SMS Management & Technology Limited

Directors' report and financial statements

Registered number 3628022

30 June 2003

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2003.

Principal activity

The principal activity of the company in the year under review was the provision of professional IT services and other consultancy services.

Review of the business

The results for the year are set out in the profit and loss account on page 5.

Results and dividends

The directors do not recommend the payment of a dividend *(2002: £nil)*. Loss of £706,704 *(2002:£439,659)* will be transferred to reserves.

Directors and directors' interests

The directors who held office during the year were as follows:

P Cooper	(appointed 12 November 2002)
B Plaice-Leary	(resigned 2 December 2002)
T Stianos	

None of the directors who held office at 30 June 2003 had any beneficial interest in the shares of the company at that date. The beneficial interests of the directors in the share capital of SMS Management & Technology Ltd (the ultimate parent company) are as follows:

	Ordinary shares	
	30 June 2003	30 June 2002 (or at date of appointment)
P Cooper	1,843,437	2,161,837
T Stianos	11,047,090	554,580

Number of options	**At 1 July 2002 or date of appointment if later**	**Granted in the year**	**Exercised**	**Lapsed**	**At 30 June 2003**	**Exercise price AUD**	**Exercise date**
P Cooper	215,000	-	-	-	215,000	0.48	1.7.02 to 30.6.06
	75,000	-	-	-	75,000	0.48	1.7.02 to 30.7.07
T Stianos	390,000	-	-	-	390,000	0.48	1.7.01 to 1.7.04

Directors' report

Auditors

During the year PricewaterhouseCooper resigned as auditors and the directors appointed KPMG LLP as auditors. A resolution appointing KPMG LLP will be proposed at the Annual General Meeting.

By order of the board

Paul Cooper

Paul Cooper
Director

Plumtree Court
London
DE4A 4HT

2 October 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company to prevent and detect fraud and other irregularities.

KPMG
PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent auditors' report to the members of SMS Management & Technology Limited

We have audited the financial statements on pages 5 to 15.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP 22 October 2003
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 30 June 2003

	Note	**2003**	2002
		£	£
Turnover	*2*	**1,600,066**	2,495,609
Net operating expenses	*3*	**(2,380,826)**	(2,912,953)
Operating loss		**(780,760)**	(417,344)
Interest payable and similar charges	*6*	**(27,868)**	(26,093)
Interest receivable and similar income		**3,145**	3,778
Loss on ordinary activities before taxation		**(805,483)**	(439,659)
Taxation on loss on ordinary activities	*7*	**98,779**	-
Loss on ordinary activities after taxation		**(706,704)**	(439,659)

The above figures relate to continuing activities.

The company has no recognised gains or losses other than the loss above and therefore no separate statement of total recognised gains and loss has been presented.

Balance sheet

at 30 June 2003

	Note	2003		2002	
		£	£	£	£
Fixed assets					
Tangible assets	*9*		**6,130**		4,523
Current assets					
Debtors	*10*	**377,463**		392,360	
Cash at bank and in hand		**10,682**		617,478	
		388,145		1,009,838	
Creditors: amounts falling due within one year	*11*	**(247,145)**		(291,614)	
Net current assets			**141,000**		718,224
Total assets less current liabilities			**147,130**		722,747
Creditors: amounts falling due after more than one year	*12*		**(776,651)**		(645,564)
Net (liabilities)/assets			**(629,521)**		77,183
Capital and reserves					
Called up share capital	*13*		**300,000**		300,000
Profit and loss account	*14*		**(929,521)**		(222,817)
Total equity shareholders' (deficit)/funds	*15*		**(629,521)**		77,183

These financial statements were approved by the board of directors on 2 October 2003 and were signed on its behalf by:

Paul Cooper

Paul Cooper
Director

Cash flow statement

for the year ended 30 June 2003

	Note	2003 £	2002 £
Reconciliation of operating profit to net cash flow from operating activities			
Operating loss		**(780,760)**	(417,344)
Depreciation charges		**3,048**	5,317
Decrease in debtors		**14,897**	338,000
Decrease in creditors		**(44,469)**	(52,461)
Foreign exchange		**-**	(217)
Net cash outflow from operating activities		**(807,284)**	(126,705)

Net cash outflow from operations

	Note	2003 £	2002 £
Cash flows from operating activity		**(807,284)**	(126,705)
Returns on investments and servicing of finance			
Interest receivable		**3,145**	3,778
Taxation		**98,779**	-
Capital expenditure and financial investments			
Purchase of tangible fixed assets		**(4,655)**	(1,215)
Net cash (outflow) before financing		**(710,015)**	(124,142)
Financing			
Issue of shares		**-**	270,000
Drawn down of inter company loan		**103,219**	171,564
Net cash inflow from financing		**103,219**	441,564
(Decrease)/increase in cash in the year	*16/17*	**(606,796)**	317,422

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements, except as noted below. The company has adopted FRS 19 'Deferred Tax' in these financial statements. The comparative figures have been restated accordingly.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The financial statements have been prepared on the going concern basis, notwithstanding net liabilities of £629,521, which the directors believe to be appropriate for the following reasons.

SMS Management & Technology Limited, the ultimate parent company, has indicated to the company that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular will not seek repayment of the amounts currently made available. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

Based on this undertaking the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Fixed assets and depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Office equipment	-	33%
Furniture and fittings	-	20%

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of professional services and other consultancy services supplied.

Pension

The company operates a defined contribution pension scheme on behalf of certain staff. The assets of the scheme are held separately from those of the company by an insurance company. The company's contributions are charged to the profit and loss account in the year in which they are payable.

Notes *(continued)*

1 Accounting policies *(continued)*

Deferred taxation

Deferred tax is provided in full on an undiscounted basis, on all timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements.

A net deferred tax asset is regarded as recoverable and is recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be sufficient taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Related party transactions

As over 90% of the company's voting rights are controlled within the group headed by SMS Management & Technology Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group or investees of the group qualifying as related parties.

Foreign currencies

Transactions denominated in foreign currencies are recorded in sterling at actual exchange rates as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are translated at the exchange rate prevailing on that date. Exchange gains or losses are taken to the profit and loss account in the year in which they arise.

2 Turnover

Turnover consists entirely of sales made in the United Kingdom.

3 Operating loss

	2003	2002
	£	£
Operating loss is stated after charging/(crediting):		
Depreciation of tangible fixed assets	**3,048**	5,317
Auditors' remuneration for audit services	**8,000**	10,800
Gain on foreign currencies exchange	**3,074**	(217)
Operating lease rentals - property	**186,949**	154,300

Notes *(continued)*

4 Directors emoluments

	2003	2002
	£	£
Aggregate emoluments (including benefits kind)	**258,704**	233,078
Contributions to a defined contribution scheme	**8,760**	9,025
Compensation for loss of office	**79,281**	-
	346,745	242,103

The aggregate of emoluments of the highest paid director was £136,641 *(2002: £233,078)* and pension contributions of £5,000 *(2002: £9,025)*.

5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year was 17 *(2002: 23)*.

	Number of employees	
	2003	2002
Consultants	**16**	22
Administration	**1**	1
	17	23

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£	£
Wages and salaries	**1,441,171**	1,765,420
Social security costs	**153,478**	185,646
Other pension costs	**65,628**	86,392
	1,660,277	2,037,458

6 Interest payable and similar charges

	2003	2002
	£	£
Group undertakings	**27,868**	26,903

Notes *(continued)*

7 Tax on (loss)/profit on ordinary activities

	2003	2002
	£	£
Taxation based on the (loss)/profit for the year:		
UK corporation tax at 30%	**-**	-
Over provision in respect of previous year	**98,779**	-
	98,779	-

Factors affecting the tax charge for the current period

The current tax charge for the period is higher *(2001: lower)* than the standard rate of corporation tax in the UK *(2002: 30%, 2001:30 %)*. The differences are explained below:

	2003	2002
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	**(805,483)**	(439,659)
Current tax at 30% *(2002:30 %)*	**(241,645)**	(131,898)
Effects of:		
Expenses not deductible for tax purposes	**17,578**	72,453
Capital allowances for period in excess of depreciation	**(50)**	683
Losses to be carried back	**-**	68,083
Losses not utilised	**224,117**	-
Adjustments to tax charge in respect of previous periods	**98,779**	-
Short term timing differences	**-**	(9,321)
Total current tax charge (see above)	**98,779**	-

8 Deferred tax

The company has an unprovided deferred tax asset as follows:

	2003	2002
	£	£
Advance capital allowances	**1,056**	683
Losses	**229,500**	15,000
	230,556	15,683

These assets have not been recognised in the financial statements, as, in the opinion of the directors there is insufficient evidence that they will be recoverable.

Notes *(continued)*

9 Tangible fixed assets

	Fixtures and fittings £
Cost	
At beginning of year	23,330
Additions	4,655
At end of year	27,985
Depreciation	
At beginning of year	18,807
Charge for year	3,048
At end of year	21,855
Net book value	
At 30 June 2003	**6,130**
At 30 June 2002	4,523

10 Debtors: amounts falling due within one year

	2003 £	2002 £
Trade debtors	**331,663**	270,791
Amounts owed by group companies	-	13,592
Other debtors	**31,982**	40,706
Prepayments and accrued income	**13,818**	67,271
	377,463	392,360

Bruce Plaice-Leary, a director of the company, took out a loan of £30,000, during the year ended 30 June 2000 which was included in other debtors. The loan was repayable over five years and bears interest of 6.14% per annum. The loan was repaid during the year when Bruce Plaice-Learny left the company.

During the year, interest of £325 *(2002: £1,049)* was charged on this loan.

Notes *(continued)*

11 Creditors: amounts falling due within one year

	2003	2002
	£	£
Trade creditors	**44,014**	22,501
Other taxation and social security costs	**75,248**	250,038
Accruals and deferred income	**127,883**	19,075
	247,145	291,614

12 Creditors: amounts falling due after more than one year

	2003	2002
	£	£
Loan from parent undertaking	**776,651**	645,564

The amount owed to the parent undertaking are unsecured and have no set repayment date. The parent undertaking has confirmed that this amount is not repayable in the following one year. Interest on the loan is charged at the 'Cash Rate' as recorded on the first working day of each month in the Australian Financial Review

13 Called up share capital

	2003	2002
	£	£
Authorised		
1,000,000 Ordinary shares of £1 each	**1,000,000**	1,000,000
Allotted, called up and fully paid		
300,000 Ordinary shares of £1 each	**300,000**	300,000

During the prior year, 270,000 shares were issued at par for cash

Notes *(continued)*

14 Reserves - Profit and loss account

	2003 £	2002 £
Retained (loss)/profit at beginning of year	**(222,817)**	216,842
Retained loss for the year	**(706,704)**	(439,659)
Retained loss at the end of year	**(929,521)**	(222,817)

15 Reconciliation of movement in shareholders' funds

	2003 £	2002 £
Opening shareholders' funds	**77,183**	246,842
Issue of shares	**-**	270,000
Loss for the financial year	**(706,704)**	(439,659)
Closing shareholders' (deficit)/funds	**(629,521)**	77,183

16 Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
(Decrease)/increase in cash in the year	**(606,796)**	317,422
Cash outflow from increase in debt	**(103,219)**	(171,564)
Change in net debt resulting from cash flow	**(710,015)**	145,858
Accrued interest on intercompany loan	**(27,868)**	(26,093)
Exchange movement	**-**	217
Net debt brought forward	**(28,086)**	(148,068)
Net debt at 30 June 2003	**(765,969)**	(28,086)

Notes *(continued)*

17 Reconciliation of movement in net debt

	At 1 July 2002 £	Cash flows £	Other non-cash movements £	**At 30 June 2003 £**
Cash in hand and at bank	617,478	(606,796)	-	**10,682**
Debt due after one year	(645,564)	(103,219)	(27,868)	**(776,651)**
	(28,086)	(710,015)	(27,868)	**(765,969)**

18 Financial commitments

At 30 June 2003 the company had annual commitments under non-cancellable operating leases as follows:

	2003 £	2002 £
Land and buildings:		
Within one year	**103,440**	162,000

19 Ultimate and immediate parent company

The immediate parent undertaking and controlling party is SMS Consulting Group Pty Limited, a company registered in Australia, which held 100% of the issued share capital of the company.

The ultimate parent undertaking and controlling party is SMS Management & Technology Limited, a company registered in Australia. The consolidated financial statements of SMS Management & Technology Limited can be obtained from Level 18, 60 City Road, Southbank, Victoria, Australia 3006: