax	**(87)**	(8,273)	**–**	–
Increase (decrease) in provision for deferred income tax	**(140)**	(711)	**–**	–
Net cash inflow (outflow) from operating activities	**16,896**	(13,644)	**390**	(166)

Note 38. Non-Cash Financing and Investing Activities

Acquisition of plant and equipment by means of finance leases (Note 13)	**65**	2,196	**–**	–
Shares issued as consideration for the acquisition of businesses acquired during the financial year (excluding other costs of acquisition settled by cash):				
Content Corporation Limited	**–**	400	**–**	400
Tribal	**–**	1,001	**–**	1,001
	–	1,401	**–**	1,401

Note 39. Earnings per Share

	Consolidated	
	2002 **Cents**	2001 Cents
Basic earnings (loss) per share	**(0.00)**	(91.65)
Diluted earnings (loss) per share	**(0.00)**	See (b) below
	$'000	$'000
Earnings used in calculating earnings per share		
Net profit/(loss)	**(11)**	(264,352)
	Number	Number
Weighted average number of ordinary shares		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**334,731,220**	288,419,445
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**354,620,375**	See (b) below
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in the calculation of diluted earnings per share	**19,560,515**	See (b) below

(a) Partly paid ordinary shares

Partly paid ordinary shares carry the right to participate in dividends in proportion to the amount paid relative to the total issue price and to that extent they are recognised as ordinary share equivalents in the determination of basic earnings per share. Amounts uncalled on partly paid shares are treated as the equivalent of options to acquire ordinary shares and as potential ordinary shares in the calculation of fully diluted earnings per share.

(b) Options

Options issued under the SMS Management & Technology Limited Employee Share Option Plan, to Directors and under contracts of employment are considered to be potential ordinary shares as they are capable of conversion into ordinary shares on a one for one basis via payment of the exercise price. Options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 22.

Potential ordinary shares (options) have not been included in the determination of diluted earnings per share for the year ended 30 June 2002 except for those options with a nil exercise price, being the only exercise price for options on issue below the average market price for the 2002 fiscal year. The ordinary shares partly paid as at 1 July 2001 have been included in the determination of diluted earnings per share to the extent of their non-participation in dividend rights up to 14 May 2002 when final payment was received.

All potential ordinary shares were not considered to be dilutive at 30 June 2001 as their assumed conversion to ordinary shares would result in a decrease to the basic loss per share. Diluted earnings per share for 2001 has therefore not been disclosed in accordance with AASB 1027.

(c) Conversion to ordinary shares

Since balance date and up to 28 August 2002, 7,900 potential ordinary shares (options) have been converted into ordinary shares.

(d) Issue of potential ordinary shares

Since balance date and up to 28 August 2002, 692,500 potential ordinary shares (options) have been issued and 447,000 potential ordinary shares (options) cancelled.

Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 35 to 65:

(a) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the *Corporations Act 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; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 35.

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

Laurence G Cox
Director

Thomas Stianos
Director

Signed at Melbourne this 28th day of August 2002

Independent audit report

to the members of SMS Management & Technology Limited

Audit opinion

In our opinion, the financial report, set out on pages 35 to 66:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of SMS Management & Technology Limited and the SMS Management & Technology Group (defined below) as at 30 June 2002 and of their performance for the year ended on that date
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and summary of our role

The financial report – responsibility and content

The preparation of the financial report for the year ended 30 June 2002 is the responsibility of the directors of SMS Management & Technology Limited. It includes the financial statements for SMS Management & Technology Limited (the Company) and for the SMS Management & Technology Group (the Group), which incorporates SMS Management & Technology Limited and the entities it controlled during the year ended 30 June 2002.

The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report
- obtaining written confirmation regarding material representations made to us in connection with the audit
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in Note 28 to the financial statements. In our opinion the provision of these services has not impaired our independence.

PricewaterhouseCoopers

PricewaterhouseCoopers

SC Bannatyne
Partner

Melbourne
28th August 2002

Shareholder Information

The shareholder information set out below was applicable as at 18 August 2002.

A. Distribution of Equity Securities

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

	Ordinary Shares	Options
1 – 1,000	6,460	10
1,001 – 5,000	6,610	73
5,001 – 10,000	1,638	114
10,001 – 100,000	1,328	345
100,001 and over	189	29
	16,225	571

All options on issue at 18 August 2002 were unlisted.

(b) There were 6,613 (2001:7,588) holders of less than a marketable parcel of 1,111 ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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	10.04
National Nominees Limited	17,203,907	5.13
Commonwealth Custodial Services Limited	15,538,357	4.64
D Lloyd Roberts	15,328,370	4.57
MGB Equity Growth Pty Ltd	12,000,000	3.58
RBC Global Services Australia Nominees Pty Ltd	11,394,542	3.40
Peter Doyle and Associates Pty Ltd	11,278,830	3.37
Macquarie Direct Investment B Limited	11,247,464	3.36
Macquarie Direct Investment A Limited	11,174,594	3.33
JP Morgan Nominees Australia Limited	9,360,248	2.79
Glennfield Pty Ltd	9,000,000	2.69
Larison Pty Ltd	5,781,700	1.73
Citicorp Nominees Pty Ltd	5,586,497	1.67
Larison Pty Ltd	4,710,810	1.41
Westpac Custodian Nominees Limited	4,021,429	1.20
Steven Bryce Outtrim	3,500,000	1.04
Fortis Clearing Nominees Pty Ltd	2,879,426	0.86
Cogent Nominees Pty Ltd	2,751,222	0.82
Macquarie Direct Investment B Limited <MIT III B Account>	2,625,592	0.78
Macquarie Direct Investment A Limited <MIT III A Account>	2,608,583	0.78
	191,645,571	57.19

Unquoted equity securities

There are no unquoted fully paid or partly paid ordinary shares as at 18 August 2002.

Prior year interests associated with Macquarie Direct Investment Limited and MGB Equity Growth Pty Ltd partly paid to $0.24 were fully paid during the year ended 30 June 2002 and ordinary shares issued and quoted as disclosed in Note 22.

	Options Held	Option Holders
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	4,315,000	75
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	12,220,000	437
Options issued to Chief Executive Officer pursuant to the SMS Management & Technology Limited Employee Share Option Plan prior to appointment as a Director	390,000	1
Options issued in July 2001 to Directors after approval by shareholders on 25 June 2001 and as detailed in Note 33	1,600,000	3
Options pertaining to the former Employee Share Option Plan in which no person holds more than 20% of the options	388,740	55

C. Substantial Shareholders

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

	Ordinary Shares Number Held	Percentage %
D Lloyd Roberts and associated interests	50,739,105	15.14
Macquarie Bank Limited and its controlled bodies corporate	27,720,074	8.27
Westpac Banking Corporation Limited and associated entities	17,949,837	5.35

D. 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.

E. Other ASX Matters

As detailed in Note 22(b) the Company is conducting an on market share buy back within the 10% in 12 months limit.

Corporate Directory

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Company Secretary:

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