SMS MANAGEMENT & TECHNOLOGY LIMITED ANNUAL REPORT 2016

empowering business

SMS Management & Technology

ABN 49 009 558 865

At SMS we believe in creatively solving problems to deliver outcomes that make a difference. Our focus on client success drives everything that we do. We achieve this through a focus on high-calibre staff, who are empowered to lead, innovate and add value. This gives us access to the best people, processes and platforms, enabling us to be a leading business and technology services provider in Australia and the Asia Pacific.

At SMS we empower business.

+ Chairman's Letter

+ Derek Young, AM
Chairman

SMS has an enviable 30 year history as a leading Australian business and IT services company. Our SMS Values: Maintain Unity, Enhance Reputation and Add Value have guided and will continue to guide the way we conduct our business.

Dear Shareholders,

The last year has been a challenging time for our industry and for SMS Management and Technology. Our 2016 results were extremely disappointing and well below expectations at the start of the year.

SMS reported revenue of $328.7 million, down from $356.2 million in the previous year. Earnings before Interest, Tax, Depreciation and Amortisation were $15.7 million compared to $28.7 million in the prior year and Net Profit After Tax was $9.7 million compared to $17.0 million in the prior year. A number of factors impacted on the result, including the change to a national organisational structure on 1 July 2015 that caused significant disruption to our sales effectiveness. Unfortunately, this led to a reduction in contract wins and revenue in our Advisory and Solutions business. Separately, the market downturn in Western Australia and additional investment aimed at growing our Managed Services business also added to the decline in profit during the year. Pleasingly, our M&T Resources recruitment business continued to grow through expansion of clients. The Chief Executive Officer's Report covers these matters in further detail.

SMS announced several senior management changes in May of this year. The Board was pleased that Rick Rostolis accepted the appointment as Chief Executive Officer effective 2 May 2016, following over 5 years as Chief Financial Officer. Rick has a wealth of experience with senior management positions held at KPMG and Pacific Brands. Since his appointment, Rick has focused on re-energising our sales performance, including creating regional sales and delivery teams for the Advisory and Solutions business that are fully engaged with their markets, establishing a national capability development function to enhance and develop our service offerings to clients, and ensuring our people are fully engaged with the business and strongly supported.

Your Board has continued its focus on capital management by extending our on-market share buy-back in June 2016 for a further 12 months.

As stated at last year's Annual General Meeting, the share buy-back is part of SMS's continued objectives to ensure an efficient capital structure, maintain prudent levels of gearing and have sufficient balance sheet flexibility to pursue growth initiatives.

Your Board has determined a final dividend of 3.0 cents per share fully franked, payable on 4 November 2016. This represents a full year payout ratio of 67% of Net Profit After Tax, consistent with the Board's dividend policy.

SMS has an enviable 30 year history as a leading Australian business and IT services company. Our SMS Values: Maintain Unity, Enhance Reputation and Add Value have guided and will continue to guide the way we conduct our business.

I appreciate that SMS's overall performance this past year has been disappointing and recognise we have faced many challenges. Your Board believes it has a clear and well thought out strategy that will deliver growth and take advantage of emerging opportunities for all stakeholders. Your Board is confident that Rick, together with his dedicated management team, will ensure the successful delivery of that strategy.

Our people are the key to our success and I would like to thank our employees, management and Board for their continued dedication and support through what was a demanding and challenging year. I look forward to working with you towards an improved 2017.

Derek Young
Chairman

+ CEO's Report

+ Rick Rostolis
Chief Executive Officer

Whilst the last 12 months have been a difficult period for SMS, I firmly believe that SMS's broad client base, experience and capability, together with the quality of our people, positions us well to be a leading Australian business and information technology services provider.

Revenue from operating activities
$328.7m

EBITDA
$15.7m

NPAT
$9.7m

Basic earnings per share
14.1 cents

Dividends per share
9.5 cents

Net debt
$7.3m

Dear Shareholders,

The 2016 financial year was a challenging one for SMS. Since assuming the role of CEO and Managing Director, I have spent considerable time reviewing our business operations by meeting with staff and clients. This has resulted in a number of actions to restore stability to the business including:

+ refocusing our organisational structure by aligning our sales and delivery teams at a state and regional level to drive deeper engagement with staff and greater responsiveness to clients, particularly in our Advisory and Solutions business;
+ providing a separate management focus for our emerging Managed Services operations including a reassessment of the nature and size of opportunities to be pursued;
+ expanding our national platform for capability development, including broadening our service offerings, strategic partner relationships and strengthening delivery management; and
+ reinforcing SMS's values to our people: Maintain Unity, Enhance Reputation and Add Value.

Whilst the last 12 months have been a difficult period for SMS, I firmly believe that SMS's broad

Segment Results

SMS Consulting

$m	2016	2015	Change %
Revenue	234.4	271.0	(14)
EBITDA[1]	27.1	45.2	(40)
EBITDA margin (%)	11.6	16.7	

M&T Resources

$m	2016	2015	Change %
Revenue[2]	94.3	85.2	11
EBITDA[1]	7.7	5.8	33
EBITDA margin (%)	8.2	6.8	

[1] EBITDA is prior to corporate costs and contingent consideration expense. 2015 segment EBITDA has been restated to reflect a reallocation of occupancy expenses to unallocated costs

[2] Excludes interdivisional revenue

client base, experience and capability, together with the quality of our people, positions us well to be a leading Australian business and information technology services provider.

Financial Performance

Revenue from operating activities of $328.7 million was down 8% on the prior year whilst Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) declined 45% to $15.7 million. The disappointing 2016 financial performance was due to a number of factors including:

+ the implementation of a national sales and delivery structure on 1 July 2015 that caused significant disruption to our sales effectiveness with a resulting deterioration in financial performance. In addition, the pursuit of certain Managed Services opportunities caused a loss of focus on our core Advisory and Solutions business. Both of these factors resulted in reduced contract wins and revenue, particularly in the second half of the year;
+ the sudden and unexpected cancellation of a large client transformation project that led to under-utilisation of staff as a number of consultants were not able to be redeployed quickly;
+ increased cost of $1.5 million incurred in relation to business development and bid efforts aimed at identifying and winning large-scale Managed Services contracts, which did not eventuate;
+ a continuation of the slow-down in the Western Australian market; and
+ net termination costs of $0.7 million in relation to senior management changes made in May this year.

As a result of the above factors, Net Profit After Tax (NPAT) was down 43% to $9.7 million. The impact to NPAT was partially offset by a reduced level of amortisation due to various customer contract intangibles being fully amortised in the prior year, lower interest expense due to the repayment of bank term debt and an effective tax rate of 28.4% assisted by profits made in foreign jurisdictions and research and development rebates.

The balance sheet remains strong as at 30 June 2016 with a closing net debt balance of $7.3 million, after payment of approximately $19.4 million in contingent consideration payments to finalise previous acquisition arrangements.

+ CEO's Report

SMS Consulting

SMS Consulting derives revenue from providing business and IT advisory, technology solutions and managed services primarily to enterprise and corporate businesses and government agencies. As a result of the factors mentioned above, SMS Consulting's revenue and EBITDA were down 14% and 40% respectively on the prior year.

The 1 July 2015 organisational changes had a negative impact on contract wins, and therefore revenue. SMS Consulting's contract wins of $291 million were down 4% on the prior year, with the decline most evident in Advisory & Solutions, where contract wins of $251 million were down 13% on the prior year. Managed Services revenue remained steady, with the majority of the $40 million of contract wins during the year having a revenue flow-through in 2017 and beyond.

Year-on-year average billable headcount was down approximately 11% to 877 from 984 and billable utilisation dropped to 81% from 84%.

SMS Consulting continues to be well diversified across key industries including: Financial Services, Government, Telecommunications, Media & Technology and Energy Resources & Infrastructure.

M&T Resources

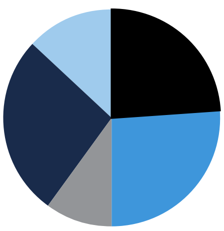
M&T Resources derives revenue from the placement of IT contractors on temporary contract engagements and from permanent placement fees. M&T Resources has grown significantly in recent years and importantly continued that growth during the current year with revenue and EBITDA up 11% and 33% respectively on 2015. M&T Resources recorded contract wins of $116 million, up 7%, with strong growth in the fourth quarter of 2016.

Revenue and margin growth continues to be driven by demand for IT contractors in the Government and Financial Services sectors as well as an improved contractor market in Energy, Resources and Infrastructure. Growth has been driven through a focus on key panel agreements and increased permanent placement fees.

The largest expense borne by M&T Resources is contractor labour costs, resulting in a variable cost base, with average contractor numbers up 4% to 502 from 481 in the prior year.

M&T Resources has a broad client base across a number of key industries including: Financial Services, Government, Telecommunications, Media & Technology and Energy, Resources & Infrastructure.

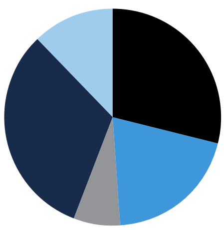
Revenue by Industry



Financial Services	24% (25%)
Telecommunications, Media & Technology	26% (25%)
Commercial	10% (11%)
Government	27% (26%)
Energy, Resources & Infrastructure	13% (13%)

(prior year)

Revenue by Industry



Financial Services	29% (31%)
Telecommunications, Media & Technology	20% (26%)
Commercial	7% (6%)
Government	32% (28%)
Energy, Resources & Infrastructure	12% (9%)

Corporate

Corporate expenses of $19.1 million were 4.5% down on the prior year, including one-off net termination costs of $0.7 million relating to senior management changes made in the second half of 2016. Corporate expenses relate to employee costs for management and administrative staff including executive, finance, human resources, marketing, and information technology functions together with other company wide expenses including occupancy, insurance and regulatory compliance costs.

Cash position

	2016 $m	2015 $m
EBITDA	**15.7**	28.7
Change in working capital	**9.2**	(2.4)
Non-cash and other items	**(0.4)**	3.7
Tax paid	**(6.2)**	(5.6)
Net operating cash flow	**18.3**	24.4
Net cash used in investing activities	**(20.9)**	(12.7)
Net cash used in financing activities	**(5.5)**	(17.6)
Net cash flow	**(8.1)**	(5.9)

SMS ended the 2016 financial year with improved working capital in part due to the implementation of a new Enterprise Resource Planning (ERP) system and enhanced internal processes. This resulted in a net operating cash flow of $18.3 million which represented 116% of EBITDA.

Investing activities during the year included the final contingent consideration earn-out payments made for the past acquisitions of Indicium of $11.4 million (2015: $4.4 million) and Birchman of $8.0 million (2015: $7.5 million).

Financing activities included a working capital facility drawdown of $12.0 million which was predominantly utilised to fund the above-mentioned contingent consideration earn-out payments. SMS also repaid borrowings of $4.3 million which largely represented the final payment on the unsecured amortising bank loan facility used to fund the upfront payment of the Birchman acquisition in October 2013. Dividends paid to shareholders were $11.4 million (2015: $10.1 million) and the on-market share buy-back resulted in $0.9 million worth of shares being purchased during the year (2015: $1.4 million).

Financial position

	2016 $m	2015 $m
Cash	**4.7**	12.9
Trade receivables and work in progress (WIP)	**51.1**	65.0
Intangible assets	**112.0**	112.4
Loans and borrowings	**12.0**	3.7
Trade and other payables	**16.2**	20.9
Finance lease liabilities	**1.1**	1.7
Contingent consideration payable	**-**	19.2
Debtor days	**37**	36
Lock-up days (WIP plus debtor days)	**53**	62

The Statement of Financial Position predominantly consists of cash, working capital (receivables, WIP and payables), intangible assets (from previous acquisitions) and borrowings.

The balance sheet remains strong with net debt of $7.3 million as at 30 June 2016. Trade receivables and WIP improved 21% at 30 June 2016, primarily driven by an improvement in lock-up days and reduced revenue.

+ CEO's Report

Trade and other payables reduced by $4.7 million at 30 June 2016 primarily due to reduced employee short-term incentives, sales commissions and other accruals.

As at 30 June 2016, there is no further contingent consideration payable in relation to past acquisitions following the final payments made for Indicium and Birchman during the year.

Finance lease liabilities of $1.1 million relate to equipment to support multi-year Managed Services contracts.

Dividends and Capital Management

The Board has a dividend payout policy of 65-70% of NPAT. SMS has determined a fully franked final dividend of 3.0 cents per share taking the full year dividends to 9.5 cents per share and representing a dividend payout ratio of 67% of NPAT. SMS's ability to pay a dividend is underpinned by strong cash generation and a low level of debt.

SMS seeks to maintain a strong capital base so as to preserve investor, creditor and market confidence and to sustain the future development of the business. The Board monitors the return on capital employed, which SMS defines as profit before tax divided by average total capital employed. Return on capital employed was 10.4% for 2016.

As part of SMS's ongoing capital management program, SMS extended the on-market share buy-back in June 2016. The share buy-back is consistent with SMS's key objectives of ensuring an efficient capital structure, maintaining a prudent level of gearing and having sufficient financial flexibility to continue pursuing current business initiatives. During the year ended 30 June 2016, 451,961 (2015: 406,236) shares were acquired at a cost of $0.9 million (2015: $1.4 million).

Market Demand Drivers

The IT services market has undergone significant structural changes over recent years and this will continue to evolve over time.

Emerging technology trends, client buying patterns and intense competition are changing the market landscape. Increasingly, our clients are operating in industries that are either IT dependent or have a growing reliance on their digital presence and IT services to drive growth, enhance customer experience, lift operational efficiencies and, at the same time, manage more regulatory requirements. Clients are continuing to differentiate and gain a competitive advantage through the application of new technologies.
The increasing adoption of Cloud and 'as-a-service' has seen client buying patterns continue to shift from capital to operational expenditure, decision making move from IT departments to line of business executives and traditional implementation timeframes reduced through agile and other innovative approaches. Managed Services have become an attractive option for clients to reduce their cost base and enhance operational efficiencies.

This digital transformation trend has resulted in strong demand across three broad areas:

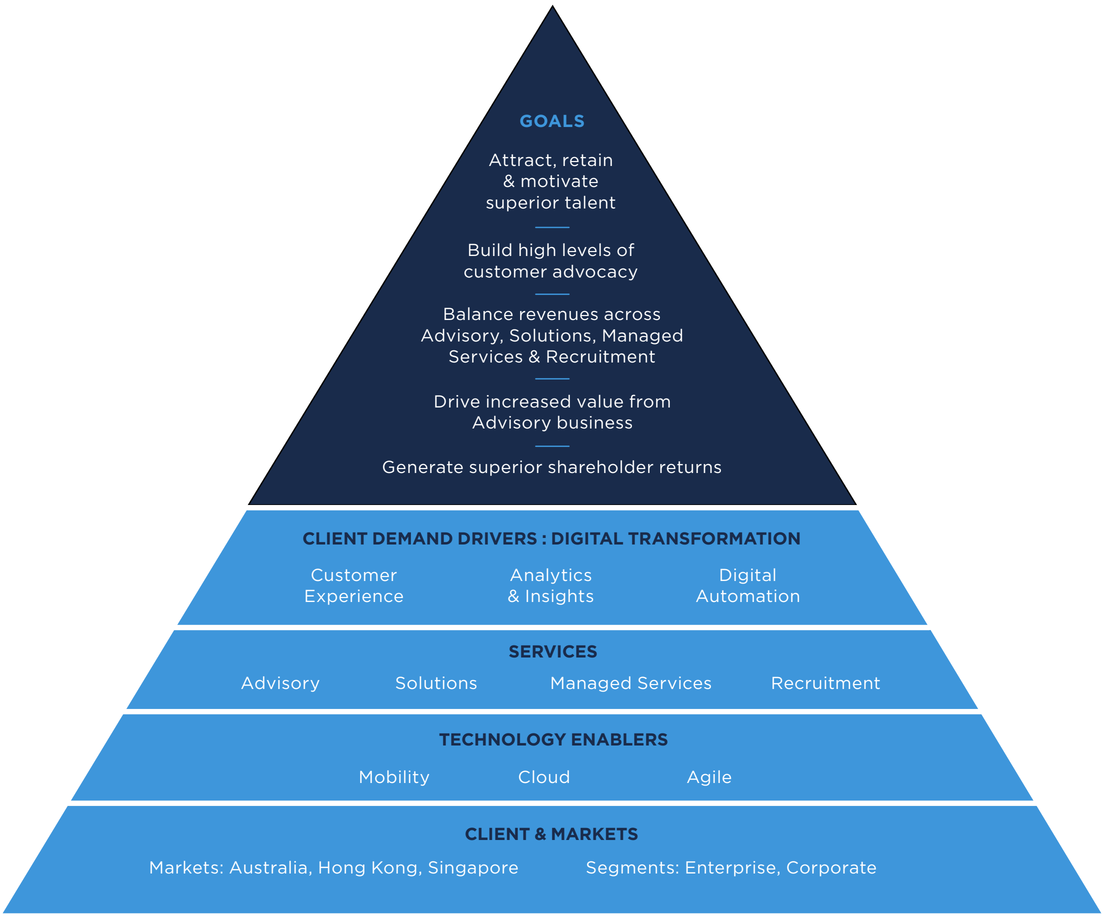
+ Customer experience;
+ Analytics and insights; and
+ Digital automation.

We believe that SMS is well placed to take advantage of these emerging technologies and trends with the breadth of our capability.

Strategy & Outlook

Strategy & Outlook

+ The Company's strategic vision is to be a leading Australian business and technology services provider by partnering with our clients to achieve success from concept through to implementation and support.



+ CEO's Report

In light of the changing IT services landscape, SMS has evolved a strategy which provides us with the depth, scale and agility required to compete in today's market and add value to our clients through the provision of end-to-end service offerings.

The diagram on the previous page outlines the framework for investment and effort to ensure SMS remains fundamentally relevant to clients whilst building a business that is resilient in a changing IT landscape.

We have focused our service offerings under the SMS Consulting brand into Advisory, Solutions and Managed Services, with our Recruitment services offered under the M&T Resources brand.

Advisory & Solutions

Our Advisory capabilities provide thought leadership and business solutions including Digital Business Strategy, Design Thinking and Customer Experience, Agile Transformation, Enterprise and Technical Architecture, Change and Program Implementation and Information Strategy.

Our Solutions development capabilities leverage our strong partnerships with technology vendors (including Microsoft, Salesforce, Amazon Web Services, Pega, IBM etc.), to deliver high-value client engagements including Web and Mobile Application Solutions, Data Provisioning and Business Analytics, Customer Solutions, Process and Productivity Solutions, Cloud Migration and Enablement. Our Solutions implementation is supported by services such as project management, business analysis and testing.

In the 2017 financial year, SMS has a clear focus on revitalising the Advisory and Solutions business by aligning sales and delivery functions at a state and regional level to drive deeper engagement with local clients and markets. This will better enable SMS to develop an intimate knowledge of our clients' business and industry drivers in order to help solve their critical business problems. Localised teams will focus on client outcomes but still leverage national capability expertise, partnerships and delivery management.

Managed Services

Our Managed Services capabilities utilise best practice service delivery frameworks to provide high quality Managed Services via first point of contact 24/7 service desk through to the management of multiple complex Cloud, application, infrastructure and network environments.

In 2017, SMS intends to grow Managed Services through an increased level of pre-sales activity that will be centred on pursuing appropriate opportunities leveraging our Advisory and Solutions offerings with clients who demand a trusted technology partner with end-to-end solutions expertise.

Recruitment

Our Recruitment capabilities allow us to provide clients with temporary IT contractor labour needs and help fulfil permanent placement of IT employees to meet internal staffing demands.

M&T Resources will continue to focus on client and industry demand drivers together with an investment in its brand. Whilst developing an enviable recruitment business within the industry, in 2017 M&T Resources will continue to focus on key panel agreements where it becomes a recruitment brand of choice to key clients, providing both temporary and permanent placement services.

People Strategy

At SMS, our people are our single biggest differentiator in the market. Our workforce strategy revolves around attracting, developing and retaining people with the skills and knowledge to deliver on our business strategies. We empower our people to succeed in order to build on our employee value proposition. A key 2017 objective is to strengthen the engagement of SMS's leadership with our consultants and to drive SMS to be an employer of choice to ensure we are able to attract and retain the best people in our industry.

Material Business Risks

The Board and management continues to monitor, evaluate and take actions to mitigate business risks which could have an adverse effect on the performance of SMS.

The material business risks are outlined below.

People

+ Staff turnover may increase due to salary pressure, the success of SMS and availability of career progression opportunities.
+ Failure to retain staff may impair client relationships and the ability to deliver specialised advice may be impacted by the loss of expert staff with unique skill-sets.

Loss of key clients and / or key projects

+ Pipeline and contract wins may decline if SMS fails to move with the market or the SMS sales force fails to successfully identify and win new work.
+ The risk of poor project delivery against contract requirements could lead to the potential loss of a contract or client and associated reputational damage.

Data security

+ Failure to adequately protect either SMS or client data and breach of data privacy could result in reputational damage, loss of client(s) and potential regulatory intervention and penalties.

Economic downturn

+ Global or localised weak economic conditions or business sentiment may lead to clients suspending, deferring or terminating contracts.

+ CEO's Report

Delivery Excellence

SMS has developed an enviable reputation for delivery excellence. As a trusted advisor we expect no less than the highest standard of service delivery for our clients.

In pursuit of delivery excellence, SMS has:

+ continued to invest in people, tools, methodologies, processes and systems to improve the quality of client engagement governance and outcomes;
+ invested in a cost-effective and flexible cost model using an offshore development facility in the Philippines; and
+ leveraged our graduate recruitment program.

SMS is seeking improved operational leverage in the delivery of projects as well as the development of new ideas in emerging service solutions.

Industry Alignment

We continue to work in partnership with industry experts, government bodies and trade associations to gain the widest possible market and industry view. Through our partnerships with the world's leading technology providers, SMS can deliver solutions that produce results for our clients. Our purpose is to help our clients achieve their own vision by working as partners to deliver excellent service with high levels of integrity and value.

The industry verticals through which our sales team go-to-market and for which we develop tailored service offerings are: Financial Services, Government, Telecommunications, Media & Technology, Energy Resources & Infrastructure and Commercial. By aligning ourselves to these industries, we will deepen our understanding of key industry demand drivers and challenges, and in doing so increase our relevance to our clients.

SMS is proud to have been nominated for and won a number of industry awards during the year, including:

+ Global Public Safety and Justice Partner of the Year at the 2016 Microsoft World Partner Conference
+ Dynamics Partner of the Year (China) at the 2016 Microsoft World Partner Conference
+ Finalist for multiple state iAwards for 2016 and recipient of the Digital iAward Merit Award for Public Sector and Government
+ Project Management Award at the Australian Government ICT Awards 2016.

Corporate Appointments

Peter Sherar was appointed Chief Financial Officer and Company Secretary on 18 May 2016. Peter served SMS as Group Financial Controller for six years prior to this recent appointment which together with his previous professional services experience enables him to provide the business with significant executive financial management expertise and understanding of our key financial drivers.

I would like to welcome Penny Grau who was appointed interim General Counsel and Company Secretary on 18 May 2016. Penny brings immense public company experience in her roles previously held with Pact Group and Tatts Group. Penny replaced Ms Anna Gorton who resigned in March 2016. I would like to thank Anna for her dedication and commitment to our business over the last 4 years and wish her all the best for the future.

Acknowledgments

I would like to take this opportunity to thank our people, my management team and the Board for their continued support and valuable contribution during a challenging year.

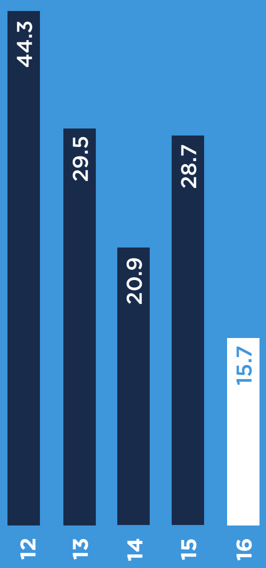
I remain positive about our future prospects as we execute on our business strategy to deliver growth. Our strategy is aimed at providing greater consultant engagement and client outcomes in what remains a very competitive market.

Rick Rostolis
CEO

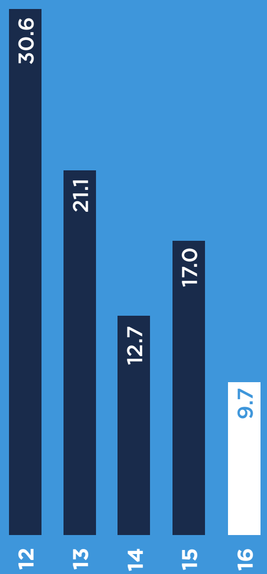
+ Year at a Glance

TOTAL REVENUE:
($ MILLION)

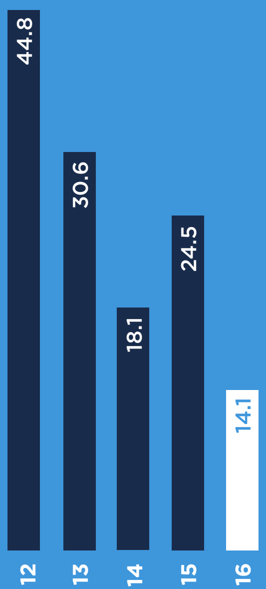
EBITDA:
($ MILLION)



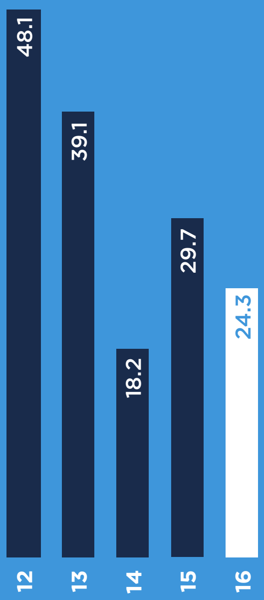
NPAT:
($ MILLION)



BASIC EPS:
(CENTS)

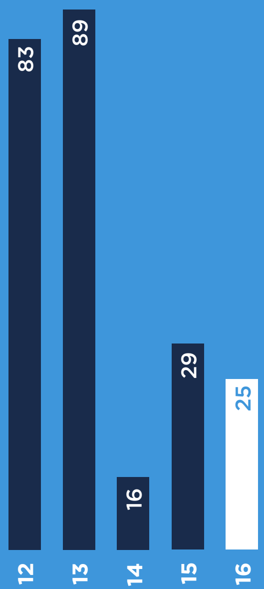


OPERATING CASH FLOW:
(before interest and tax)
($ MILLION)

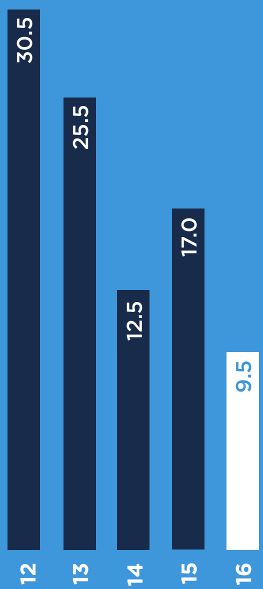


NET (DEBT)/CASH BALANCE:
($ MILLION)

NET TANGIBLE ASSETS PER SHARE:
(CENTS)



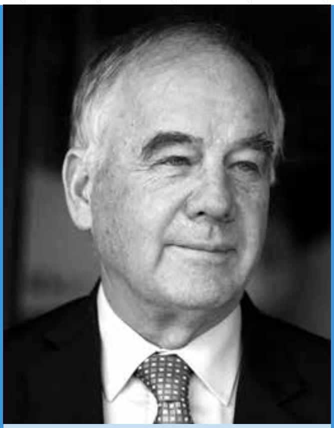
FULL YEAR DIVIDEND:
(CENTS)



+ Board of Directors

+ Derek Young, AM
Chairman

+ Rick Rostolis
Chief Executive Officer



+ Bruce Thompson
Non-Executive Director

+ Nicole Birrell
Non-Executive Director

+ Deb Radford
Non-Executive Director

+ Justin Milne
Non-Executive Director

+ Executive Management

+ Peter Sherar
Chief Financial Officer

+ Craig Lennard
Managing Director
Advisory & Solutions

+ David Moodie
Managing Director
Capability Development

+ Nick Kiossoglou
Managing Director
Managed Services

+ Chris Sandman
Managing Director
M&T Resources, Director
People & Culture (Interim)

+ Penny Grau
General Counsel
Company Secretary (interim)

+ Nick Smith
Chief Information Officer

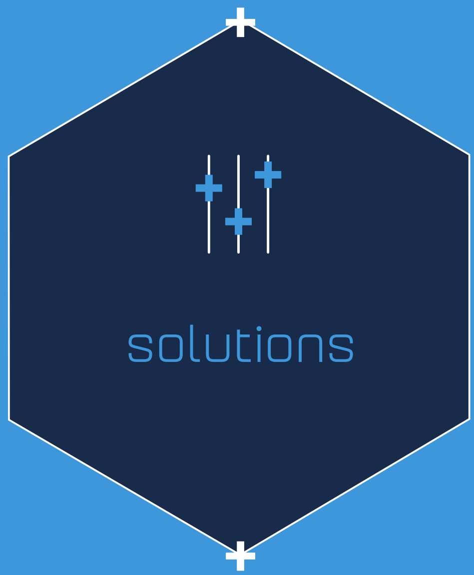
+ What we do
Focus on capability

A leader in technology consulting services, advisory, solutions, managed services together with technology recruitment services, SMS cultivates innovation, digital, mobile and design-led business and technology capability to empower organisations across all industry sectors. With over 1,600 staff SMS promotes and delivers next-generation customer-centric outcomes for our clients.

Capability

- Digital Business Strategy
- Technology, Strategy and Planning
- Design Thinking and Customer Experience
- Agile Transformation
- Information Management Strategy

Capability



- Web and Mobile Application Solutions
- Data Provisioning and Business Analytics
- Customer Solutions
- Process and Productivity Solutions
- Cloud Migration and Enablement

SMS works in partnership with industry experts, government bodies and trade associations to gain the widest possible market and industry view, and through our partnerships with the world's leading technology providers, SMS can deliver unprecedented solutions that produce real results.

Capability

managed services

- Managed Application Services
- Managed Infrastructure Services
- Managed IT Services

Capability

M+T Resources

recruitment

- Permanent Recruitment
- Contract Recruitment
- Talent Acquisition
- Retained Search
- Candidate Services

Financial Statements

2016

These consolidated financial statements are for SMS Management & Technology Limited (the Company) and its controlled entities (collectively the Group) as at and for the financial year ended 30 June 2016.

Over the past year management have reviewed the content and structure of our financial report in order to make it less complex and more relevant to users. This included:

(i) a review of content to eliminate immaterial disclosures that may limit the usefulness of the financial report by obscuring important information;

(ii) reorganising the notes to the financial statements into separate related sections to help users understand our financial performance and financial position; and

(iii) disclosing accounting policies and key estimates and judgements applied to the preparation of the financial statements with the relevant notes in order to provide the appropriate context.

The purpose of these changes is to provide users with financial information that is more understandable and better structured to explain our financial performance and financial position.

MATERIALITY

Management have included information in this report that we deem to be material and relevant to the understanding of the financial statements. Disclosure may be considered material and relevant due to the dollar amount or nature, or if the information is important to understand:

(i) our current year results;

(ii) the impact of significant changes in our business; or

(iii) aspects of our operations that are important to future performance.

USE OF ESTIMATES AND JUDGEMENTS

Preparing these consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may ultimately 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.

Critical judgements and estimates in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in the following notes:

+ Note 2 Segment reporting and revenue
+ Note 5 Impairment assessment
+ Note 11 Employee benefits provision and expenses

Table of Contents

The Directors of SMS Management & Technology Limited (the Company) present their report, together with the financial report of the Company and its controlled entities (collectively the Group) for the financial year ended 30 June 2016 and the auditor's report thereon. The information set out below is to be read in conjunction with the Remuneration Report set out on pages 30 to 44 which forms part of the Directors' Report.

DIRECTORS

The Directors of the Company during the financial year ended 30 June 2016 and up to the date of this report were:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Derek Young, AM **CPA, FACCA (UK), MAICD** Chairman of the Board since June 2014 Independent Non-Executive Director Chairman of the Remuneration and Nominations Committee Director since 22 November 2011	Chairman of the Robert Rose Foundation, OZP Pty Ltd and Orcadia Foundation Ltd; Director Australian Tourist Park Management Pty Ltd; member of the Major Performing Arts Panel of the Australian Council for the Arts; Adjunct Professor at RMIT's School of Accounting. Derek has over 30 years' management consulting experience. Formerly Managing Director of Accenture Australia and Managing Partner of Accenture's Financial Services in Asia Pacific; formerly represented Accenture at the Business Council of Australia; formerly a Board member of the Australian Information Industry Association (AIIA); formerly Chairman of the Melbourne Theatre Company and Australia Major Performing Arts Group; formerly a member of the RMIT University Council and Chairman of its Planning and Finance Committee and formerly a member of the Committee for Melbourne.
Rick Rostolis **Bachelor of Business, FCA** Chief Executive Officer (CEO) and Managing Director Appointed as CEO on 2 May 2016 and Managing Director on 18 May 2016	Rick joined SMS in October 2010 in the role of Chief Financial Officer and has significant professional services experience from his 12 years with KPMG, together with functional expertise in strategy, finance, mergers and acquisitions and operational performance improvement gained in various senior management roles during his 10 years with Pacific Brands. Rick was appointed to the Committee of Management and sits on the Finance and Audit Committee of Assisi Centre Inc.
Bruce Thompson **B. Ec, FCPA, FAICD** Graduate of the Wharton Business School Advanced Management Program Independent Non-Executive Director Chairman of the Audit, Risk and Compliance Committee Member of Remuneration and Nominations Committee Director since 18 October 2000	Formerly Chairman and Managing Director of Hewlett Packard Australia Ltd. Bruce worked with Hewlett Packard for 32 years in Australia and overseas until his retirement in August 2000. Formerly Chairman of the Victorian Government Commission for Gambling and Liquor Regulation and Innovonics Ltd; formerly a Council and Board member of the Box Hill Institute of TAFE; formerly Chief Executive Officer of Keycorp Limited; formerly a trustee of Melbourne Cricket Ground Trust; formerly a member of the Business Council of Australia.

Name, qualifications and independence status	Experience, special responsibilities and other directorships
Nicole Birrell **B. App Ec, M.Sc, FAICD** Independent Non-Executive Director Member of Audit, Risk and Compliance Committee and Remuneration and Nominations Committee Director since 20 December 2004	Director of Victorian Plantations Corporation and a member of the Board of Trustees and Chair Elect of International Maize and Wheat Improvement Center (CIMMYT); Operational Risk Management Consultant. Nicole has over 27 years' experience in corporate and investment banking. Formerly Head of Operational Risk and Compliance for the Institutional Financial Services division of ANZ Banking Group; formerly Director of Wheat Quality Australia Ltd, Superpartners Pty Ltd, Queensland Sugar Ltd, Grains Research & Development Corporation, AusBulk Limited and The Australian Practice Nurses Association Inc.; formerly Chair of AusMalt Pty Ltd; formerly a member of Wheat Exports Australia.
Deb Radford **B. Ec, Grad Dip Finance & Investment** Independent Non-Executive Director Member of Audit, Risk and Compliance Committee and Remuneration and Nominations Committee Director since 9 September 2013	Director of Bendigo and Adelaide Bank Ltd (since February 2006) and Council Member of LaTrobe University. Deb has over 10 years' consulting experience to many Victorian Government departments and agencies, as well as private sector organisations dealing with government, advising on government business enterprises and public sector partnerships. Formerly Director and Deputy Chair of City West Water; formerly Director of Forestry Tasmania and Melbourne Market Authority; formerly principal of Deb Radford & Associates Pty Ltd; previously held a number of senior positions within the Department of Treasury and Finance of Victorian Government; formerly a senior manager of HSBC and Wardley Australia Ltd.
Justin Milne **B. A, MAICD** Independent Non-Executive Director Member of Audit, Risk and Compliance Committee and Remuneration and Nominations Committee Director since 28 August 2014	Chairman of MYOB Group Ltd (since March 2015) and NetComm Wireless Limited (Director since March 2012); Director of Tabcorp Holdings Limited (since August 2011), Members Equity Bank Limited and NBN Co. Justin has 35 years' telecommunications, marketing and media experience. Formerly Chairman of pieNETWORKS Limited; formerly Director of Quickflix Ltd, SA Economic Development Board, Basketball Australia Limited and the Sydney Children's Hospital. Previously CEO of the Microsoft Network, OzEmail and Group Managing Director of Bigpond.
Jacqueline Korhonen **B. Sc, B. Eng (Hon), GAICD** Appointed Chief Executive Officer on 2 February 2015 and Executive Director on 18 February 2015 Resigned 2 May 2016	Formerly CEO and Managing Director of Infosys Australia and New Zealand and Senior Vice-President of Infosys' Financial Services sector in Asia Pacific (2008-2014). Represented Infosys on the Business Council of Australia. Previously held a number of senior executive positions with IBM in Australia and Asia (1985-2008), including Senior Vice-President, Business Process Outsourcing Australia and New Zealand. Formerly a member of the board of IBM Australia and a Director of the AIIA.

COMPANY SECRETARY

The Company Secretary position is jointly held by Mr Peter Sherar and Ms Penny Grau. Previously the position was jointly held by Mr Rick Rostolis and Ms Anna Gorton until the date of their resignations from the role.

Mr Sherar was appointed Company Secretary and Chief Financial Officer on 18 May 2016 and served as Group Financial Controller for six years prior to these appointments. He holds a Bachelor of Accounting and is a Member of the Institute of Chartered Accountants Australia and New Zealand.

Ms Grau was appointed General Counsel and Company Secretary on 2 June 2016. Prior to this appointment, Ms Grau was General Counsel and Company Secretary of Pact Group Holdings Limited and previously Tatts Group Limited. She holds a Bachelors of Law and Commerce, Masters of Law, a Graduate Diploma in Applied Finance and Investment and is a Fellow of the Governance Institute of Australia.

Mr Rostolis resigned as Company Secretary on 18 May 2016 and Ms Gorton resigned as General Counsel and Company Secretary on 2 June 2016.

DIRECTORS' MEETINGS

The number of meetings of the Board and each Board Committee and number of meetings attended by each of the Directors of the Company as a member during the financial year are:

Director	Board of Directors		Audit, Risk and Compliance Committee		Remuneration and Nominations Committee	
	(i)	(ii)	(i)	(ii)	(i)	(ii)
Derek Young	13	12	–	–	3	3
Rick Rostolis (iii)	1	1	–	–	–	–
Bruce Thompson	13	13	3	3	3	3
Nicole Birrell	13	13	3	3	3	3
Deb Radford	13	13	3	3	3	2
Justin Milne	13	13	3	3	3	3
Jacqueline Korhonen (iv)	11	10	–	–	–	–

(i) Number of meetings held during the period the Director was a member of the Board or Committee.
(ii) Number of meetings attended as a member.
(iii) Appointed Managing Director on 18 May 2016.
(iv) Resigned 2 May 2016.

DIRECTORS' INTERESTS

The relevant interests of each Director in the shares, rights or options over shares issued by the Company at the date of this report are as follows:

Director	Ordinary shares	Performance rights over ordinary shares
Derek Young	50,000	–
Rick Rostolis	30,644	92,444
Bruce Thompson	70,499	–
Nicole Birrell	9,681	–
Deb Radford	10,000	–
Justin Milne	–	–

PERFORMANCE RIGHTS

Performance rights granted to the CEO and Executives of the Group

Equity movements during the financial year are disclosed on page 43 to the financial statements.

STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group during the financial year.

PRINCIPAL ACTIVITIES

The Group provides a broad range of services across business and IT advisory, technology solutions, managed services and contract recruitment, to assist businesses to empower their use of people, processes and technology. Over the past 30 years, SMS has expanded across Australia and the Asia Pacific, with regional offices in Hong Kong, Singapore and Vietnam.

The business operates in two segments:

+ **SMS Consulting:** representing a range of specialised business and IT advisory, technology solutions and managed services; and
+ **M&T Resources:** sourcing contract and permanent candidates to work with corporate and government clients.

The SMS Consulting brand offers:

Advisory	Solutions	Managed Services
Digital Business Strategy	Web and Mobile Application Solutions	Managed Application Services
Technology, Strategy and Planning	Data Provisioning and Business Analytics	Managed Infrastructure Services
Design Thinking and Customer Experience	Customer Solutions	Managed IT Services
Agile Transformation	Process and Productivity Solutions	
Information Management Strategy	Cloud Migration and Enablement	
Project Management and Business Analysis		

M&T Resources brand offers:

+ Recruitment and Contract labour (predominantly in the Information Technology (IT) Sector).

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

OPERATING AND FINANCIAL REVIEW

The consolidated net profit after tax for the year was $9.7 million (2015: $17.0 million).

A review of the operations of the Group and the results of those operations for the year is set out in the CEO's Report on pages on 4 to 13 inclusive.

LIKELY DEVELOPMENTS

Likely developments of the Group are encompassed in the CEO's Report as set out on pages 4 to 13 inclusive.

EVENTS SUBSEQUENT TO REPORTING DATE

Other than the determination of the final dividend for the year as described in Note 9, no significant events have occurred since the end of the reporting period that would impact on the financial position of the Group as at 30 June 2016 or the results and cash flows of the Group for the year ended on that date.

DIVIDENDS

Declared and paid during the year

The following dividends were declared and paid by the Company during the year:

Type	Cents per share	Amount $'000	Franked/ unfranked	Date of payment
Final 2015 ordinary	10.0	6,887	Franked	6 November 2015
Interim 2016 ordinary	6.5	4,477	Franked	8 April 2016

All dividends declared and paid during the year were fully franked at the tax rate of 30%.

Declared after the end of the year

On 23 August 2016, the Directors determined the payment of a final 2016 ordinary (fully franked) dividend of 3.0 cents per share ($2.1 million) to be paid on 4 November 2016.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial statements.

INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company's Constitution allows the Company to indemnify current and former Directors and Secretaries to the full extent permitted by law against all liabilities incurred as an officer of the Group. Further, the Company's Constitution permits the Company to maintain and pay insurance premiums for Directors and Officers insurance, to the extent permitted by law.

Consistent with (and in addition to) the provisions in the Company's Constitution outlined above, the Company has also entered into deeds of access, indemnity and insurance with Directors of the Company and the Company Secretaries which provide indemnities against losses incurred in their role as Directors or Company Secretary, subject to certain exclusions, including to the extent that such indemnity is prohibited by the Corporations Act or any other applicable law.

During the financial year, the Group paid a premium to insure officers of the Company and its related bodies corporate. The officers of the Company covered by the insurance policy at 30 June 2016 included the past and present Directors, CFO and Company Secretaries.

The liabilities insured include costs 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.

The Directors have not included 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 disclosure is prohibited under the terms of the contract.

No insurance premiums are paid by the Group in regard to insurance cover provided to the auditor of the Group, Deloitte Touche Tohmatsu (Deloitte). The auditor is not indemnified and no insurance cover is provided to the auditor by the Company.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the court under section 237 of the Corporations Act for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with the leave of the court under section 237 of the Corporations Act.

ENVIRONMENTAL REGULATION

The operations of the Group are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its States or Territories.

NON-AUDIT SERVICES

During the year, Deloitte, the Group's external auditor, performed other services in addition to its audit and review of the financial statements.

The Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the non-audit services provided by the auditor during the year do not compromise the external auditor's independence, based on advice received from the Audit, Risk and Compliance Committee, for the following reasons:

+ all non-audit services have been reviewed and approved by the Chief Financial Officer to ensure that they do not impact the integrity and objectivity of the auditor; and
+ none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing risks and rewards.

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

	2016 $	2015 $
Audit services		
Auditors of the Group – (2016: Deloitte, 2015: KPMG Australia)		
Audit and review of financial reports	**185,000**	208,000
Services other than statutory audit		
Accounting advisory services – (2016: Deloitte, 2015: KPMG Australia)	**13,774**	35,000
Tax services	**3,801**	225,000
Total	**202,575**	468,000

REMUNERATION REPORT – AUDITED

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of the Company and the Group's Key Management Personnel (KMP) for the financial year ended 30 June 2016.

The term KMP refers to those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any Director (whether Executive or otherwise) of the Group.

Key Management Personnel

The Directors and other KMP of the Group during or since the end of the financial year were:

Non-Executive Directors

D Young	Non-Executive Chairman
B Thompson	Non-Executive Director
N Birrell	Non-Executive Director
D Radford	Non-Executive Director
J Milne	Non-Executive Director

Executive Directors

R Rostolis	Chief Executive Officer (appointed 2 May 2016) and Managing Director (appointed 18 May 2016), previously Chief Financial Officer
J Korhonen	Chief Executive Officer and Managing Director (resigned 2 May 2016)

Executives

P Sherar	Chief Financial Officer (appointed 18 May 2016), previously Group Financial Controller
C Sandham	Managing Director, M&T Resources, Acting Director People & Culture
C Lennard	Managing Director, Advisory & Solutions (appointed 1 June 2016)
D Moodie	Managing Director, Capability Development (appointed 1 June 2016)
N Kiossoglou	Managing Director, Managed Services, previously Managing Director, Delivery
M Allan	Managing Director, Managed Services and Managing Director, Business Development and Strategy (resigned 8 April 2016)
P Heggie	Managing Director, Sales (resigned 3 May 2016)

Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year.

Remuneration policies

Remuneration levels for Directors and Executives of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and Executives. The Remuneration and Nominations Committee obtains independent information on the appropriateness of remuneration levels of the Group given trends in comparative companies both locally and internationally, and the objectives of the Group's remuneration strategy.

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

+ capability and experience of the Directors and Executives;
+ Directors' and Executives' ability to control the relevant business units' performance; and
+ Group performance including:
  - Group earnings; and
  - growth in the share price and in shareholder wealth.

Remuneration for Executives includes a mix of fixed and variable remuneration and short-term and long-term performance-based incentives.

Fixed remuneration

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) and 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 data to ensure the Directors' and Executives' remuneration is competitive in the marketplace. Remuneration is also reviewed by the CEO on promotion.

Performance linked remuneration

Performance linked remuneration includes both short-term and long-term incentives and is designed to reward the CEO and 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. The Long-Term Incentive (LTI) is an at risk component provided as performance rights over the ordinary shares of the Company under the rules of the 2012 Executive Performance Rights Plan (2012 Plan), 2013 Executive Performance Rights Plan (2013 Plan), 2014 Executive Performance Rights Plan (2014 Plan) and 2015 Executive Performance Rights Plan (2015 Plan).

Short-Term Incentive (STI)

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

The main financial performance objective is actual EBITDA performance, compared to budget. The non-financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes and meeting leadership expectations.

At the end of the financial year, the Remuneration and Nominations Committee assesses the actual performance of the Group, business unit and the individual against the KPIs as set at the beginning of the financial year. A percentage of the pre-determined maximum amount may be awarded depending on the results.

This method of assessment was chosen as it provides the Committee with an objective assessment of the individual's performance. The Committee resolves the quantum of the STI to be paid to the relevant individuals.

REMUNERATION REPORT – AUDITED (CONTINUED)

Long-Term Incentive (LTI)

The Board considers the issue of performance rights based on the achievement of specific total shareholder return and earnings per share measures that align the performance of key employees with the interest and objectives of shareholders.

Performance rights are issued to eligible Executives in the form of a grant of rights over ordinary shares, for nil consideration.

(1) Executive Performance Rights: 2015 Plan

The performance rights are exercisable subject to a three-year performance period measured against the following performance criteria:

- 50% of the total performance rights are based on the relative total shareholder return (TSR) of the Company against the TSR of companies forming the XSI: S&P/ASX Small Industrials Accumulation Index. TSR 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.
- 50% of the total performance rights are based on the absolute average earnings per share compound annual growth rate (EPS CAGR) of the Company.

The Group has a restriction under the performance rights plan 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.

The performance rights will vest in accordance with the following scale:

If SMS's TSR is ranked:	Vesting percentages of performance rights
Below the 51st percentile	Nil vesting
Equal to the 51st percentile	50% vesting
Higher than the 51st percentile but below the 75th percentile	On a straight line basis, between 50% vesting and 100% vesting
75th percentile or higher	100% vesting

If SMS's EPS CAGR is ranked:	Vesting percentages of performance rights
Below 5%	Nil vesting
5% EPS CAGR	50% vesting
Between 5% EPS CAGR and 12% EPS CAGR	On a straight line basis, between 50% vesting and 100% vesting
12% EPS CAGR and above	100% vesting

(2) Executive Performance Rights: 2012–2014 Plans

The performance rights are exercisable subject to a three-year performance period measured against 15 comparator companies (the Comparator Group) against the following performance criteria:

+ 50% of total performance rights are based on a relative TSR performance hurdle.
+ 50% of total performance rights are based on a relative EPS performance hurdle.

The Group has a restriction under the performance rights plan 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.

The performance rights will vest in accordance with the following scale:

If SMS's TSR is ranked:	Vesting percentages of performance rights
Below the 50th percentile	Nil vesting
Equal to the 50th percentile	50% vesting
Higher than the 50th percentile but below the 75th percentile	50% vesting plus 2% for each additional percentile above the 50th percentile
75th percentile or higher	100% vesting

If SMS's EPS is ranked:	Vesting percentages of performance rights
Below the 50th percentile	Nil vesting
Equal to the 50th percentile	50% vesting
Higher than the 50th percentile but below the 75th percentile	50% vesting plus 2% for each additional percentile above the 50th percentile
75th percentile or higher	100% vesting

2012 Plan

The TSR performance rights and the EPS performance rights granted under the 2012 Plan were forfeited during the year. The performance hurdles of TSR and EPS growth were not satisfied.

REMUNERATION REPORT – AUDITED (CONTINUED)

A list of the 15 companies that make up the Comparator Group for the 2012, 2013 and 2014 Plans are outlined in the table below:

No.	Company Name	ASX Code
1	Oakton Limited (1)	OKN
2	UXC Limited (2)	UXC
3	ASG Group Limited	ASZ
4	Melbourne IT Limited	MLB
5	Computershare Limited	CPU
6	Data#3 Limited	DTL
7	Programmed Maintenance Services Limited	PRG
8	Service Stream Limited	SSM
9	DWS Limited	DWS
10	WorleyParsons Limited	WOR
11	Clarius Group Limited	CND
12	Skilled Group Limited (3)	SKE
13	Technology One Limited	TNE
14	IRESS Limited	IRE
15	Carsales.com Limited	CAR

(1) Oakton Limited was acquired by Dimension Data Australia Pty Ltd and delisted from the ASX on 26 November 2014.
(2) UXC was acquired by CSC and as a result was delisted from the ASX on 29 February 2016.
(3) Skilled Group Limited was acquired by Programmed Maintenance Services Ltd and delisted from the ASX on 19 October 2015.
(4) Companies that have been acquired are removed from the Comparator Group ranking unless they were part of the Comparator Group for more than 1 year.

Consequences of performance on shareholders' wealth

In considering the Group's performance and consequences of its performance on 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	2016	2015	2014	2013	2012
EBITDA	$15.7m	$28.7m	$20.9m	$29.5m	$44.3m
Net profit after tax for the year	$9.7m	$17.0m	$12.7m	$21.1m	$30.6m
Dividends declared (fully franked)	9.5c	17.0c	12.5c	25.5c	30.5c
Change in share price	($1.83)	($0.08)	($1.01)	($0.59)	($1.16)
Basic earnings per share	14.1c	24.5c	18.1c	30.6c	44.8c

EBITDA is considered in setting and assessing the STI. Performance of TSR and EPS is considered in setting and assessing the LTI. The overall level of remuneration for Executives takes into account performance over a number of years. The remuneration structure for Executives is designed to ensure focus on maximising both short-term operating performance and long-term strategic growth.

During 2016, STI financial performance criteria were met for one member of KMP, whilst LTIs relating to the 2012 Plan were forfeited as the performance criteria were not met.

Other performance related benefits

There are no other benefits received by the Directors or Executives of the Group that relate to performance.

Service agreements and contract details

It is the Group's policy that contracts of employment for the CEO and Executives be unlimited in term.

Chief Executive Officer and Managing Director

The CEO's remuneration consists of the following components:

+ Fixed salary of $600,000 per annum, including any statutory superannuation contribution.
+ Cash STI of $200,000 to be paid at the discretion of the Board dependent on the performance of the Group and the CEO's KPIs.
+ LTI of $200,000, subject to the terms of the relevant Executive performance rights plan and shareholder approval.

The termination provision for the CEO is six months' notice by the CEO or by the Company. After the CEO or the Company has given notice, the termination of employment may be brought forward at any time by the Company paying the CEO an amount equivalent to the remuneration which the CEO would have earned during the balance of the notice period.

If there is a fundamental change to the Executive's position as CEO, the Executive may notify the Board of this change and the Board has 21 days to rectify the Executive's grievance in this regard. If the Board fails to rectify this grievance, the Executive can resign with immediate effect and the Board must pay the Executive in lieu of the notice period plus an extra payment of six months' base salary.

In the event of a Change of Control, the Company's LTI Plan rules allow the Board discretion to vest the CEO's unvested performance rights. The Board will exercise that discretion if a Change of Control occurs at any time during the first 18 months following the CEO's commencement date, subject to the Board assessing performance against applicable vesting conditions.

Executives

The termination provision for each of the KMP, is three months' notice but the Group retains the right to terminate the contract immediately, by making payment equal to three months' pay in lieu of notice.

Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted on at a general meeting of the Company on 23 October 2012, is not to exceed $750,000 per annum. Non-Executive Directors' total remuneration remains unchanged at $84,500 per annum following a Directors' resolution passed on 20 June 2016. The Chairman's remuneration also remained unchanged at $169,000 per annum.

Non-Executive Directors do not receive performance-related remuneration.

REMUNERATION REPORT – AUDITED (CONTINUED)

Directors' and Executives' remuneration

The nature and amount of each major element of remuneration of each Director of the Company, and other Key Management Personnel (collectively the KMP) of the Group are:

		Short-term remuneration			Post-employment
		Base remuneration	Bonus (i)	Leave entitlements	Superannuation contribution
Non-Executive Directors	**Year**	**$**	**$**	**$**	**$**
Derek Young (v) Chairman	**2016** 2015	**154,338** 157,400	**–** –	**–** –	**14,662** 14,953
Bruce Thompson Non-Executive Director	**2016** 2015	**77,169** 77,169	**–** –	**–** –	**7,331** 7,331
Nicole Birrell Non-Executive Director	**2016** 2015	**77,169** 77,169	**–** –	**–** –	**7,331** 7,331
Deb Radford Non-Executive Director	**2016** 2015	**77,169** 77,169	**–** –	**–** –	**7,331** 7,331
Justin Milne Non-Executive Director	**2016** 2015	**77,169** 64,308	**–** –	**–** –	**7,331** 6,109
Executive Directors					
Rick Rostolis CEO (Appointed 2 May 16) and Managing Director (Appointed 18 May 16), previously CFO	**2016** 2015	**387,667** 327,200	**–** 140,000	**13,655** 10,946	**33,167** 24,000
Jacqueline Korhonen CEO (Appointed 2 Feb 15, Resigned 2 May 16)	**2016** 2015	**573,468** 285,917	**–** 580,211	**9,864** 25,156	**29,167** 10,533
Thomas Stianos CEO (Retired 30 Jan 15)	**2016** 2015	**–** 359,333	**–** 239,530	**–** (22,299)	**–** 30,303
Total all Directors	**2016** 2015	**1,424,149** 1,425,665	**–** 959,741	**23,519** 13,803	**106,320** 107,891
Executives					
Peter Sherar (vii) CFO (Appointed 18 May 16)	**2016** 2015	**29,888** –	**–** –	**4,825** –	**2,839** –
Chris Sandham (vi) Managing Director, M&T Resources	**2016** 2015	**333,499** 273,387	**170,000** 130,000	**(6,533)** 6,271	**31,682** 25,858
Craig Lennard (vii) Managing Director, Advisory & Solutions (Appointed 1 Jun 16)	**2016** 2015	**28,539** –	**–** –	**5,999** –	**2,711** –
David Moodie (vii) Managing Director, Capability Development (Appointed 1 Jun 16)	**2016** 2015	**24,734** –	**–** –	**4,550** –	**2,350** –

Other long-term		Equity remuneration			
Leave entitlements	Termination benefits	Value of performance rights (ii)	Total (iii)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration (iv)
$	$	$	$	%	%
– –	**–** –	**–** –	**169,000** 172,353	**–** –	**–** –
– –	**–** –	**–** –	**84,500** 84,500	**–** –	**–** –
– –	**–** –	**–** –	**84,500** 84,500	**–** –	**–** –
– –	**–** –	**–** –	**84,500** 84,500	**–** –	**–** –
– –	**–** –	**–** –	**84,500** 70,417	**–** –	**–** –
13,382 1,472	**–** –	**41,130** 39,127	**489,001** 542,745	**8.4%** 33.0%	**8.4%** 7.2%
– –	**540,000** –	**(49,465)** 49,465	**1,103,034** 951,282	**(4.5%)** 29.3%	**(4.5%)** 5.2%
– 9,948	**–** 641,666	**–** (565,364)	**–** 693,117	**–** (47.0%)	**–** (81.6%)
13,382 11,420	**540,000** 641,666	**(8,335)** (476,772)	**2,099,035** 2,683,414		
5,024 –	**–** –	**–** –	**42,576** –	**–** –	**–** –
4,103 3,213	**–** –	**41,130** 34,940	**573,881** 473,669	**36.8%** 34.8%	**7.2%** 7.4%
1,905 –	**–** –	**–** –	**39,154** –	**–** –	**–** –
7,341 –	**–** –	**–** –	**38,975** –	**–** –	**–** –

REMUNERATION REPORT – AUDITED (CONTINUED)

Directors' and Executives' remuneration (continued)

		Short-term remuneration			Post-employment
		Base remuneration	Bonus (i)	Leave entitlements	Superannuation contribution
Executives	Year	$	$	$	$
Nick Kiossoglou Managing Director, Managed Services	**2016** 2015	**332,548** –	**–** –	**6,541** –	**30,231** –
Merlin Allan Managing Director, Managed Services and Director, Business Development and Strategy (Resigned 8 Apr 16)	**2016** 2015	**183,562** 229,511	**–** 255,000	**3,926** 6,594	**23,078** 21,690
Philip Heggie Managing Director, Sales (Appointed 16 Jun 15, Resigned 3 May 16)	**2016** 2015	**311,179** 15,704	**111,000** 45,000	**6,988** 1,381	**32,083** 1,488
Darren Stanley Managing Director, SMS Consulting Australia (Resigned 30 Apr 15)	**2016** 2015	**–** 268,500	**–** –	**–** (11,022)	**–** 27,482
Shaneen Argall Director, Human Resources (Resigned 12 Jun 15)	**2016** 2015	**–** 218,802	**–** –	**–** (762)	**–** 20,677
Total all named Executives	**2016** 2015	**1,243,949** 1,005,904	**281,000** 430,000	**26,296** 2,462	**124,974** 97,195
Total remuneration	**2016** 2015	**2,668,098** 2,431,569	**281,000** 1,389,741	**49,815** 16,265	**231,294** 205,086

Notes in relation to the table of Directors' and Executives' remuneration

(i) Performance related STI's using the criteria set out on page 31. The prior year includes sign-on bonuses paid to Jacqueline Korhonen ($351,211) on 15 February 2015 and Philip Heggie ($45,000) on 16 June 2015.

(ii) The fair value of performance rights granted under the 2012 Plan, the 2013 Plan, the 2014 Plan and the 2015 Plan with a TSR performance hurdle was calculated at the date of grant using a Monte Carlo Simulation. The fair value of performance rights granted under the 2012 Plan, the 2013 Plan, the 2014 Plan and the 2015 Plan with an EPS performance hurdle was calculated at the date of grant using a closed form Black Scholes valuation model. The fair values are allocated to each reporting period on a straight-line basis over the period from grant date to vesting date. The value disclosed above is the portion of the fair value of the performance rights expensed in this reporting period. In valuing performance rights at grant date, market conditions have been taken into account. Remuneration includes negative amounts for rights which did not vest and were forfeited during the year.

(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.

(iv) The percentages disclosed reflect the value of remuneration consisting of share rights, based on the value of share-based payments expensed during the year. Rights issued and expensed in previous financial years have failed to vest in 2016 and, as a result, the previously recognised expense relating to non-market criteria has been credited in the 2016 financial year.

(v) Includes $3,353 adjustment upon appointment to the role of Chairman.

(vi) Acting in the role of Director, People and Culture since 12 June 2015.

(vii) Pro-rated remuneration for KMP appointed during the year.

Other long-term		Equity remuneration			
Leave entitlements	Termination benefits	Value of performance rights (ii)	Total (iii)	Proportion of remuneration performance related	Value of equity remuneration as proportion of remuneration (iv)
$	$	$	$	%	%
–	**–**	**19,670**	**388,990**	**5.1%**	**5.1%**
–	–	–	–	–	–
11,895	**114,155**	**(105,551)**	**231,065**	**(45.7%)**	**(45.7%)**
15,741	–	29,508	558,044	51.0%	5.3%
–	**101,250**	**–**	**562,500**	**19.7%**	**–**
–	–	–	63,573	–	–
–	**–**	**–**	**–**	**–**	**–**
4,236	212,619	(136,362)	365,453	(37.3%)	(37.3%)
–	**–**	**–**	**–**	**–**	**–**
(6,026)	–	(108,889)	123,802	(88.0%)	(88.0%)
30,268	**215,405**	**(44,751)**	**1,877,141**		
17,164	212,619	(180,803)	1,584,541		
43,650	**755,405**	**(53,086)**	**3,976,176**		
28,584	854,285	(657,575)	4,267,955		

STI cash bonus

Analysis of STI included in remuneration

Details of the percentage of the available STI that was expensed in the 2016 financial year for each KMP, and the percentage that was forfeited because the financial performance criteria were not met, are set out below. Non-Executive Directors do not participate in the STI scheme.

	Short-Term Incentive		
KMP	Included in remuneration (i)	Achieved in year	Forfeited in year
Chris Sandham	$170,000	100%	0%
Phil Heggie (ii)	$111,000	44%	56%

(i) Inclusive of superannuation. Some Executives have elected not to have any superannuation deducted from their gross bonus depending on their personal circumstances.
(ii) The payment was a guaranteed amount on commencement, to be paid in the first year of service.

Equity remuneration

Determination of fair value

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

Grant date	Fair value per performance right	Price of shares on grant date	Estimated volatility	Risk free interest rate	Dividend yield
1 Jul 13 (i)	$2.55	$4.48	32%	3.06%	4.48%
1 Jul 13 (ii)	$3.91	$4.48	32%	3.06%	4.48%
1 Jul 14 (i)	$1.98	$3.54	35%	2.88%	5.30%
1 Jul 14 (ii)	$3.02	$3.54	35%	2.88%	5.30%
6 Feb 15 (i) (iii)	$2.00	$3.53	35%	2.29%	5.38%
6 Feb 15 (ii) (iii)	$3.10	$3.53	35%	2.29%	5.38%
1 Jul 15 (i)	$1.98	$3.48	35%	2.05%	4.17%
1 Jul 15 (ii)	$3.08	$3.48	35%	2.05%	4.17%

(i) Grant with TSR performance hurdle.
(ii) Grant with EPS performance hurdle.
(iii) Grant date of 6 February 2015 relates to the rights in the 2014 Plan issued to Jacqueline Korhonen (resigned 2 May 2016).

Each performance right entitles the holder to acquire one ordinary share in the Company. All share plans 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 2016, 1 July 2017 and 1 July 2018 respectively, unless vested earlier at the Board's discretion. All performance rights expire on the termination of the individual's employment.

Performance rights over equity instruments and analysis of share-based payments granted as remuneration

Details of performance rights over ordinary shares in the Company that were granted as remuneration and vested to each KMP 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. Details of the performance criteria are included in the LTI section on pages 32 to 34 of this report. There have been no modifications to the terms of equity-settled share-based payment transactions during the financial year.

KMP	Year of Grant	Grant date	Vesting date	Number granted during the year	Fair value per performance right at grant date	Vested during the year %	Forfeited during the year %
Executive Directors							
Rick Rostolis	2016	1 Jul 15	1 Jul 18	17,493	$1.98	–	–
(Appointed CEO 2 May 16 and Managing Director 18 May 16)	2016	1 Jul 15	1 Jul 18	17,493	$3.08	–	–
	2015	1 Jul 14	1 Jul 17	17,442	$1.98	–	–
	2015	1 Jul 14	1 Jul 17	17,442	$3.02	–	–
	2014	1 Jul 13	1 Jul 16	11,287	$2.55	–	–
	2014	1 Jul 13	1 Jul 16	11,287	$3.91	–	–
	2013	1 Jul 12	1 Jul 15	9,824	$2.91	–	100%
	2013	1 Jul 12	1 Jul 15	9,823	$4.25	–	100%
Jacqueline Korhonen	2016	1 Jul 15	1 Jul 18	72,887	$1.98	–	100%
(Resigned 2 May 16)	2016	1 Jul 15	1 Jul 18	72,887	$3.08	–	100%
	2015	6 Feb 15	1 Jul 17	29,097	$2.00	–	100%
	2015	6 Feb 15	1 Jul 17	29,097	$3.10	–	100%
Executives							
Chris Sandham	2016	1 Jul 15	1 Jul 18	17,493	$1.98	–	–
	2016	1 Jul 15	1 Jul 18	17,493	$3.08	–	–
	2015	1 Jul 14	1 Jul 17	17,442	$1.98	–	–
	2015	1 Jul 14	1 Jul 17	17,442	$3.02	–	–
	2014	1 Jul 13	1 Jul 16	11,287	$2.55	–	–
	2014	1 Jul 13	1 Jul 16	11,287	$3.91	–	–
	2013	1 Jul 12	1 Jul 15	9,824	$2.91	–	100%
	2013	1 Jul 12	1 Jul 15	9,823	$4.25	–	100%
Nick Kiossoglou	2016	1 Jul 15	1 Jul 18	11,662	$1.98	–	–
	2016	1 Jul 15	1 Jul 18	11,662	$3.08	–	–
Merlin Allan	2016	1 Jul 15	1 Jul 18	14,578	$1.98	–	100%
(Resigned 8 Apr 16)	2016	1 Jul 15	1 Jul 18	14,578	$3.08	–	100%
	2015	1 Jul 14	1 Jul 17	14,535	$1.98	–	100%
	2015	1 Jul 14	1 Jul 17	14,535	$3.02	–	100%
	2014	1 Jul 13	1 Jul 16	10,159	$2.55	–	100%
	2014	1 Jul 13	1 Jul 16	10,159	$3.91	–	100%
	2013	1 Jul 12	1 Jul 15	8,841	$2.91	–	100%
	2013	1 Jul 12	1 Jul 15	8,841	$4.25	–	100%
Philip Heggie	2016	1 Jul 15	1 Jul 18	11,662	$1.98	–	100%
(Resigned 3 May 16)	2016	1 Jul 15	1 Jul 18	11,662	$3.08	–	100%

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 KMP of the Company is detailed below:

	Value of performance rights	
KMP	Granted in year (i) $	Vested and exercised in year (ii) $
Executive Directors		
Rick Rostolis (Appointed CEO 2 May 16 and Managing Director 18 May 16)	88,515	–
Jacqueline Korhonen (Resigned 2 May 16)	368,808	–
Executives		
Chris Sandham	88,515	–
Nick Kiossoglou	59,010	–
Merlin Allan (Resigned 8 Apr 16)	73,765	–
Philip Heggie (Resigned 3 May 16)	59,010	–

(i) The value of performance rights granted in the year is their fair value at grant date.
(ii) The TSR performance rights and the EPS performance rights granted under the 2012 Plan were forfeited during the year. The performance hurdles of TSR and EPS growth were not satisfied.

Rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in the Company held directly, indirectly or beneficially by each KMP, including their related parties, is as follows:

KMP	Held at 1 July 2015	Granted as remuneration	Vested and exercised	Forfeited	Held at 30 June 2016[1]	Vested and exercisable at 30 June 2016
Non-Executive Directors						
Derek Young	–	–	–	–	–	–
Bruce Thomson	–	–	–	–	–	–
Nicole Birrell	–	–	–	–	–	–
Deb Radford	–	–	–	–	–	–
Justin Milne	–	–	–	–	–	–
Executive Directors						
Rick Rostolis (Appointed CEO 2 May 16 and Managing Director 18 May 16)	77,105	34,986	–	(19,647)	92,444	–
Jacqueline Korhonen (Resigned 2 May 16)	58,194	145,774	–	(203,968)	–	–
Executives						
Peter Sherar (Appointed 18 May 16)	–	–	–	–	16,162	–
Chris Sandham	77,105	34,986	–	(19,647)	92,444	–
Craig Lennard (Appointed 1 Jun 16)	–	–	–	–	96,960	–
David Moodie (Appointed 1 Jun 16)	–	–	–	–	80,800	–
Nick Kiossoglou	–	23,324	–	–	23,324	–
Merlin Allan (Resigned 8 Apr 16)	67,070	29,156	–	(96,226)	–	–
Philip Heggie (Resigned 3 May 16)	–	23,324	–	(23,324)	–	–

(1) With the exception of Rick Rostolis, KMP at 30 June 16 who were appointed during the year, as noted, were not issued performance rights in their capacity as KMP.

REMUNERATION REPORT – AUDITED (CONTINUED)

Shareholdings of KMP

The following table shows the respective shareholdings of KMP (directly and indirectly) and any movements during the year ended 30 June 2016.

KMP	Held at 1 July 2015	Received on exercise of performance rights	Purchases	Sales	Held at 30 June 2016
Non-Executive Directors					
Derek Young	20,000	–	30,000	–	50,000
Bruce Thomson	70,499	–	–	–	70,499
Nicole Birrell	9,681	–	–	–	9,681
Deb Radford	10,000	–	–	–	10,000
Justin Milne	–	–	–	–	–
Executive Directors					
Rick Rostolis (Appointed CEO 2 May 16 and Managing Director 18 May 16)	–	–	30,644	–	30,644
Jacqueline Korhonen (Resigned 2 May 16)	–	–	–	–	–
Executives					
Peter Sherar (Appointed 18 May 16)	–	–	16,000	–	16,000
Chris Sandham	–	–	12,220	–	12,220
Craig Lennard (Appointed 1 Jun 16)	–	–	–	–	–
David Moodie (Appointed 1 Jun 16)	–	–	–	–	–
Nick Kiossoglou	–	–	–	–	–
Merlin Allan (Resigned 8 Apr 16)	86,445	–	–	(86,445)	–
Philip Heggie (Resigned 3 May 16)	–	–	–	–	–

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 45 and forms part of the Directors' Report for the year ended 30 June 2016.

ROUNDING OFF

The Company is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the Directors' Report and financial statements are rounded to the nearest thousand dollars, unless otherwise indicated.

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

Derek Young
Chairman

Rick Rostolis
Chief Executive Officer and Managing Director

Signed at Melbourne on this 23rd day of August 2016

Deloitte.

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The Board of Directors
SMS Management & Technology Limited
Level 41, 140 William Street
Melbourne VIC 3000

23 August 2016

Dear Board Members

SMS Management & Technology Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of SMS Management & Technology Limited.

As lead audit partner for the audit of the financial statements of SMS Management & Technology Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants

The Board recognises the importance of good corporate governance and its role in ensuring the accountability of the Board and management to shareholders to protect and enhance long-term shareholder value.

The Board has adopted a corporate governance framework comprising principles and policies that are consistent with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (3rd edition) (ASX recommendations).

The Corporate Governance Statement outlines the key aspects of the Group's corporate governance framework and is available on the Company's website at http://www.smsmt.com/investor/corporate-governance.

The Board considers that the Company's corporate governance framework and practices have complied with the ASX Recommendations for the financial year.

Diversity

The Company recognises that its people are its most important asset and is committed to the maintenance and promotion of workplace diversity. SMS's diversity and inclusion program underpins how our staff work every day. Our staff succeed irrespective of gender, ethnicity, generation, flexible work status, sexual orientation or disability. SMS believes that diversity of thought, background and experience of our staff, strengthens relationships and delivers meaningful benefits to our people and clients. SMS acknowledges that continued investment in diversity and inclusion will enhance the delivery excellence to clients and provide for better returns to our shareholders.

Each year, the Board sets measurable objectives to progress our diversity and inclusion goals. The objectives are renewed annually after considering progress against objectives for the prior year. Progress against each year's measurable objectives will continue to be disclosed in the Diversity section of the Corporate Governance Statement, which can be found at the website link above, including the proportion of women represented at various levels across the Group.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenue from operating activities	2	**328,683**	356,243
Employee benefits expense		**(274,139)**	(288,601)
Project expenses		**(17,897)**	(16,157)
Depreciation and amortisation expenses		**(1,373)**	(2,826)
Administrative expenses		**(9,075)**	(8,635)
Occupancy expenses		**(5,409)**	(6,144)
Contingent consideration expense		**(79)**	(2,300)
Other expenses		**(6,426)**	(5,718)
Results from operating activities		**14,285**	25,862
Finance income		**178**	242
Finance costs		**(926)**	(1,288)
Net finance costs		**(748)**	(1,046)
Profit before income tax		**13,537**	24,816
Income tax expense	4	**(3,851)**	(7,809)
Profit after income tax		**9,686**	17,007
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations		**61**	724
Total comprehensive income for the year attributable to the ordinary equity holders of the company		**9,747**	17,731
Earnings per share:			
Basic earnings per share	3	**14.1 cents**	24.5 cents
Diluted earnings per share	3	**14.0 cents**	24.1 cents

The Consolidated Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated Statement of Financial Position

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	7	**4,733**	12,908
Trade and other receivables	6	**51,119**	65,030
Prepayments and other current assets		**2,442**	3,163
Total current assets		**58,294**	81,101
Non-current assets			
Plant and equipment	17	**3,723**	3,120
Intangible assets	18	**111,980**	112,436
Deferred tax assets	19	**1,898**	1,076
Other non-current assets		**595**	1,194
Total non-current assets		**118,196**	117,826
Total assets		**176,490**	198,927
Current liabilities			
Trade and other payables	6	**16,209**	20,880
Loans and borrowings	7	**12,567**	4,299
Employee benefits	11	**10,393**	12,477
Current tax liabilities		**2,454**	1,738
Deferred consideration	16	**-**	19,230
Prepaid revenue and other current liabilities		**2,592**	2,545
Total current liabilities		**44,215**	61,169
Non-current liabilities			
Loans and borrowings	7	**518**	1,085
Deferred tax liabilities	19	**-**	2,100
Employee benefits	11	**1,337**	965
Accrued rent		**1,046**	1,443
Total non-current liabilities		**2,901**	5,593
Total liabilities		**47,116**	66,762
Net assets		**129,374**	132,165
Equity			
Issued capital		**63,402**	64,350
Reserves		**10,684**	10,849
Retained earnings		**55,288**	56,966
Total equity		**129,374**	132,165

The Consolidated Statement of Financial Position is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated Statement of Changes in Equity

for the year ended 30 June 2016

	Notes	Issued capital $'000	Foreign currency translation reserve $'000	Equity compensation reserve $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2014		65,690	(411)	10,406	50,016	125,701
Total comprehensive income for the year						
Profit after income tax		–	–	–	17,007	17,007
Other comprehensive income		–	724	–	–	724
Total comprehensive income		–	724	–	17,007	17,731
Transactions with shareholders, recorded directly in equity						
On-market share buy-back	10	(1,340)	–	–	–	(1,340)
Equity-settled share-based payment transactions		–	–	130	–	130
Dividends to shareholders	9	–	–	–	(10,057)	(10,057)
Balance at 30 June 2015		**64,350**	**313**	**10,536**	**56,966**	**132,165**
Balance at 1 July 2015		64,350	313	10,536	56,966	132,165
Total comprehensive income for the year						
Profit after income tax		–	–	–	9,686	9,686
Other comprehensive income		–	61	–	–	61
Total comprehensive income		–	61	–	9,686	9,747
Transactions with shareholders, recorded directly in equity						
On-market share buy-back	10	(948)	–	–	–	(948)
Equity-settled share-based payment transactions		–	–	(226)	–	(226)
Dividends to shareholders	9	–	–	–	(11,364)	(11,364)
Balance at 30 June 2016		**63,402**	**374**	**10,310**	**55,288**	**129,374**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Profit after income tax		**9,686**	17,007
Adjustments for:			
Depreciation and amortisation		**1,373**	2,826
Contingent consideration expense		**79**	2,300
Equity-settled share-based payment transactions		**(67)**	293
Finance costs		**926**	1,288
Income tax expense		**3,851**	7,809
		15,848	31,523
Decrease/(increase) in trade and other receivables		**13,911**	(5,453)
Decrease/(increase) in other assets		**1,320**	(220)
(Decrease)/increase in trade payables, prepaid revenue, other current liabilities and provisions		**(6,629)**	4,143
Income taxes paid		**(6,183)**	(5,619)
Net cash from operating activities		**18,267**	24,374
Cash flows from investing activities			
Payments of contingent consideration related to previous business combinations	16	**(19,375)**	(11,920)
Acquisition of plant and equipment	17	**(1,519)**	(763)
Net cash used in investing activities		**(20,894)**	(12,683)
Cash flows from financing activities			
Dividends paid to shareholders	9	**(11,364)**	(10,057)
On-market share buy-back		**(948)**	(1,424)
Proceeds from borrowings		**12,000**	227
Repayment of borrowings		**(4,307)**	(5,492)
Borrowing costs paid		**(854)**	(796)
Net cash used in financing activities		**(5,473)**	(17,542)
Net decrease in cash and cash equivalents		**(8,100)**	(5,851)
Cash and cash equivalents at 1 July		**12,908**	18,059
Effect of exchange rate fluctuations on cash held		**(75)**	700
Cash and cash equivalents at 30 June	7	**4,733**	12,908

The Consolidated Statement of Cash Flows is to be read in conjunction with the accompanying notes to the consolidated financial statements.

BASIS OF PREPARATION

1. Basis of preparation

These consolidated financial statements:

- are for SMS Management & Technology Limited (the Company) and its controlled entities (collectively the Group) as at, and for the financial year ended 30 June 2016.
- are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.
- comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).
- have been prepared on the historical cost basis, with the exception of contingent consideration assumed in a business combination which is measured at fair value at each reporting date and share based payments.
- are presented in Australian dollars with all values rounded to the nearest thousand dollars, unless otherwise stated, in accordance with the ASIC Corporations (Rounding in Financials/ Directors' Reports) Instrument 2016/191 dated 24 March 2016.
- have eliminated all intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions.
- have a number of financial assets and liabilities within the Statement of Financial Position. For these assets and liabilities, their fair values are materially the same as the carrying amounts shown in the Statement of Financial Position.
- were authorised for issue by the Board of Directors on 23 August 2016.

New accounting standards and interpretations

The following accounting standards, amendments to accounting standards and interpretations have been identified as those which may impact the Group in the period of initial adoption. They were available for early adoption for the Group's annual reporting period beginning 1 July 2015, but have not been applied in preparing this financial report:

- AASB 15 *Revenue from Contracts with Customers* establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and associated Interpretations. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.
- AASB 16 *Leases* will require the recognition of all leases for a lessee on-balance sheet, with limited exceptions for short-term and low value leases, thereby removing the off-balance sheet treatment currently applied to operating leases. In addition, operating lease expenses will be recognised as depreciation and interest expense, and will result in the front-loading of expense recognition compared to the current straight-line method. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.
- AASB 9 *Financial Instruments* replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from IAS 39. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The impact of this standard has yet to be quantified by the Group.

There are also other amendments and revisions to accounting standards that have not been early adopted. Whilst the impact of these standards has yet to be quantified, these changes are not expected to result in material changes to the financial performance or financial position of the Group.

OUR PERFORMANCE

This section highlights the performance of the Group for the year, including results by operating segment, earnings per share, details of income tax expense and related balances, and our annual impairment assessment.

2. Segment reporting and revenue

The Group has the following two reportable segments, which offer different services and are managed separately because they require different resources and marketing strategies.

SMS Consulting

Offers a range of management and technology related business services including:

Advisory	Solutions	Managed Services
Digital Business Strategy	Web and Mobile Application Solutions	Managed Application Services
Technology, Strategy and Planning	Data Provisioning and Business Analytics	Managed Infrastructure Services
Design Thinking and Customer Experience	Customer Solutions	Managed IT Services
Agile Transformation	Process and Productivity Solutions	
Information Management Strategy	Cloud Migration and Enablement	
Project Management and Business Analysis		

M&T Resources

Offers recruitment and contract labour (predominantly in the information technology (IT) sector).

The results for the year ending 30 June for each segment are as follows:

	SMS Consulting $'000	M&T Resources $'000	Unallocated $'000	Total $'000
At 30 June 2016				
External revenue	234,395	94,288	–	328,683
Inter-segment revenue	–	28,552	–	28,552
Segment EBITDA* before adjustments	**27,073**	**7,736**	**(19,072)**	**15,737**
Contingent consideration expense	(79)	–	–	(79)
Segment EBITDA after adjustments	**26,994**	**7,736**	**(19,072)**	**15,658**
Net finance costs	–	–	(748)	(748)
Depreciation and amortisation	(457)	–	(916)	(1,373)
Profit before income tax	**26,537**	**7,736**	**(20,736)**	**13,537**
Income tax expense	–	–	(3,851)	(3,851)
Profit after income tax	**26,537**	**7,736**	**(24,587)**	**9,686**
Reportable segment assets	**150,548**	**12,551**	**13,391**	**176,490**
At 30 June 2015				
External revenue	271,051	85,192	–	356,243
Inter-segment revenue	–	32,060	–	32,060
Segment EBITDA before adjustments^	**45,163**	**5,789**	**(19,964)**	**30,988**
Contingent consideration expense	(2,300)	–	–	(2,300)
Segment EBITDA after adjustments	**42,863**	**5,789**	**(19,964)**	**28,688**
Net finance costs	–	–	(1,046)	(1,046)
Depreciation and amortisation	(1,886)	–	(940)	(2,826)
Profit before income tax	**40,977**	**5,789**	**(21,950)**	**24,816**
Income tax expense	–	–	(7,809)	(7,809)
Profit after income tax	**40,977**	**5,789**	**(29,759)**	**17,007**
Reportable segment assets	**161,637**	**15,584**	**21,706**	**198,927**

* EBITDA is defined as earnings before interest, tax, depreciation and amortisation. EBITDA is non-IFRS financial information.
^ 30 June 2015 segment EBITDA before adjustments has been restated to reflect a reallocation of occupancy expenses to unallocated costs.

OUR PERFORMANCE (CONTINUED)

Determination and presentation of operating segments

An operating segment's operating results are reviewed regularly by the Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and to assess its performance. For each of the operating segments, the CEO reviews internal management reports on a monthly basis.

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 liabilities.

The Group operates predominantly within Australia, with operations in Hong Kong, Singapore and Vietnam. Foreign operations are not material for segment reporting.

Major customers

Revenue from one customer of the Group's two segments represents approximately 12.4% (2015: 9.9%) 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.

Revenue recognition accounting policy

The method of revenue recognition depends on the nature of the services performed:

Revenue streams	Method of revenue recognition
Time and materials contracts	Recognised at contracted rates as the services are provided.
Fixed price contracts	Recognised using the percentage of completion method. This method applies the percentage of estimated total contract costs incurred to date to the total contract revenue in order to determine the amount of revenue to be recognised. Where the estimated total contract costs is expected to exceed the total contract revenue, the total expected contract loss is recognised immediately.
Multi-component contracts	Where the contract contains multiple components which are not separately identifiable, the related revenue is recognised on a straight-line basis over the term of the contract. Where the contract contains multiple components which are separately identifiable (e.g. transition/deployment services, hardware sale or infrastructure design services), such revenue is recognised when the risks of ownership have been transferred to the customer, and the services-related revenue will be recognised using the percentage of completion method or on a straight-line basis over the term of the contract.

Key estimate and judgement

+ Management judgement is applied in determining the percentage of completion of fixed price contracts and these are reviewed on a monthly basis. Multi-year contracts containing multiple components also require judgement in determining when performance obligations have been fulfilled under the contract terms.

3. Earnings per share

The Group's earnings per share (EPS), as shown on the Statement of Profit or Loss and Other Comprehensive Income, are calculated using the following inputs:

	2016	2015
Profit after income tax ($'000)	**9,686**	17,007
Basic EPS – Weighted average number of ordinary shares (shares, thousands)	**68,875**	69,362
Diluted EPS – Weighted average number of ordinary shares and potential ordinary shares (shares, thousands)	**69,380**	70,523

Earnings per share accounting policy

Basic and diluted EPS are calculated as follows:

$$\text{Basic EPS} = \frac{\text{Profit or loss attributable to ordinary shareholders of the Company}}{\text{Weighted average number of ordinary shares outstanding during the period}}$$

$$\text{Diluted EPS} = \frac{\text{Profit or loss attributable to ordinary shareholders of the Company}}{\text{Weighted average number of ordinary shares outstanding during the period adjusted for the effects of all dilutive potential ordinary shares such as performance rights granted to employees}}$$

4. Taxation

	2016 $'000	2015 $'000
Profit before income tax	**13,537**	24,816
Income tax using the domestic tax rate of 30% (2015: 30%)	**4,061**	7,445
Adjustments in tax expense due to:		
Non-deductible contingent consideration expense	**24**	690
Other adjustments	**(47)**	177
Adjustments for prior years	**(187)**	(503)
Total income tax expense	**3,851**	7,809
Comprising of:		
Current tax expense	**6,614**	8,013
Deferred tax expense	**(2,763)**	(204)

Taxation accounting policy

Income tax expense comprises:

+ Current tax – 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; and
+ Deferred tax – 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.

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

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; and differences relating to investments in controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.
+ measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

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. Refer to Note 14 for further discussion on the impact on the Company's individual financial statements due to being the head entity of this tax consolidated group.

5. Impairment assessment

The Group has a goodwill balance of $111.0 million (2015: $111.0 million), on the Statement of Financial Position at 30 June, disclosed within Intangible assets (refer to Note 18). The goodwill has arisen as a result of historical acquisitions.

In accordance with accounting standards, goodwill and intangible assets with indefinite useful lives are assessed for impairment annually or when an indicator of impairment exists.

For impairment testing purposes the Group identifies its cash generating units (CGUs), which are the smallest identifiable groups of assets that generate cash inflows largely independent of the cash inflows of other assets or other groups of assets. For impairment testing the Group's CGUs are the same as its reportable segments as set out in Note 2.

The Group's goodwill has been fully allocated to the SMS Consulting CGU. There are no other CGUs that have goodwill or intangible assets with indefinite useful lives.

SMS Consulting CGU

The recoverable amount of SMS Consulting is determined based on a "value in use" calculation which uses cash flow projections based on earnings (i.e. EBITDA) forecasts endorsed by Directors covering a five-year period, and a discount rate of 11.0% per annum (2015: 11.5%). Cash flows beyond that five-year period have been extrapolated using a steady 2.5% per annum (2015: 2.5%) long-term growth rate. The discount rate represents the post-tax weighted average cost of capital (WACC) applied to the cash flow projections and reflects the specific risks relating to the CGU. The long-term growth rate is based on our expectation of the CGUs' long-term performance in its market.

The Group's impairment testing results in no impairment at 30 June 2016. The estimated recoverable amount of the SMS Consulting CGU exceeds the carrying amount by approximately $29.3 million.

Impact of possible changes in key assumptions

The forecast cash flows for the 2016 impairment assessment have been revised as a result of the underperformance in the SMS Consulting CGU for the year ended 30 June 2016. Notwithstanding the adjustment to the forecast cash flows, the value in use calculation remains sensitive to changes in earnings (i.e. EBITDA) and the discount rate.

Sensitivity analysis was undertaken to examine the effect of changes in each assumption. The following table shows the amount by which these two assumptions would need to change individually for the estimated recoverable amount to be equal to the carrying amount (i.e. breakeven point):

Change required for the carrying amount to equal recoverable amount
EBITDA growth rate – a decrease of 3.6 percentage points in the 5-year compound annual growth rate
Discount rate – an increase of 2.0 percentage points to the post-tax WACC

Each of the sensitivities above assume that a specific assumption moves in isolation, while all other assumptions are held constant. A change in one of the aforementioned assumptions could be accompanied by a change in another assumption, which may increase or decrease the net impact.

These assumptions are subject to change as a result of changing economic and operational conditions. Actual future cash flows may therefore differ from forecasts and could result in changes to the recoverable amount for impairment testing purposes.

In the prior year ended 30 June 2015, a reasonably possible change in any of the key assumptions used in the determination of recoverable amount, would not have resulted in the carrying amount exceeding the recoverable amount.

Key estimate and judgement

+ Determining CGUs and their recoverable amount using value in use

Management judgement is applied to identify the CGUs and determine their recoverable amounts using a "value in use" calculation. These judgements include establishing forecasts of future financial performance, as well as the assessment of earnings growth rates, discount rates and terminal rates based on past experience and the Group's expectations for the future. The Group's cash flow projections are based on a maximum five-year management approved forecasts. The forecasts use management estimates to determine revenue, expenses, capital expenditure and associated cash flows for each CGU.

Goodwill and impairment of non-current assets accounting policy

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

The carrying amounts of the Group's assets, other than deferred tax assets 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 if the carrying amount of an asset or its related CGU exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and 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.

OUR CAPITAL AND RISK MANAGEMENT

This section sets out the policies and procedures applied to manage our capital structure and the financial risks we are exposed to. Our total capital is defined as equity and net debt. We manage our capital structure in order to maximise shareholder return, maintain optimal cost of capital and provide flexibility for strategic investments.

6. Working capital

Management of the Group's working capital is critical to support the operating liquidity of our business. The breakdown of the components of our period end working capital balance are detailed in this note.

Key Performance Indicators used by the Group to manage short-term liquidity include debtor days and total lockup days (Work in progress (WIP) days and debtor days).

Components of the Group's working capital balance at 30 June include:

	2016 $'000	2015 $'000
Trade receivables	**36,953**	39,572
Less: Impairment losses	**(360)**	(407)
Other receivables	**310**	245
	36,903	39,410
Work in progress	**14,216**	25,620
Total trade and other receivables	**51,119**	65,030
Trade and other payables	**9,978**	8,501
Accrued expenses	**6,231**	12,379
Total trade and other payables	**16,209**	20,880
Working capital[(1)]	**34,910**	44,150

(1) Working capital = Trade and other receivables plus WIP less trade and other payables and accrued expenses.

Working capital accounting policy

Trade and other receivables

Trade receivables are initially recognised at the fair value of the amounts to be received and are subsequently measured at amortised cost, less any allowance for impairment.

Collectability of receivables is reviewed on an ongoing basis and individually assessed for impairment. Impairment of receivables is not recognised until there is objective evidence that they are impaired. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Receivables due in twelve months or less are not discounted. 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. Refer to Note 8 – credit risk management section for further discussion.

Work in progress

WIP represents unbilled revenue which is recognised at the expected recoverable amount as the services are performed, based on the Group's revenue recognition policy as described in Note 2.

Trade, other payables and accrued expenses

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are stated at cost, are unsecured and are usually payable within 30 days.

OUR CAPITAL AND RISK MANAGEMENT (CONTINUED)

7. Net debt

The Board's policy is to maintain a strong capital base so as to preserve shareholder, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital employed, which the Group defines as profit before tax divided by average capital employed. The Board also monitors the level of dividends to shareholders. The Board has a dividend payout policy of 65-70% of Net Profit After Tax.

The Board monitors the net cash/debt position as a key objective in ensuring an efficient capital structure, maintaining a prudent level of gearing and having sufficient balance sheet flexibility to continue pursuing growth initiatives.

	2016 $'000	2015 $'000
Total cash and cash equivalents	**4,733**	12,908
Less: unsecured bank loan	**-**	(3,742)
Less: unsecured working capital facility	**(12,000)**	-
Net debt (1)	**(7,267)**	9,166

(1) Net debt excludes finance lease liabilities and bank guarantees.

The Group has a three-year multi-option working capital facility of $30.0 million (2015: $15.0 million). The facility is non-amortising and unsecured with $12.0 million drawn down at 30 June 2016.

The Group entered into a $12.5 million amortising unsecured bank loan facility in October 2013 to fund the up-front payment of the Birchman acquisition. Total repayments made during the year were $3.8 million (2015: $5.0 million) and the facility was fully repaid in March 2016.

The position of financial facilities at 30 June was as follows:

	Total facilities available (1)		Facilities used at balance date (1)		Facilities not used at balance date (1)	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Unsecured working capital facility	**30,000**	15,000	**12,000**	-	**18,000**	15,000
Unsecured bank loan facility	**-**	3,750	**-**	3,750	**-**	-
Bank indemnity/guarantee facility	**4,653**	4,658	**2,656**	2,133	**1,997**	2,525
	34,653	23,408	**14,656**	5,883	**19,997**	17,525

(1) Represents face value of the facilities.

	2016 $'000	2015 $'000
Current		
Unsecured working capital facility	**12,000**	–
Unsecured bank loan	**-**	3,742
Secured finance lease liabilities [1] (refer Note 20)	**567**	557
	12,567	4,299
Non-current		
Secured finance lease liabilities [1] (refer Note 20)	**518**	1,085

(1) Secured by lease assets.

Loans and borrowings accounting policy

Loans and borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the liabilities on an effective interest basis.

Amortised cost is calculated by taking into account any issue costs and any discount or premium on issuance. Gains and losses are recognised in profit or loss in the event that the liabilities are derecognised.

Loans and borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. Interest expense on loans and borrowings is recognised using the amortised cost method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

8. Financial risk management

Due to the nature of the Group's operations and its capital structure, the Group is exposed to a number of financial risks, principally:

Nature of Risk	Definition
Credit risk	The risk of financial loss to the Group if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and cash held with financial institutions. Exposure to credit risk arises in the normal course of the Group's business.
Liquidity risk	The risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

OUR CAPITAL AND RISK MANAGEMENT (CONTINUED)

The Board through the Audit, Risk and Compliance Committee has overall responsibility for the establishment and oversight of the risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. 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.

The Group is also exposed to the risk of financial loss due to adverse interest rate and/or foreign currency rate movements. However, as the Group has low levels of drawn debt and the majority of its business is in Australia, these risks are not considered material at 30 June 2016.

Credit risk management

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 customers in various industries, performing due diligence procedures on major new customers and closely monitoring past due payments. The Group's trade receivables over 90 days past due at the reporting date that were not impaired was $0.1 million (2015: $0.8 million).

The Group held cash and cash equivalents of $4.7 million at 30 June 2016 (2015: $12.9 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, with a minimum rating of AA-, based on Standard & Poor's agency ratings.

Liquidity risk management

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 to meet expected operational expenses. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below details the contractual maturities of financial liabilities. The cash flow amounts are gross and undiscounted, and include estimated interest payments.

		Contractual cash flows				
	Carrying amount $'000	Total $'000	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000
At 30 June 2016						
Trade and other payables	**16,209**	**16,209**	**16,209**	**-**	**-**	**-**
Unsecured bank loan facilities	**12,000**	**12,006**	**12,006**	**-**	**-**	**-**
Finance lease liabilities	**1,085**	**1,179**	**329**	**309**	**541**	**-**
	29,294	**29,394**	**28,544**	**309**	**541**	**-**
At 30 June 2015						
Contingent consideration	19,230	19,300	11,300	8,000	–	–
Trade and other payables	20,880	20,880	20,880	–	–	–
Unsecured bank loan facilities	3,742	3,833	2,569	1,264	–	–
Finance lease liabilities	1,642	1,852	337	337	637	541
	45,494	45,865	35,086	9,601	637	541

The Group has a $30.0 million (2015: $15.0 million) working capital facility that is unsecured with $12.0 million drawn down at 30 June 2016. Interest is payable on this facility at the bank bill swap rate plus 120 basis points, which remains unchanged from the prior period.

9. Dividends

The following dividends were paid by the Group during the year ended 30 June:

	Cents per share	Total amount $'000	Franked/ unfranked(1)	Date of payment
2016				
Final 2015 ordinary	**10.0**	**6,887**	Franked	6 Nov 2015
Interim 2016 ordinary	**6.5**	**4,477**	Franked	8 Apr 2016
Total	**16.5**	**11,364**		
2015				
Final 2014 ordinary	7.5	5,205	Franked	24 Oct 2014
Interim 2015 ordinary	7.0	4,852	Franked	10 Apr 2015
Total	14.5	10,057		

(1) Franked dividends paid during the year were franked at the tax rate of 30%.

In addition to the above, on 23 August 2016, the Directors determined the payment of a final 2016 ordinary (fully franked) dividend of 3.0 cents per share ($2.1 million) to be paid on 4 November 2016. The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2016 and will be recognised in subsequent financial statements.

At 30 June 2016, the Group has $34.2 million (2015: $32.5 million) franking credits available to shareholders of the Company for subsequent financial years.

10. Equity and reserves

Issued capital

Number '000	2016	2015
On issue at 1 July	**68,988**	69,394
Shares cancelled under share buy-back during the financial year	**(452)**	(406)
On issue at 30 June - fully paid	**68,536**	68,988

The holders of ordinary shares are entitled to receive dividends, as determined from time to time and on a poll are entitled to one vote per share held at meetings of the Company. Ordinary shares have no par value. The Company has also issued performance rights that may be converted into ordinary shares subject to the terms of the related Plans.

Shares cancelled under buy-back

As a result of the on-market share buy-back 451,961 ordinary shares ($0.9 million) were cancelled during the year (2015: 406,236 ($1.3 million)).

OUR CAPITAL AND RISK MANAGEMENT (CONTINUED)

Reserves

The Group has the following reserves recorded within Equity:

Nature of reserve	Description
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 Group.
Equity compensation reserve	This represents the cumulative accounting value of performance rights issued as employee benefits for services rendered, net of tax.

OUR PEOPLE

This section provides information about our employee benefit obligations, including annual leave, long service leave and post-employment benefits. It also includes details about our employee share plans and compensation paid to key management personnel.

11. Employee benefits provisions and expenses

	2016 $'000	2015 $'000
Current		
Liability for annual leave	**6,823**	8,145
Liability for long service leave	**3,570**	4,332
	10,393	12,477
Non-current		
Liability for long service leave	**1,337**	965

Superannuation

All Directors and employees of the Group are members of accumulation funds of their choice and there are no Directors or employees who are members of defined benefit superannuation schemes. Total superannuation expense in profit or loss for the year was $17.7 million (2015: $18.1 million).

Employee benefits accounting policy

Employee benefit related liabilities are recorded for:

+ Annual leave – accrued based on statutory and contractual requirements including related on-costs. They are measured using the rates expected to be paid when the obligations are settled.
+ Long service leave – accrued at the present value of expected future payments to be made resulting from services provided by employees.
+ Bonuses – provided based on the achievement of predetermined KPIs and the benefit calculations are formally documented and determined before signing the financial report.
+ Contributions to a defined contribution superannuation plan – accrued and expensed in the year they are paid or become payable.
+ Restructuring and employee termination benefits recognised when a detailed plan has been approved and restructuring and/or termination has either commenced or been publicly announced or firm contracts related to the restructuring or termination benefits have been entered into. Costs related to ongoing activities are not provided for.

Key estimate and judgement

+ **Assumptions used in determining employee benefit provisions**

  Management are required to make certain estimates to determine period end liabilities such as long service leave entitlements, which are not expected to be paid or settled within 12 months, and are accrued at the present value of future amounts expected to be paid.

OUR PEOPLE (CONTINUED)

12. Share-based payments

The Group has an annual Executive performance rights plan in place as part of its employee remuneration structure. This supports the alignment of remuneration with performance of the Group.

During the year ended 30 June 2016, the following plans were within their three-year vesting period:

	2015 Plan		2014 Plan[1]		2014 Plan		2013 Plan	
Grant date	1 July 2015		6 Feb 2015		1 Jul 2014		1 Jul 2013	
Expected volatility[2]	35%		35%		35%		32%	
Expected dividend yield p.a.[3]	4.17%		5.38%		5.30%		4.48%	
Risk free interest rate p.a.[4]	2.05%		2.29%		2.88%		3.06%	
Performance measures	EPS	TSR	EPS	TSR	EPS	TSR	EPS	TSR
Share price at grant date	$3.48	$3.48	$3.53	$3.53	$3.54	$3.54	$4.48	$4.48
Fair value at measurement date[5]	$3.08	$1.98	$3.10	$2.00	$3.02	$1.98	$3.91	$2.55

(1) Grant date of 6 February 2015 related to the rights in the 2014 plan issued to Jaqueline Korhonen which were forfeited upon her resignation on 2 May 2016.
(2) Expected volatility based on historical daily share price for the three-year period preceding the grant date.
(3) Expected dividend yield is based on historic yield and expected future yield at grant date.
(4) Risk free interest rate is based on the three-year Australian Bank Bill Swap Rate.
(5) To allow for the TSR hurdle, a Monto Carlo simulation was used to value the performance rights. To allow for the EPS hurdle, a closed form Black Scholes model was used to value the performance rights.

Movements in all plans during the year ended 30 June are as follows:

Number of performance rights	2015 Plan	2014 Plan [1]	2014 Plan	2013 Plan	2012 Plan	2011 Plan	Total
Grant date	1 Jul 15	6 Feb 15	1 Jul 14	1 Jul 13	1 Jul 12	1 Jul 11	
During 2016							
Granted and not lapsed at 1 July (opening balance for the year)	–	58,194	721,036	477,638	363,849	–	1,620,717
Granted during the year	626,846	–	–	–	–	–	626,846
Lapsed during the year	(253,650)	(58,194)	(212,222)	(163,684)	(363,849)	–	(1,051,599)
Unvested performance rights	**373,196**	**–**	**508,814**	**313,954**	**–**	**–**	**1,195,964**
During 2015							
Granted and not lapsed at 1 July (opening balance for the year)	–	–	–	696,424	529,866	353,528	1,579,818
Granted during the year	–	58,194	864,076	–	–	–	922,270
Lapsed during the year	–	–	(143,040)	(218,786)	(166,017)	(353,528)	(881,371)
Unvested performance rights	**–**	**58,194**	**721,036**	**477,638**	**363,849**	**–**	**1,620,717**

(1) Grant date of 6 February 2015 related to the rights in the 2014 plan issued to Jaqueline Korhonen which were forfeited upon her resignation on 2 May 2016.

The performance rights granted on 1 July 2012 lapsed on 1 July 2015, being the end of the three-year vesting period, with nil vesting into ordinary shares.

Under each plan:

+ certain Executives are eligible to participate.
+ performance rights are granted subject to a three-year vesting period commencing at grant date.
+ each performance right is based on the achievement of specific total shareholder return and earnings per share measures that align the performance of key employees with the interest and objectives of shareholders. Refer to page 32 for further details on the relevant LTI performance measures.
+ unvested performance rights lapse on the employee's termination, subject to Board discretion.
+ performance rights have a nil consideration, with each performance right converting to one share subject to satisfaction of the performance criteria. There are voting and dividend rights attached to the shares that are converted, but not to the performance rights.
+ performance rights are non-transferable and unquoted.
+ the share based payments are considered to be equity-settled, with respect to the accounting requirements in AASB 2 share based payments. The total share based payment expense recognised within employee benefits expense for the year ended 30 June 2016 amounted to ($66,771) (2015: $293,000).

Share based payments accounting policy

The fair value of performance rights granted under each performance rights plan is recognised as an employee benefits 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 performance rights at the end of the performance period. The amount recognised as an expense is adjusted to reflect the actual number of performance rights that vest into shares, except where market conditions are not achieved.

13. Key management personnel

The Key Management Personnel (KMP) remuneration included in 'employee benefits expense' is as follows:

	2016 $'000	2015 $'000
Short-term employee benefits [(1)]	**2,999**	3,838
Post-employment benefits	**231**	205
Other long-term benefits	**44**	29
Termination benefits	**755**	854
Equity remuneration benefits	**(53)**	(658)
	3,976	4,268

(1) Includes salaries and non-cash benefits.

Key management personnel accounting policy

Key management personnel of the Group, as disclosed in the Remuneration Report, are those individuals that have the authority and responsibility for planning, directing and controlling the activities of the Group.

Amounts are only included in the key management remuneration disclosures for an individual for the period within which they meet the criteria of a key management personnel.

GROUP STRUCTURE

The following section provides information on our structure and how this impacts the results of the Group as a whole, including parent entity information, details of controlled entities and our business acquisitions.

14. Parent entity information

SMS Management & Technology Limited is the ultimate parent entity of the Group. It is a for-profit company domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX Code: SMX) and has an Australian dollar functional currency.

A summary of the comprehensive income and financial position of the parent entity is detailed below:

	2016 $'000	2015 $'000
Summary of comprehensive income:		
Profit for the year of the Parent entity	**11,364**	10,057
Total profit and other comprehensive income for the year	**11,364**	10,057
Summary of the financial position:		
Current assets	**10,811**	11,271
Non-current assets	**82,398**	82,398
Total assets	**93,209**	93,669
Current liabilities	**2,438**	1,721
Total liabilities	**2,438**	1,721
Net assets	**90,771**	91,948
Issued capital	**63,402**	64,350
Reserves	**10,310**	10,539
Retained earnings	**17,059**	17,059
Total equity	**90,771**	91,948

SMS Management & Technology Limited is guarantor for:

+ GST liabilities of other entities within the GST Group. At 30 June 2016, $2.8 million (2015: $2.9 million) has been recognised as a liability in the Consolidated Statement of Financial Position.
+ Income tax liabilities of other entities outside the tax consolidated Group. At 30 June 2016, $17,123 (2015: $17,361) has been recognised as a liability in the Consolidated Statement of Financial Position.
+ the debts in respect to certain controlled entities that are party to the Deed of Cross Guarantee (refer to Notes 15 and 21 for details of the entities party to the Deed of Cross Guarantee).

Under the tax consolidated group, (refer Note 15) as head entity of the tax consolidated group, the Company recognises:

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

SMS Management & Technology Limited is also the head entity for the:

+ tax funding arrangements – requiring payments to/from the head entity equal to the current tax liability (asset) assumed by the head entity and any tax loss related 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.
+ tax sharing agreements – 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.

Accounting policies applied to the Parent entity financial statements

The same accounting policies are applied to the Company as applied in the Group financial statements with the exception that investments in controlled entities are carried at cost less impairment losses in the Company's separate financial statements.

GROUP STRUCTURE (CONTINUED)

15. Controlled entities

The Group's controlled entities, which are all wholly owned and incorporated in Australia unless otherwise stated, are:

SMS Management & Technology Limited (4)

Controls

SMS Consulting Group Limited (1) (4)

Controls

- SMS Management & Technology Singapore Pty Ltd (1) (2) (4)
- SMS Management & Technology Asia Pty Ltd (1) (2) (4)
- SMS Consulting Unit Trust (4)
- SMS Defence Solutions Pty Ltd (4) (7) (8)
- Access Networks and Communications Pty Ltd (4)
- SMS Management & Technology Malaysia Pty Ltd (4)
- Indicium Technology Group Pty Ltd (4)
- Access Networks & Communications Unit Trust (4)
- SMS Employees Pty Ltd (1) (2)
- ACN 153 806 645 Pty Ltd (4)
- M&T Resources Pty Ltd (1) (4)
- Pelion Group Pty Ltd (4) (7)
- SMS M&T Philippines, Inc. (6)

SMS Management & Technology Vietnam Pty Ltd (4)

Controls

- SMS Management & Technology Vietnam Company Limited (5)
- Cocoon People Pty Ltd (4) (7)

The Birchman Group Asia Pacific Pty Ltd (1) (2) (3) (4)

Controls

- Beacon Technology Pty Ltd (4)

(1) These companies in the wholly-owned group are party to a Deed of Cross Guarantee with SMS Management & Technology Limited as Holding Entity and Trustee pursuant to Class Order 98/1418 (Refer Note 21).
(2) These companies are party to the Deed of Cross Guarantee, however they are small proprietary companies as defined under the Corporations Act 2001 and as such do not require relief under Class Order 98/1418.
(3) The Birchman Group Asia Pacific Pty Ltd joined as a party to the Deed of Cross Guarantee on 19 August 2014 effective for the financial years ending on or after 30 June 2015.
(4) Part of the Australian tax consolidated group, SMS Management & Technology Limited is the head company.
(5) SMS Management & Technology Vietnam Company Limited was incorporated in Vietnam.
(6) SMS M&T Philippines, Inc. was incorporated in the Philippines on 18 April 2016.
(7) These entities are in the process of being wound up through a voluntary liquidation.
(8) This Company is party to a Deed of Revocation dated 19 April 2016 removing it from the Deed of Cross Guarantee, subject to its terms.

All transactions within the wholly-owned group 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 inter-entity loans advanced by and to the Company and the Group.

Consolidation accounting policy

Entities that are controlled by the Company are referred to as controlled entities. The financial statements of controlled entities are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of controlled entities have been changed when necessary to align them with the policies adopted by the Group.

16. Business acquisitions

There have been no business acquisitions during the year ended 30 June 2016 or the comparative period.

During the year, final contingent consideration was paid with respect to businesses that the Group acquired in previous periods:

+ $11.4 million relating to the Indicium Technology Group Pty Ltd and 100% of the units in Access Networks & Communications Unit Trust (together Indicium) acquisition. Indicium was acquired in July 2013 for a total acquisition price of $27.9 million.
+ $8.0 million relating to the Birchman Group Asia Pacific Pty Ltd and its controlled entity (Birchman) acquisition. Birchman was acquired in October 2013 for a total acquisition price of $28.0 million.

As a result of these payments, contingent consideration at 30 June 2016 is $nil (2015: $19.2 million).

OTHER BALANCE SHEET ITEMS AND RELATED DISCLOSURES

This section includes other balance sheet and related disclosures not included in the other sections, for example our fixed assets, intangible assets, deferred tax balances and leases.

17. Plant and equipment

	Useful life	2016 $'000	2015 $'000
Plant and equipment	1 - 15 years	**3,621**	2,947
Leasehold improvements	3 - 10 years	**102**	173
Net book value		**3,723**	3,120

During the year, there were additions of $1.5 million (2015: $0.7 million) in plant and equipment and no further material acquisitions, disposals or impairment of any plant and equipment items.

Depreciation charged for the year was $0.9 million (2015: $0.9 million).

Depreciation accounting policy

Depreciation is charged to profit or loss on a straight line basis over the estimated useful life of each component of an item of plant and equipment. The residual value, useful life and the depreciation method applied to an asset are reassessed at least annually.

OTHER BALANCE SHEET ITEMS AND RELATED DISCLOSURES (CONTINUED)

18. Intangible assets

	Useful life	Notes	2016 $'000	2015 $'000
Goodwill [1]	indefinite	5	**111,044**	111,044
Customer contracts and relationships	4 - 6 years		**915**	1,371
Other	various		**21**	21
Net book value			**111,980**	112,436

(1) Net book value represents $444.2 million at historical cost less $333.2 million of accumulated impairment losses.

During the year, there were no material acquisitions, disposals or impairment of intangible items.

Amortisation charged for the year was $0.5 million (2015: $1.9 million).

Amortisation accounting policy

Except for goodwill, intangible assets are amortised over their estimated useful lives, based on the anticipated relationship with customers and the timing of projected cash flows of the contracts. Where the estimated useful life varies, the amortisation rate applicable to the customer relationship or contract is reassessed.

19. Deferred tax balances

	Assets		Liabilities		Net	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade and other receivables	**108**	53	**(4,008)**	(7,148)	**(3,900)**	(7,095)
Trade and other payables	**1,093**	1,208	**-**	-	**1,093**	1,208
Employee benefits	**3,483**	3,918	**-**	-	**3,483**	3,918
Tax losses	**1,041**	1,076	**-**	-	**1,041**	1,076
Sundry items	**456**	637	**(275)**	(768)	**181**	(131)
Tax assets/(liabilities)	**6,181**	6,892	**(4,283)**	(7,916)	**1,898**	(1,024)
Set off of tax	**(4,283)**	(5,816)	**4,283**	5,816	**-**	-
Net tax assets/(liabilities)	**1,898**	1,076	**-**	(2,100)	**1,898**	(1,024)

Taxation accounting policy

A deferred tax asset is:

+ offset against a deferred tax liability 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.
+ recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised.
+ reviewed at each reporting date and is reduced to the extent that it is no longer probable that the related tax benefit will be realised.

20. Leases

Operating leases

The Group has non-cancellable operating lease rentals that are payable at 30 June as follows:

	2016 $'000	2015 $'000
Within one year	**4,237**	5,262
One year or later and no later than five years	**12,398**	8,274
Later than five years	**1,588**	186
	18,223	13,722

Total operating lease expense in profit or loss for the year was $5.0 million (2015: $5.2 million). Operating leases payable predominantly relate to property leases.

Accounting policies applied for Leases

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

OTHER BALANCE SHEET ITEMS AND RELATED DISCLOSURES (CONTINUED)

Finance leases

The Group has financed equipment to support multi-year managed services contracts. Finance lease liabilities are payable as follows:

	Future minimum lease payments		Interest		Present value of minimum lease payments(1)	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within one year	**638**	674	**71**	117	**567**	557
One year or later and no later than five years	**541**	1,178	**23**	93	**518**	1,085
	1,179	1,852	**94**	210	**1,085**	1,642

(1) Recorded within loans and borrowings in the Statement of Financial Position and secured by leased assets.

Accounting policies applied for Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to profit or loss. Subsequent to the initial recognition, finance leased assets are depreciated over their estimated useful life.

This section includes other information and disclosures not included in the other sections of this Financial Report.

21. Contingencies

Details of contingent liabilities are as follows:

Bank guarantees

Bank guarantees of $2.7 million (2015: $2.1 million) have been provided as security for performance of property rental covenants.

Closed group

Certain entities in the wholly-owned group have entered into a Deed of Cross Guarantee. The Deed of Cross Guarantee was executed between the Company and some of its wholly owned entities (refer Note 15) on 22 November 2011 (Deed). On 19 August 2014 the Company entered into a Deed of Assumption with the Birchman Group Asia Pacific Pty Ltd pursuant to which it became a party to the Deed. On 19 April 2016 the Company entered into a Deed of Revocation with SMS Defence Solutions Pty Ltd pursuant to which it was removed from the Deed, in accordance with its terms. Under the Deed, each company guarantees the debts of the other companies that are party to the Deed in the event of the winding up of any of the companies party to the Deed in the circumstances contained in the Deed. Pursuant to Class Order 98/1418 (Class Order), for those entities that are party to the Deed relief has been granted from the Corporations Act 2001 requirements to prepare and lodge audited financial statements, where required.

The table below presents the summarised Consolidated Statement of Comprehensive Income for the Company and controlled entities which are party to the Deed of Cross Guarantee (referred to as the Closed Group).

	2016 $'000	2015 $'000
Revenue	**316,886**	347,731
Finance costs	**(799)**	(1,064)
Income tax expense	**(3,690)**	(10,183)
Profit for the year	**7,928**	18,976

OTHER DISCLOSURES (CONTINUED)

The table below presents the Consolidated Statement of Financial Position for the Closed Group.

	2016 $'000	2015 $'000
Current assets		
Cash and cash equivalents	**3,550**	10,636
Trade and other receivables	**49,675**	62,980
Amounts receivable from controlled entities	**-**	469
Other	**2,088**	2,812
Total current assets	**55,313**	76,897
Non-current assets		
Plant and equipment	**2,640**	1,934
Deferred tax assets	**2,465**	967
Intangible assets	**75,729**	75,989
Investments in controlled entities	**37,536**	37,536
Other	**443**	849
Total non-current assets	**118,813**	117,275
Total assets	**174,126**	194,172
Current liabilities		
Trade and other payables	**14,573**	19,013
Loans and borrowings	**12,406**	4,114
Current tax liabilities	**2,438**	5,569
Employee benefits	**10,133**	11,902
Amounts payable to controlled entities	**2,848**	-
Other	**2,330**	21,522
Total current liabilities	**44,728**	62,120
Non-current liabilities		
Deferred tax liabilities	**-**	1,902
Loans and borrowings	**443**	850
Employee benefits	**1,303**	947
Other	**1,024**	1,443
Total non-current liabilities	**2,770**	5,142
Total liabilities	**47,498**	67,262
Net assets	**126,628**	126,910
Equity		
Issued capital	**63,402**	64,350
Reserves	**10,607**	10,840
Retained earnings	**52,619**	51,720
Total equity	**126,628**	126,910

The effects of transactions between entities to the Deed of Cross Guarantee are eliminated in full in the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position. Dividends paid during the year were $11.4 million (2015: $10.1 million).

22. Auditors' remuneration

During the year, the following fees were paid or payable for services provided by the auditor of the Company, and its related practices:

	2016 $	2015 $
Audit services		
Auditors of the Group (2016: Deloitte, 2015: KPMG Australia)		
Audit and review of financial reports	**185,000**	208,000
Other services		
Auditors of the Group (2016: Deloitte, 2015: KPMG Australia)		
Accounting advisory services	**13,774**	35,000
Tax services	**3,801**	225,000
	17,575	260,000
Total fees paid or payable for services	**202,575**	468,000

23. Subsequent events

Other than the determination of final dividends as described in Note 9, no matter or circumstance has arisen since 30 June 2016 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' Declaration

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 47 to 77 and the Remuneration Report on pages 30 to 44 in the Directors' Report 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 2016 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards 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. As at the date of this declaration, there are reasonable grounds to believe that members of the Closed Group identified in Note 15 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 21.

3. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016.

4. The Directors draw attention to Note 1 to the consolidated financial statements which includes a statement of compliance with International Financial Reporting Standards.

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

Derek Young
Chairman

Rick Rostolis
Chief Executive Officer and Managing Director

Signed at Melbourne this 23rd day of August 2016.

Deloitte.

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Independent Auditor's Report to the members of SMS Management & Technology Limited

Report on the Financial Report

We have audited the accompanying financial report of SMS Management & Technology Limited, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 47 to 77.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply 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. Those 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 control, relevant to the entity's preparation of the financial report that gives a true and fair view, 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 control. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of SMS Management & Technology Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of SMS Management & Technology Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 44 of the directors' report for the year ended 30 June 2016. 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 Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of SMS Management & Technology Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Stephen Roche
Partner
Chartered Accountants
Melbourne, 23 August 2016

Shareholder Information

The Shareholder information set out below is based on information in the Company's share register as at 10 August 2016.

DISTRIBUTION OF HOLDINGS OF FULLY PAID ORDINARY SHARES

Range	No. of holders	No. of shares	% of Issued Capital
1 to 1,000	3,117	1,556,067	2.27%
1,001 to 5,000	2,525	6,631,810	9.68%
5,001 to 10,000	701	5,347,091	7.80%
10,001 to 100,000	462	11,789,820	17.20%
100,001 and Over	25	43,211,552	63.05%
Total	**6,830**	**68,536,340**	**100.00%**

The number of shareholders holding less than a marketable parcel of 224 shares (based on the closing share price of $2.24 on 10 August 2016) is 929 and they hold 113,437 shares.

TWENTY LARGEST REGISTERED SHAREHOLDERS

Rank	Name of Shareholder	No. of Shares	% of Issued Capital
1	J P Morgan Nominees Australia Limited	14,354,305	20.94%
2	HSBC Custody Nominees (Australia) Limited	7,718,173	11.26%
3	National Nominees Limited	6,562,795	9.58%
4	Citicorp Nominees Pty Limited	4,593,822	6.70%
5	RBC Investor Services Australia Pty Limited	3,701,306	5.40%
6	Citicorp Nominees Pty Limited	1,820,000	2.66%
7	BNP Paribas Noms Pty Ltd	563,826	0.82%
8	Glennfield Pty Ltd	536,851	0.78%
9	HSBC Custody Nominees (Australia) Limited - A/C 2	374,866	0.55%
10	Beldisha Pty Ltd	316,652	0.46%
11	Mr Michael Phillip Thompson & Mrs Tracie Jane Thompson	301,312	0.44%
12	Mr Andrew George Kettle	300,000	0.44%
13	Mr Alexander Paul Chang	235,000	0.34%
14	Mr Stephen Ashley Hurst	210,913	0.31%
15	Warbont Nominees Pty Ltd	205,361	0.30%
16	Navigator Australia Ltd	187,912	0.27%
17	Ms Gail Gorham	156,000	0.23%
18	Luton Pty Ltd	155,000	0.23%
19	Mr Zihong Liang	154,359	0.23%
20	Warbont Nominees Pty Ltd	150,739	0.22%
Total		**42,599,192**	**62.16%**
Balance of register		**25,937,148**	**37.84%**
Grand total		**68,536,340**	**100.00%**

SUBSTANTIAL SHAREHOLDERS

The following is a summary of the current substantial shareholders in the Company pursuant to notices lodged with the ASX in accordance with Section 671B of the Corporations Act as at 10 August 2016.

Name of Shareholder	No. of Shares	% of Issued Capital (1)
Wilson Asset Management Group	3,869,732	5.62%
AustraliaSuper Pty Ltd	3,480,437	5.05%
National Nominees Ltd ACF Australian Ethical Investment	4,816,502	6.99%
Highclere International Investors LLP	3,445,346	5.00%
Vinva Investment Management	3,755,192	5.45%
Celeste Fund Management Limited	5,329,437	7.62%

(1) % of issued capital specified in the relevant notice which may not take into account subsequent cancellation of shares under the on-market share buy-backs.

UNQUOTED EQUITY SECURITIES

	No. on issue	Number of Holders
Performance rights in respect of ordinary shares issued under the Company's Long-Term Rights Plan	1,195,964	59

ESCROW SHARES

There are no restricted securities or securities the subject of voluntary escrow.

VOTING RIGHTS FOR FULLY PAID ORDINARY SHARES

The Constitution provides for votes to be cast:

+ On a show of hands, one vote for each shareholder; and
+ On a poll, one vote for each fully paid ordinary share.

ON MARKET BUY-BACK

The Company announced on 30 June 2016 that it would continue its on market share buy-back for a further 12 months. The extended buy-back will commence on 26 August 2016 and will run until 29 June 2017 (inclusive).

+ Corporate Information

SMS MANAGEMENT & TECHNOLOGY LIMITED
ABN 49 009 558 865

DIRECTORS

Derek Young (Chairman)

Rick Rostolis (Chief Executive Officer and Managing Director)

Bruce Thompson

Nicole Birrell

Deb Radford

Justin Milne

COMPANY SECRETARIES

Peter Sherar

Penny Grau

ANNUAL GENERAL MEETING

The Annual General Meeting of SMS Management & Technology Limited will be held at RACV Club, Level 2, 501 Bourke Street, Melbourne, Victoria 3000 at 10.00am, 14 November 2016.

Registered and Principal Administrative Office

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

Share Registry
Link Market Services Limited
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Auditor
Deloitte
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Stock Exchange
SMS Management & Technology Limited shares are quoted on the Australian Securities Exchange (ASX code: SMX)

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