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Registered no: 3628022

SMS MANAGEMENT & TECHNOLOGY LIMITED
(formerly M86 Limited)

Annual report

for the year ended 30 June 2002



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SMS MANAGEMENT & TECHNOLOGY LIMITED
(formerly M86 Limited)

Annual report
for the year ended 30 June 2002

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Directors and advisers

Directors

B Plaice-Leary

T Stianos

Secretary and registered office

Rebecca Campbell-Burns
Plumtree Court
London
EC4A 4HT

Solicitors

Minter Ellison
20 Lincolns Inn Fields
London
WC2A 3ED

Registered auditors

PricewaterhouseCoopers
No 1 London Bridge
London
SE1 9QL

Bankers

Lloyds Bank plc
32 Oxford Street
London
W1A 2LD

Directors' report for the year ended 30 June 2002

The directors present their report and the audited financial statements of the company for the year ended 30 June 2002.

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 business and future developments

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

Both the level of business and the year end financial position were satisfactory, and the directors expect that the present level of activity will be sustained for the foreseeable future.

Results and Dividends

No dividends were paid during the year (2001: £nil). Loss of £439,659 will be transferred to reserves.

Directors and their interests

The directors of the company during the year were:

B Plaice-Leary
D Lloyd Roberts (resigned 23 March 2002)
T Stianos (appointed 23 March 2002)

None of the directors who held office at 30 June 2002 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:

Directors' interests	Ordinary shares	
	30 June 2002	30 June 2001
B Plaice-Leary	1,580	1,580
T Stianos	554,580	278,080

Number of options	At 1 July 2001 or date of appointment if later	Granted in the year	Exercised	Lapsed	At 30 June 2002	Exercise price	Exercise date
B Plaice-Leary	79,000	-	-	-	79,000	Aud\$nil	30.6.03
	-	375,000	-	-	375,000	Aud\$0.48	1.7.02 to 1.7.04
T Stianos	276,500	390,000	(276,500)	-	390,000	Aud\$0.48	1.7.01 to 1.7.04

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 as at the end of the year and of the profit or loss for the year. 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 confirm that the financial statements comply with the above requirements.

The directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the company's web site is the responsibility of the Directors. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditors

A resolution to reappoint PricewaterhouseCoopers will not be proposed at the annual general meeting as the company opted into the elective regime on 5 April 2002 and no reappointment of auditors is required.

By order of the board

A handwritten signature in black ink, appearing to read 'Bruce Plaice-Leary', written over a horizontal line.

Bruce Plaice-Leary
Director

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
SMS MANAGEMENT & TECHNOLOGY LIMITED
(formerly M86 Limited)**

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board.

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 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 at 30 June 2002 and of its loss and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

**PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
London**

13 September 2002

**Profit and loss account
for the year ended 30 June 2002**

	Notes	2002 £	2001 £
Turnover	2	2,495,609	2,648,008
Net operating expenses	3	<u>(2,912,953)</u>	<u>(2,335,464)</u>
Operating (loss)/profit	7	(417,344)	312,544
Interest payable and similar charges	6	(26,093)	(24,631)
Interest receivable and similar income		<u>3,778</u>	<u>8,348</u>
(Loss)/profit on ordinary activities before taxation		(439,659)	296,261
Taxation	8	<u>-</u>	<u>(87,462)</u>
(Loss)/profit on ordinary activities after taxation		(439,659)	208,799
Dividends	9	<u>-</u>	<u>-</u>
Retained (loss)/profit for the financial year	15	<u>(439,659)</u>	<u>208,799</u>

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 2002

	Notes	2002 £	2001 £
Fixed assets			
Tangible assets	10	<u>4,523</u>	<u>8,625</u>
Current assets			
Debtors	11	392,360	730,360
Cash at bank and in hand		<u>617,478</u>	<u>300,056</u>
		1,009,838	1,030,416
Creditors: amounts falling due within one year	12	<u>(291,614)</u>	<u>(344,075)</u>
Net current assets		<u>718,224</u>	<u>686,341</u>
Total assets less current liabilities		722,747	694,966
Creditors: amounts falling due after more than one year	13	<u>(645,564)</u>	<u>(448,124)</u>
Net assets		<u>77,183</u>	<u>246,842</u>
Capital and reserves			
Called up share capital	14	300,000	30,000
Profit and loss account	15	<u>(222,817)</u>	<u>216,842</u>
Total equity shareholders' funds	16	<u>77,183</u>	<u>246,842</u>

The financial statements on pages 5 to 16 were approved by the board of directors on 13 September 2002 and were signed on its behalf by:



Bruce Plaice-Leary
Director

Cash flow statement
for the year ended 30 June 2002

	Notes	2002 £	2001 £
Net cash (outflow) from operations (page 9)		<u>(126,705)</u>	<u>(46,076)</u>
Returns on investments and servicing of finance			
Interest received		3,778	8,348
Interest paid		<u>-</u>	<u>(484)</u>
		<u>3,778</u>	<u>7,864</u>
Taxation			(63,016)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		<u>(1,215)</u>	<u>(5,769)</u>
Equity dividends paid		<u>-</u>	<u>-</u>
Net cash (outflow) before financing		<u>(124,142)</u>	<u>(106,997)</u>
Financing			
Issue of shares		270,000	-
Draw down of inter company loan		<u>171,564</u>	<u>50,957</u>
Net cash inflow from financing		<u>441,564</u>	<u>50,957</u>
Increase/(Decrease) in cash in the year	17/18	<u><u>317,422</u></u>	<u><u>(56,040)</u></u>

**Reconciliation of operating profit to net cash
inflow from operating activities**

	2002	2001
	£	£
Operating (loss)/profit	(417,344)	312,544
Depreciation on tangible fixed assets	5,317	6,366
Decrease/(increase) in debtors	338,000	(442,654)
(Decrease)/increase in creditors	(52,461)	115,031
Gain on foreign currency exchange	(217)	(37,363)
Net cash (outflow) from operations	<u><u>(126,705)</u></u>	<u><u>(46,076)</u></u>

Notes to the financial statements for the year ended 30 June 2002

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Change in accounting policies

The company has adopted FRS19 'Deferred Taxation' this year. This has required a change in accounting policy. The change does not have a material impact on the deferred taxation position of the company at 30 June 2002 and, accordingly, no restatement of the comparative results for 2001 has been made.

FRS18 'Accounting Policies' has also been adopted by the Group. This has not required any change in accounting policy by the company.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Tangible fixed assets

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 goods and 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.

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

The company has taken advantage of the exemption available under paragraph 3(c) of Financial Reporting Standard 8 permitting non-disclosure of transactions between group undertakings.

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 Net operating expenses

	2002	2001
	£	£
Administrative expenses	<u>2,912,953</u>	<u>2,335,464</u>

4 Directors' emoluments

	2002	2001
	£	£
Aggregate emoluments (including benefits in kind)	233,078	213,302
Contributions to a defined contribution scheme	9,025	5,262
	<u>242,103</u>	<u>218,564</u>

The above emoluments and pension contribution relate solely to the highest paid director.

5 Employees

The average number of employees (including executive directors) during the year was:

	2002 Number	2001 Number
By activity		
Consultants	22	17
Administration	1	1
	<u>23</u>	<u>18</u>

	2002 £	2001 £
Staff costs (for the above employees)		
Wages and salaries	1,765,420	1,386,265
Social security costs	185,646	141,646
Other pension costs	86,392	61,051
	<u>2,037,458</u>	<u>1,588,962</u>

6 Interest payable and similar charges

	2002 £	2001 £
Group undertakings	26,093	24,147
Other	-	484
	<u>26,093</u>	<u>24,631</u>

7 Operating (loss)/profit

	2002 £	2001 £
Operating (loss)/profit is stated after charging/(crediting):		
Depreciation of tangible fixed assets	5,317	6,366
Auditors' remuneration for audit services	10,800	10,500
Gain on foreign currency exchange	(217)	(37,363)
Operating lease rentals – property	<u>154,300</u>	<u>141,962</u>

8 Tax on (loss)/profit on ordinary activities

	2002	2001
	£	£
Taxation based the (loss)/profit for the year:		
UK corporation tax at 30%	-	102,879
Over provision in respect of previous year	-	(15,417)
	<u>-</u>	<u>87,462</u>

Reconciliation of current tax

	2002	2001
	£	£
(Loss)/profit on ordinary activities before taxation	<u>(439,659)</u>	<u>296,261</u>
Tax on (loss)/profit on ordinary activities	<u>(131,898)</u>	<u>88,878</u>
Other permanent disallowable expenditure	64,625	8,876
Capital allowances for the year in excess of depreciation	683	961
Losses to be carried back	68,083	-
Adjustment to tax charge in respect of prior years	-	(15,417)
Disallowed interest expense	7,828	-
Short-term timing differences	<u>(9,321)</u>	<u>4,164</u>
	<u>-</u>	<u>87,462</u>

Unrecognised deferred tax asset

The company has an unprovided deferred tax asset as follows:

	2002	2001
	Unprovided	Unprovided
	asset	asset
	£	£
Advance capital allowances	683	697
Other timing differences	-	9,321
	<u>683</u>	<u>10,018</u>

9 Dividends

	2002	2001
	£	£
Dividends paid £nil (2001: £nil per share)	<u>-</u>	<u>-</u>

10 Tangible fixed assets

	Furniture and fittings £
Cost	
At 1 July 2001	22,115
Additions	<u>1,215</u>
At 30 June 2002	<u>23,330</u>
Depreciation	
At 1 July 2001	13,490
Charge for year	<u>5,317</u>
At 30 June 2002	<u>18,807</u>
Net book value	
At 30 June 2002	<u><u>4,523</u></u>
At 30 June 2001	<u>8,625</u>

11 Debtors

	2002 £	2001 £
Amounts falling due within one year		
Trade debtors	270,791	608,911
Amounts owed by group undertakings	13,592	18,848
Other debtors	40,706	52,756
Prepayments and accrued income	67,271	49,845
	<u>392,360</u>	<u>730,360</u>

Bruce Plaice-Leary, a director of the company, took out a loan of £30,000, during the year ended 30 June 2000 which is included in other debtors. The loan is repayable over five years and bears interest of 6.14% per annum. The amount of principal outstanding at 30 June 2002 was £13,593 (2001: £19,744, being the maximum balance during the year).

During the year, interest of £1,049 (2001: £1,692) was charged on this loan.

12 Creditors: amounts due within one year

	2002	2001
	£	£
Trade creditors	22,501	107,646
Corporation tax	-	86,879
Other taxation and social security costs	250,038	99,252
Accruals and deferred income	19,075	50,298
	<u>291,614</u>	<u>344,075</u>

13 Creditors: amounts falling due after more than one year

	2002	2001
	£	£
Loan from parent undertaking	<u>645,564</u>	<u>448,124</u>

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.

14 Called up share capital

	2002	2001
	£	£
Authorised		
1,000,000 ordinary shares of £1 each	<u>1,000,000</u>	<u>1,000,000</u>
Allotted, called up and fully paid		
30,000 ordinary shares of £1 each	<u>300,000</u>	<u>30,000</u>

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

15 Reserves - profit and loss account

	2002	2001
	£	£
Brought forward	216,842	8,043
Retained (loss)/profit for the year	(439,659)	208,799
At 30 June 2002	<u>(222,817)</u>	<u>216,842</u>

16 Reconciliation of movements in shareholders' funds

	2002	2001
	£	£
Opening shareholders' funds	246,842	38,043
Issue of shares	270,000	-
(Loss)/profit for the financial year	(439,659)	208,799
Closing shareholders' funds	77,183	246,842

17 Reconciliation of net cash flow to movement in net debt

	2002	2001
	£	£
Increase/(decrease) in cash in the year	317,422	(56,040)
Cash inflow from increase in debt	(171,564)	(50,957)
Change in net debt resulting from cash flow	145,858	(106,997)
Accrued interest on intercompany loan	(26,093)	(24,147)
Exchange movement	217	37,363
Net debt brought forward	(148,068)	(54,287)
Net debt at 30 June 2002	(28,086)	(148,068)

18 Reconciliation of movement in net debt

	At 1 July	Cash flows	Other non cash changes	Exchange movement	At 30 June
	2001				2002
	£	£	£	£	£
Cash in hand and at bank	300,056	317,422	-	-	617,478
Debt due after one year	(448,124)	(171,564)	(26,093)	217	(645,564)
	<u>(148,068)</u>	<u>145,858</u>	<u>(26,093)</u>	<u>217</u>	<u>(28,086)</u>

19 Financial commitments

At 30 June 2002 the company had annual commitments under non-cancellable operating leases as follows:

	2002	2001
	£	£
Within one year	162,000	-
Within two to five years	-	153,600
	<u>162,000</u>	<u>153,600</u>

20 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.