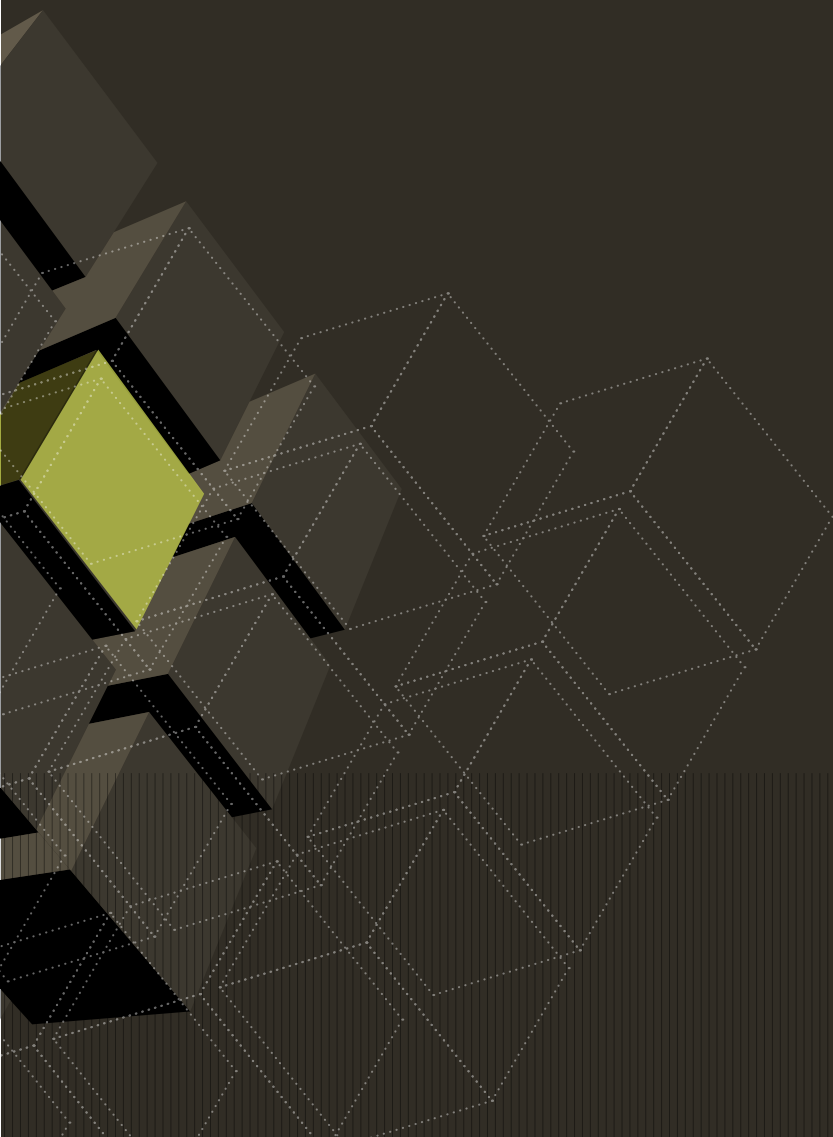






Leadership built on excellence

SMS MANAGEMENT & TECHNOLOGY LIMITED **ANNUAL REPORT 2010**



//10:



The SMS success story continues to grow. In a year when many others struggled, we continue to reach new heights by remaining focused on what we do best and staying true to our founding principles: add value, maintain unity and enhance reputation. As we enter the next phase of our corporate evolution, we can look forward with renewed energy and justifiable confidence.



1)



2)

1) LAURENCE G COX
2) THOMAS STIANOS

Your Company has delivered solid growth in revenue, profit and employees despite the uncertainties of the world economy.

Dear Shareholders, your Company has delivered solid growth in revenue, profit and employee numbers for 2010 despite the uncertainties of the world economy. The 2009 performance placed SMS in a strong position to capitalise on the opportunities that followed and in 2010 we returned to a faster growth path.

Revenue of \$247.6m for 2009/10 grew by 7% year on year and by 19% in the second half when compared with the prior corresponding period.

Net profit after tax grew by 15% to \$27.9m and this has allowed the Board to increase the dividend by 16% to 29 cents per share fully franked. The Company generated healthy cash flow giving a balance sheet with no debt and net cash holdings of \$31.0m at year end.

Recognising the importance of people to our future growth, we put in place a number of initiatives to attract, develop, and retain the most talented people in our industry. Early in the year we launched our "People First" strategy to develop innovative HR strategies followed by an independent staff engagement survey. This showed us that our staff are highly connected with SMS but it also gave us valuable insights into what we need to do to further improve that engagement and strengthen our "Employee Value Proposition". These initiatives have contributed to lower staff turnover and a successful recruitment campaign. Billable staff numbers increased by 194 during

the year (up 19%) which positions us well at the start of the 2011 financial year. Total Staff numbers are now at 1,372.

With the improvement in demand we have seen a re-emergence of margin and cost pressures which we have handled through improved staff utilisation. This has maximised productive time and ensured an acceptable overall margin. As we continue to grow we will look for opportunities to improve operational leverage and strengthen margins further.

In the new financial year, SMS has implemented a new corporate structure, strengthening National Practices and empowering them to leverage and work with our Regional sales teams. This change focuses on streamlining the sales process and maximising the breadth of capability we can provide to our clients. This has given every regional team direct access to the complete range of specialist services and it gives each practice a delivery channel through all locations. Other benefits associated with the new Practice structure include better defined career opportunities for our consulting professionals and improved professional development.

As in previous years we have concluded acquisitions which add new capabilities or practices to our business, thus allowing us to contest a larger part of the market and expand the solutions we can offer our clients. We completed two further acquisitions during this period.

- Revenue
\$247.6m, up 7%
- EBITDA
\$38.1m, up 15%
- Net Profit After Tax
\$27.9m, up 15%
- Earnings per share
42 cents, up 14%
- Dividend per share
29 cents, up 16%
- “People First” initiative
to drive attraction and
retention of staff
- Policy of continued
expansion through
acquisition

Aipex Pty Ltd (Aipex) was acquired by SMS in October 2009 with the transaction bolstering our Systems Integration Practice. Aipex is a specialist Systems Integration provider and Australia's largest certified TIBCO partner. TIBCO is a leading provider of solutions in the areas of service-oriented architecture (SOA), business optimisation, and business process management (BPM) and Enterprise Analytics.

In March 2010, SMS acquired the business of Bright Blue Solutions (Bright Blue), Australia's leading specialist Oracle Siebel Customer Relationship Management (CRM) and Oracle Business Intelligence (Siebel Analytics) consulting organisation. This acquisition established the SMS CRM Practice nationally and further cemented SMS as a leading implementation partner of the Oracle product range. Oracle is a global business software and systems company specialising in database, middleware and application technologies for the enterprise.

SMS will pursue further value adding acquisitions throughout 2011. 2010 saw many of our clients launch significant initiatives leading to demand for SMS services, particularly in the State Public Sector. State Governments sought SMS assistance in support of their operational and transformation requirements across a wide range of portfolios including Water and Climate, Justice and Police, Education, Road and Rail Transport, Health, Human Services and Shared Services.

Federal Government agencies have been subject to a number of important reviews in the past 24 months. These include the Gershon Review on ICT in government, the Henry review on tax, the Beale review on Australia's Biosecurity and the Cooper review on Superannuation. Most of these reviews will translate into direct policy initiatives and ultimately programs and projects of business process and IT change. The level of activity is anticipated to increase across federal government departments post the election.

The post GFC rise in business confidence saw our Financial Services clients lift their investment in a broad range of new projects. This resulted in a significant increase in demand for SMS services including core systems replacements, integration of acquired businesses, online strategies, mobile banking applications and knowledge management solutions. In addition, we are engaged on major compliance programs, such as Anti Money Laundering in Australia and Asia, and have supported the establishment of Consumer Credit Reform programs.

Our broad engagement with Australia's major Financial Services institutions has positioned SMS as an implementation partner of choice and has resulted in new contracts supporting delivery and analysis, capability uplift and the establishment of technology competency centres.

The Health and Human Services sector in Australia is in major transition with the twin pursuits of an eHealth agenda and emphasis on efficient Hospital and Healthcare programs being more centrally funded and performance-measured.

SMS has been at the forefront of many key initiatives in support of this transition, working with our Departmental and non-Government clients.. SMS has enabled our clients to achieve improved eHealth building blocks, and has delivered business and IT strategies, enterprise architectures, information management frameworks, web portal design and data quality management initiatives.

Demand from the mining sector was steady in 2010 and we expect a number of new projects to commence in 2011. To remain competitive in a global market, limit risks, and reduce costs our mining clients have turned to SMS to deliver large-scale and mission critical management and IT outcomes.

The Australian Defence Force has committed to improve critical support functions and reduce costs by nearly \$2 billion by 2019. SMS is playing an important role in the Defence reform program through key projects such as cutting-edge ICT processes, including enterprise architecture and IT infrastructure.

During the year SMS reinforced its foothold as Australia's leading Management and IT services provider and continues to extend its footprint into neighbouring regions such as Hong Kong, Singapore and New Zealand. In particular our Hong Kong activities grew during the year with SMS providing project delivery and technology leadership for international clients that operate domestically.

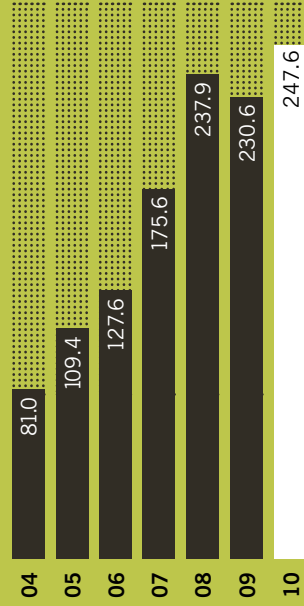
SMS continues to take advantage of new opportunities while retaining a strategic vision. This ensures we deliver long term growth which in turn gives our people new career opportunities and our shareholders the prospect of continuing growth.



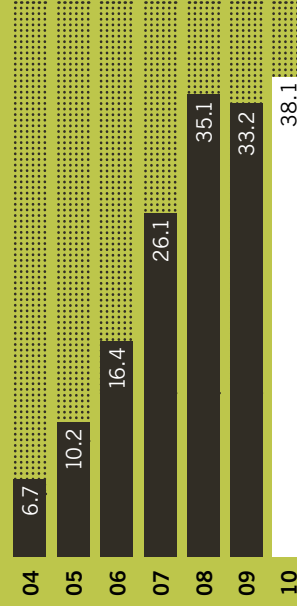


	June 2006	June 2007	June 2008	June 2009	June 2010	% change
Total revenue (\$m)	127.6	175.6	237.9	230.6	247.6	7%
Operating cash flow (before interest and tax) (\$m)	16.2	20.0	25.8	37.8	37.1	-2%
EBITDA (\$m)	16.4	26.1	35.1	33.2	38.1	15%
Net profit after tax (\$m)	11.8	18.0	24.8	24.3	27.9	15%
Earnings per share	18.8c	28.1c	38.2c	36.7c	41.9c	14%
Cash balance (\$m)	22.5	19.9	16.5	26.5	31.0	17%
Net tangible assets per share	55c	54c	66c	71c	71c	0%
Final dividend (per share, fully franked)	10c	13c	15c	15c	16.5c	10%
Full year dividend (per share, fully franked)	15c	21c	25c	25c	29c	16%

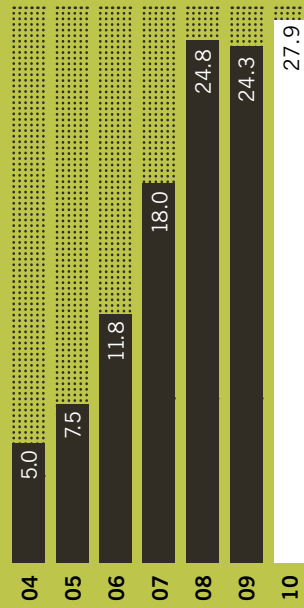
TOTAL REVENUE:
(\$ MILLION)



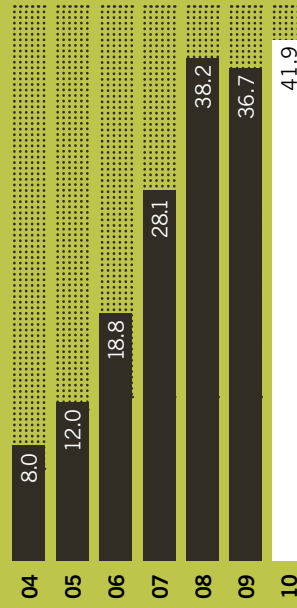
EBITDA:
(\$ MILLION)




NPAT:
(\$ MILLION)



EPS CENTS:
(CENTS)



Consultant

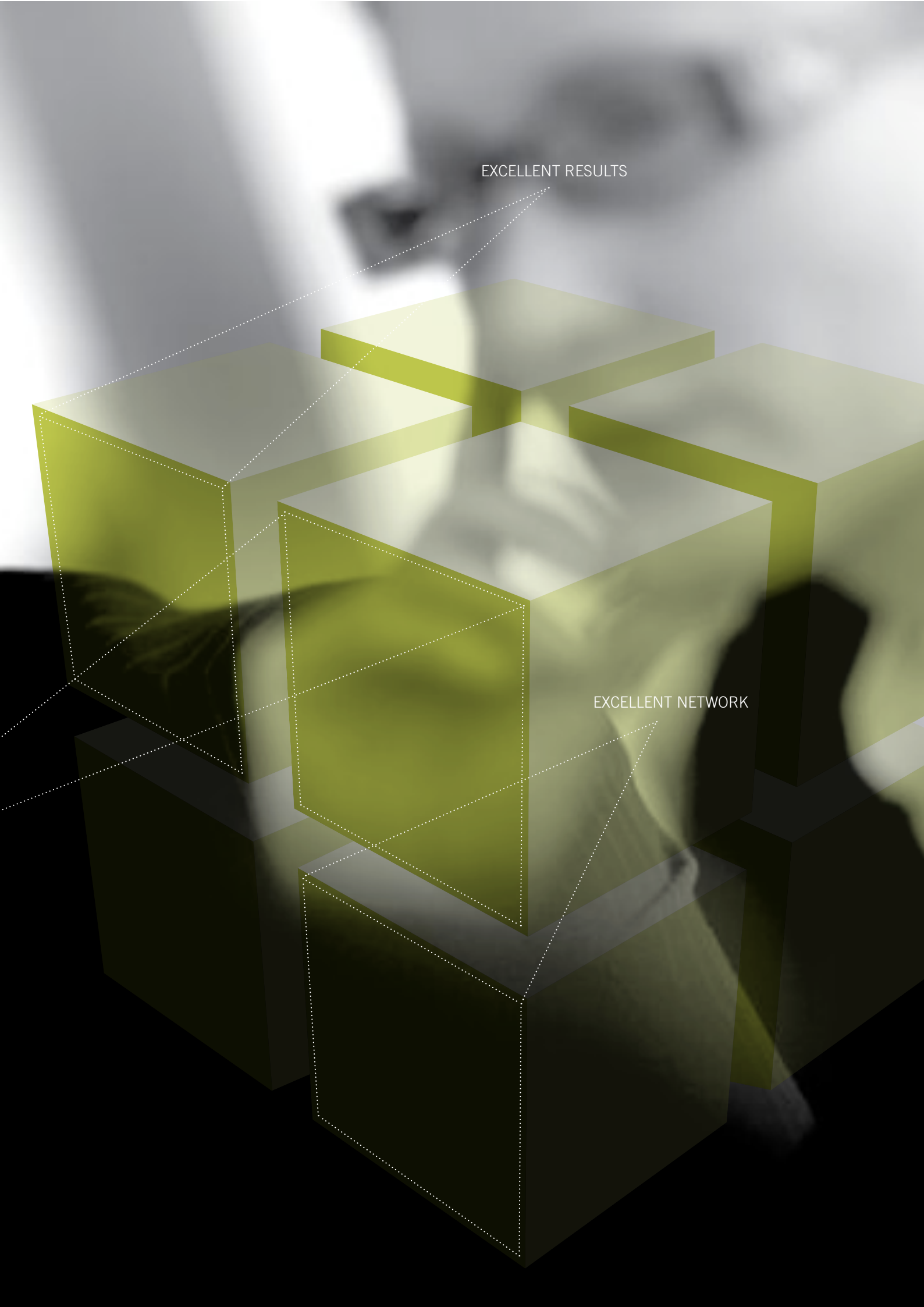


SMS prides itself on hiring experienced professionals to work across our practices. Our 1,400 strong workforce of professionals are a key building block to ensure that we continue to deliver outstanding outcomes for our clients.

EXCELLENT PEOPLE

EXCELLENT RESULTS

EXCELLENT NETWORK





FY2010 was a milestone year in the continued development of SMS's practice capability, including the constant development of the solutions that we provide to our clients.

Through a mix of internal innovation and strategic acquisitions, SMS has capitalised on its ability to remain nimble and responsive to market opportunities. Our seven core Practices have evolved well over the year to become some of the largest and well regarded in the Australian IT Services marketplace.

DELIVERY EXCELLENCE

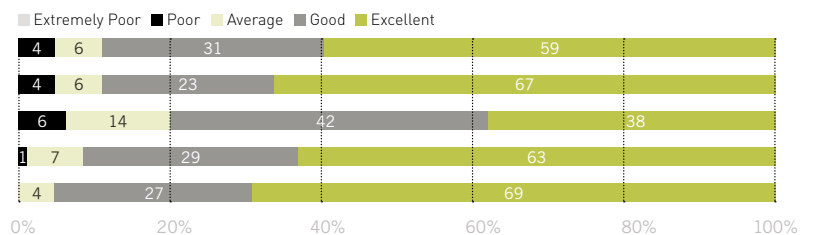
SMS strives to provide our clients with excellence in delivery. Through the project teams that we provide as part of our client engagements we continue to receive extremely positive feedback and endorsement of the reputation we have developed over our 25 year history.

CLIENT COMMENTS:

- "SMS were able to quickly understand our needs and able to match it appropriately with a skilled project team".
- "Met all expectations. Very responsive to my needs. Have established a strong strategic relationship".
- "SMS provided teams for critical internal projects and helped us deliver on projects we would otherwise not be able to take on".
- "The consultants supplied by SMS met my expectations and significantly contributed to the delivery of a successful project within critical time constraints".

CLIENT FEEDBACK SURVEY

Likelihood of repeat business
 Easy to do business with
 Fees charged
 Specialisation
 Achieved required outcomes





BUSINESS PERFORMANCE IMPROVEMENT



t

SMS can increase efficiency and effectiveness across key business operations through its Business Performance Improvement solutions and capabilities.

By applying its knowledge and depth of understanding of business operations, IT systems and associated components that drive successful outcomes, SMS helps clients achieve their business objectives.

SMS analyses business activities and develops strategies and plans in a collaborative and consultative style by applying its extensive experience to guide client teams in pragmatic ways that provide lasting learning, knowledge and skills in their business.

- Management of Anti-Money Laundering (AML) compliance program for several financial services institutions
- Strategic review of operational management for a leading logistics company undergoing a major enterprise transformation
- Implementation and management of a strategic operations review for a leading health practitioner network
- Provision of Business Analysis teams to drive a key stream of a major Australian banks technology transformation



OPERATIONAL LEARNING & CHANGE



SMS achieves operational excellence for its clients with learning and change solutions that deliver a new level of capability.

Operational Learning involves consultation, planning, and effective project and change management that is delivered within four phases – scoping, development, delivery and business as usual.

Specialising in designing, developing and delivering learning programs, SMS delivers the appropriate mix of training, documentation and online support for clients based on their size, location and background.

With a focus on business outcomes, SMS first relates business processes and the requirements of job roles and then applies the appropriate technology.

To realise the benefits of business systems and process change, SMS sets its sights on specific outcomes to build sustainable long term capability.

- Ongoing strategic partner for the training and change stream of a Federal Government agencies multi-year technology and system transformation program
- Development of a Local Government Health agency's training strategy
- Implementation of an innovative elearning program to support our clients Enterprise Resource Planning (ERP) system rollout
- Assisted a regional Financial Services provider to consolidate its decentralised and numerous training services into a strategic, enterprise wide training and learning program
- Developed a leading-edge learning solution to support the induction and business-as-usual training for our clients customer service officers



PROGRAM & PROJECT SERVICES




Transforming a vision into a strategy is difficult enough; executing that strategy can be even more challenging. To get the most from their strategy, our clients must never lose sight of their end goal.

Only through clear planning, effective leadership, diligent management, unified accountability and a single-minded focus on delivery excellence, will business performance become a reality.

SMS is renowned for turning ideas and strategies into effective outcomes. We offer a unique combination of a high-performance culture and proven experience.

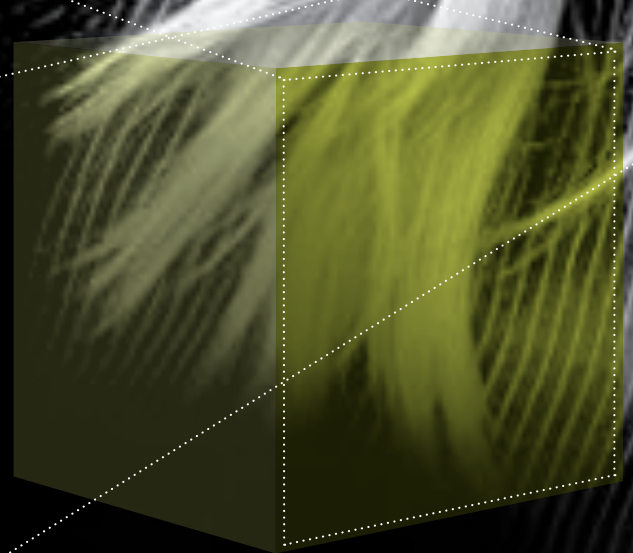
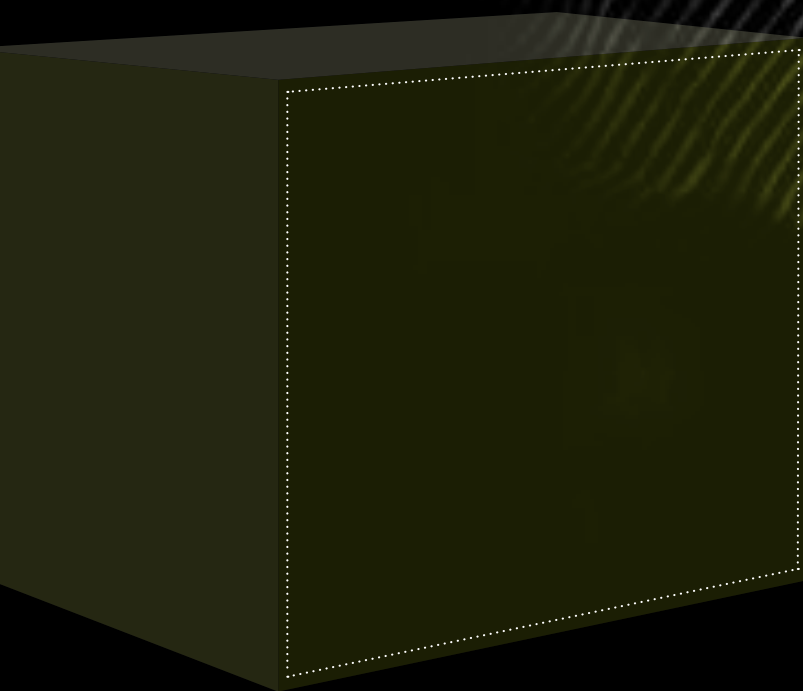
The SMS Program & Project Services practice provides Strategy Implementation, Consulting and Delivery Services that help our clients achieve critical business outcomes across the breadth of business and technology portfolios.

- Delivery Partner for a mission critical stream of a major defence technology transformation program
- Implementation Partner of choice for one of Hong Kong's largest home grown corporations. This multi-year transformation program touches all aspects of the business and is a critical part of their on going strategic plan
- Project Management accountability for the completion of a major mining clients ASX Annual Report
- Delivery Partner for Financial Services transformational business and technology refresh program of work
- Strategic Partner for the review and enhancement of a Health Services clients in-house project management capability



Be it a project team of two or two hundred, SMS maintains an unrelenting commitment to Delivery Excellence. The quality of the outcomes we provide to our clients ensures that SMS continues to be engaged as a preferred supplier; a testament to our market leading standards and quality.

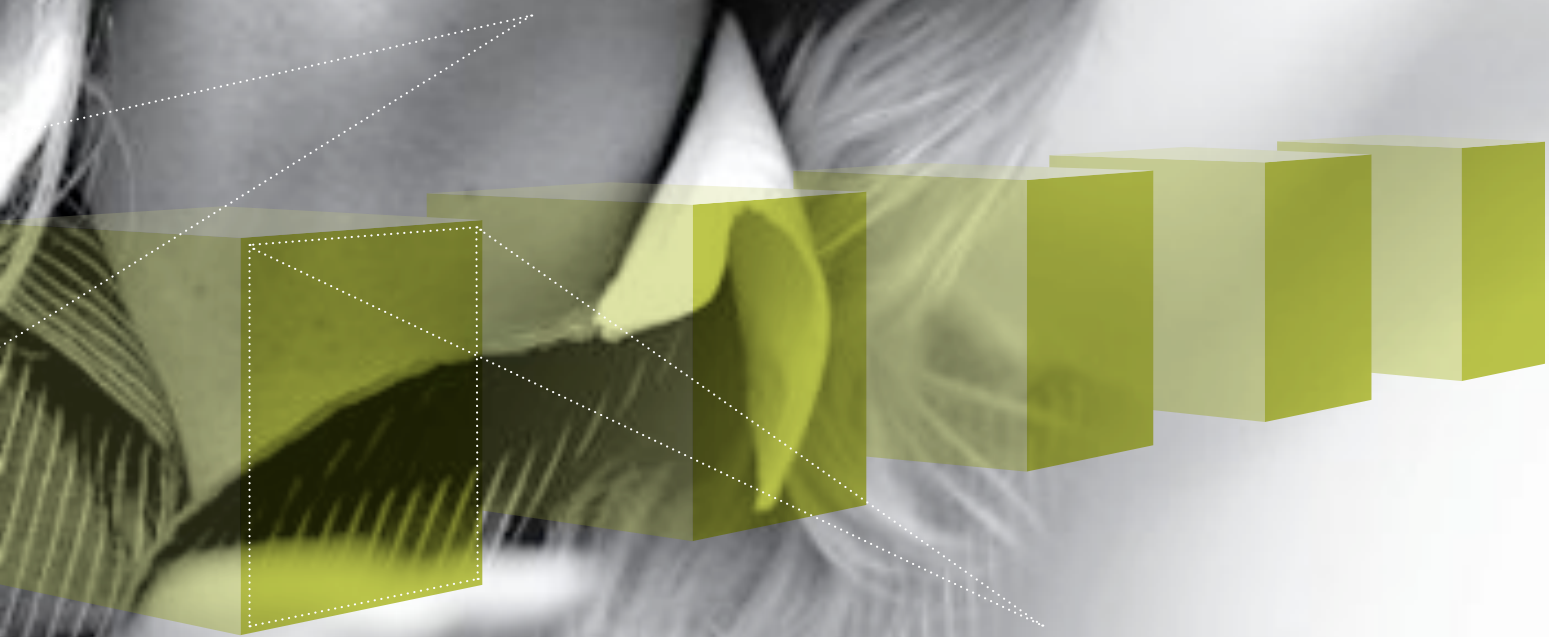
EXCELLENT PERFORMANCE





Consultant

EXCELLENT SKILLS



EXCELLENT REPUTATION



APPLICATION DEVELOPMENT



Every large organisation runs some or all of its business-critical operations on custom developed solutions utilising software developed by leading global software providers, or open source solutions. To be effective, these systems must be tailored to our clients' unique business needs and goals. What's more, these solutions must be capable of evolving with the needs of our clients.

SMS combines unparalleled business management expertise with proven technology capabilities. SMS has delivered custom software solutions to leading Australian government organisations and corporations.

Through our customised systems development methodology (Compass™), SMS has developed extensive experience that is readily reusable through our own best practices, methods and supporting templates. Compass ensures that all of our solutions are stable, robust and scalable, and that they meet all user functionality and performance requirements. Our approach also ensures that any technology solution we develop can be further refined, supported and maintained as our client's needs change.

- Prime integration partner for a leading gaming and Entertainment Company's core system replacement project
- Provision of 'Agile' software development thought-leadership, best practice and up skilling for several clients including a major Bank and leading Australian telecommunications provider
- Lead development partner for Java based reporting services for a state based Health services provider
- SMS has successfully delivered numerous portal and content management system implementations throughout the year based on the market leading Microsoft SharePoint platform



INFORMATION & DATA MANAGEMENT



SMS has successfully delivered Information and Data Management (IDM) outcomes to a wide range of Australia's leading organisations operating across diverse industry sectors.

The IDM Practice enables our customers to maximise the business value and utilisation of their information assets.

SMS brings together a combination of leading technology platforms and quality performance management and business intelligence services and solutions to deliver superior Information and Data Management practices.

Spanning the lifecycle of Enterprise Information Management, the IDM Practice provides services ranging from Information Management strategy development, data warehouse, business intelligence, Master Data Management and data quality & remediation services to name a few.

- Developed an Enterprise Information Management Strategy for a transportation services provider. This included data governance, information strategy, data warehouse and business intelligence aspects. The project has now moved into the implementation phase, of which SMS is also leading this component of the project
- Throughout the year SMS was appointed as the strategic information and data management partner for a leading financial services provider. This agreement covers all aspects of our clients data management initiatives
- SMS successfully delivered the data migration and quality stream of a leading media company business transformation – SMS delivered enterprise data governance, strategy, quality management and migration for our client as they completed a multi-year business transformation program.



SYSTEMS INTEGRATION



Systems integration is a major component of the IT environment and for most organisations it is a key element to reducing costs, simplifying business structures and systems, enabling enterprise-wide access and single point of service delivery.

Spanning business and technology initiatives, Systems Integration at SMS provides proven value from Business Process Management, Integration and Testing solutions through expertise in streamlining and integrating business processes with the people, IT systems and data for improved efficiency, visibility and flexibility within the business.

The systems integration component of a project is often the critical path and considered one of the most complicated components of a project. SMS understands integration pitfalls and ensures the proper reuse of common infrastructure and services leading to reduced risks and ongoing operational costs.

With a strong track record in delivering small and large BPM and integration solutions with relevant local industry experience, SMS also improves time-to-market for new initiatives by providing robust and automated test and deployment environments.

- Working with our client – a leading beverage company – SMS has led the implementation of its Business to Business (B2B) middleware platform and now provides on-going support to ensure continued operational excellence
- Implemented an integration platform for a State Government health services company, connecting its CRM system with over 30 other technology systems
- Established an Integration Competency Centre (ICC) for a leading logistics company and continue to provide on going management leadership for the centre



CUSTOMER RELATIONSHIP MANAGEMENT



SMS is a leading provider of effective Customer Relationship Management (CRM) solutions for a range of industries, including Federal and State Government departments and agencies.

Implementing effective CRM processes and systems is crucial to any business focused on maximising profits and reducing the costs associated with managing clients and finding new prospects.

Equipped with the right people and processes, coupled with CRM technologies through alliances with key solutions providers (including Microsoft, IBM and Oracle), SMS implements the right technology to maintain accurate data from past, present and future customers.

In addition to Salesforce automation solutions, the CRM practice provides service management, marketing management, Customer Master Data and deep Oracle Applications & Reporting solutions.

- Customised and implemented a Service Provider Management Solution for a state-based government agency. The system is critical to ensure the effective management of around \$1 billion in payments transacted through the network
- Implemented a fully-integrated trade promotions solutions for a leading confectionary and beverage company
- Developed and implemented a large scale order management and pricing solution, enabling multi-channel customer-centric pricing and order fulfilment
- Contract and sale management solutions implemented for a retail leasing company with operations Australia-wide

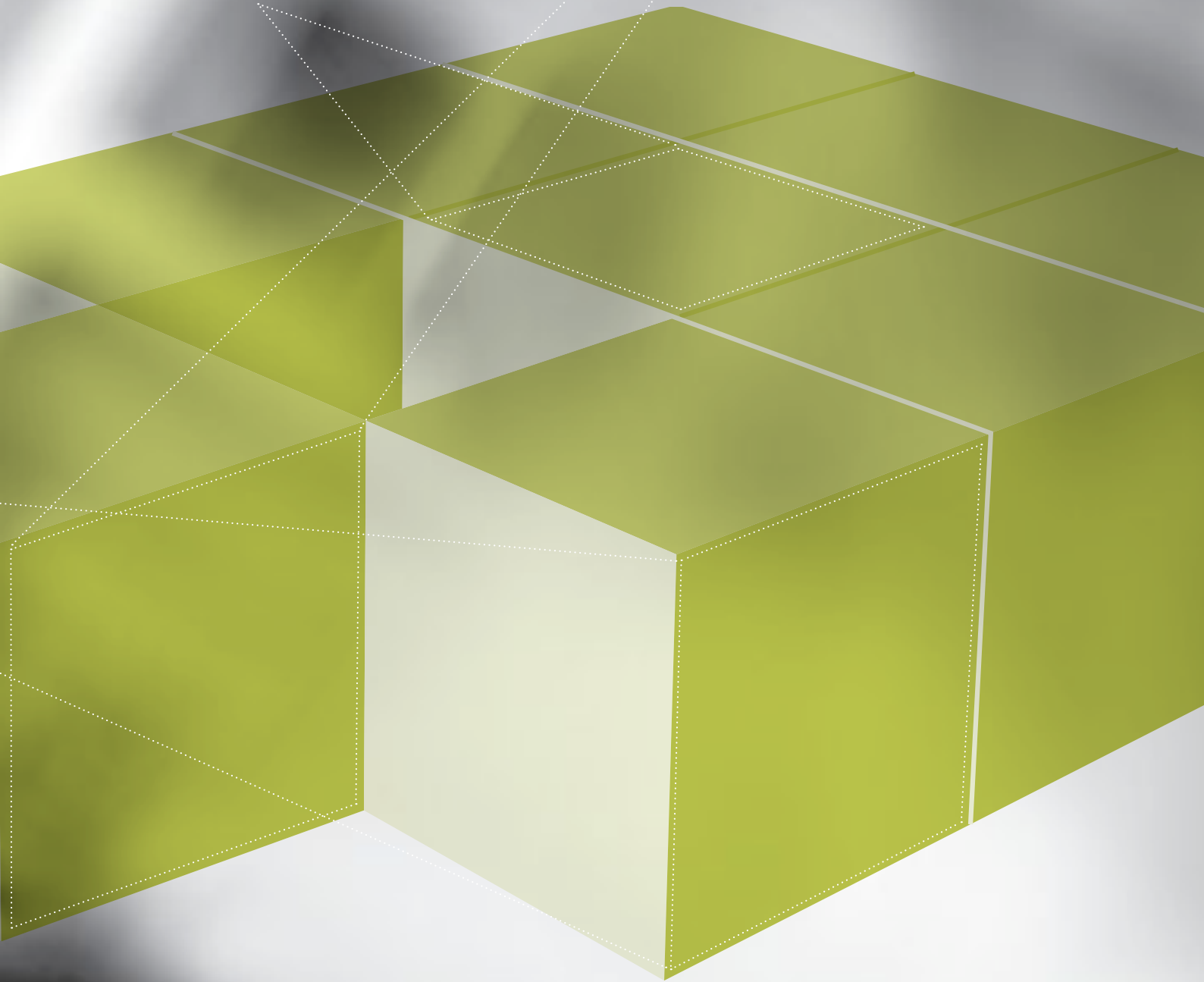
Senior Consultant

EXCELLENT CULTURE

SMS has delivered solid growth over the short and long term. Even during times of financial uncertainty SMS has consistently outperformed its peers; demonstrating resilience and strength built over 25 years.

EXCELLENT DELIVERY

EXCELLENT VALUES





Reflecting the way we work in partnership with our clients, our human resources plan (People First) identifies the ways in which our people work in partnership to achieve our corporate objectives. We see our people not as employees, but as a fundamental ingredient to the Company's on-going success. We are committed to retaining our unique Employee Value Proposition (EVP) reflected our motto:

Free and happy people work tirelessly in a spirit of teamwork and cooperation to deliver outstanding results.

A key factor to our success has always been to attract and hire outstanding people from a variety of disciplines and industries. Another has been to retain a highly engaged and committed workforce. With an ongoing program of activity to promote our EVP, our people are encouraged to apply their talents to achieve their full potential as professionals.

Our culture encourages personal independence as well as accountability; independence to achieve personal potential and accountability to make a contribution to the team. With this in mind, our core values – Add Value, Maintain Unity and Enhance Reputation – remain the foundation of everything we do.

With a participation rate of 74%, our recent MyView engagement survey outcomes have endorsed our approach with overwhelmingly positive results showing that our people remain highly engaged and connected to the Company and each other. The survey results have also informed us where our human resources efforts should be focused to ensure that their engagement with the Company is enduring.

We recognise that talented people work best when the expectations of their performance are clear and when high performance is recognised and rewarded. We have invested heavily in our human resources infrastructure over the past year, implementing a new human resources information system and redesigning our performance and reward programs supported through online capability.

With clear integration between performance assessment, professional development and reward, our programs have been enhanced to ensure that our people continue to perform at their very best and remain valued, engaged and committed to the Company through regular feedback.

We are committed to investing in professional development activity with the ongoing expansion of our offerings. Leveraging our Operational Learning & Change practice, we are developing elearning programs for the orientation of our new hires and ongoing consultant training.

The introduction of our national practice model in the new financial year will more aggressively formalise career progression pathways. It will also provide additional leadership opportunities while retaining the non-hierarchical structure of our workforce that differentiates us from our competitors.

EVP THEMES



- 1) THOMAS STIANOS
- 2) SHANEEN ARGALL
- 3) MERLIN ALLAN
- 4) SARAH TURNER
- 5) GRAHAM LANPHIER
- 6) JASON YOUNG
- 7) PAULA JOHNSTON



1)



2)

THOMAS STIANOS

Tom Stianos joined in January 1989 and was appointed CEO in March 2002. (Please refer to page 30 for Tom's complete profile).

SHANEEN ARGALL

Shaneen joined SMS in September 2008 as the Director, Human Resources. In conjunction with the executive leadership team, Shaneen is responsible for developing the human resources strategy and implementing systems and processes that support the achievement of business objectives. This includes the attraction, retention, professional development and the remuneration of our people.

During 2009, Shaneen delivered our People First human resources strategy, establishing a three year plan for our people initiatives. Under this plan, Shaneen and her team have delivered a program of work including the a new approach to performance and reward management, an employee engagement survey, the introduction of a human resources information system and a revised professional development framework, amongst other things.

Shaneen is a member of the Australian Human Resources Institute and has a Masters of Labour Law and Relations from the University of Sydney, a Graduate Diploma in Industrial Relations from the University of Canberra and a Bachelor of Arts degree from ANU.

MERLIN ALLAN

Merlin Allan is Director of Mergers & Acquisitions (M&A) for SMS Management & Technology, reporting to the CEO. In his role, he is responsible for all aspects of strategic growth, including demand analysis, deal origination and integration planning. The M&A activity extends SMS's capability into new geographies and practice areas to meet client requirements and demand drivers. Since joining SMS, Merlin has completed eleven acquisitions.

Merlin's international management experience includes business start-ups, corporate re-engineering, strategy execution and M&A. Prior to SMS he worked for the venture capital sector in the US and Australia, involved in business restructuring, capital raising, M&A and corporate development.

SARAH TURNER

Sarah Turner joined SMS in 2007. She is the group General Counsel and Company Secretary. As a member of the SMS leadership group, Sarah provides key support to the governance and strategic direction of the Company, including the Company's (M&A) activities.

Prior to joining SMS, Sarah was Legal Counsel at BlueScope Steel Limited. She was a solicitor in Australia at Corrs Chambers Westgarth and worked both in private practice and in-house in London.

Sarah has a Bachelor of Laws (Hons), a Bachelor of Arts and a Graduate Diploma in Applied Corporate Governance. She has been admitted to practice by the High and Federal Courts of Australia, the Supreme Courts of Victoria, New South Wales, and Tasmania



and the Courts of England and Wales. She is a member of the Law Institute of Victoria, the Law Society of England and Wales, Chartered Secretaries Australia and the International Chartered Secretaries Association.

GRAHAM LANPHIER

Graham Lanphier is Managing Director, Operations for SMS. He is responsible for the management of all aspects of SMS's operations nationally including Practice and Regional profitability, sales, client management, delivery management, the effectiveness of our people management, professional development and recruitment activities in conjunction with the Director, Human Resources. He is also responsible for the developing and managing operational processes in conjunction with CFO.

Graham joined SMS in February 1999 and during his time with SMS he has overseen the growth of our Consulting business Australia wide, including the integration of several acquisitions.

Graham holds a Master of Business Administration from Monash University, Victoria, and a Bachelor of Surveying from Melbourne University.

JASON YOUNG

Jason Young is Managing Director, Strategic Business Development for SMS. He is responsible for leading the development and establishment of new Practices via internal incubation or strategic acquisitions. Jason also leads the Company's partner development program and major sales opportunities.

Jason joined SMS in February 2005 and played a key role in establishing SMS's technology practices including Applications Development, IDM, Systems Integration and CRM.

Jason has presided over considerable growth within the Technology Services division, and this expansion has helped position SMS as Australia's leading Systems Integrator. Jason has focused on enhancing the company's sales processes, consulting methodology and delivery capability as an end-to-end solutions provider, and was responsible for the establishment of the SMS Compass Methodology.

Jason holds a Bachelor of Applied Science (Comp Tech) from Victoria University of Technology and is a Graduate of the Australian Institute of Company Directors.

PAULA JOHNSTON

Paula Johnston is the Managing Director of M&T Resources, the Contracting and Recruitment arm of SMS.

Paula joined SMS in Brisbane in July 2000 in what was then SMS Contracting, and was instrumental in establishing the rebranded national business line of M&T Resources.

In January 2001 Paula was appointed Manager of the Brisbane branch, and became Managing Director of M&T Resources in April 2002, overseeing the integration of the offices in Canberra, Sydney and Melbourne into a truly national business.

Paula holds a Bachelor of Business in Human Resources Management and Marketing from the University of Southern Queensland.



Practice Manager

EXCELLENT TEAMS

EXCELLENT OPPORTUNITIES

EXCELLENT OUTCOMES

Throughout 2010 SMS returned to strong growth, bringing with it new opportunities for our staff to work on diverse projects, whilst delivering industry leading solutions for our clients.

- 1) DAVID MOODIE
- 2) CRAIG LENNARD
- 3) DARREN STANLEY
- 4) PAUL O'DWYER
- 5) STEPHEN MABBS
- 6) PAUL COOPER



DAVID MOODIE

David Moodie is the Regional Director, Victoria and ICT (Information, Communication and Telecommunications) Industry Director for SMS.

He is responsible for the development and performance of SMS's business in the Victorian Region and provides leadership for the ICT Industry division across SMS's international operations.

David is also responsible for the Utilities, Entertainment and Retail sectors within SMS.

Prior to joining SMS, David was Managing Director of Implementation Partners International (IPI).

He is a senior IT professional with over 20 years' experience in IT strategy development, project office management, project and change management who has successfully demonstrated his ability to deliver on demanding goals within transaction based complex service environments.

CRAIG LENNARD

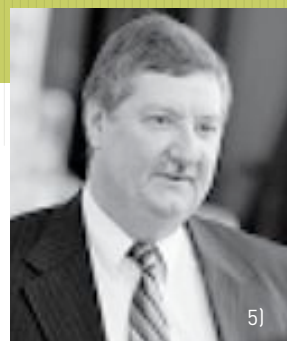
Craig joined SMS in April 2010 as the Regional Director for NSW.

Craig has over 28 years in the ICT industry. Prior to SMS Craig has worked in a variety of senior management roles with Australian, US and European ICT product and service organisations managing sales, project, product and consulting business units. In these business focus has included the development and application of ICT solutions in areas such as CRM, supply chain, transport, document and knowledge management, e-business, e-health and real time systems.

DARREN STANLEY

Darren is the Regional Director for QLD and he also has responsibility to lead the Mining, Resources and Infrastructure industry within SMS.

Prior to this appointment, Darren held the roles of Regional Director NSW, Banking & Finance Industry Director and Senior Consultant for SMS Queensland. Darren was involved in establishing the UK subsidiary of SMS Management & Technology, Darren worked for two years in the late 1990s as managing consultant with SMS UK, assisting with development of business opportunities and market presence. He joined SMS in 1997.



PAUL O'DWYER

Paul O'Dwyer is the Regional Director, ACT for SMS. He is responsible for the development and performance of SMS's business in the ACT Region.

Paul has over 20 years experience in working with Federal Government Agencies across a number of portfolios. This work has been predominately in the areas of corporate systems and processes, training and change management. Many of the projects that Paul has been involved with involve substantial large-scale change, with impacts both inside the APS and across large external stakeholder audiences.

Prior to joining SMS, Paul was the CEO of Total Learn which was one of Australia's leading operational learning and change consultancies. Total Learn was acquired by SMS in October 2007.

STEPHEN MABBS

Stephen is the Regional Director for SA. In this role, Stephen has responsibility for delivery of capability and solutions to the Mining, Utilities, Telecommunications, Government and Defence sectors.

Stephen was born in Perth and joined the Army Reserve while studying there. He transferred to the Regular Army and was posted to Melbourne on completion of his degree. After leaving the Army, Stephen completed a higher degree and joined the Defence Science and Technology Organisation where he was responsible for assessing the performance of the Jindalee Over-The-Horizon Radar. After leaving DSTO he then worked in Defence industry, and formed his own company called Permian one year later.

Stephen joined SMS through the acquisition of Permian, where he had overall responsibility for all projects and performance aspects of Permian. Permian was acquired by SMS in January 2007.

PAUL COOPER

Paul Cooper is the State Government, Health & Human Services Industry Director for SMS and also has responsibility for key partner relationships where emerging business solutions are offered to clients.

Paul has extensive experience in the development of Business and IT solutions across a range of sectors. Paul's strategic advice has benefited clients across a broad range of industry sectors. For the past two years Paul has headed a range of partnering efforts for SMS in Government, Banking and Health – with more recent emphasis on Cloud Computing developments.

Paul was previously Managing Director of the SMS UK business and was responsible for development of the successful accounts in that domain and prior to that role was responsible for the Canberra operation of SMS.

- 1) LAURENCE COX
- 2) THOMAS STIANOS
- 3) BRUCE THOMPSON
- 4) NICOLE BIRRELL
- 5) KERRY SMITH

LAURENCE G COX, AO

Laurie Cox became Chairman of SMS in May 2001. He is a Non-Executive Director of OneSteel Limited.

He has extensive experience in Australian and international financial markets. He was a Director of the Australian Stock Exchange from its inception in 1987 and Chairman from 1989 – 1994 and was awarded the Order of Australia for services to the ASX and the securities industry.

He was Executive Chairman of the Potter Warburg Group of Companies in Australia from 1989-1995 and was a Director of SG Warburg Securities of London and an Executive Director of the Macquarie Group Foundation Limited from 1996-2009. He was also a Director of The Murdoch Childrens Research Institute from 1985-2009 and Chairman from 1992-2009.

Laurie is a commerce graduate of The University of Melbourne, a Fellow of the Australian Society of Certified Practising Accountants and a Senior Fellow of the Financial Services Institute of Australia.

THOMAS STIANOS

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

Tom previously held positions of Regional Director Victoria, Regional Director New South Wales, Regional Director ACT and led the establishment of SMS in Singapore. Immediately prior to his current appointment he was Managing Director of SMS Australia.

Since becoming CEO in 2002, Tom has re-engineered and restructured the Company through recruiting additional talent, investing in new systems and processes; and divesting non-core businesses to focus on management and IT services. This has seen the business increase its earning more than sixfold over the last four years. Recently Tom led the expansion of SMS' range of services through the acquisition of 12 specialist companies and launching of new practice areas.

Prior to joining SMS, Tom held senior executive roles with the Victorian Government including the Department of Premier & Cabinet, Attorney General, Education and Agriculture.

Tom is a director of the Australian Information Industry Association and is a Fellow of the Australian Institute of Company Directors.

Tom graduated from the University of Melbourne with a Bachelor of Applied Science and was awarded the Ford Australia prize for Economics. His career spans more than 30 years in business and IT management.



BRUCE THOMPSON

Bruce joined the Board of SMS in October 2000. He is the former Chairman and Managing Director of Hewlett-Packard Australia Ltd and he worked with Hewlett-Packard for 32 years in Australia and overseas until his retirement in August 2000.

Bruce is a board member of the Box Hill Institute of TAFE. He retired as Chairman of Innovonics Ltd, a publicly listed Melbourne based technology company in January 2005, and retired as CEO of Keycorp Limited, a publicly listed Sydney based payment solutions company in June 2007.

Bruce is a graduate of Monash University with a Bachelor of Economics degree, a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Australian Institute of Company Directors and a Graduate of the Wharton and Melbourne Business Schools Advanced Management Programs.

NICOLE BIRRELL

Nicole Birrell joined the Board of SMS in December 2004. She has over 27 years' experience in corporate and investment banking, most recently as Head of Operational Risk and Compliance in the Institutional Financial Services division of ANZ Banking Group in Melbourne. Prior roles were with investment bank County NatWest and with Chase Manhattan Bank/Chase AMP in London and Sydney.

Nicole was on the Board of AusBulk Ltd for approximately four years and was the Chair of AusMalt Pty Ltd until February 2004. She is currently a Director of Grains Research & Development Corporation, Queensland Sugar Ltd and SuperPartners Pty Ltd and a Board Member of Wheat Exports Australia. Nicole is also an operational risk management consultant and serves on the Programs Advisory Committee for the School of Applied Economics at Victoria University, Melbourne.

Nicole graduated from the University of Antwerp with a degree in Applied Economics and obtained a M.Sc. in International Relations from the London School of Economics. She is a Fellow of the Australian Institute of Company Directors.

KERRY SMITH

Kerry Smith joined the Board of SMS in December 2004. He is the former Managing Director of Schroders Australia Group, which successfully operated wholesale funds management, property asset management, corporate advisory and financial markets businesses in Australia.

Prior to joining Schroders, Kerry was the Group Finance Director of Mojo MDA Group, a publicly listed advertising and marketing communications group, and was formerly a Director of Financial Accounting at Macquarie Bank. Kerry is also a Director of the Board of Wellcom Group.

Kerry is a graduate of The University of Sydney with a Bachelor of Economics degree and has been a member of The Institute of Chartered Accountants in Australia for over 25 years.



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Financial Statements

SMS MANAGEMENT & TECHNOLOGY LIMITED **ANNUAL REPORT 2010**

The directors present their report, together with the financial report of SMS Management & Technology Limited, being the Company and the entities it controlled ("the Group") for the financial year ended 30 June 2010 and the auditor's report thereon.

PRINCIPAL ACTIVITIES

The Group operates under two separate business brands.

Under the SMS brand, the Group offers a range of value added management and technology related business services including:

- Business Performance Improvement
- Operational Learning and Change Program and Project Services
- Application Development
- Systems Integration
- Information and Data Management
- Customer Relationship Management

Under the M&T Resources brand the Group offers:

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

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

OPERATIONS REVIEW

The Group delivered net profit after tax of \$27.9m, up 15% on last year, and total revenue of \$247.6m, up 7% on last year. Earnings before interest, tax, depreciation and amortisation ("EBITDA") increased to \$38.1m, a 15% improvement on last year's figure of \$33.2m.

During a challenging year of persistent global uncertainty but improvement in local conditions, the Group has focused on maintaining market share and improving profitability through strong client relationships, effective recruitment, and maintaining cost control. Our recently introduced "People First" initiative has assisted us in successfully attracting and retaining strong, talented people. The Group signed contracts for work worth more than \$300m

during the year and EBITDA margin improved to 15.4% up from 14.4% last year. The Group's ability to respond to another year of changing market conditions resulted in NPAT improving by 15% against a revenue increase of 7%. Continued attention, focus and action in the following areas by the Board and management were primarily responsible for the improvement of net profit margin:

- Effective management of the billable workforce – the business has managed to maintain high levels of utilisation whilst increasing headcount through the "People First" initiative;

- Ensuring gross margins are maintained by using the right mix of billable staff on projects;

- Controlled management of fixed price projects;

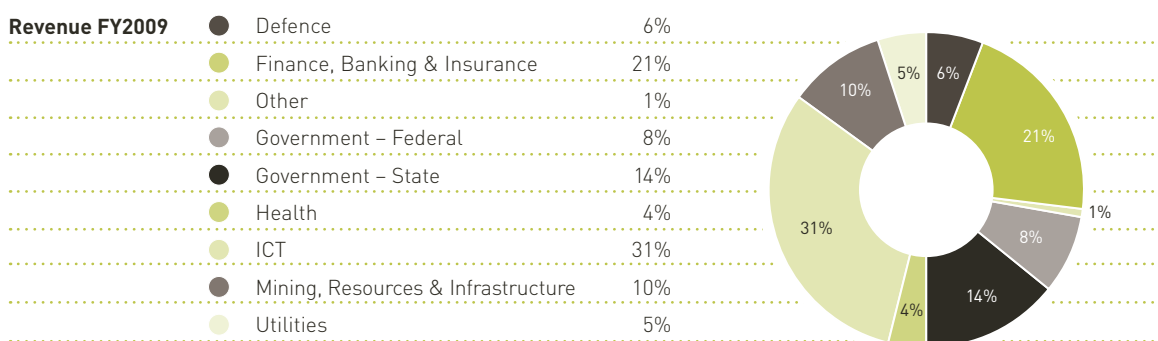
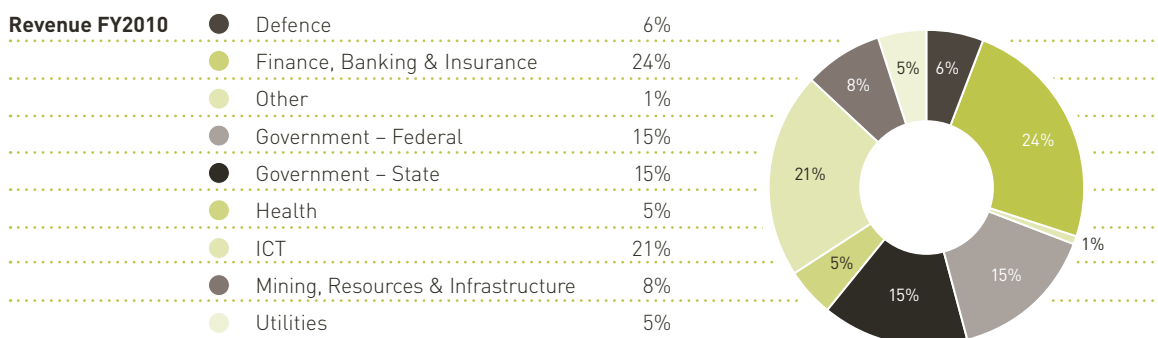
- Further expansion of services through the acquisition of Aipex (Systems Integration) and Bright Blue Solutions (Customer Relationship Management).

During the year Mr Stephen Kelly, Chief Financial Officer ("CFO") and joint Company Secretary, resigned effective 15 April 2010. Mrs Jennifer Martin, Group Financial Controller, was acting CFO for the remainder of the year. The Group has subsequently appointed Mr Rick Rostolis as the new CFO commencing in October 2010.

A highlight of the year has again been the capital management of the Group. Debtor days have reduced further, from 41 to 36, and debtors over 90 days have reduced from \$0.6m to \$0.3m. Overall, total lock-up days (debtors plus work in progress) remain steady at 70 days, contributing to a healthy balance sheet including a closing cash balance of \$31.0m. Given the solid financial performance for the year the Group has increased its return to shareholders through an increase in the full year dividend by 16% to 29c, up from 25c last year.

Revenue continues to be generated from a broad range of industry sectors with significant growth during the year coming from Federal Government, and Finance, Banking and Insurance which has helped offset a slowdown in Information and Communications Technology.

OPERATIONS REVIEW (continued)



The above chart is a full year analysis of the industry sectors from which the Group has derived its revenue during the year compared with the previous year, illustrating the Group's healthy diversification from an industry perspective.

This diversification further demonstrates the strength and resilience of the Group's revenue base and the ability of the Group to deliver increasing capability to a broader range of clients.

Billable consultant numbers have increased by 23% to 852 since June 2009. The Group also increased full time equivalent contractors by 10% to 352, taking total billable resources for the Group to 1,204, an overall increase of 19%. Non-billing roles increased by 6% to 168, taking total staff numbers to 1,372 – up from 1,168 in June 2009.

Likely developments

Acquisitions will continue to be a key focus for growth of the Group, to strengthen the existing service offerings as well as to add new service

offerings. The Group will actively seek acquisition opportunities that fit with its strategy.

With sales and headcount both increasing in Quarter 4 of 2010, the Group is optimistic regarding the outlook for 2011. A number of key industries are increasing their demand for the Group's services, combined with the prospect of involvement in a number of major infrastructure projects.

Moderating this there is likely to be a short slowdown in government spending immediately following the federal election campaign. The Group expects ongoing pressure on margins as the competition for resources continues into 2011, and therefore management is focused on strategies to counter any external margin pressure.

In summary, both the SMS and M&T Resources businesses have continued to perform well and are both positioned to take advantage of expected growth and deliver on commitments to both clients and shareholders.

DIVIDENDS

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

Type	Cents per share	Total amount \$'000	Date of payment
Paid during the year			
Final 2009 Ordinary (fully franked)	15.0	9,974	14 Oct 2009
Interim 2010 Ordinary (fully franked)	12.5	8,335	18 Mar 2010

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

Events subsequent to reporting date

On 17 August 2010, the directors declared the payment of a final 2010 ordinary (fully franked) dividend of 16.5 cents per share (\$11,085,113 total) to be paid on 13 October 2010.

Other than the above, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p>Laurence G Cox B.Comm, FCPA, FAICD, SF Fin</p> <p>Independent Non-Executive Director</p> <p>Chairman of the Board</p> <p>Chairman of the Remuneration and Nominations Committee</p>	<p>Currently a Non-Executive Director of OneSteel Limited.</p> <p>Formerly Executive Chairman of the Potter Warburg Group of Companies, Australia and formerly Director of SG Warburg Securities, London; formerly Executive Director of Macquarie Group Limited and Research Australia Limited; formerly Chairman of the Australian Stock Exchange Limited, the Murdoch Childrens' Research Institute and the Transurban Group; formerly Non-Executive Director of Smorgon Steel Group Limited.</p>
<p>Bruce Thompson B.Ec, FCPA, FAICD</p> <p>Independent Non-Executive Director</p> <p>Chairman of the Audit, Risk and Compliance Committee</p>	<p>Currently a Council and Board member of the Box Hill TAFE Council and a Commissioner and Chairman of the Victorian Government Commission for Gambling Regulation.</p> <p>Formerly Chairman of Innovonics Ltd; formerly Chairman and Managing Director of Hewlett-Packard Australia Ltd; formerly Chief Executive Officer of Keycorp Limited.</p>



DIRECTORS (continued)

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p>Nicole Birrell B.App Ec, M.Sc, FAICD</p> <p>Independent Non-Executive Director</p>	<p>Currently a Director of Grains Research & Development Corporation, Queensland Sugar Ltd and Superpartners Pty Ltd and a Member of Wheat Exports Australia. Serves on the Programs Advisory Committee for the School of Applied Economics at Victoria University, Melbourne and is also an operational risk management consultant.</p> <p>Formerly Director of AusBulk Limited and The Australian Practice Nurses Association Inc.; formerly Chair of AusMalt Pty Ltd; formerly head of Operational Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group, Melbourne.</p>
<p>Kerry Smith B.Ec, ACA</p> <p>Independent Non-Executive Director</p>	<p>Currently a Director of Wellcom Group Ltd.</p> <p>Formerly Managing Director of Schroders Australia Group; formerly Group Finance Director of Mojo MDA Group Ltd; formerly Director of Financial Accounting at Macquarie Bank Limited.</p>
<p>Thomas Stianos B.App Sc, FAICD</p> <p>Executive Director Chief Executive Officer</p>	<p>Currently a Director of the Australian Information Industry Association.</p> <p>Previous positions held with SMS include Regional Director Victoria, Regional Director NSW, Regional Director ACT and Managing Director of SMS Australia. Mr Stianos has been employed by SMS for over 20 years.</p>

COMPANY SECRETARY

The Company Secretary position is held by Ms Sarah Turner ACIS, who is also General Counsel of SMS. Ms Turner has a Bachelor of Arts, a Bachelor of Laws with Honours and a Graduate Diploma in Applied Corporate Governance. She is a member of the Law Institute of Victoria, the Australian Corporate Lawyers Association, Chartered Secretaries Australia and the ICOSA.

DIRECTORS' MEETINGS

The number of meetings of the Company's directors (including meetings of formally constituted committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	Board of Directors		Audit, Risk and Compliance Committee		Remuneration and Nominations Committee	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Laurence Cox	12	12	–	–	2	2
Bruce Thompson	12	12	3	3	2	2
Nicole Birrell	12	10	3	3	2	2
Kerry Smith	12	11	3	3	2	2
Thomas Stianos	12	12	–	–	–	–

(i) Number of meetings held during the time the Director held office during the year

(ii) Number of meetings attended

CORPORATE GOVERNANCE STATEMENT

The Company supports the Australian Securities Exchange's ("ASX") Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles"). The Company complies with all of the ASX Principles.

Further information on the Company's corporate governance policies and practices can be found on the Company's website at www.smsmt.com.

Principle 1: Lay solid foundations for management and oversight

The Board has adopted a Charter which sets out, among other things, its specific power and responsibilities and the matters delegated to the Chief Executive Officer ("CEO") and those reserved to the Board. A copy of the Charter is available on the Company's website.

As part of the Board's oversight of senior management, all Company executives are subject to annual performance reviews and planning. Each executive is assessed against a range of criteria including financial goals, completion of key performance measures and adherence to the Company's values.

Principle 2: Structure the Board to add value

The Board is structured to bring a range of experiences to the Company.

Pages 37 to 38 set out the qualifications, expertise and experience of each Director in office as at the date of this Directors' Report.

As required under the Board Charter and the ASX Principles, the Board comprises a majority of independent non-executive directors. In determining whether a director is independent or otherwise, the Board considers the matters set out in the Charter.

The Board carries out a number of its duties and responsibilities through the Remuneration and Nominations Committee and the Audit, Risk and Compliance Committee. Details of the Remuneration and Nominations Committee are set out on page 44 and of the Audit, Risk and Compliance Committee on pages 54 and 55.

Principle 3: Promote ethical and responsible decision making

The Company considers its reputation one of its most valuable assets, founded largely on the ethical behaviour of its people.

The Board has approved a Code of Conduct that sets out principles of ethical behaviour for all Group personnel. Information relating to this policy is available on the Company's website.

In addition, the Board has established a Share Trading Policy which governs dealing in the Company's shares. Information relating to this policy is available on the Company's website.

Principle 4: Safeguard integrity in financial reporting

The Board has established an Audit, Risk and Compliance Committee which assists the Board in the effective discharge of its responsibilities for financial reporting, internal controls, risk management, internal and external audit and insurance (with the exception of directors and officers insurance). Details of the Committee are set out on the Company's website.

The composition and structure of the Audit, Risk and Compliance Committee comply with the ASX Principles.

The names of the members of the Audit, Risk and Compliance Committee are set out on page 54 of this Directors' Report and their attendance at meetings of the Committee are set out on page 39 of this Directors' Report.

Principle 5: Making timely and balanced disclosure

The Company is subject to continuous disclosure obligations under the ASX Listing Rules and Australian corporations legislation. Subject to limited exceptions, the Company must immediately notify the market, through the ASX, of any information that a reasonable person would expect to have a material effect on the price or value of its securities. To this end, the Company has a disclosure policy, details of which can be found on its website.

CORPORATE GOVERNANCE STATEMENT (continued)

Principle 6: Respect the rights of shareholders

Respecting the rights of shareholders is of fundamental importance to the Company and a key element of this is how we communicate with our shareholders. To this end, the Company recognises that shareholders must receive relevant information in a timely manner in order to be able to properly and effectively exercise their rights as shareholders. The Company's communications policy is summarised on its website.

Principle 7: Recognise and manage risk

The Board has required management to design and implement a risk management and internal control system to manage the Company's material business risks and management has reported that those risks are being managed effectively.

For the annual and half year results, the CEO and the CFO (or acting CFO) have provided a written declaration to the Board that the Company's financial records have been properly maintained, and that the Company's financial statements and notes give a true and fair view and comply with accounting standards.

Principle 8: Encourage enhanced performance

The Chairman is responsible for monitoring the contribution of individual directors and counselling them on any areas which might help improve Board performance. During the period, reviews were conducted of Board performance.

Directors are supported by the company secretarial function and by continuing education in order to update and enhance their knowledge. They also have access to information, support and, if need be, to independent professional advice.

Performance reviews of key executives are undertaken by the CEO together with the Remuneration and Nominations Committee.

Principle 9: Remunerate fairly and responsibly

The Remuneration Report (on pages 45 to 54) sets out details of the Company's policy and practices for remunerating directors, key management personnel and senior executives.

The names and members of the Remuneration and Nominations Committee are set out on page 44 of this Directors' Report, and their attendance at meetings of the Committee are set out on page 39 of this Directors' Report.

Information relating to the Remuneration and Nominations Committee and the Company's policy on share trading in relation to shares or equity based products are available on the Company's website.

Principle 10: Recognise the legitimate interests of stakeholders

The Company has put in place a Code of Conduct and a Conflicts of Interest and Confidentiality Policy. These set out the standards the Company expects of its employees. The policies are aimed at the maintenance of standards of honesty, integrity and fair dealing by all employees in their dealings with clients, suppliers, the community, competitors and each other in the performance of their duties and responsibilities. Details of the Code of Conduct can be found on the Company's website.

All information referred to in this Corporate Governance Statement as being on the Company's website is included under the 'Investors' – 'Corporate Governance' section of the website.

ELECTION OF DIRECTORS

Clause 47 of the Company's Constitution requires that a director must retire from office no later than the longer of the third annual general meeting of the Company, or three years, following that director's last election or appointment. Therefore, Kerry Smith, being a director who has been in office for three or more years, will retire at the 2010 Annual General Meeting of the Company and is eligible for re-election.

BOARD OF DIRECTORS

Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value. To fulfil this role, the Board is responsible for the overall corporate governance of the Group including overseeing its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems. It is also responsible for approving and monitoring financial and other reporting. Details of the Board's Charter are located on the Company's website.

The Board has delegated responsibility for the operation and administration of the Group to the CEO and executive management. Responsibilities are defined by formal authority delegations.

Board processes

To assist in the execution of its responsibilities, the Board has established a Remuneration and Nominations Committee and an Audit, Risk and Compliance Committee. These committees have written mandates and operating procedures, which are reviewed on a regular basis. The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board schedules eleven meetings each year. In addition, strategic and planning meetings and any extraordinary meetings are held at such other times as may be necessary to address any specific significant matters that may arise.

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

Director education

The Group has a formal process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of directors. Directors also have the opportunity to visit Group offices and meet with management and employees to gain a better understanding of business operations. Directors are given access to continuing education opportunities to update and enhance their skills and knowledge.

The Group also has a formal process to educate new senior executives upon taking up such positions. The induction program includes reviewing the Group's structure, strategy, operations, financial position and risk management policies. It also familiarises the individual with the respective rights, duties, responsibilities and roles of the individual and the Board.

Independent professional advice and access to Company information

Each director has the right of access to all relevant Group information and to the Group's executives and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Group's expense. The director must consult with an adviser suitably qualified in the

BOARD OF DIRECTORS (continued)

relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of the directors of the Company in office at the date of this report are set out in the Directors' Report on pages 37 and 38.

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

- a minimum of three directors, with a broad range of expertise both nationally and internationally;

- a majority of non-executive directors;

- a non-executive independent director is appointed as Chairperson;

- a majority of directors having extensive knowledge of the Group's industries, and those who do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;

- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities; and

- a maximum period of three years service, subject to re-election every three years (except for the CEO).

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

- holds less than five per cent of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than five per cent of the voting shares of the Company;

- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment;

- within the last three years has not been a principal or employee of a material* professional adviser or a material* consultant to the Company or another group member;

- is not a material* supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material* supplier or customer;

- has no material* contractual relationship with the Company or another group member other than as a director of the Company; and

- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially* interfere with the director's ability to act in the best interests of the Company.

* The Board considers 'material' in this context, where any director-related business relationship has represented, or is likely in the future to represent the lesser of at least ten per cent of the relevant segment's or the director-related business's revenue. The Board considered the nature of the relevant industries' competition, and the size and nature of each director-related business relationship, in arriving at this threshold.

REMUNERATION AND NOMINATIONS COMMITTEE

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

The Committee also reviews and makes recommendations to the Board on remuneration packages and policies applicable to the CEO, senior executives and directors themselves. It is also responsible for share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies.

The Committee also conducts an annual review of the performance of the CEO and the senior executives reporting directly to the CEO and the results are discussed at a Committee meeting.

The Board policy is that the Committee will comprise entirely of independent non-executive directors. The CEO, Mr Thomas Stianos, and the Director, Human Resources, Shaneen Argall are invited to the Committee meetings, as required, to discuss senior executives' performance and remuneration packages but do not attend meetings involving matters pertaining to themselves.

The Committee comprised the following members during the year, all of whom were non-executive directors:

Laurence Cox	Independent Non-Executive (Chairman)
Bruce Thompson	Independent Non-Executive
Kerry Smith	Independent Non-Executive
Nicole Birrell	Independent Non-Executive

The Committee met twice during the year and Committee members' attendance record is disclosed in the table of Directors' Meetings, on page 39.

The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment, including expectations for attendance and preparation for all Board meetings, minimum hourly commitment, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

A summary of the Committee's role and responsibilities is available on the Company's website.

REMUNERATION REPORT – AUDITED

Remuneration policies

Remuneration levels for directors and secretaries of the Company, and relevant executives of the Group (the directors and senior executives) are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Remuneration and Nominations Committee obtains independent advice on the appropriateness of remuneration packages, including benchmarks and market trends in comparative companies both locally and internationally.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the directors and senior executives
- the directors' and senior executives' ability to control the relevant business units' performance
- the Group's performance including:
 - the Group's earnings
 - the growth in the share price and in shareholder wealth
- the amount of incentives within each director's and senior executive's remuneration

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

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

Remuneration levels are reviewed annually by the Remuneration and Nominations Committee through a process that considers individual, business unit, and overall performance of the Group. In addition, the Committee considers external analysis and seeks advice from both internal and external sources to ensure the directors' and senior executives' remuneration is competitive in the market place. Remuneration is also reviewed on promotion.

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward the CEO and senior executives for meeting or exceeding their financial and personal objectives. The short-term incentive ("STI") is an 'at risk' bonus provided in the form of cash, while the long-term incentive ("LTI") has been provided as performance rights over the ordinary shares of SMS Management & Technology Limited under the rules of the 2007 Executive Performance Rights Plan, the 2008 Executive Performance Rights Plan, and the 2009 Executive Performance Rights Plan.

Each year the Remuneration and Nominations Committee sets the Key Performance Indicators ("KPIs") for the CEO and has input into the KPIs for senior executives. The KPIs generally include measures relating to the Group, the relevant region, and the individual. They include financial, people, client, strategy and growth and risk measures. The measurements are chosen as they directly align the individual's reward to the Group's strategy and performance.

The financial performance objectives are EBITDA compared to budgeted amounts for the relevant business unit. The non-financial objectives vary with position and responsibility and include measures like achieving strategic outcomes and meeting leadership expectations.

REMUNERATION REPORT – AUDITED (continued)

At the end of the financial year the Remuneration and Nominations Committee assesses the actual performance of the Group, the relevant region and the individual against the KPIs as set at the beginning of the financial year. A percentage of the predetermined maximum amount is awarded depending on the results. Bonuses are assessed on performance to budget and on strategic management criteria.

The Remuneration and Nominations Committee recommends the quantum of the short-term cash incentive bonus to be paid to the individuals for approval by the Board. These assessment methods have been chosen as they provide the committee with an objective assessment of each individual's performance.

(a) 2007 and 2008 Executive Performance Rights Plans

In July 2007, the Company introduced the 2007 Executive Performance Rights Plan (the "2007 Plan") which provided for the CEO and senior executives to receive grants of performance rights over ordinary shares, granted for nil consideration. The rights are exercisable subject to a three year performance period and the satisfaction of set performance criteria during that period which take into account share price appreciation plus reinvested dividends, expressed as a percentage of investment and adjusted for changes in the Company's capital structure. In order for performance rights to vest and convert to shares, the Company's total shareholder return ("TSR") over the performance period must be at or above the 50th percentile against a comparator group of companies comprising the ASX 200 excluding listed property trusts. Between the 50th percentile and the 75th percentile, performance rights will vest on a linear basis from 50% of award to 100% of award, and 100% of performance rights will vest at the 75th percentile or higher. A similar plan was introduced in 2008 (the "2008 Plan"). All rights granted to executives under the 2007 plan vested to 100% on 1 July 2010.

(b) 2009 Executive Performance Rights Plan

In July 2009, the Company introduced the 2009 Executive Performance Rights Plan (the "2009 Plan") which provided for the CEO and senior executives to receive grants of performance rights over ordinary shares, granted for nil consideration. The rights are exercisable subject to a three year performance period and the satisfaction of set performance criteria during that period. One grant, equal to 50% of the total rights granted, is based on a TSR performance hurdle which takes into account share price appreciation plus reinvested dividends, expressed as a percentage of investment and adjusted for changes in the Company's capital structure. Another grant, equal to 50% of the total rights granted, is based on a relative earnings per share ("EPS") performance hurdle. In order for each separate grant of performance rights to vest and convert to shares, the Company's performance over the performance period with respect to the relevant performance hurdle must be at or above the 50th percentile when ranked relative to the performance of companies in a peer group consisting of 13 comparator companies ("comparator group"). Between the 50th percentile and 75th percentile performance rights will vest on a linear basis from 50% of award to 100% of award, and 100% of the performance rights will vest at the 75th percentile or higher.

The Group has a restriction under the performance rights plans that prohibits those who are granted performance rights as part of their remuneration from entering into other arrangements that limit their exposure to losses that would result from share price decreases.

REMUNERATION REPORT – AUDITED (continued)

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

Measure	2010	2009	2008	2007	2006
EBITDA	\$38.143m	\$33.166m	\$35.094m	\$26.084m	\$16.457m
Net profit	\$27.896m	\$24.322m	\$24.809m	\$18.046m	\$11.848m
Dividend (fully franked)	\$0.29	\$0.25	\$0.25	\$0.21	\$0.15
Change in share price	\$2.06	\$0.21	(\$2.11)	\$2.70	\$1.28
Earnings per share	41.9c	36.7c	38.2c	28.1c	18.8c

EBITDA is considered in setting the STI.

The Remuneration and Nominations Committee considers that the above performance linked remuneration structure is generating the desired outcomes. The evidence is the growth in profits in the past five years and the performance linked element has resulted in many but not all of the senior executives on average, achieving most of their STI in the past five years.

Relative performance of TSR and EPS growth (for the 2009 Plan onwards) is considered in setting and assessing the LTI. The Remuneration and Nominations Committee considers that the above performance linked remuneration structure is generating the desired outcomes. With growth in TSR in the past five years, high proportions of the LTI rights have vested to senior executives.

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

It is the Group's policy that contracts of employment for the CEO and senior executives be unlimited in term but capable of termination on either one or three months' notice and that the Group retain the right to terminate the contract immediately, by making payment equal to one months' or three months' pay in lieu of notice.

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

Total remuneration for all the non-executive directors, last voted on at a general meeting of the Company on 24 October 2005, is not to exceed \$400,000 per annum. A director's base remuneration is presently \$70,000 per annum. The Chairman receives twice that amount.

Non-executive directors do not receive performance related remuneration.

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named Company executives and relevant Group executives who received the highest remuneration are detailed in the following table.

REMUNERATION REPORT – AUDITED (continued)

Short-term remuneration				
Directors	Year	Base remuneration	STI cash bonus (i)	Leave entitlements
		\$	\$	\$
Non-Executive				
Laurence Cox	2010	136,363	–	–
	2009	132,000	–	–
Bruce Thompson	2010	68,182	–	–
	2009	66,000	–	–
Nicole Birrell	2010	68,182	–	–
	2009	66,000	–	–
Kerry Smith	2010	68,182	–	–
	2009	66,000	–	–
Executive				
Thomas Stianos	2010	504,587	400,000	(23,289)
CEO	2009	493,884	229,357	(5,822)
Total all directors	2010	845,496	400,000	(23,289)
	2009	823,884	229,357	(5,822)
Executives				
Stephen Kelly	2010	226,286	–	7,489
CFO (Resigned effective 15 April 2010)	2009	285,604	73,394	1,094
Graham Lanphier	2010	276,429	137,615	(13,761)
Managing Director SMS Consulting	2009	276,429	55,046	–
Paula Johnston	2010	224,771	97,394	(4,323)
Managing Director M&T Resources	2009	224,771	66,371	(864)
Jason Young	2010	276,429	270,000	(7,410)
Managing Director SMS Technology Services	2009	193,861	251,954	692
Total all named executives	2010	1,003,915	505,009	(18,005)
	2009	980,665	446,765	922
Total compensation	2010	1,849,411	905,009	(41,294)
	2009	1,804,549	676,122	(4,900)

REMUNERATION REPORT – AUDITED (continued)

Post employment	Other long-term	Equity remuneration		Total (iii)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration
		Super contribution	Leave entitlements			
\$	\$	\$	\$	\$	%	%
11,481	-	-	-	147,844	-	-
10,692	-	-	-	142,692	-	-
5,740	-	-	-	73,922	-	-
5,346	-	-	-	71,346	-	-
5,740	-	-	-	73,922	-	-
5,346	-	-	-	71,346	-	-
5,740	-	-	-	73,922	-	-
5,346	-	-	-	71,346	-	-
45,413	9,755	204,657		1,141,123	35.1%	17.9%
65,092	14,722	169,233		966,466	23.7%	17.5%
74,114	9,755	204,657		1,510,733		
91,822	14,722	169,233		1,323,196		
20,280	(757)	(145,770)		107,528	-	(135.6%)
32,202	757	59,750		452,801	16.2%	13.2%
37,156	5,321	63,953		506,713	27.2%	12.6%
29,725	10,869	67,900		439,969	12.5%	15.4%
24,904	14,296	59,617		416,659	23.4%	14.3%
26,203	8,119	59,750		384,350	17.3%	15.5%
24,772	3,911	74,557		642,259	42.0%	11.6%
40,015	903	59,750		547,175	46.0%	10.9%
107,112	22,771	52,357		1,673,159		
128,145	20,648	247,150		1,824,295		
181,226	32,526	257,014		3,183,892		
219,967	35,370	416,383		3,147,491		

REMUNERATION REPORT – AUDITED (continued)

- (i) The short-term cash incentive bonus is for performance during the 2010 financial year using the criteria set out on pages 45 and 46.
- (ii) The fair value of performance rights granted under the 2007, 2008 and 2009 Executive Performance Rights Plans (with a TSR performance hurdle) is calculated at the date of grant using a Monte Carlo Simulation. The fair value of the 2009 Executive Performance Rights with an EPS performance hurdle is calculated at the date of grant using a closed form Black Scholes valuation model. The fair values are allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the performance rights allocated to this reporting period. In valuing performance rights at grant date, market conditions have been taken into account. Comparative information was not restated as market conditions were already included in the valuation.
- (iii) Directors' and officers' insurance premiums are not included within total remuneration in this table, as disclosure of premiums paid is prohibited under the terms of the insurance contract.

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

Grant date	Expiry date	Fair value per right	Exercise price	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
01 Jul 07 (i)	n/a	\$3.46	–	\$5.80	33%	6.42%	5.15%
01 Jul 08 (i)	n/a	\$1.95	–	\$3.60	37%	6.78%	3.80%
01 Jul 09 (i)	n/a	\$1.86	–	\$3.80	48%	4.47%	6.58%
01 Jul 09 (ii)	n/a	\$3.12	–	\$3.80	48%	4.47%	6.58%

- (i) Grant with TSR performance hurdle.
(ii) Grant with EPS performance hurdle.

Each performance right entitles the holder to acquire one ordinary share in the Company. The 2007 and 2008 performance rights are subject to specified performance criteria of at least the 50th percentile TSR (and reaching the 75th percentile TSR to fully vest) and a performance period of three years ending on 1 July 2010 and 1 July 2011 respectively. The 2009 performance rights are subject to specified performance criteria of at least the 50th percentile (and reaching the 75th percentile to fully vest) for each of the two separate TSR and EPS grants as well as a performance period of three years ending on 1 July 2012. All performance rights expire on the termination of the employee's employment.

Analysis of STI bonuses included in remuneration

Details of the percentage of the available STI bonus that was expensed in the 2010 financial year to the five named Company executives and relevant Group executives, and the percentage that was forfeited because the person did not meet the performance criteria are set out below. Non-executive directors do not participate in the STI bonus scheme.

	Short-term incentive		
	Included in remuneration (i) \$	Achieved in year	Forfeited in year
Executives			
The Group and the Company			
Thomas Stianos	400,000	100%	–
Stephen Kelly (ii)	–	–	100%
Graham Lanphier	150,000	68%	32%
Paula Johnston	97,394	90%	10%
Jason Young	270,000	100%	–

- (i) Inclusive of superannuation. Some executives have elected not to have any superannuation deducted from their gross bonus depending on their personal circumstances.
(ii) Resigned effective 15 April 2010.

REMUNERATION REPORT – AUDITED (continued)

Performance rights over equity instruments granted as compensation

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

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

	Granted during 2010	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
Executives					
The Group and the Company					
Thomas Stianos	53,500	01 Jul 09	–	\$1.86	–
	53,500	01 Jul 09	–	\$3.12	–
Stephen Kelly (i)	16,000	01 Jul 09	–	\$1.86	–
	16,000	01 Jul 09	–	\$3.12	–
Graham Lanphier	16,000	01 Jul 09	–	\$1.86	–
	16,000	01 Jul 09	–	\$3.12	–
Paula Johnston	16,000	01 Jul 09	–	\$1.86	–
	16,000	01 Jul 09	–	\$3.12	–
Jason Young	25,000	01 Jul 09	–	\$1.86	–
	25,000	01 Jul 09	–	\$3.12	–

	Granted during 2009	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
Executives					
The Group and the Company					
Thomas Stianos	102,564	01 Jul 08	–	\$1.95	–
Stephen Kelly (i)	30,769	01 Jul 08	–	\$1.95	–
Graham Lanphier	30,769	01 Jul 08	–	\$1.95	–
Paula Johnston	30,769	01 Jul 08	–	\$1.95	–
Jason Young	30,769	01 Jul 08	–	\$1.95	–

(i) Resigned effective 15 April 2010.

REMUNERATION REPORT – AUDITED (continued)

	Granted during 2008	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
Executives					
The Group and the Company					
Thomas Stianos	60,000	1 Jul 07	–	\$3.46	–
Stephen Kelly (i)	20,000	1 Jul 07	–	\$3.46	–
Graham Lanphier	25,000	1 Jul 07	–	\$3.46	–
Paula Johnston	20,000	1 Jul 07	–	\$3.46	–
Jason Young	20,000	1 Jul 07	–	\$3.46	–

	Granted during 2007	Grant date	Vested during 2010	Fair value per right at grant date	Expiry date
Executives					
The Group and the Company					
Thomas Stianos	70,000	1 Jul 06	80%	\$1.43	–
Stephen Kelly (i)	35,000	1 Jul 06	80%	\$1.43	–
Graham Lanphier	40,000	1 Jul 06	80%	\$1.43	–
Paula Johnston	35,000	1 Jul 06	80%	\$1.43	–
Jason Young	35,000	1 Jul 06	80%	\$1.43	–

(i) Resigned effective 15 April 2010.

All performance rights expire on the termination of the individual's employment and vest three years from grant date subject to performance criteria being met. Details of the performance criteria are included in the long-term incentives explanation on page 46.

No terms of equity-settled share based payment transactions have been altered or modified during the reporting period, nor during the prior period.

Analysis of share-based payments granted as compensation

Details of the vesting profile of performance rights granted as compensation to directors of the Company and each of the five named Company executives and relevant Group executives are detailed on the next page.

REMUNERATION REPORT – AUDITED (continued)

Performance rights granted					
	Number	Date	% Vested in year	% Forfeited in year	Financial years to which grant vests
Directors					
Thomas Stianos	70,000	1 Jul 06	80%	20%	1 Jul 09
	60,000	1 Jul 07	–	–	1 Jul 10
	102,564	1 Jul 08	–	–	1 Jul 11
	107,000	1 Jul 09	–	–	1 Jul 12
Executives					
The Group and the Company					
Stephen Kelly (i)	35,000	1 Jul 06	80%	20%	1 Jul 09
	20,000	1 Jul 07	–	100%	1 Jul 10
	30,769	1 Jul 08	–	100%	1 Jul 11
	32,000	1 Jul 09	–	100%	1 Jul 12
Graham Lanphier	40,000	1 Jul 06	80%	20%	1 Jul 09
	25,000	1 Jul 07	–	–	1 Jul 10
	30,769	1 Jul 08	–	–	1 Jul 11
	32,000	1 Jul 09	–	–	1 Jul 12
Paula Johnston	35,000	1 Jul 06	80%	20%	1 Jul 09
	20,000	1 Jul 07	–	–	1 Jul 10
	30,769	1 Jul 08	–	–	1 Jul 11
	32,000	1 Jul 09	–	–	1 Jul 12
Jason Young	35,000	1 Jul 06	80%	20%	1 Jul 09
	20,000	1 Jul 07	–	–	1 Jul 10
	30,769	1 Jul 08	–	–	1 Jul 11
	50,000	1 Jul 09	–	–	1 Jul 12

(i) Resigned effective 15 April 2010.

REMUNERATION REPORT – AUDITED (continued)

Analysis of movements in performance rights

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

Value of performance rights			
	Granted in year	Vested and exercised in year	Forfeited in year
	(i)	(ii)	(iii)
	\$	\$	\$
Directors			
Thomas Stianos	266,430	80,080	20,020
Executives			
The Group and the Company			
Stephen Kelly (iv)	79,680	40,040	218,890
Graham Lanphier	79,680	45,760	11,440
Paula Johnston	79,680	40,040	10,010
Jason Young	124,500	40,040	10,010

(i) The value of performance rights granted in the year is their fair value at grant date.

(ii) The 2006 performance rights were available for exercise during the year with 80% of the performance rights vested based on the performance criteria of the plan. The value of performance rights vested and exercised in the year is their fair value at grant date.

(iii) The 2006 performance rights were available for exercise during the year with 20% of the performance rights forfeited based on the performance criteria of the plan. The value of performance rights forfeited in the year is their fair value at grant date.

(iv) Resigned effective 15 April 2010 with all 2007, 2008 and 2009 performance rights forfeited.

AUDIT, RISK AND COMPLIANCE COMMITTEE

The Audit, Risk and Compliance Committee has a documented charter, approved by the Board. All members must be non-executive directors with a majority being independent. The Chairman may not be the Chairman of the Board. The Committee advises on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the consolidated entity.

The members of the Committee during the year were:

Bruce Thompson	Independent Non-Executive (Chairman)
Nicole Birrell	Independent Non-Executive
Kerry Smith	Independent Non-Executive

The external auditors, the Chairman of the Board, the CEO and CFO are invited to Committee meetings at the discretion of the Committee. The Committee met on three occasions during the year and committee members' attendance record is disclosed in the table of directors' meetings on page 39.

AUDIT, RISK AND COMPLIANCE COMMITTEE (continued)

The CEO and the acting CFO declared in writing to the Board that the financial records of the Company and the Group for the financial year have been properly maintained and that the Group's financial reports for the year ended 30 June 2010 comply with the accounting standards and present a true and fair view of the Group's financial condition and operational results. This statement is required annually.

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

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

- the annual, half-year and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards ("AASBs"), and assessing whether the financial information is adequate for shareholder needs;
- managing processes supporting external reporting;
- corporate risk assessment processes;
- the performance and objectivity of the internal audit function;
- establishing procedures for selecting, appointing and if necessary removing the external auditor;
- whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period, the external auditor provides an independence declaration in relation to the audit or review;
- whether the provision of the non-audit services provided by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;

the adequacy of the internal control framework and the Company's code of ethical standards;

organising and reviewing special reviews or investigations deemed necessary by the Board;

fraud and monitoring prompt and appropriate rectification of any deficiencies or breakdowns;

the procedures to ensure compliance with the Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and

any matters outstanding with auditors, Australian Taxation Office ("ATO"), Australian Securities and Investments Commission ("ASIC"), Australian Stock Exchange ("ASX") and financial institutions.

The Audit, Risk and Compliance Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

discuss the external audit and internal audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;

review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;

review the draft financial report and recommend Board approval of the financial report;

review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made; and

as required, to organise, review and report on any special reviews or investigations deemed necessary by the Board.

RISK MANAGEMENT

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

The CEO and the acting CFO have provided assurance in writing to the Board that the financial reporting, risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other compliance risk management controls have also been assessed and found to be operating efficiently and effectively.

Risk profile

The Audit, Risk and Compliance Committee reports to the Board annually on the status of risks by ensuring that risks are identified, assessed and appropriately managed. Further details of the Group's risk management policy and internal compliance and control system are available on the Company's website.

Each business operational unit is responsible and accountable for implementing and managing the standards required by the program.

Material risks for the Group may arise from such matters as actions by competitors, government policy changes, occupational health and safety, property, financial reporting, and the purchase, development and use of information systems.

Risk management, compliance and control

The Group strives to ensure that its services are of the highest standard. Towards this aim the Group has gained national accreditation AS/NZS ISO 9001:2000 Quality Management Systems.

The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Group's internal compliance and control systems include:

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

- Key areas subject to regular reporting to the Board include Finance and Information Technology, Legal, Human Resources and Disclosures; and

- Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- financial exposures are controlled with policies concerning investment activities closely monitored;
- occupational health and safety standards and management systems are monitored and reviewed to achieve high standard of performance and compliance with regulations;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel is maintained;
- financial reporting accuracy and compliance with the financial reporting regulatory framework; and
- environmental regulation compliance.

Quality and integrity of personnel

Formal appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management. A formal succession plan is also in place to ensure competent and knowledgeable employees fill senior positions when retirements or resignations occur.

RISK MANAGEMENT (continued)

Financial reporting

The CEO and the acting CFO have provided assurance in writing to the Board that the Group's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Board and revised forecasts for the year are prepared regularly.

Environmental regulation

The Group has processes in place to explore the ways in which the Group and its employees can control their carbon footprint and environmental impact.

Internal audit

The Board reviews compliance with internal controls and risk management programs by regularly reviewing the effectiveness of the above-mentioned compliance and control systems. The Audit, Risk and Compliance Committee is responsible for approving the program of review.

Ethical standards

All directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Group. The Board has developed procedures to assist directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and Group are set out in Note 26 to the Financial Statements.

Code of Conduct

The Group has advised each director, manager and employee that they must comply with the Code of Conduct ("the Code"). The Code covers the following:

- aligning the behaviour of the Board and management with the Code by maintaining appropriate core Group values and objectives;

- fulfilling responsibilities to shareholders by delivering shareholder value;

- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;

- fulfilling responsibilities to clients by maintaining high standards of product quality, service standards and commitments to fair value;

- employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;

- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;

- conflicts of interest;

- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;

- reporting of unlawful or unethical behaviour including protection of those who report violations in good faith;

- the processes for monitoring and ensuring compliance with the Code.

RISK MANAGEMENT (continued)

Trading in general Company securities by directors and employees

The key elements of the Company's Share Trading Policy by directors and employees are:

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

The policy also details the insider trading provisions of the Corporations Act 2001 and is reproduced in full on the Company's internal website and in summary on the Company's website.

COMMUNICATION WITH SHAREHOLDERS

The Board provides shareholders with information using a comprehensive Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website, and issuing media releases. More details of the policy are available on the Company's website.

In summary, the Continuous Disclosure Policy operates as follows:

the CEO, CFO and Company Secretary are responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered;

the full annual financial report is provided via the Company's website to all shareholders (unless a shareholder has specifically requested to receive a physical copy), including relevant information about the operations of the Group during the year, changes in the state of affairs and details of future developments;

the half-yearly report contains summarised financial information and a review of the operations of the Group during the period. The half-year report is lodged with ASIC and the ASX, and sent to any shareholder who requests it;

proposed major changes in the Group which may impact on share ownership rights are submitted to a vote of shareholders;

all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;

analyst and media briefings and general meetings transcripts are released to the ASX and placed on the Company's website;

the full texts of notices of meetings and associated explanatory material are placed on the Company's website;

the external auditor attends the Annual General Meeting to answer any questions concerning the conduct of the audit, the preparation of the auditor's report, accounting policies adopted by the Group and the independence of the auditor in relation to the conduct of the audit.

COMMUNICATION WITH SHAREHOLDERS (continued)

All of the above information, including that of the previous two years, is made available on the Group's website within one day of public release. Shareholder requests for financial report information are handled by the Company's share registry, Link Market Services Limited.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the Group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

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

DIRECTORS' INTERESTS

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

	Ordinary shares	Performance rights over ordinary shares
Laurence Cox	411,762	–
Bruce Thompson	84,681	–
Nicole Birrell	9,681	–
Kerry Smith	4,681	–
Thomas Stianos	1,622,799	209,564

SHARE OPTIONS AND PERFORMANCE RIGHTS**Performance rights granted to CEO and officers of the Company**

Equity movements during the financial year are disclosed in detail in Note 26 to the Financial Statements.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

During the financial year, the Group 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 2010 included the directors and company secretary.

The directors have not included the details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses' insurance contracts, as such is prohibited under the terms of the contract.

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

NON-AUDIT SERVICES

During the year KPMG, the Company's auditor, has not performed any other services in addition to their statutory duties.

During the prior year the auditor performed certain other services in addition to their statutory duties.

The Board considered the non-audit services provided during the prior year by the auditor and in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, was satisfied that the provision of those non-audit services during the prior year by the auditor was compatible with and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

all non-audit services were subject to the corporate governance procedures adopted by the Group and were reviewed by the Audit, Risk and Compliance Committee to ensure they did not impact the integrity and objectivity of the auditor;

the non-audit services provided did not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks or rewards.

Details of the amounts paid to the auditor of the Group, KPMG and its related practices, for the audit and non-audit services provided during the year are set out below.

	Consolidated	
	2010 \$	2009 \$
Audit services		
Auditors of the Group		
– Audit and review of financial reports (KPMG Australia)	160,185	140,000
– Audit and review of financial reports (KPMG Overseas firms)	–	28,769
	160,185	168,769
Other services		
– Due diligence	–	55,000
	–	55,000

NON-AUDIT SERVICES (continued)

It is the Group's policy to employ KPMG on assignments additional to their statutory audit duties where their expertise and experience with the Group are important.

LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 62 and forms part of the Directors' Report for the year ended 30 June 2010.

Rounding off

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

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



.....



.....

Signed at Melbourne on this 17th day of August 2010



Lead Auditor's Independence Declaration under Section 397C of the Corporations Act 2001

To: the directors of SMS Management & Technology Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2010 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Gordon Sangster'.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster'.

Gordon Sangster
Partner

Melbourne

17 August 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Revenue from rendering of services		247,421	230,486
Other income		154	140
Total revenue		247,575	230,626
Employee benefits expenses		(188,110)	(176,809)
Other project expenses		(7,980)	(6,723)
Depreciation expenses	12	(441)	(481)
Administrative expenses		(4,368)	(4,741)
Occupancy expenses		(3,707)	(3,646)
Due diligence costs		(22)	(252)
Other expenses		(5,245)	(5,066)
Results from operating activities		37,702	32,908
Financial income		1,185	1,040
Financial expenses		(360)	(254)
Net financing income		825	786
Profit before income tax		38,527	33,694
Income tax expense	5	(10,631)	(9,372)
Profit for the year and other comprehensive income for the year		27,896	24,322
Earnings per share for profit attributable to the ordinary equity holders of the company:			
Basic earnings per share	6	41.9 cents	36.7 cents
Diluted earnings per share	6	40.7 cents	35.7 cents

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Current assets			
Cash and cash equivalents	8	30,980	26,463
Trade and other receivables	9	52,308	45,524
Other	10	837	1,206
Total current assets		84,125	73,193
Non-current assets			
Plant and equipment	12	3,099	1,361
Intangible assets	13	45,035	32,625
Total non-current assets		48,134	33,986
Total assets		132,259	107,179
Current liabilities			
Trade and other payables	14	16,179	12,293
Current tax payable	15	3,690	3,556
Employee benefits	16	7,408	6,584
Other	17	3,524	2,441
Total current liabilities		30,801	24,874
Non-current liabilities			
Employee benefits	16	418	243
Deferred tax liability	11	3,413	1,886
Other	17	5,239	617
Total non-current liabilities		9,070	2,746
Total liabilities		39,871	27,620
Net assets		92,388	79,559
Equity			
Issued capital		58,080	56,449
Reserves		4,799	3,188
Retained earnings		29,509	19,922
Total equity		92,388	79,559

The consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 67 to 107.

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers		263,102	263,394
Payments to suppliers and employees		(225,989)	(225,428)
Cash generated from operations		37,113	37,966
Interest received		1,207	1,004
Income taxes paid		(8,793)	(6,458)
Borrowing costs paid		(210)	(339)
Other		154	134
Net cash inflow from operating activities	25	29,471	32,307
Cash flows from investing activities			
Acquisition of plant and equipment	12	(1,980)	(697)
Proceeds on sale of assets		-	184
Due diligence costs		(22)	(252)
Payments for businesses acquired, net of cash acquired	7	(4,643)	(4,000)
Net cash outflow from investing activities		(6,645)	(4,765)
Cash flows from financing activities			
Dividends paid to shareholders		(18,309)	(16,546)
Share buy back		-	(1,025)
Net cash outflow from financing activities		(18,309)	(17,571)
Net increase in cash and cash equivalents		4,517	9,971
Cash and cash equivalents at 1 July	8	26,463	16,492
Cash and cash equivalents at 30 June	8	30,980	26,463

Consolidated						
	Notes	Issued capital \$'000	Foreign currency translation reserve \$'000	Equity compensation reserve \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2008		56,704	68	2,116	12,146	71,034
Total comprehensive income for the period						
Profit or loss and other comprehensive income		-	14	-	24,322	24,336
Transactions with owners, recorded directly in equity						
Issue of ordinary shares in acquisitions	7	770	-	-	-	770
Equity settled share based payment transactions		-	-	990	-	990
Share buy back	19	(1,025)	-	-	-	(1,025)
Dividends to shareholders	19	-	-	-	(16,546)	(16,546)
Balance at 30 June 2009		56,449	82	3,106	19,922	79,559
Balance at 1 July 2009		56,449	82	3,106	19,922	79,559
Total comprehensive income for the period						
Profit or loss and other comprehensive income		-	(82)	-	27,896	27,814
Transactions with owners, recorded directly in equity						
Issue of ordinary shares in acquisitions	7	1,631	-	-	-	1,631
Equity settled share based payment transactions		-	-	1,693	-	1,693
Dividends to shareholders	19	-	-	-	(18,309)	(18,309)
Balance at 30 June 2010		58,080	-	4,799	29,509	92,388

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

NOTE 1.
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SMS Management & Technology Limited ("the Company") is a company domiciled in Australia. The consolidated financial statements of the Company as at and for the financial year ended 30 June 2010 comprise the Company and its subsidiaries ("the Group").

The financial statements were approved for issue by the Board of Directors on 17 August 2010.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the majority of the Group.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand dollars, unless otherwise stated.

(c) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 7 – business combinations
 Note 16 – employee benefits
 Note 22 – contingencies

(d) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements and have been applied consistently by all entities in the Group.

(e) Basis of consolidation

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

Investments in subsidiaries are carried at cost less impairment losses in the Company's financial statements.

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has adopted revised AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* for business combinations occurring in the financial year. All business combinations occurring on or after 1 July 2009, as disclosed in Note 7, are accounted for by applying the acquisition method. The change in accounting policy was applied prospectively and had no material impact on earnings per share.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interest issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination. If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

(f) Foreign currency

Transactions in foreign currencies are translated to the functional currency at the foreign exchange rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign

currencies at the reporting date are retranslated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on retranslation are recognised in profit and loss.

The assets and liabilities of foreign operations, including goodwill arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity. Since 1 July 2004, the Group's date of transition to AASBs, such differences have been recognised in the foreign currency translation reserve ("FCTR"). When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss.

(g) Plant and equipment

Items of plant and equipment are measured at cost or deemed cost less accumulated depreciation (see below) and accumulated impairment losses (see accounting policy (i)). Cost includes expenditure that is directly attributable to the acquisition of the asset.

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

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

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

Plant and equipment	2-8 years
Leasehold improvements	6-8 years

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(h) Intangible assets – goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy (i)).

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

(i) Impairment

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

For goodwill and assets that have an indefinite useful life, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Receivables are individually assessed for impairment. Receivables due in twelve months or less are not discounted.

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

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

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

An impairment loss in respect of other non-financial assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Trade and other receivables

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

(k) Cash and cash equivalents

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

(l) Employee benefits

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The 2006 and 2007 Employee Share Rights Plans along with the 2006, 2007, 2008 and 2009 Executive Performance Rights Plans allow Group employees to earn shares in the Company. The fair value of shares and rights granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the shares and rights at the end of the performance period. The fair value of the shares and rights granted is measured using a Monte Carlo simulation model for TSR hurdles and a closed form Black Scholes model for EPS hurdles, taking into account the terms and conditions upon which the shares and rights were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest except where market conditions are not achieved. All share rights plans are equity settled share based payments. Refer to Note 16 for further details.

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

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

(m) Provisions

A provision is recognised in the consolidated statement of financial position if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that

an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(n) Revenue

Revenue from services rendered is recognised in profit and loss when the services are performed, which is generally on a billing entitlement basis, net of volume discounts 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.

(o) Operating leases

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

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income tax levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that the future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable the related tax benefit will be realised.

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

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

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

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

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability assumed from subsidiaries is recognised by the head entity only.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(q) Goods and services tax

Revenue, expenses, assets and liabilities are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated with the amount of GST included. The net amount of GST payable to the ATO is included as a current liability in the consolidated statement of financial position.

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

(r) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise performance rights granted to employees and shares to be issued as deferred consideration in business combinations.

(s) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report:

AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace *AASB 139 Financial Instruments: Recognition and Measurement*. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

AASB 124 Related Party Disclosures (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have a significant impact on the financial statements.

AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of the employee share rights plans is measured using the Monte Carlo simulation model for TSR hurdles and a closed form Black Scholes model for EPS hurdles. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historic experience and generation rights holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service conditions attached to the transactions are not taken into account in determining fair value.

(u) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

NOTE 2.**FINANCIAL RISK MANAGEMENT**

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management standards and procedures aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

The credit risk for the Group arises from receivables due from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Group minimises concentrations of credit risk by undertaking transactions with a large number of reputable clients and customers in various industries, performing due diligence procedures on major new customers and closely monitoring past due payments. The Group is not materially exposed to any overseas country or individual customer.

The policy is to provide financial guarantees only to wholly-owned entities. Details of cross guarantees are provided in Note 23.

NOTE 2. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, both under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will effect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

The Group is exposed to foreign currency risk on sales, purchases and borrowings that are denominated in currency other than AUD. The currencies giving rise to this risk are primarily New Zealand Dollars and Hong Kong Dollars.

The Group ensures that the exposure is kept to an acceptable level and it is not considered material at the reporting date.

At the reporting date, the Group is not exposed to significant interest rate risk.

(d) Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as net operating income divided by total shareholder equity. The Board also monitors the level of dividends to shareholders.

There were no changes in the Group's approach to capital management during the year. During the previous year, the Company conducted a share buy-back acquiring 603,506 shares at an average price of \$1.70.

The Group is not subject to externally imposed capital requirements.

NOTE 3.**OPERATING SEGMENTS**

As of 1 July 2009 the Group determines and presents operating segments based on the information that is internally provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of AASB 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*.

Comparative segment information has been re-presented in conformity with the transitional requirements. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate expenses and income tax assets.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

NOTE 3. OPERATING SEGMENTS (continued)

The Group has two reportable segments, as described below. The reportable segments offer different services and are managed separately because they require different resources and marketing strategies. For each of the operating segments, the CEO reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

SMS – management consulting and technology services

M&T Resources – contract labour and permanent recruitment

	SMS		M&T Resources		Other		Total	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
External revenue	186,423	168,206	60,998	62,280	–	–	247,421	230,486
Inter-segment revenue	–	–	7,181	3,316	–	–	7,181	3,316
Reportable segment profit before income tax	42,558	38,179	4,206	4,285	–	–	46,764	42,464
Unallocated amounts: Other corporate expenses (including net financing income)	–	–	–	–	(8,237)	(8,770)	(8,237)	(8,770)
Consolidated profit before income tax	–	–	–	–	–	–	38,527	33,694
Reportable segment assets	87,448	67,833	9,728	10,115	35,083	29,231	132,259	107,179

The Group operates almost entirely within Australia, with minimal operations in New Zealand and Hong Kong that are not reported separately to the CEO. As a result the Group considers that it has only one geographical segment, being Australia.

Revenue from one customer of the Group's two segments represents approximately 16% (2009: 27%) of the Group's total revenue. There is significant diversity of revenue from this customer in terms of geographic location, range of services provided and operating divisions of the customer.

NOTE 4.
AUDITORS' REMUNERATION

	Consolidated	
	2010 \$	2009 \$
Audit services		
Auditors of the Group		
KPMG Australia:		
Audit and review of financial reports	160,185	140,000
Overseas KPMG Firms:		
Audit and review of financial reports	-	28,769
	160,185	168,769
Other services		
Auditors of the Group		
KPMG Australia:		
Due diligence	-	55,000
	-	55,000

NOTE 5.
INCOME TAX EXPENSE

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Current tax expense			
Current year		13,337	9,337
Adjustments for prior years		(820)	16
		12,517	9,353
Deferred tax expense			
Origination and reversal of temporary differences		(1,855)	16
Adjustments for prior years		(31)	3
	11	(1,886)	19
Total income tax expense		10,631	9,372

NOTE 5. INCOME TAX EXPENSE (continued)

Numerical reconciliation between tax expense and pre-tax net profit

	Consolidated	
	2010 \$'000	2009 \$'000
Profit before tax	38,527	33,694
Income tax using the domestic tax rate of 30% (2009: 30%)	11,558	10,108
Increase in tax expense due to:		
Non-deductible expenses	295	504
	295	504
Decrease in tax expense due to:		
Other deductible expenses / non-taxable gains	371	1,259
	371	1,259
(Over) under provided in previous year	(851)	19
Income tax expense on pre-tax net profit	10,631	9,372

NOTE 6.**EARNINGS PER SHARE****Basic earnings per share**

The calculation of basic earnings per share at 30 June 2010 was based on the profit attributable to ordinary shareholders of \$27,896,000 (2009: \$24,322,000) and the weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 66,564,600 (2009: 66,225,716), calculated as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Profit attributable to ordinary shareholders	27,896	24,322
	Number '000	Number '000
Weighted average number of ordinary shares		
Issued ordinary shares at 1 July	66,038	65,259
Effect of shares issued during the year	527	967
Weighted average number of ordinary shares at 30 June	66,565	66,226

NOTE 6. EARNINGS PER SHARE (continued)

Diluted earnings per share

The calculation of diluted earnings per share at 30 June 2010 was based on profit attributable to ordinary shareholders of \$27,896,000 (2009: \$24,322,000) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 68,612,263 (2009: 68,038,493), calculated as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Profit attributable to ordinary shareholders (diluted)	27,896	24,322
	Number '000	Number '000
Weighted average number of ordinary shares (diluted)		
Issued ordinary shares at 1 July	66,038	65,259
Effect of shares issued during the year	527	967
Effect of share plans / performance rights on issue	1,709	1,658
Effect of shares to be issued in acquisitions	338	154
Weighted average number of ordinary shares (diluted) at 30 June	68,612	68,038

For the purposes of calculating the dilutive effect of business combinations the closing share price of the Group's shares on 30 June was used to determine the number of shares outstanding. For share plans/performance rights the number of shares outstanding was based on the actual balance outstanding at 30 June.

NOTE 7.**BUSINESS COMBINATIONS****Bright Blue Solutions**

On 5 March 2010 the Group acquired certain assets and liabilities of Bright Blue Solutions ("Bright Blue") for \$1,407,126 in cash and \$662,400 in shares subject to earn-out arrangements. Bright Blue is a specialist Oracle Siebel Customer Relationship Management consulting organisation. A second payment of \$2,267,000 is expected to fall due in March 2011, being the contingent amount of the purchase price to be paid after meeting expected EBIT targets to February 2011. A third payment of \$2,445,000 is expected to fall due in March 2012, being the contingent amount of the purchase price to be paid after meeting expected EBIT targets to February 2012. All payments and contingent payments in excess of net assets for the business have been included within goodwill. In the four months to 30 June 2010 Bright Blue contributed approximately \$2.7m of revenue and \$0.5m of EBITDA. If the acquisition had occurred on 1 July 2009, management estimates that Bright Blue would have contributed approximately \$8.0m of revenue and \$1.7m of EBITDA.

NOTE 7. BUSINESS COMBINATIONS (continued)

	\$'000
Cash	1,407
Equity instruments (103,338) ordinary shares	662
Contingent consideration	4,392
Total consideration transferred	6,461

The fair value of the ordinary shares issued was based on the volume weighted average price of the Group's shares for the 20 trading days prior to completion date of the acquisition being \$6.41 per share.

Contingent consideration represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the contingent consideration and a discount rate of 4.56%.

	Notes	\$'000
Deferred tax assets	11	73
Trade and other payables		(32)
Employee benefits		(212)
Total net identifiable liabilities		(171)

The fair values of the identifiable assets acquired and liabilities assumed have all been recognised at acquisition date on a final basis, none of the fair values have been determined on a provisional basis.

	Notes	\$'000
Total consideration transferred		6,461
Add: total net identifiable liabilities		171
Goodwill	13	6,632

The goodwill recognised on the acquisition is attributable to the skills of the acquired employees, the client base, and the synergies expected to be achieved from integrating Bright Blue into the SMS business. None of the goodwill recognised is expected to be deductible for income tax purposes.

NOTE 7. BUSINESS COMBINATIONS (continued)

Aipex Pty Ltd

On 12 October 2009 the Group acquired all of the shares in Aipex Pty Ltd ("Aipex") for \$2,401,300 in cash subject to earn-out arrangements. Aipex is a specialist System Integration provider and Australia's largest certified Tibco partner. A second payment of \$2,401,300 will fall due in October 2011, being the contingent amount of the purchase price to be paid after meeting revenue and utilisation targets to June 2010.

All payments and contingent payments in excess of net assets for the business have been included within goodwill. The Group's pre-existing System Integration team was integrated with Aipex after acquisition. In the nine months to 30 June 2010 Aipex contributed approximately \$7.8m of revenue and \$1.2m of EBITDA to the combined Systems Integration team. If the acquisition had occurred on 1 July 2009, management estimates that Aipex would have contributed approximately \$11.8m of revenue and \$1.5m of EBITDA.

	\$'000
Cash	2,401
Contingent consideration	2,170
Total consideration transferred	4,571

Contingent consideration represents its fair value at the acquisition date. The fair value of the contingent consideration was calculated by applying the income approach using the contingent consideration and a discount rate of 5.09%.

	Notes	\$'000
Cash and cash equivalents		134
Trade and other receivables		2,349
Plant and equipment	12	199
Deferred tax assets	11	37
Trade and other payables		(952)
Employee benefits		(1,036)
Total net identifiable assets		731

The fair values of the identifiable assets acquired and liabilities assumed have all been recognised at acquisition date on a final basis, none of the fair values have been determined on a provisional basis.

NOTE 7. BUSINESS COMBINATIONS (continued)

	Notes	\$'000
Total consideration transferred		4,571
Less: total net identifiable assets		731
Goodwill	13	3,840

The goodwill recognised on the acquisition is attributable to the skills of the acquired employees, the client base, and the synergies expected to be achieved from integrating Aipex into the SMS business. None of the goodwill recognised is expected to be deductible for income tax purposes.

The Group incurred acquisition related costs of \$21,830 relating to legal fees and due diligence costs. These legal fees and due diligence costs have been included in due diligence costs in the Group's consolidated statement of comprehensive income.

Other business combinations (accounted for under AASB 3 (2004))

In May 2009, the shares in Pelion Group Pty Ltd were acquired for \$329,250 in cash and \$270,750 in shares subject to earn-out arrangements. A second and third anniversary payment each of \$300,000 in cash and \$300,000 in shares will be made in May 2011 and May 2012 provided the performance criteria are met. As the contingent purchase price could not be reliably measured at the time of acquisition any subsequent payments for the business will be adjusted against goodwill as no other assets will be acquired. There has been no change to the fair values recognised at the time of acquisition.

In October 2007, the shares in Total Learn Pty Ltd were acquired for \$1,337,000 subject to earn-out arrangements. In October 2008, a second payment of \$1,723,294 was made in cash to the previous owners of Total Learn Pty Ltd. This payment included \$389,294 being the contingent amount of the purchase price paid on exceeding EBIT targets to September 2008. A third and final payment was made in October 2009 for \$1,938,100, half in cash and half in shares after exceeding EBIT targets to October 2009. All subsequent payments for the business have been adjusted against goodwill as no other assets have been acquired. There has been no change to the fair values recognised at the time of acquisition.

NOTE 8.**CASH AND CASH EQUIVALENTS**

	Consolidated	
	2010 \$'000	2009 \$'000
Cash at bank and on hand	30,980	26,463

The Group's exposure to interest rate risk is disclosed in Note 20.

NOTE 9.**TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Work in progress	24,063	17,135
Trade receivables	28,087	28,351
Less: Impairment losses	(9)	(163)
	52,141	45,323
Other receivables	51	87
Accrued income	116	114
	167	201
	52,308	45,524

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 20.

NOTE 10.**OTHER CURRENT ASSETS**

	Consolidated	
	2010 \$'000	2009 \$'000
Prepayments	735	1,149
Security deposits	102	57
	837	1,206

NOTE 11.**DEFERRED TAX ASSETS AND LIABILITIES****Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

	Assets		Consolidated Liabilities		Net	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated						
Trade and other receivables	-	-	7,251	4,927	7,251	4,927
Other current assets	-	-	35	10	35	10
Plant and equipment	-	-	23	-	23	-
Trade and other payables	(401)	(381)	-	-	(401)	(381)
Provisions	(207)	(185)	-	-	(207)	(185)
Employee entitlements	(2,407)	(2,048)	-	-	(2,407)	(2,048)
Other items	(881)	(437)	-	-	(881)	(437)
Tax (assets)/liabilities	(3,896)	(3,051)	7,309	4,937	3,413	1,886
Set off of tax	3,896	3,051	(3,896)	(3,051)	-	-
Net tax liabilities	-	-	3,413	1,886	3,413	1,886

Unrecognised deferred tax assets

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

	Consolidated	
	2010 \$'000	2009 \$'000
Tax losses in foreign entities	-	186

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

NOTE 11. DEFERRED TAX ASSETS AND LIABILITIES (continued)

Movement in temporary differences during the year:

	Consolidated				
	Balance 30 June 2009	Recognised in profit and loss	Recognised in equity	Acquired in business combinations	Balance 30 June 2010
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	4,927	2,180	–	144	7,251
Other current assets	10	25	–	–	35
Plant and equipment	–	(17)	–	40	23
Trade and other payables	(381)	25	–	(45)	(401)
Provisions	(185)	(22)	–	–	(207)
Employee entitlements	(2,048)	(145)	–	(214)	(2,407)
Other items	(437)	(160)	(249)	(35)	(881)
Net tax (assets) / liabilities	1,886	1,886	(249)	(110)	3,413

	Consolidated				
	Balance 30 June 2008	Recognised in profit and loss	Recognised in equity	Acquired in business combinations	Balance 30 June 2009
	\$'000	\$'000	\$'000	\$'000	\$'000
Trade and other receivables	4,909	18	–	–	4,927
Other current assets	77	(67)	–	–	10
Trade and other payables	(445)	64	–	–	(381)
Provisions	(116)	(69)	–	–	(185)
Employee entitlements	(1,941)	(107)	–	–	(2,048)
Other items	(579)	142	–	–	(437)
Net tax (assets) / liabilities	1,905	(19)	–	–	1,886

NOTE 12.
PLANT AND EQUIPMENT

	Consolidated		
	Plant and equipment \$'000	Leasehold improvements \$'000	Total \$'000
Cost			
Balance at 1 July 2008	4,963	3,089	8,052
Additions	686	11	697
Additions through acquisitions	127	26	153
Disposals	(3,217)	(3,010)	(6,227)
Balance at 30 June 2009	2,559	116	2,675
Balance at 1 July 2009	2,559	116	2,675
Additions	1,951	29	1,980
Additions through acquisitions	425	–	425
Disposals	(1,029)	–	(1,029)
Balance at 30 June 2010	3,906	145	4,051
Depreciation and impairment losses			
Balance at 1 July 2008	3,835	2,972	6,807
Depreciation charge for the year	471	10	481
Additions through acquisitions	73	2	75
Disposals	(3,096)	(2,953)	(6,049)
Balance at 30 June 2009	1,283	31	1,314
Balance at 1 July 2009	1,283	31	1,314
Depreciation charge for the year	433	8	441
Additions through acquisitions	226	–	226
Disposals	(1,029)	–	(1,029)
Balance at 30 June 2010	913	39	952
Carrying amounts			
At 1 July 2008	1,128	117	1,245
At 30 June 2009	1,276	85	1,361
At 1 July 2009	1,276	85	1,361
At 30 June 2010	2,993	106	3,099

NOTE 13.
INTANGIBLE ASSETS

	Consolidated
	Goodwill \$'000
Cost	
Balance at 1 July 2008	380,216
Acquisitions through business combinations	4,668
Cessation of business	(19,068)
Balance at 30 June 2009	365,816
Balance at 1 July 2009	365,816
Acquisitions through business combinations	12,410
Balance at 30 June 2010	378,226
Amortisation and impairment losses	
Balance at 1 July 2008	(352,259)
Cessation of business	19,068
Balance at 30 June 2009	(333,191)
Balance at 1 July 2009	(333,191)
Balance at 30 June 2010	(333,191)
Carrying amounts	
At 1 July 2008	27,957
At 30 June 2009	32,625
At 1 July 2009	32,625
At 30 June 2010	45,035

The SMS reportable segment is the only cash generating unit containing goodwill. The recoverable amount of this cash generating unit is based on its value in use which is determined using cash flow projections based on actual operating results and the business' 5 year forecast. Cash flow projections beyond the 5 year period were calculated using the forecast cash flow of the 4th year, increased by a steady growth rate going forward. The pre-tax discount rate applied of 15.2%, was derived from an estimate of the long term weighted average cost of capital.

NOTE 14.**TRADE AND OTHER PAYABLES**

	Consolidated	
	2010 \$'000	2009 \$'000
Trade payables	5,308	6,300
Other payables and accrued expenses	10,871	5,993
	16,179	12,293

The Group's response to currency risk related to trade and other payables is disclosed in Note 20.

NOTE 15.**CURRENT TAX PAYABLE**

The current tax liability for the Group of \$3,690,000 (2009: \$3,556,000) represents the amount of income tax payable in respect of current and prior financial periods. In accordance with the tax consolidation legislation, the Company as the head entity of the Australian tax consolidated group has assumed the current tax liability initially recognised by the members in the tax consolidated group.

NOTE 16.**EMPLOYEE BENEFITS**

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Liability for annual leave	5,294	4,735
Liability for long service leave	2,114	1,849
	7,408	6,584
Non-Current		
Liability for long service leave	418	243
	418	243

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

Share based payments**Various Option Plans**

In prior years, certain employees were granted option entitlements as part of their contract of employment with the Company or the Group. Exercise prices for these options ranged from \$7.05 to \$30.00. Expiry and exercise dates also varied on a contract by contract basis. All options have been issued for nil consideration and each option is convertible into one ordinary share. The employees' entitlements to the options are vested (i.e. they are not conditional on future employment) as soon as they become exercisable and the options are non-transferable and unquoted.

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

NOTE 16. EMPLOYEE BENEFITS (continued)

Consolidated 2010					
Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2009	Granted
1 Jul 00	1 Jul 01	30 Jun 10 to 11 Oct 12	\$7.05 - \$30.00	696,600	-
				696,600	-
Weighted average exercise price				\$10.55	\$0.00

* Issued at various dates throughout previous financial years.

Consolidated 2009					
Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2008	Granted
1 Jul 00	1 Jul 01	30 Jun 10 to 11 Oct 12	\$7.05 - \$30.00	696,600	-
				696,600	-
Weighted average exercise price				\$10.55	\$0.00

* Issued at various dates throughout previous financial years.

NOTE 16. EMPLOYEE BENEFITS (continued)

	Lapsed	Exercised	Number as at 30 June 2010		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	563,000	-	133,600	133,600	-	*	-
	563,000	-	133,600	133,600	-	-	-
	\$9.89	\$0.00	\$13.34	\$13.34			

	Lapsed	Exercised	Number as at 30 June 2009		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	-	-	696,600	696,600	-	*	-
	-	-	696,600	696,600	-	-	-
	\$0.00	\$0.00	\$10.55	\$10.55			

NOTE 16. EMPLOYEE BENEFITS (continued)

2006 Employee Share Plan and Executive Share Rights Plan

During the 2006 financial year, all employees of the Group were eligible to participate in the Employee Share Rights Plan, and certain Executives were eligible to participate in the Executive Share Rights Plan. Each right was subject to a performance period of three years commencing from the date of grant on 1 July 2006 and expiring on 1 July 2009. Each right had a nil consideration and once vested and exercised, was convertible into one ordinary share. Unexercised rights lapsed on the employee's termination. These rights are non-transferable and unquoted. There are no voting or dividend rights attached to these rights.

Consolidated 2010

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2009	Granted
1 Jul 06	1 Jul 09	n/a	\$0.00	694,895	-
1 Jul 07	1 Jul 10	n/a	\$0.00	561,924	-
1 Jul 08	1 Jul 11	n/a	\$0.00	739,731	-
1 Jul 09	1 Jul 12	n/a	\$0.00	-	781,000
				1,996,550	781,000
			Weighted average exercise price	\$0.00	\$0.00

* Issued at various dates throughout the 2010 financial year

Consolidated 2009

Grant date	Exercise date on or after	Expiry date	Exercise price	Number as at 1 July 2008	Granted
1 Jul 05	1 Jul 08	30 Jun 11	\$0.00	1,147,500	-
1 Jul 06	1 Jul 09	n/a	\$0.00	753,719	-
1 Jul 07	1 Jul 10	n/a	\$0.00	693,180	-
1 Jul 08	1 Jul 11	n/a	\$0.00	-	799,986
				2,594,399	799,986
			Weighted average exercise price	\$0.00	\$0.00

* Issued at various dates throughout the 2009 financial year

NOTE 16. EMPLOYEE BENEFITS (continued)

2007 Employee Share Plan and 2007, 2008 and 2009 Executive Performance Rights Plan

During the 2007 financial year, all employees of the Group were eligible to participate in the Employee Share Plan, and during 2007, 2008 and 2009 certain Executives were eligible to participate in the Executive Performance Rights Plan. Each share or right is subject to a vesting period of three years commencing from the date of grant. In the case of the Executive Performance Rights Plans each right is subject to performance criteria, with the 2007 and 2008 plans only subject to a market condition (TSR), whereas the 2009 plan is subject to both market (TSR) and non-market conditions (EPS). Unvested shares and rights lapse on the employee's termination. Each share and right has a nil consideration, with each right converting to one share subject to satisfaction of the performance criteria. These shares and rights are non-transferable and unquoted. There are voting and dividend rights attached to the shares but not to the performance rights. All plans are equity settled share based payments.

	Lapsed	Exercised	Number as at 30 June 2010		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	152,325	542,570	-	-	-	1 Jul 09	542,570
	52,680	1,275	507,969	-	-	*	1,275
	126,920	-	612,811	-	-	-	-
	85,000	-	696,000	-	-	-	-
	416,925	543,845	1,816,780	-	-	-	543,845
	\$0.00	\$0.00	\$0.00	\$0.00			

	Lapsed	Exercised	Number as at 30 June 2009		Proceeds received \$	Date issued	Number of shares issued
			On issue	Vested			
	-	1,147,500	-	-	-	1 Jul 08	1,147,500
	36,425	22,399	694,895	-	-	*	22,399
	127,821	3,435	561,924	-	-	*	3,435
	60,255	-	739,731	-	-	-	-
	224,501	1,173,334	1,996,550	-	-	-	1,173,334
	\$0.00	\$0.00	\$0.00	\$0.00			

NOTE 16. EMPLOYEE BENEFITS (continued)

The fair value of the 2007 Employee Share Plan and the 2007, 2008 and 2009 Executive Performance Rights Plans were assessed using the following parameters for Executives and Employees:

	Executives	Executives	Executives	Executives	Employees
	2010 – EPS	2010 – TSR	2009	2008	2008
Grant date	1 Jul 09	1 Jul 09	1 Jul 08	1 Jul 07	1 Jul 07
Share price at grant date	\$3.80	\$3.80	\$3.60	\$5.80	\$5.80
Fair value at measurement date (i)	\$3.12	\$1.86	\$1.95	\$3.46	\$4.97
Exercise price	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Expected volatility (ii)	48%	48%	37%	33%	33%
Option life	3 years	3 years	3 years	3 years	3 years
Expected dividend yield p.a. (iii)	6.58%	6.58%	3.80%	5.15%	5.15%
Risk free interest rate p.a. (iv)	4.47%	4.47%	6.78%	6.42%	6.42%

(i) The Executive Performance Rights Plan incorporates a TSR performance hurdle (except for the 2009 grant with an EPS performance hurdle). To allow for the TSR hurdle, the Monte Carlo simulation was used to value the rights. To allow for the EPS hurdle, a closed form Black Scholes model was used to value the rights.

(ii) Expected volatility based on historical daily share price for the period from 2 July 2002 to 1 July 2009.

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

(iv) Risk free interest rate p.a. is based on the yields on Treasury Bonds using data from the Reserve Bank of Australia.

Employee expenses

	Consolidated	
	2010 \$'000	2009 \$'000
Employee performance rights – equity settled	1,445	990
Total expense recognised as employee costs	1,445	990

Superannuation

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

NOTE 17.**OTHER LIABILITIES**

	Consolidated	
	2010 \$'000	2009 \$'000
Current		
Revenue received in advance	1,364	2,441
Deferred consideration	2,160	-
	3,524	2,441
Non-current		
Rent accrual	688	617
Deferred consideration	4,551	-
	5,239	617

NOTE 18.**FINANCING FACILITIES**

This note provides information about the contractual terms of the Group's financing facilities.

	Consolidated	
	2010 \$'000	2009 \$'000
Total facilities		
Bank indemnity/guarantee facility	3,000	3,000
Interchangeable facility	-	20,000
Overdraft facility	-	5,000
	3,000	28,000
Facilities utilised at reporting date		
Bank indemnity/guarantee facility	2,304	2,304
Interchangeable facility	-	-
Overdraft facility	-	-
	2,304	2,304
Facilities not utilised at reporting date		
Bank indemnity/guarantee facility	696	696
Interchangeable facility	-	20,000
Overdraft facility	-	5,000
	696	25,696

NOTE 19. EQUITY

Issued capital

	The Company	
	2010 Number '000	2009 Number '000
On issue at 1 July	66,038	65,259
Share buy back	–	(603)
Shares issued in acquisitions	289	214
Employee share plan	455	1,168
On issue at 30 June – fully paid	66,782	66,038

The Company has also issued share options and performance rights (see Note 16).

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

Foreign currency translation reserve

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

Equity compensation reserve

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

Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount \$'000	Franked/ unfranked	Date of payment
2010				
Final 2009 ordinary	15.0	9,974	Franked	14 Oct 09
Interim 2010 ordinary	12.5	8,335	Franked	18 Mar 10
Total	27.5	18,309		
2009				
Final 2008 ordinary	15.0	9,964	Franked	31 Oct 08
Interim 2009 ordinary	10.0	6,582	Franked	22 Apr 09
Total	25.0	16,546		

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

NOTE 19. EQUITY (continued)

Dividend franking account

	The Company	
	2010 \$'000	2009 \$'000
30% franking credits available to shareholders of SMS Management & Technology Limited for subsequent financial years	19,178	18,833

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

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

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after the reporting date but not recognised as a liability is to reduce it by \$4,750,763 (2009: \$4,274,533). In accordance with the tax consolidation legislation, the Company as the head entity in the tax consolidated group has also assumed the benefit of \$19,718,000 (2009: \$18,833,000) franking credits.

NOTE 20.**FINANCIAL INSTRUMENTS****(a) Credit risk**

Exposure to credit risk arises in the normal course of the Group's business.

The aging of the Group's trade receivables at the reporting date was:

	2010 \$'000	2009 \$'000
0-90 days	27,809	27,713
Greater than 90 days	278	638
	28,087	28,351

NOTE 20. FINANCIAL INSTRUMENTS (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Balance at 1 July	163	15
Impairment loss recognised	9	163
Written back to profit and loss	(163)	(15)
Balance at 30 June	9	163

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

(b) Liquidity risk

The following are the contractual maturities of trade and other payables.

	Consolidated				
	Carrying amount \$'000	Contractual cashflows \$'000	6 mths or less \$'000	6-12 mths \$'000	1-2 years \$'000
Financial liabilities					
Trade and other payables	16,179	(16,179)	(16,179)	-	-
Deferred consideration	6,711	(6,711)	-	(2,160)	(4,551)
	22,890	(22,890)	(16,179)	(2,160)	(4,551)

(c) Market Risk

The Group's exposure to foreign currency risk at reporting date was as follows, based on notional amounts:

	NZD		HKD	
	2010 AUD \$'000	2009 AUD \$'000	2010 AUD \$'000	2009 AUD \$'000
Cash and cash equivalents	107	396	7	-
	107	396	7	-

The Company has no significant exposure to foreign currency risk.

NOTE 20. FINANCIAL INSTRUMENTS (continued)

The following exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
<i>AUD</i>				
NZD	1.2345	1.2581	1.2229	1.2520
HKD	6.6060	–	6.5815	–

Any movement in the exchange rate is immaterial to the results of the Group.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the reporting date and the periods in which they will reprice.

Consolidated						
		2010		2009		
Notes	Effective interest rate	Total	Six months or less	Effective interest rate	Total	Six months or less
	%	\$'000	\$'000	%	\$'000	\$'000
Financial assets						
Cash	8	30,980	30,980	4.8%	26,463	26,463

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

Cash flow sensitivity for financial instruments

The Group does not have any fixed rate financial assets or liabilities.

A change in 100 basis points in interest rates applied to financial income and expense for the year would have increased or decreased the Group's profit by \$287,000 (2009: \$217,000).

(d) Fair values**Fair values versus carrying amounts**

The fair values of financial assets and liabilities are materially the same as the carrying amounts shown in the consolidated statement of financial position.

NOTE 21.**OPERATING LEASES****Leases as lessee**

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Within one year	3,707	3,051
One year or later and no later than five years	7,604	9,210
Later than five years	3,599	5,612
	14,910	17,873

NOTE 22.**CONTINGENCIES**

Details of contingent liabilities are as follows:

Disputes and minor claims

Minor claims have been made against the Group during the year. The directors consider these claims to be immaterial, and part of the normal course of doing business. No amounts have been provided in relation to any of these matters. No material losses are anticipated in respect of any of the above contingent liabilities.

Cross guarantees

Certain entities in the wholly-owned group have entered into a Deed of Cross Guarantee, full details of which are provided in Note 23.

Bank guarantees

Bank guarantees of \$2,304,000 (2009: \$2,304,000) have been provided as security for performance of property rental covenants. The bank guarantees are secured by a Standard Authority to Appropriate and Set-Off Term Deposits to the equivalent facility value.

Contingent payments for acquisitions

In March 2010, certain assets and liabilities of Bright Blue Solutions were acquired for \$1,407,126 in cash and \$662,400 in shares subject to earn-out arrangements. A second payment of \$2,267,000 is expected to fall due in March 2011, being the contingent amount of the purchase price to be paid after meeting expected EBIT targets to February 2011. A third payment of \$2,445,000 is expected to fall due in March 2012, being the contingent amount of the purchase price to be paid after meeting expected EBIT targets to February 2012. All payments and contingent payments in excess of net assets for the business have been included within goodwill. For further detail, refer to Note 7.

NOTE 22. CONTINGENCIES (continued)

In October 2009, the shares in Aipex Pty Ltd were acquired for \$2,401,300 in cash subject to earn-out arrangements. A second payment of \$2,401,300 will fall due in October 2011, being the contingent amount of the purchase price to be paid after meeting revenue and utilisation targets to June 2010. All payments and contingent payments in excess of net assets for the business have been included within goodwill. For further detail, refer to Note 7.

In May 2009, the shares in Pelion Group Pty Ltd were acquired for \$329,250 in cash and \$270,750 in shares subject to earn-out arrangements. A second and third anniversary payment each of \$300,000 in cash and \$300,000 in shares will be made in May 2011 and May 2012 provided the performance criteria are met. As the contingent purchase price cannot be reliably measured at this stage, this has not been stated in the consolidated statement of financial position. Any subsequent payments for the business will be adjusted against goodwill as no other assets will be acquired. For further detail, refer to Note 7.

NOTE 23.**DEED OF CROSS GUARANTEE**

SMS Management & Technology Limited and SMS Consulting Group Limited are parties to a Deed of Cross Guarantee under which each company guarantees the debts of the others.

By entering into the Deed, the participating wholly-owned entities have been relieved of the requirement to prepare a financial report and Directors' Report under Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321 and 01/1087) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by SMS Management & Technology Limited, they also represent the 'Extended Closed Group'. Those wholly-owned subsidiaries which are not included in the Deed of Cross Guarantee are exempt from preparing a financial report and Directors' Report under the terms of ASIC Class Order 98/1418 and the Corporations Act 2001.

Given that the Closed Group for the years ended 30 June 2010 and 30 June 2009 includes 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 2010 and 30 June 2009 effectively comprise the full consolidated statement of comprehensive income and consolidated statement of financial position included in this Financial Report.

NOTE 24.**CONSOLIDATED ENTITIES****(a) Summary of controlled entities**

	Country of incorporation	Class of shares	Ownership interest	
			2010 %	2009 %
Parent entity				
SMS Management & Technology Limited	Australia			
Entities under control of SMS Management & Technology Limited				
SMS M&T Pte Ltd	Singapore	Ordinary	-	100
SMS Management & Technology Sdn Bhd	Malaysia	Ordinary	-	100
SMS Consulting Group Limited	Australia	Ordinary	100	100
GMD Group Pty Ltd	Australia	Ordinary	-	100
Entities under control of SMS Consulting Group Limited				
SMS Management & Technology Limited	UK	Ordinary	100	100
SMS Employees Pty Ltd	Australia	Ordinary	100	100
SMS Consulting Unit Trust	Australia		100	100
SMS Defence Solutions Pty Ltd	Australia	Ordinary	100	100
Avoga Pty Ltd	Australia	Ordinary	100	100
Realtech Australia Pty Ltd	Australia	Ordinary	100	100
Forward Consulting Pty Ltd	Australia	Ordinary	100	100
Total Learn Pty Ltd	Australia	Ordinary	100	100
M&T Resources Pty Ltd	Australia	Ordinary	100	100
Pelion Group Pty Ltd	Australia	Ordinary	100	100
Aipex Pty Ltd	Australia	Ordinary	100	-
SMS Management & Technology Asia Pty Ltd	Australia	Ordinary	100	-
ACN 143 117 819 Pty Ltd	Australia	Ordinary	100	-
Entities under control of GMD Group Pty Ltd				
Garner MacLennan Interactive Pty Ltd	Australia	Ordinary	-	100
Stewart MacLennan Holdings Pty Ltd	Australia	Ordinary	-	100
B1B2 Pty Ltd	Australia	Ordinary	-	100

NOTE 24. CONSOLIDATED ENTITIES (continued)

(b) Acquisition of controlled entities in 2010

During the financial year, SMS Consulting Group Limited acquired Aipex Pty Ltd, a specialist provider of System Integration services. For further information, refer to Note 7. In addition, two new companies were formed, SMS Management & Technology Asia Pty Ltd and ACN 143 117 819 Pty Ltd.

(c) Deregistration and disposal of controlled entities in 2010

During the financial year SMS M&T Pte Ltd (Singapore), SMS Management & Technology Sdn Bhd (Malaysia), GMD Group Pty Ltd, Garner MacLennan Interactive Pty Ltd, Stewart MacLennan Holdings Pty Ltd and B1B2 Pty Ltd were deregistered.

Avoga Pty Ltd, Realtech Australia Pty Ltd, Forward Consulting Pty Ltd and Total Learn Pty Ltd have been placed into a member's voluntary liquidation which is still in progress as at 30 June 2010.

SMS Management & Technology Limited (UK) had a strike-off proposal in motion as at 30 June 2010.

(d) Class order relief

For all wholly-owned Australian entities 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 to Note 23.

NOTE 25.**RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES**

	Consolidated	
	2010 \$'000	2009 \$'000
Cash flows from operating activities		
Profit after tax	27,896	24,322
<i>Adjustments for:</i>		
Depreciation and amortisation	441	481
Gain on disposal of plant and equipment	-	(6)
Due diligence costs	22	252
Equity settled share based payment transactions	1,445	990
Finance expense	360	254
Income tax expense	10,631	9,372
Operating profit before changes in working capital and provisions	40,795	35,665
Decrease (increase) in trade and other receivables	(6,536)	9,021
Decrease (increase) in other assets	347	(110)
Increase (decrease) in trade payables, prepaid revenue, other current liabilities and provisions	3,868	(5,472)
Borrowing costs paid	(210)	(339)
Income taxes paid	(8,793)	(6,458)
Net cash inflow from operating activities	29,471	32,307

NOTE 26.**KEY MANAGEMENT PERSONNEL DISCLOSURES**

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

Non-executive directors

Laurence Cox (Chairman)	Independent Non-Executive
Bruce Thompson	Independent Non-Executive
Nicole Birrell	Independent Non-Executive
Kerry Smith	Independent Non-Executive

Executive director

Thomas Stianos	Chief Executive Officer
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Executives

Stephen Kelly (resigned effective 15 April 2010)	Chief Financial Officer and joint Company Secretary
Graham Lanphier	Managing Director SMS Consulting
Paula Johnston	Managing Director M&T Resources
Jason Young	Managing Director SMS Technology Services

Key management personnel compensation

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

	Consolidated	
	2010 \$	2009 \$
Short-term employee benefits	2,713,126	2,475,771
Post employment benefits	181,226	219,967
Other long-term benefits	32,526	35,370
Equity compensation benefits	257,014	416,383
	3,183,892	3,147,491

The key management personnel receive no compensation in relation to the management of the Company.

Individual directors' and executives' compensation disclosures

Information regarding individual directors' and executives' compensation and some equity instrument disclosures as permitted by Corporations Regulations 2M.3.03 is provided in the Remuneration Report section of the Directors' Report on pages 45 to 54.

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

Loans to key management personnel and their related parties

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

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

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

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Options and rights over equity instruments

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

Name	Held at 1 July 2009	Granted as compen- sation	Exercised	Forfeited	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Laurence Cox	-	-	-	-	-	-	-
Bruce Thompson	-	-	-	-	-	-	-
Nicole Birrell	-	-	-	-	-	-	-
Kerry Smith	-	-	-	-	-	-	-
Thomas Stianos	232,564	107,000	56,000	14,000	269,564	-	-
Executives							
Stephen Kelly (i)	85,769	32,000	28,000	89,769	-	-	-
Graham Lanphier	95,769	32,000	32,000	8,000	87,769	-	-
Paula Johnston	85,769	32,000	28,000	7,000	82,769	-	-
Jason Young	85,769	50,000	28,000	7,000	100,769	-	-

Name	Held at 1 July 2008	Granted as compen- sation	Exercised	Forfeited	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Laurence Cox	-	-	-	-	-	-	-
Bruce Thompson	-	-	-	-	-	-	-
Nicole Birrell	-	-	-	-	-	-	-
Kerry Smith	-	-	-	-	-	-	-
Thomas Stianos	230,000	102,564	100,000	-	232,564	-	-
Executives							
Stephen Kelly (i)	85,000	30,769	30,000	-	85,769	-	-
Graham Lanphier	123,000	30,769	58,000	-	95,769	-	-
Paula Johnston	105,000	30,769	50,000	-	85,769	-	-
Jason Young	102,000	30,769	47,000	-	85,769	-	-

(i) Resigned effective 15 April 2010.

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Movement in shares

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

Name	Held at 1 July 2009	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2010	Other changes
Directors						
Laurence Cox	411,762	-	-	-	411,762	Nil
Bruce Thompson	84,681	-	-	-	84,681	Nil
Nicole Birrell	9,681	-	-	-	9,681	Nil
Kerry Smith	4,681	-	-	-	4,681	Nil
Thomas Stianos	1,506,799	56,000	-	-	1,562,799	Nil
Executives						
Stephen Kelly (i)	10,000	28,000	6,612	38,000	6,612	Nil
Graham Lanphier	94,623	32,000	16,531	-	143,154	Nil
Paula Johnston	65,074	28,000	-	13,000	80,074	Nil
Jason Young	64,552	28,000	875	40,000	53,427	Nil

(i) Resigned effective 15 April 2010. For current year the closing balance held is as at the date of departure.

Name	Held at 1 July 2008	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2009	Other changes
Directors						
Laurence Cox	405,040	-	6,722	-	411,762	Nil
Bruce Thompson	81,320	-	3,361	-	84,681	Nil
Nicole Birrell	6,320	-	3,361	-	9,681	Nil
Kerry Smith	1,320	-	3,361	-	4,681	Nil
Thomas Stianos	1,406,799	100,000	-	-	1,506,799	Nil
Executives						
Stephen Kelly (i)	-	30,000	-	20,000	10,000	Nil
Graham Lanphier	36,623	58,000	-	-	94,623	Nil
Paula Johnston	15,074	50,000	-	-	65,074	Nil
Jason Young	7,034	47,000	10,518	-	64,552	Nil

(i) Resigned effective 15 April 2010.

NOTE 26. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

Changes in key management personnel

Mr Stephen Kelly, CFO and joint Company Secretary resigned effective 15 April 2010. There were no other changes in key management personnel during the period.

After the reporting date, Rick Rostolis was appointed as CFO and will commence in October 2010.

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

NOTE 27.

NON-KEY MANAGEMENT PERSONNEL DISCLOSURES

The classes of non-key management personnel related parties are:

- wholly-owned controlled entities;
- partly-owned controlled entities;
- commonly controlled entities;
- associated companies;
- joint venture entities;
- directors of related parties and other related entities.

The wholly-owned group consists of SMS Management & Technology Limited and its consolidated entities as set out in Note 24. The ultimate parent entity in the owned group is SMS Management & Technology Limited.

All transactions with non-key management personnel related parties are on normal terms and conditions. These transactions consisted of amounts advanced by and repaid to the Company and the Group for the provision of services on normal commercial terms and conditions and at market rates. There are no fixed terms for the repayment of principal on loans advanced by and to the Company and the Group.

NOTE 28.**PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was SMS Management & Technology Limited. A summary of the financial performance and financial position of the parent entity is detailed below:

	The Company	
	2010 \$'000	2009 \$'000
Result of the parent entity		
Profit for the year	31,544	25,065
Total profit and other comprehensive income for the year	31,544	25,065
Financial position of parent entity at year end		
Non-current assets	76,392	62,082
Total assets	76,392	62,082
Current liabilities	3,540	5,789
Total liabilities	3,540	5,789
Total equity of the parent entity comprising of:		
Issued capital	58,080	56,449
Reserves	4,799	3,106
Retained earnings	9,973	(3,262)
Total equity	72,852	56,293

NOTE 28. PARENT ENTITY DISCLOSURES (continued)

Parent entity contingencies

	The Company	
	2010 \$'000	2009 \$'000
GST liabilities of other entities within the GST group	2,328	1,825
Tax liabilities of other entities within the tax consolidation group	150	(20)

The above contingent liabilities of other entities within the GST and tax consolidation groups are recognised in the consolidated statement of financial position of the Group. There are no other contingent liabilities of the parent entity.

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a Deed of Cross Guarantee with the effect that the Company guarantees debts in respect of its subsidiaries.

Further details of the Deed of Cross Guarantee and the subsidiaries subject to the deed, are disclosed in Note 23.

NOTE 29.**SUBSEQUENT EVENTS**

On 17 August 2010, the directors declared the payment of a final 2010 ordinary (fully franked) dividend of 16.5 cents per share (\$11,085,113 total) to be paid on 13 October 2010.

Other than the above, no matter or circumstance has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

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

1. In the opinion of the directors of SMS Management & Technology Limited ("the Company"):
 - (a) the consolidated financial statements and notes that are set out on pages 63 to 107 and the Remuneration Report in the Directors' Report set out on pages 45 to 54 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. There are reasonable grounds to believe that the Company and the Group entities identified in Note 24 will be able to meet any obligations or liabilities which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 98/1418.
3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and acting Chief Financial Officer for the financial year ended 30 June 2010.
4. The directors draw attention to the statement of compliance with International Financial Reporting Standards as disclosed in Note 1(a).

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



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Signed at Melbourne on this 17th day of August 2010



Independent audit report to the members of SMS Management & Technology Limited

Report on the financial report

We have audited the accompanying financial report of the Group comprising SMS Management & Technology Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 29 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

INDEPENDENT AUDIT REPORT (continued)

*Auditor's opinion**In our opinion:*

- (a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 45 to 54 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of SMS Management & Technology Limited for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.

KPMG

Gordon Sangster
Partner

Melbourne

17 August 2010

DISTRIBUTION OF HOLDINGS

Range	No of Shares	% of Issued Capital	No of Holders
1 to 1,000	1,949,996	2.91	3,824
1,001 to 5,000	5,965,991	8.91	2,397
5,001 to 10,000	3,854,309	5.75	521
10,001 to 100,000	8,727,944	13.03	348
100,001 and Over	46,483,147	69.40	36
Total	66,981,387	100.00	7,126

Of these, 260 shareholders held less than a marketable parcel of \$500 worth of shares (82 shares). In accordance with ASX Listing Rules, the last sale price of the Company's shares on the ASX on 13 August 2010 was used to determine the number of shares in a marketable parcel.

TWENTY LARGEST SHAREHOLDERS

Rank	Name of Shareholder	Total Units	% of Issued Capital
1	National Nominees Limited	12,404,175	18.52
2	HSBC Custody Nominees (Australia) Limited	8,228,004	12.28
3	JP Morgan Nominees Australia Limited	8,104,595	12.10
4	ANZ Nominees Limited	3,410,805	5.09
5	Citicorp Nominees Pty Limited	2,660,076	3.97
6	Cogent Nominees Pty Limited	2,004,743	2.99
7	Larison Pty Ltd	1,406,502	2.10
8	Glennfield Pty Ltd	1,129,891	1.69
9	Pacific Custodians Pty Limited	856,200	1.28
10	Queensland Investment Corporation	601,705	0.90
11	UBS Nominees Pty Ltd	572,564	0.85
12	MF Custodians Ltd	402,400	0.60
13	Citicorp Nominees Pty Limited	372,460	0.56
14	Bond Street Custodians Limited	343,953	0.51
15	Pacific Custodians Pty Limited	340,180	0.51
16	UBS Wealth Management Australia Nominees Pty Ltd	301,674	0.45
17	Mr Michael Phillip Thompson & Mrs Tracie Jane Thompson	301,312	0.45
18	AMP Life Limited	294,111	0.44
19	ABN Amro Clearing Sydney Nominees Pty Ltd	283,108	0.42
20	Citicorp Nominees Pty Limited	267,620	0.40
Total		44,286,078	66.12
Balance of Register		22,695,309	33.88
Grand Total		66,981,387	100.00

SUBSTANTIAL SHAREHOLDERS

SMS has been notified of the following substantial shareholdings

Holder	No of Ordinary Shares	% of Issued Ordinary Share Capital*
BT Investment Management Limited	4,881,669	7.31
Invesco Australia	4,050,070	6.06
Eley Griffiths Group Pty Ltd	3,398,305	5.09

*percentages are disclosed in substantial holding notices given to SMS Management & Technology Limited

ESCROW SHARES

There are 97,775 ordinary shares in voluntary escrow until 18 May 2011.

There are 103,338 ordinary shares in voluntary escrow until 9 March 2012.

Directors

Chairman
Chief Executive Officer

Company Secretary**Notice of Annual General Meeting**

The Annual General Meeting of SMS Management & Technology Limited will be held at the KPMG Theatre, 147 Collins Street, Melbourne, Victoria 3000 at 10:00am Tuesday 19 October 2010.

Registered Office

Level 41, 140 William Street, Melbourne, Victoria 3000
Telephone 1300 842 767
Facsimile 1300 329 767
Email investors@smsmt.com

Share Register

Link Market Services Limited
Level 12, 680 George Street, Sydney, NSW 2000
Locked Bag A14, Sydney South, NSW 1235
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Facsimile +61 2 9287 0303

Auditor

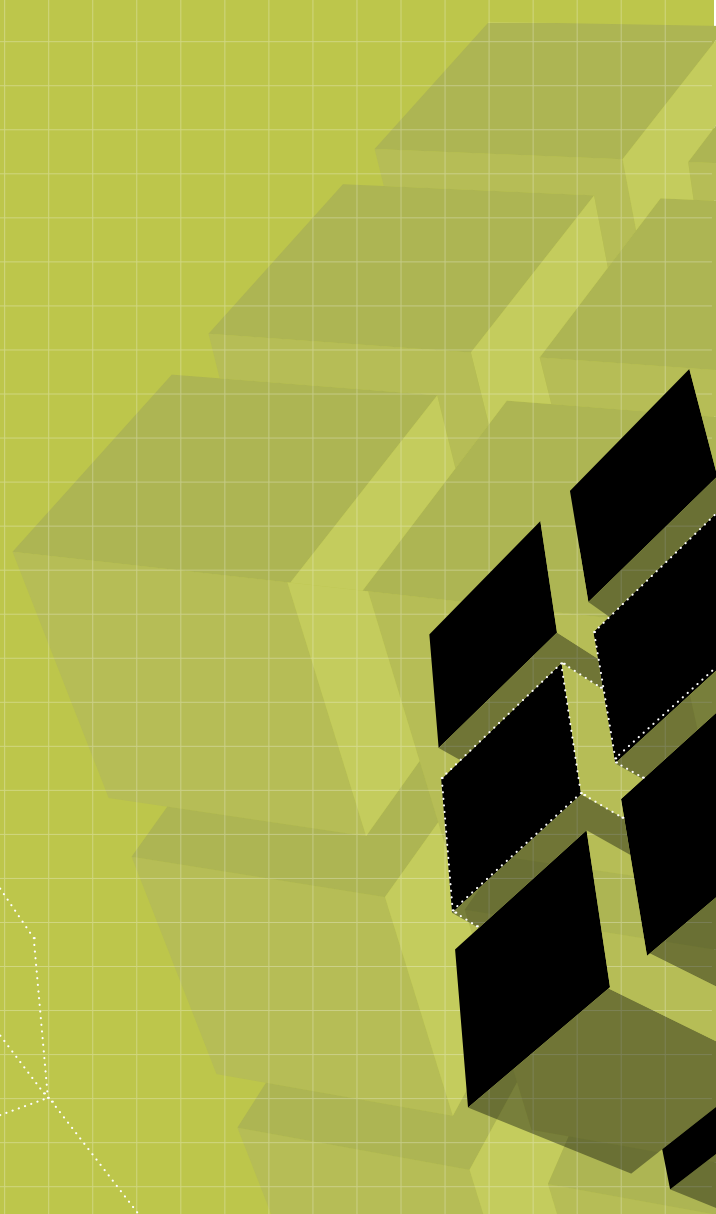
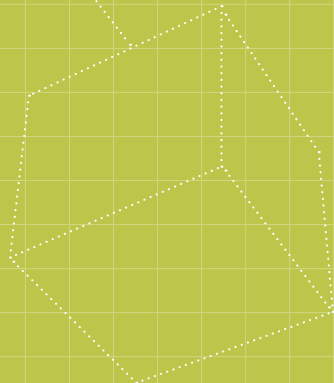
KPMG
147 Collins Street, Melbourne, Victoria 3000

Stock Exchange

SMS Management & Technology Limited shares are quoted on the Australian Securities Exchange (ASX code: SMX)

Website Address

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