



ANNUAL REPORT 2004

McMillan Shakespeare

Benefit From Our Experience

CORPORATE DIRECTORY

Directors
Ronald Pitcher (Chairman)
Anthony Podesta (Chief Executive Officer)
John Bennetts
Ross Chessari
Graeme McMahon

Company Secretary
David Carter

Registered Office
Level 4
321 Exhibition Street
Melbourne Victoria 3000
Tel: (03) 9635 0000
Fax: (03) 9635 0011

Company Auditors
William Buck
Level 2
215 Spring Street
Melbourne Victoria 3000

Share Registry
Computershare Investor Services Pty Limited
Level 12
565 Bourke Street
Melbourne Victoria 3000
Tel: (03) 9611 5711

Website
www.mcms.com.au

ANNUAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2004

CONTENTS

DIRECTORS REPORT

In accordance with a resolution of the directors (**Directors**) of McMillan Shakespeare Limited (**Company**), the Directors present their report together with the financial report of the Company and its controlled entity, McMillan Shakespeare Australia Pty Limited (**MSA**), for the period ended 30 June 2004 (**Financial Report**) and the auditor's report on the Financial Report (**Auditor's Report**).

DIRECTORS

As at the date of this Annual Report, the directors of the Company are as follows:

Name	Position	Appointment
Mr R. Pitcher	Independent Non-Executive Chairman[1]	Appointed 4 February 2004
Mr A. Podesta	Chief Executive Officer	Appointed 1 December 2003
Mr J. Bennetts	Non-Executive Director	Appointed 1 December 2003
Mr R. Chessari	Non-Executive Director	Appointed 1 December 2003
Mr G. McMahon	Independent Non-Executive Director[1]	Appointed 18 March 2004

[1] Determined in accordance with the Company's definition of independence (as set out in the Corporate Governance Report contained in this Annual Report). The Directors listed as independent Directors have been independent at all times since the date of their appointment as a Director.

Details of the Directors, their experience and their special responsibilities with respect to the Company are set out on page 4 .

PRINCIPAL ACTIVITIES

The principal activities of the Company and its controlled entity during the course of the period ended 30 June 2004 were the provision of salary packaging administration and fleet management services in Australia. In the opinion of the Directors, there were no significant changes in the nature of the activities of the Company and its controlled entity during the course of the period ended 30 June 2004 that are not otherwise disclosed in this Annual Report.

REVIEW AND RESULTS OF OPERATIONS

Net profit after income tax for the period ended 30 June 2004 was $651,437 compared to prospectus forecast of $410,000.

In the period to 30 June 2004, EBITDA (earnings before interest, tax, depreciation and amortisation) was $2,276,152 against a prospectus forecast of $1,949,000. EBIT (earnings before interest and tax) was $1,209,315 for the same period compared to a prospectus forecast of $1,042,000.

As shown in the Financial Report, basic earnings per share were 1.56 cents per share and earnings per share on a diluted basis were 1.53 cents per share. Both of these figures have been calculated after the deduction of amortisation of goodwill.

During the period ended 30 June 2004, the Company listed on the Australian Stock Exchange Limited (**ASX**) raising net proceeds of $9,450,589 and issuing 21,683,430 fully paid ordinary shares.

STATE OF AFFAIRS

The Company was incorporated on 1 December 2003 for the specific purpose of acquiring MSA. Prior to the end of the period ended 30 June 2004, the Company completed the acquisition of MSA on 10 March 2004 and listed on the ASX on 15 March 2004, raising net proceeds of $9,450,589 and issuing 21,683,430 fully paid ordinary shares.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Company and its controlled entity that occurred during the period ended 30 June 2004 that are not otherwise disclosed in this Annual Report.

EVENTS SUBSEQUENT TO BALANCE DATE

As at the date of this Annual Report, the Directors are not aware of any matter or circumstance that has arisen that has significantly affected or may significantly affect:

- the operations of the Company and its controlled entity;
- the results of those operations; or
- the state of affairs of the Company and its controlled entity,

in the financial year subsequent to 30 June 2004 that are not otherwise disclosed in this Annual Report.

LIKELY DEVELOPMENTS

The Directors are of the opinion that the new financial year will be a period of continued growth and confirm the prospectus forecasts for the 6-month period to 31 December 2004.

Other than the information disclosed in this Annual Report, further information as to the likely developments in the operations of the economic entity and the expected results of those operations in subsequent years has not been included in this report because the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the economic entity.

DIVIDENDS

In line with the prospectus dated 4 February 2004 and the supplementary prospectus dated 19 February 2004, no dividends were paid or declared by the Company to the holders of ordinary shares during the period ended 30 June 2004 or since the end of that period.

ENVIRONMENTAL REGULATIONS

The Directors believe that the Company and its controlled entity has adequate systems in place for the management of its environmental requirements and are not aware of any breach of those environmental requirements as they apply to the consolidated entity.

RISK AND COMPLIANCE

The board of Directors (**Board**) meets monthly to evaluate, control and overview the implementation of risk management procedures over the Company's operations. The Directors receive monthly reports from the Chief Executive Officer, the Chief Financial Officer, the Head of Operations and the National Sales, Marketing and Distribution Manager. The Board has also established an Authorities' Matrix, which defines the levels to which authority is delegated by the Board to executive management.

The Directors have received and considered the written management representations received from the Chief Executive Officer and the Chief Financial Officer of the Company in accordance with the ASX Corporate Governance Council's 'Principles of Good Corporate Governance and Best Practice Recommendations' (**ASX Guidlines**).

Further details of the Company's corporate governance practices are set out in the Corporate Governance Statement contained in this Annual Report.

INFORMATION ON DIRECTORS

Name: **Ronald Pitcher**
FCA, FCPA, ACAA

Position: Independent Non-Executive Chairman of the Board since February 2004
Chairman of the Audit & Risk Management Committee
Chairman of the Nomination & Remuneration Committee

Mr Ronald Pitcher is a chartered accountant and business consultant with over 45 years experience in the accounting profession and the provision of business advisory services. Mr Pitcher is also the Chairman of Cellestis Limited and a director of National Can Industries Limited, Reece Australia Limited and Capral Aluminium Limited.

Name: **Anthony Podesta**
BEd (Bus), MTMA, FTIA, MAICD

Position: Chief Executive Officer since incorporation

Mr Anthony Podesta founded the predecessor of the Company and MSA in 1989 and has been instrumental in the growth of its operations and the development of the outsourced salary packaging administration industry in Australia. He is a registered taxation agent, a fellow of the Taxation Institute of Australia, a member of the Australian Institute of Company Directors and holds a public practice certificate with the Association of Taxation. He also held an executive position with Zurich Financial Services Australia Limited, providing strategic advice on workplace financial services.

Name: **John Bennetts**
Bec, LLB

Position: Non-Executive Director since incorporation
Member of the Audit & Risk Management Committee
Member of the Nomination & Remuneration Committee

Mr John Bennetts is the principal of Asia Pac Consulting Pty Limited, which provides corporate advisory services to Australian and multi-national corporations in the Asia Pacific region. He is also the founder and director of a number of companies, including Cellestis Limited and Mooroolbark Technology Pty Limited. Prior to founding Asia Pac Consulting Pty Limited, he was Group Legal Counsel and Company Secretary of Datacraft Limited. Before joining Datacraft Limited, he practiced as a solicitor with a number of firms, including Freehill Hollingdale & Page.

Name: **Ross Chessari**
LLB, MTax

Position: Non-Executive Director since incorporation
Member of the Audit & Risk Management Committee
Member of the Nomination & Remuneration Committee

Mr Ross Chessari is a co-founder and director of the fund manager, SciVentures Investments Pty Limited, the holder of a fund manager's licence issued by the Commonwealth Government. Prior to founding SciVentures, he was the managing director of ANZ Asset Management and the general manager of ANZ Trustees, which together had in excess of $15 billion of funds under management. Under his management, these businesses were profitable and ANZ was rated one of the top performing fund managers by several independent rating agencies.

Name: **Graeme McMahon**
FCPA, FAIM, FRAeS, FCIT

Position: Independent Non-Executive Director since March 2004
Member of the Audit & Risk Management Committee
Member of the Nomination & Remuneration Committee

Mr Graeme McMahon is a director of SSSR Holdings Pty Limited and Expo Hire (Aust.) Pty Limited. He is also a Member of Council at La Trobe University and a member on the board of the Queensland Australian Football League Council. Until recently, he was the Chairman of the Essendon Football Club, a position that he held for 7 years. He was also the Managing Director and Chief Executive Officer of Ansett Australia Group until 1996. He is a Fellow of the CPA of Australia, a Fellow of the Royal Aeronautical Society and a Fellow of the Chartered Institute of Logistics and Transport.

DIRECTORS' MEETINGS

The number of meetings of the Board (including meetings of committees of the Board) and the number of meetings attended by each of the Directors during the period ended 30 June 2004 were as follows:

Director	Board Meetings		Audit & Risk Management Committee Meetings*		Nomination & Remuneration Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
Mr R. Pitcher	5	5	-	-	-	-
Mr A. Podesta	10	10	-	-	-	-
Mr J. Bennetts	10	10	-	-	-	-
Mr R. Chessari	10	10	-	-	-	-
Mr G. McMahon	4	4	-	-	-	-

* Subsequent to 30 June 2004, the Audit and Risk Management Committee has met 2 times.

EMOLUMENTS OF DIRECTORS & EXECUTIVE OFFICERS

The Nomination & Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Directors and Executive Officers of the Company and its controlled entity. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive Officers may receive options under the Employee Option Plan based on the achievement of specific goals related to the financial performance of the consolidated entity. The ability to exercise the options is subject to continuity of employment and certain financial performance hurdles and individual key performance indicators being achieved.

Non-executive Directors do not receive any performance related remuneration.

Details of the nature and amount of each major element of the emoluments of each Director and Executive Officer received during the period ended 30 June 2004 are as follows:

Director	Base Remuneration $	Performance Related Remuneration $	Other Benefits[1] $	Superannuation Contribution $	Value of Securities $	Retirement Benefits $	Total $
Executive Director							
Mr A. Podesta	76,217	-	4,135	6,860	52,614[2]	-	139,826
Non-Executive Directors & Officers							
Mr R. Pitcher	25,000	-	4,135	2,250	-	-	31,385
Mr J. Bennetts	-	-	4,135	-	-	-	4,135
Mr R. Chessari	-	-	4,135	-	-	-	4,135
Mr G. McMahon	16,667	-	4,135	1,500	-	-	22,302
Mr D. Carter	10,000	-	2,628	900	-	-	13,528
Executive Officers							
Mr G. Tsiamis	63,514	-	2,628	5,716	28,755[3]	-	100,613

1 Other benefits reflect premiums for Prospectus Liability Insurance and Directors and Officers Insurance.

2 The estimated share value has been calculated on the same basis as the price paid for shares issued by the Company on the same date and terms.

3 The estimated options value has been calculated at the date of grant using a Black-Scholes model. The valuation assumes that all options will vest and that the options exercise date is equivalent to the vesting date.

OPTIONS GRANTED TO DIRECTORS & EXECUTIVE OFFICERS

During or since the end of the period ended 30 June 2004, the Company has granted the following options to the Directors and Executive Officers as part of their remuneration:

Name	Number of options granted[1]	Exercise price[2]	Expiry date[3]
Executive Officers			
Mr G. Tsiamis	150,000	$0.50	15 March 2008

1 All options were granted during the period ended 30 June 2004. No options have been granted since the end of the period ended 30 June 2004.

2 The exercise price of the options granted was based on the price of fully paid ordinary shares in the Company offered to the public under the prospectus dated 4 February 2004 and the supplementary prospectus dated 19 February 2004.

3 All options were issued subject to the following exercise conditions:

- 50% of the options are exercisable in equal proportions on or after 15 September 2005, 15 September 2006 and 15 September 2007, but entitlement to exercise is subject to continuity of employment. The remaining 50% of the options are exercisable in equal proportions on or after 15 September 2005, 15 September 2006 and 15 September 2007, but entitlement to exercise is subject to continuity of employment and certain financial performance hurdles and individual key performance indicators being achieved for the financial years ending 30 June 2005, 30 June 2006 and 30 June 2007 respectively; and
- in accordance with ASIC Class Order 03/184, none of the options may be exercised by an option holder unless either a current prospectus is available to the option holder at the time of exercise or the Company's ordinary shares have been quoted on the ASX throughout the 12 month period immediately preceding the exercise date of the options without suspension for more than a total of 2 trading days during that period.

No options were issued to Directors during the period ended 30 June 2004.

UNISSUED SHARES UNDER OPTION

At the date of this Annual Report, unissued ordinary shares of the Company under option are:

Option plan	Number of unissued ordinary shares	Exercise price	Expiry date
Employee Option Plan	1,500,000	$0.50	15 March 2008

SHARES ISSUED ON EXERCISE OF OPTIONS

During or since the end of the period ended 30 June 2004, the Company has not issued any ordinary shares as result of the exercise of options.

DIRECTORS' INTERESTS

At the date of this Annual Report, the relevant interest of each Director in the ordinary shares issued and options granted by the Company and its controlled entity, as notified by the Directors to the ASX in accordance with section 205G(1) of the *Corporations Act 2001*, is as follows:

Director	Ordinary shares[1]	Options
Mr R. Pitcher	100,000	-
Mr A. Podesta	15,101,819	-
Mr J. Bennetts	7,730,546	-
Mr R. Chessari	8,590,792	-
Mr G. McMahon	100,000	-

[1] The number of ordinary shares includes restricted securities.

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has agreed to indemnify the directors and officers of the Company and its controlled entity against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as a director or an officer of the Company and its controlled entity, except where the liability arises out of conduct involving a lack of good faith.

The Company has a Directors & Officers Liability Insurance policy in place, for all current and former directors and officers of the Company and its controlled entity (including the Directors and the company secretary).

The Company also has a Prospectus Liability Insurance policy in place for the Directors with respect to any liability arising from the issue of the prospectus dated 10 February 2004 and the supplementary prospectus dated 19 February 2004.

The Directors have not included the details of the nature of the liabilities covered or the amount of the premium paid with respect to the above insurance policies, as such disclosure is prohibited under the terms of the policies.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* 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 leave of the Court under section 237 of the *Corporations Act 2001*.

Dated at Melbourne this 9th day of September 2004.

Signed in accordance with a resolution of the Directors:

Ronald Pitcher
Chairman

Anthony Podesta
Chief Executive Officer

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

This statement outlines the main corporate governance policies and practices formally adopted by McMillan Shakespeare Limited (**Company**) upon its listing on the Australian Stock Exchange Limited (**ASX**) and during the course of the financial period ended 30 June 2004. The policies and practices of the Company are in accordance with the ASX Corporate Governance Council's 'Principles of Good Corporate Governance and Best Practice Recommendations' (**ASX Guidelines**), unless otherwise stated.

ROLE OF THE BOARD

The role of the board (**Board**) of directors of the Company (**Directors**) is to provide strategic guidance for McMillan Shakespeare and effective oversight of management. The Board operates in accordance with McMillan Shakespeare's Constitution and Board Charter, which describes the Board's composition, functions and responsibilities and designates authority reserved to the Board and that which is delegated to management. The Board's functions are set out in McMillan Shakespeare's Board Charter and include:

- monitoring financial performance against agreed financial objectives;
- monitoring the implementation of the strategy approved by the Board;
- appointing, removing and monitoring the performance of the Chief Executive Officer, Chief Financial Officer and the Company Secretary;
- ensuring appropriate succession planning for Board members and senior management;
- approving and monitoring financial and other reporting;
- determining the Company's dividend policy;
- approving and monitoring major capital expenditure, capital management, funding, acquisitions and divestments;
- overseeing risk management, control, accountability and compliance systems; and
- setting standards of behaviour to enhance the reputation of McMIllan Shakespeare in the market and the community.

A copy of McMillan Shakespeare's Board Charter may be obtained from the Company upon request.

COMPOSITION OF THE BOARD

As at the date of this Annual Report, the Directors are as follows:

Name	Position	Appointment
Mr R. Pitcher	Independent Non-Executive Chairman	4 February 2004
Mr A. Podesta	Chief Executive Officer	1 December 2003
Mr J. Bennetts	Non-Executive Director	1 December 2003
Mr R. Chessari	Non-Executive Director	1 December 2003
Mr G. McMahon	Independent Non-Executive Director	18 March 2004

Each Director is a senior and experienced executive with skills and experience necessary for the proper supervision and leadership of the Company. As a team, the Board brings together a broad range of qualifications and experience in salary packaging administration, finance, accounting, law, sales and marketing and public company affairs. Details of the Directors, their experience and their special responsibilities with respect to the Company are set out on page 4 .

The criteria for assessing the independence of a Director are set out in McMillan Shakespeare's Policy on the Assessment of Independence of Director, a copy of which may be obtained from the Company upon request. The relevant materiality thresholds are determined by the Chairman on a case by case basis.

The ASX Guidelines recommend that a listed company should have a majority of directors who are independent. The Board, as currently composed, does not comply with this recommendation. Mr Chessari and Mr Bennetts currently hold, through their controlled entities, over a quarter of the shares in the Company. These Directors have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their history, skills and the size of their investment in the Company, the Board believes that it is appropriate for each of these Directors to be appointed to the Board.

The Company believes that the Board, as currently composed, has the necessary skills, motivation and independence to perform their duties, to ensure that it continues to perform strongly, notwithstanding that its overall composition does not specifically meet the ASX Guidelines.

BOARD PRACTICES

The Board meets monthly (and at other times as required) to evaluate, control, review and implement the Company's operations and objectives. The Directors receive monthly reports from the Chief Executive Officer, the Chief Financial Officer and operational managers.

A Director, subject to prior consultation with the Chairman, may seek independent professional advice (including legal advice) at the Company's expense.

BOARD COMMITTEES

The Board has established two committees of Directors, the Audit and Risk Management Committee and the Nomination and Remuneration Committee, to carry out certain tasks. Details of names and relevant qualifications of the Directors appointed to these committees, the number of meetings of each committee held during the year ended 30 June 2004 and the attendance record for each relevant member can be found on page 5 of this Annual Report. Each committee has a documented charter approved by the Board, copies of which may be obtained upon request from the Company.

Given the nature and size of the Company's operations, the Board has decided against the establishment of separate nomination and risk management committees or the establishment of any other committees. The Board will, however, revisit that decision from time to time as the Company continues to grow.

NOMINATION AND REMUNERATION COMMITTEE

The Board has established a Nomination and Remuneration Committee, which is structured so that the committee is chaired by a non-executive director and consists of at least three members all of whom are non-executive directors.

The Nomination and Remuneration Committee is empowered to investigate any matter brought to its attention and has direct access to any employee or any independent experts and advisers as it considers appropriate in order to ensure that its responsibilities can be carried out effectively.

The names of the Directors appointed to the Nomination and Remuneration Committee, the number of meetings of the Nomination and Remuneration Committee during the financial year ended 30 June 2004 and the attendance record for each member can be found on page 5 of this Annual Report.

The ASX Guidelines recommend that the majority of members of the Nomination and Remuneration Committee should be independent. At present, the Nomination and Remuneration Committee is comprised of 4 members, only 2 of whom meet the guidelines for independence. Mr Chessari and Mr Bennetts have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their management experience, skills and the size of their investment in the Company, the Board believes that it is appropriate for each of these Directors to be appointed to the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee has a documented charter (including guidelines for the nomination of Directors) approved by the Board, a copy of which may be obtained from the Company upon request.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Board has established an Audit and Risk Management Committee, which is structured so that the committee is chaired by a non-executive director and consists of at least three members, all of whom are non-executive directors.

The names of the Directors appointed to the Audit and Risk Management Committee, the number of meetings the Audit and Risk Management held during the year ended 30 June 2004 and the attendance record for each member can be found on page 5 of this Annual Report.

The ASX Guidelines recommend that the majority of members of the Audit and Risk Management Committee should be independent and that the committee should be chaired by a person who is not the Chairman of the Board. The Audit and Risk Management Committee, as currently composed, does not comply with these recommendations.

At present, the Audit and Risk Management Committee is comprised of 4 members, only 2 of whom meet the guidelines for independence. Mr Chessari and Mr Bennetts have participated in the growth and development of McMillan Shakespeare and have a significant interest in the Company's continued success. Given their management experience, skills and the size of their investment in the Company, the Board believes that it is appropriate for each of these Directors to be appointed to the Audit and Risk Management Committee.

In addition, the Audit and Risk Management Committee is chaired by Mr Pitcher who, while independent, is also the chairman of the Board. Mr Pitcher is a chartered accountant and business consultant with over 45 years experience in the accounting profession and the provision of business advisory services. Given the Company's highly specialised activities and Mr Pitcher's extensive accounting and business experience, the Board believes that Mr Pitcher is the most appropriate person to chair the Audit and Risk Management Committee.

The Audit and Risk Management Committee has a documented charter approved by the Board, a copy of which may be obtained from the Company upon request.

PERFORMANCE REVIEW

The Board has delegated the responsibility for evaluating the performance of the Board and the individual Board members to the Chairman. The performance evaluation includes the examination of the performance of the Board and the individual Board members as against the Board Charter. Given that McMillan Shakespeare's current Board was constituted in March 2004, no formal performance appraisal was undertaken in the period ended 30 June 2004.

The Board has delegated the responsibility for evaluating the performance of the Company's executive management to the Nomination and Remuneration Committee.

REMUNERATION POLICY

The Company's remuneration policy is structured to ensure that the remuneration package properly reflects the person's duties and responsibilities and level of performance and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality.

Executive remuneration comprises the following elements:

- fixed remuneration, including superannuation, which is set at a level that reflects the marketplace for each position; and
- equity based remuneration, including share options, which incorporates exercise restrictions based on continuity of employment and the achievement of certain individual and financial performance hurdles.

Non-executive Directors are remunerated by way of fees and do not participate in profit or incentive schemes and do not receive options or bonus payments or retirement benefits other than statutory superannuation. Further details of remuneration of Directors and Officers can be found on pages 5 & 6 of this Annual Report.

INTEGRITY OF FINANCIAL REPORTING & RISK MANAGEMENT

The Board has ultimate responsibility for the integrity of the Company's financial reporting. The Directors have implemented internal control processes for identifying, evaluating and managing significant financial, operational and compliance risks to the achievement of the Company's objectives.

The Directors have received and considered written representations from the Chief Executive Officer and the Chief Financial Officer of the Company in accordance with the ASX Guidelines.

The Chief Executive Officer and the Chief Financial Officer of the Company have made the following representations to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operating results of the company, and are in accordance with the relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board, and that compliance and control is operating efficiently and effectively in all material respects.

The Company's external auditor has been invited to attend the Annual General Meeting and be available to answer questions from the members of the Company about the conduct of the audit and the preparation and content of the auditor's report.

COMMUNICATION WITH SHAREHOLDERS AND THE MARKET

The Company's commitment to communicating with its shareholders is embodied in its Continuous Disclosure Policy, which contains policies and procedures designed to ensure accountability at the senior management level for compliance with disclosure obligations. A copy of the Continuous Disclosure Policy may be obtained upon request from the Company.

In addition to the distribution of the Annual Report, information is communicated to shareholders via the announcements section of McMillan Shakespeare's website, www.mcms.com.au

Given the size and nature of the Company and the number of shareholders, the Board does not currently believe that it is appropriate for the Company to adopt a formal Communications Policy. The Board will, however, revisit that decision from time to time as the Company continues to grow.

ETHICS AND CODES OF CONDUCT

The Company has adopted a Director Code of Conduct that applies to the directors of the Company. The Director Code of Conduct reflects the commitment of the Company to ethical standards and practices. This Code deals with issues specific to the Directors. A copy of the Director Code of Conduct may be obtained from the Company upon request.

The Company has also implemented a policy on securities trading that binds all of the Company's officers and employees. In addition to ensuring that all officers and employees are aware of the legal restrictions on trading in the Company's securities while in possession of unpublished price-sensitive information, the policy also restricts the times when officers and employees may deal in the Company's securities. A copy of the Policy for Securities Dealings by Directors and Employees may be obtained from the Company upon request.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED 30 JUNE 2004

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Revenue from ordinary activities	2	8,404,802	83,913
Employee & Director benefits expenses		(4,050,980)	(56,128)
Depreciation, amortisation & writedown expenses	3	(1,272,737)	(39,283)
Technology expenses		(428,937)	–
Communication expenses		(457,903)	–
Property expenses		(374,078)	–
Borrowing costs expense	3	(356,645)	(356,645)
Corporate expenses		(94,368)	(94,368)
Other expenses from ordinary activities		(382,291)	(18,981)
Profit (Loss) from ordinary activities before income tax expense (income tax revenue)	3	986,863	(481,492)
Income tax revenue (income tax expense) relating to ordinary activities	4	(335,426)	256,434
Profit (Loss) from ordinary activities after related income tax expense (income tax revenue)	21	651,437	(225,058)
Total changes in equity other than those resulting from transactions with owners as owners		651,437	(225,058)
Basic earnings per share (cents per share)	6	1.56	
Diluted earnings per share (cents per share)	6	1.53	

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Current assets			
Cash assets	7	5,370,587	961,076
Receivables	8	1,203,788	1,726
Other	9	624,095	299,002
Total current assets		7,198,470	1,261,804
Non-current assets			
Other financial assets	10	–	32,500,000
Property, plant and equipment	12	2,959,562	–
Intangible assets	13	24,078,502	–
Deferred tax assets	14	2,246,160	256,434
Other	9	216,755	216,755
Total non-current assets		29,500,979	32,973,189
Total assets		36,699,449	34,234,993
Current liabilities			
Payables	15	2,495,588	3,259,911
Interest-bearing liabilities	16	2,000,000	2,000,000
Current tax liabilities	17	1,588,545	–
Provisions	18	684,532	–
Other	19	30,100	–
Total current liabilities		6,798,765	5,259,911
Non-current liabilities			
Interest-bearing liabilities	16	11,750,000	11,750,000
Provisions	18	49,107	–
Total non-current liabilities		11,799,107	11,750,000
Total liabilities		18,597,872	17,009,911
Net assets		18,101,577	17,225,082
Equity			
Contributed equity	20	17,450,140	17,450,140
Retained profits (Accumulated losses)	21	651,437	(225,058)
Total equity		18,101,577	17,225,082

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2004

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Cash flow from operating activities			
Receipts from customers		15,621,201	–
Payments to suppliers and employees		(12,572,575)	(295,149)
Interest received		134,193	83,913
Interest paid		(105,146)	(105,146)
Income tax paid		(1,440,400)	–
Net cash used in operating activities	26(b)	1,637,273	(316,382)
Cash flow from investing activities			
Payment for property, plant and equipment		(398,231)	–
Payment for purchase of controlled entity, net of cash acquired		(26,692,886)	(32,500,000)
Net cash used in investing activities		(27,091,117)	(32,500,000)
Cash flow from financing activities			
Proceeds from share issue		18,816,087	18,816,087
Equity raising costs		(1,365,497)	(1,365,497)
Proceeds from controlled entity		–	2,953,027
Proceeds from borrowings		15,750,000	15,750,000
Repayment of borrowings		(2,000,000)	(2,000,000)
Capitalised borrowing costs		(376,159)	(376,159)
Net cash provided by financing activities		30,824,431	33,777,458
Net increase in cash held		5,370,587	961,076
Cash at end of financial period	26(a)	5,370,587	961,076

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2004

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers McMillan Shakespeare Limited as an individual entity and McMillan Shakespeare Limited and its controlled entity as an economic entity. McMillan Shakespeare Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of McMillan Shakespeare Limited and its controlled entity. A controlled entity is any entity controlled by McMillan Shakespeare Limited. Control exists where McMillan Shakespeare Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with McMillan Shakespeare Limited to achieve the objectives of McMillan Shakespeare Limited. Details of the controlled entity are contained in Note 11.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the economic entity during the period its operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Deferred tax assets in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and will comply with the conditions of deductibility imposed by the law.

Legislation to allow groups, comprising a parent entity and its Australian resident wholly owned entities to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation is applicable to the economic entity. As at the date of this report the Directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the consolidated entity has not been recognised in the financial statements.

Amounts payable or receivable relating to tax liabilities prior to the acquisition of McMillan Shakespeare Australia Pty Limited are the subject of a tax sharing agreement with the previous owners and accordingly are recognised in accordance with the terms and conditions of the agreement as tax related receivables or payables.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(c) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment is measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets are depreciated over their estimated useful lives to the economic entity commencing from the time the asset is held ready for use. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Plant and equipment	20-40 %	Straight Line

(d) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(e) Intangibles

Goodwill

On acquisition of some, or all, of the assets of another entity, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as an intangible asset and amortised on a straight line basis over fifteen years being the period during which the benefits are expected to arise. The carrying value of intangible assets is assessed according to the accounting policy for non-current assets as set out in accounting policy note (n).

(f) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

(g) Employee Benefits

Wages and Salaries, Annual Leave, Long Service Leave

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with benefits arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates attaching to national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Superannuation

The amount charged to the Statement of Financial Performance in respect of superannuation represents the contributions made by the Company to superannuation funds.

Bonuses

A liability for employee benefits in the form of bonuses is recognised in employee benefits. This liability is based upon predetermined plans tailored for each participating employee and is measured on an ongoing basis during the financial period.

The amount of bonuses is dependent on the outcomes for each participating employee.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(h) Revenue

Interest revenue is recognised on an accrual basis taking into account the interest rates applicable to the financial assets.

Amounts disclosed as revenue are net of returns, trade allowances, duties and taxes paid. Revenue is recognised for the major business activity as follows:

(i) remuneration and fleet management administration services revenue is recognised when the service is provided; and

(ii) finance commissions revenue is recognised when the service of providing finance to clients is finalised.

All revenue is stated net of the amount of goods and services tax (GST).

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office.

In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position.

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

(j) Receivables

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 30 days from the date of recognition. Collectability of trade debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

(k) Trade Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Capitalised Software Development Costs

Software development costs incurred by the economic entity are of a major structural nature and designed to serve the organisation's platforms for the long term.

This expenditure is capitalised and brought to account as a non-current asset and amortised on a straight-line basis for a period no longer than 3 years, being the period during which the benefits are expected to arise. The carrying value of these costs is assessed according to the accounting policy for non current assets as set out in accounting policy note (n).

(m) Interest bearing liabilities and borrowing costs

Loans are carried at their principal amounts, which represent the face value of the debt. Where applicable, interest is accrued over the period it becomes due and is recorded as part of other creditors.

Borrowing costs are recognised as expenses in the period in which they occurred.

(n) Recoverable amount of non-current assets

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

(o) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards Board (**AASB**) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue AASB equivalents to IFRS, and Urgent Issues Group Abstracts corresponding to International Financial Reporting Interpretations adopted by the International Accounting Standards Board. These Australian pronouncements will be known as Australian International Financial Reporting Pronouncements (**AIFRPs**). The adoption of the AIFRPs will be first reflected in the economic entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

The economic entity will formally establish a project team to manage the transition to AIFRPs, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team will be chaired by the Chief Financial Officer and will report quarterly to the Audit and Risk Management Committee.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES continued

(o) International Financial Reporting Standards (IFRS) continued

As at the date of this report, analysis of a significant number of the AIFRPs has been undertaken. This analysis has identified a number of accounting policy changes that will be required. In some cases, choices of accounting policies are available including elective exemptions under AASB 1 First-time Adoption of Australian International Financial Reporting Pronouncements. Some of these choices are still to be analysed to determine the most appropriate accounting policy for the economic entity.

Major changes identified to date that will be required to the economic entity's existing accounting policies include the following:

(i) Intangible assets – goodwill

Under the Australian equivalent to IFRS 3 Business Combinations, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on cashflow of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 15 years.

(ii) Intangible assets – software development

Under the Australian equivalent to IAS 38 Intangible Assets, an intangible asset is defined as an "identifiable non-monetary asset without physical substance held for use in production or supply of goods or services, for rental to others, or for administrative purposes". The effect of IAS 38 will be:

- the classification of capitalised software development costs as an intangible asset;
- a change to the current accounting policy, under which capitalised software costs are amortised on a straight line basis over a three year period; and
- the application of an annual impairment test against the carrying value of software development assets.

(iii) Equity-based compensation benefits

Under the Australian equivalent to IFRS 2 Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

(iv) Income Taxes

Under the Australian equivalent to IAS 12 Income Taxes, the Company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of the adoption of this Standard.

(p) Comparative amounts

McMillan Shakespeare Limited was registered on 1 December 2003 as an unlisted public company and on 15 March 2004 became a listed public company on the Australian Stock Exchange.

Since this is the first year of operations, comparative figures are not applicable.

The financial information presented for the period ended 30 June 2004 includes operations for the seven months commencing on 1 December 2003 to 30 June 2004.

	Note	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 2: REVENUE

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Operating activities			
Administration income		6,481,365	–
Finance commissions		1,784,819	–
Other		4,425	–
		8,270,609	–
Non-operating activities			
Interest	2(a)	134,193	83,913
		8,404,802	83,913
(a) Interest received:			
– other persons		134,193	83,913
		134,193	83,913

NOTE 3: PROFIT FROM ORDINARY ACTIVITIES

Profit (losses) from ordinary activities before income tax expense (income tax revenue) has been determined after:

	Note	Economic Entity 2004 $	Parent Entity 2004 $
(a) Expenses			
Borrowing costs – other persons		356,645	356,645
Depreciation of non-current assets			
– plant & equipment	12	214,685	–
– software development	12	308,873	
Total depreciation		523,558	–
Amortisation of non-current assets			
– goodwill		503,996	–
– capitalised lending costs		39,283	39,283
Total amortisation		543,279	39,283
Writedown of non-current assets	12		
– plant & equipment		205,900	–
Remuneration of the auditors for			
– audit or review services		39,000	–
Remuneration for other services to related practices of the auditor		319,635	–
Rental expense on operating leases			
– minimum lease payments		282,370	–
Rental expense on operating leases		282,370	–

	Economic Entity 2004 $	Parent Entity 2004 $
NOTE 4: INCOME TAX EXPENSE (REVENUE)		
The prima facie tax payable on profit (loss) from ordinary activities before income tax is reconciled to the income tax expense (revenue) as follows:		
Prima facie income tax payable on profit (loss) from ordinary activities before income tax at 30.0%	296,058	(144,448)
Add:		
Tax effect of:		
• amortisation of goodwill	151,199	–
• entertainment	155	–
	447,412	(144,448)
Less:		
Tax effect of:		
• costs of offer	(111,986)	(111,986)
Income tax expense (revenue) attributable to profit (loss) from ordinary activities	335,426	(256,434)

NOTE 5: DIRECTORS, OFFICERS AND SPECIFIED EXECUTIVES REMUNERATION

(a) Directors & Officers Remuneration

	PRIMARY				
2004	Salary & Fees $000	Non-cash benefits $000	Superannuation $000	Equity $000	Total $000
RG Pitcher - Non-Executive Chairman	25	4	2	–	31
AG Podesta - Chief Executive Officer	76	4	7	52	139
R Chessari - Non-Executive Director	–	4	–	–	4
JG Bennetts - Non-Executive Director	–	4	–	–	4
GJ McMahon - Non-Executive Director	17	4	2	–	23
DN Carter - Company Secretary	10	3	1	–	14
Total	128	23	12	52	215

- No options have been issued to Directors or Officers.
- The service and performance criteria set to determine remuneration are included in Note (d).

NOTE 5: DIRECTORS, OFFICERS AND SPECIFIED EXECUTIVES REMUNERATION continued

(b) Specified Executives Remuneration

	PRIMARY				
2004	Salary & Fees $000	Non-cash benefits $000	Superannuation $000	Equity $000	Total $000
G Tsiamis	64	3	6	29	102
Total	64	3	6	29	102

- The strategic direction of the Company is exercised through the Board of Directors and the Chief Executive Officer, to whom it has delegated authority. Specified Executives are those directly accountable and responsible for the operational management and strategic direction of the economic entity. Accordingly, no specified executives other than the Chief Executive Officer and the Chief Financial Officer have been identified.
- The service and performance criteria set to determine remuneration are included in Note (d).

Options granted as remuneration to Specified Executives:

2004	Vested Date	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price $	First Exercise Date	Last Exercise Date
G Tsiamis	–	150,000	15/03/04	28,755	0.50	15/09/05	15/03/08
		150,000		28,755			

The estimated options value disclosed above is calculated at the date of grant using a Black-Scholes model. The valuation assumes that all options will vest and that the options exercise date is equivalent to the vesting date. The options expire on the date that is four years from the date of issue. Options will vest and be exercisable as follows:

- 50% of options are exercisable in equal proportions (one third in each year) over the two year period commencing on the date that is eighteen months after the date of issue; and
- the remaining 50% are also exercisable in equal proportions (one third in each year) over the two year period commencing on the date that is eighteen months after the date of issue, but the entitlement to exercise will be subject to continuity of employment and certain performance hurdles being achieved.

The service and performance criteria set to determine remuneration are included in Note (d).

NOTE 5: DIRECTORS, OFFICERS AND SPECIFIED EXECUTIVES REMUNERATION continued

(c) Shareholdings

Number of shares held by Directors & Specified Executives

	Balance as 1.12.04	Granted as remuneration	Options exercised	Net Change Other*	Balance as 30.06.04
Parent Entity Directors					
RG Pitcher	–	–	–	100,000	100,000
AG Podesta	–	–	–	15,101,819	15,101,819
R Chessari	–	–	–	8,590,792	8,590,792
JG Bennetts	–	–	–	7,730,546	7,730,546
G McMahon	–	–	–	100,000	100,000
	–	–	–	31,623,157	31,623,157
Specified Executives					
G Tsiamis	–	–	–	850,247	850,247
	–	–	–	850,247	850,247
	–	–	–	32,473,404	32,473,404

* Net change other reflected above includes those shares that have been purchased or sold during the financial period.

(d) Remuneration Practices

The remuneration structure for specified Executive Officers and Executive Directors is formulated by the Nomination and Remuneration Committee, which reports directly to the Board. Remuneration is based on various factors including length of service, experience, responsibilities, individual performance and the operating results of the Company. The contracts for service made by the company are on a continuing basis and are not expected to change in the near future.

	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 6: EARNINGS PER SHARE

	Economic Entity 2004 $	Parent Entity 2004 $
Reconciliation of Earnings to Net Profit		
Net profit	651,437	
Earnings used in the calculation of basic Earnings per Share (EPS)	651,437	
Weighted average number of ordinary shares outstanding during the period used in calculation of basic EPS	41,830,796	
Weighted average number of options on issue outstanding	757,075	
Weighted average number of ordinary shares outstanding during the period used in calculation of diluted EPS	42,587,871	

NOTE 7: CASH ASSETS

	Economic Entity 2004 $	Parent Entity 2004 $
Cash on hand	2,700	–
Cash at bank	5,367,887	961,076
	5,370,587	961,076

NOTE 8: RECEIVABLES

	Economic Entity 2004 $	Parent Entity 2004 $
Current		
Trade debtors	883,707	–
Less provision for doubtful debts	(20,000)	–
	863,707	–
Other debtors	340,081	1,726
	1,203,788	1,726

NOTE 9: OTHER ASSETS

	Economic Entity 2004 $	Parent Entity 2004 $
Current		
Prepayments	496,076	170,983
Capitalised borrowing costs	128,019	128,019
	624,095	299,002
Non-current		
Capitalised borrowing costs	216,755	216,755

NOTE 10: OTHER FINANCIAL ASSETS

	Economic Entity 2004 $	Parent Entity 2004 $
Non-current		
Shares in controlled entities		
– at cost	–	32,500,000

NOTE 11: CONTROLLED ENTITIES

(a) Controlled Entities

	Country of Incorporation	Percentage Owned % 2004
Parent Entity		
McMillan Shakespeare Limited	Australia	
Subsidiaries		
McMillan Shakespeare Australia Pty Ltd	Australia	100%

(b) Controlled Entities Acquired

On 10 March 2004, the parent entity acquired 100% of McMillan Shakespeare Australia Pty Ltd with McMillan Shakespeare Limited entitled to all profits earned from 11 March 2004, for a purchase price of $32,500,000.

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Economic Entity 2004 $	Parent Entity 2004 $
Plant and equipment		
At cost	5,256,721	–
Less accumulated depreciation	(3,658,913)	–
Total plant and equipment	1,597,808	–
Software development		
At cost	3,077,942	–
Less accumulated depreciation	(1,716,188)	–
Total software development	1,361,754	–
Total Plant and Equipment	2,959,562	–

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the period.

Economic Entity 2004	Plant & Equipment $	Software Development $	Total $
Balance at the beginning of the period	–	–	–
Additions	336,501	61,730	398,231
Additions through acquisition of entity	1,681,892	1,608,897	3,290,789
Depreciation	(214,685)	(308,873)	(523,558)
Asset writedown	(205,900)	–	(205,900)
Carrying amount at end of period	1,597,808	1,361,754	2,959,562

	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 13: INTANGIBLE ASSETS

Goodwill at cost	24,582,498	–
Less accumulated amortisation	(503,996)	–
	24,078,502	–

NOTE 14: TAX ASSETS

Future income tax benefits		
– Timing differences	1,989,726	–
– Tax losses	256,434	256,434
	2,246,160	256,434

NOTE 15: PAYABLES

Current		
Unsecured liabilities		
Trade creditors	1,348,830	–
Sundry creditors and accruals	1,146,758	306,884
Amounts payable to wholly owned entity	–	2,953,027
	2,495,588	3,259,911

NOTE 16: INTEREST BEARING LIABILITIES

Current		
Secured liabilities		
Bank loans	2,000,000	2,000,000
Non current		
Secured liabilities		
Bank loans	11,750,000	11,750,000

The bank loan facilities are secured by fixed and floating charges over the assets of McMillan Shakespeare Limited and its controlled entity.

	Note	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 17: TAX LIABILITIES

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Current			
Income tax		1,588,545	–

NOTE 18: PROVISIONS

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Current			
Employee benefits	(a)	684,532	–
Non current			
Employee benefits	(a)	49,107	–
(a) Aggregate employee benefits liability		733,639	–
(b) Number of employees at period end		186	–

NOTE 19: OTHER LIABILITIES

	Note	Economic Entity 2004 $	Parent Entity 2004 $
Current			
Administration fees received in advance		30,100	–

	Economic Entity 2004 $	Parent Entity 2004 $
NOTE 20: CONTRIBUTED EQUITY		
64,683,430 fully paid ordinary shares	19,316,587	19,316,587
Transaction costs relating to share issue	(1,866,447)	(1,866,447)
	17,450,140	17,450,140
(a) Ordinary shares		
At the beginning of the period	–	–
Shares issued during the period		
– 10 on 1 December 2003	10	10
– 400,000 on 27 January 2004	–	–
– 10,129,870 on 4 February 2004	3,900,000	3,900,000
– 22,983,430 on 3 March 2004	11,316,587	11,316,587
Shares converted during the period*		
– 31,170,120 on 4 February 2004	4,099,990	4,099,990
Transaction costs relating to share issue	(1,866,447)	(1,866,447)
At reporting date	17,450,140	17,450,140

	Economic Entity 2004 No	Parent Entity 2004 No
(b) Ordinary shares		
At the beginning of the period	–	–
Shares issued during the period		
– 1 December 2003	10	10
– 27 January 2004	400,000	400,000
– 4 February 2004	10,129,870	10,129,870
– 3 March 2004	22,983,430	22,983,430
Shares converted during the period *		
– 4 February 2004	31,170,120	31,170,120
At reporting date	64,683,430	64,683,430

Ordinary shares participate in dividends and proceeds in winding up of the parent entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

* On the 27 January 2004 10 "A class" shares were issued for proceeds of $4,099,990. On the 4 February 2004, these 10 "A class" shares were converted to 31,170,120 ordinary shares.

	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 21: RETAINED PROFITS (ACCUMULATED LOSSES)

Retained profits (accumulated losses) at the beginning of the period	–	–
Net profit (loss) attributable to the members of the parent entity	651,437	(225,058)
Retained profits (accumulated losses) at the end of the financial period	651,437	(225,058)

NOTE 22: CAPITAL AND LEASING COMMITMENTS

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable		
– not later than one year	881,653	881,653
– later than one year and not later than five years	65,892	65,892
	947,545	947,545

General description of leasing arrangements

The property leases are non-cancellable leases with varying terms, with rent payable monthly in advance. Individual rental agreements specify each rental adjustment.

The equipment leases are non-cancellable leases with varying terms, with rent payable quarterly in arrears.

NOTE 23: CONTINGENT LIABILITIES

Estimates of the maximum amounts of contingent liabilities that may become payable: Guarantees issued for the performance of contractual obligations supported by a term deposit.	800,000	–

NOTE 24: SEGMENT REPORTING

The economic entity operates predominantly in Australia within the salary packaging industry. All revenue, operating profit and assets relate to operations predominantly in Australia.

NOTE 25: RELATED PARTY TRANSACTIONS

Transactions between related parties are of normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties

(a) Director Related Entities Consultancy fees paid to Directors John Bennetts and Ross Chessari through Asia Pac Consulting Pty Ltd for services rendered in connection with the listing of McMillan Shakespeare Limited	88,800	88,800

	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 26: CASH FLOW INFORMATION

(a) Reconciliation of cash

Cash at the end of the financial period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Economic Entity 2004 $	Parent Entity 2004 $
Cash on hand	2,700	–
Cash at bank	5,367,887	961,076
	5,370,587	961,076

(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax

	Economic Entity 2004 $	Parent Entity 2004 $
Profit from ordinary activities after income tax	651,437	(225,058)
Non-cash flows in profit from ordinary activities		
Amortisation	543,279	39,283
Depreciation	523,558	–
Asset writedown	205,900	–
Changes in assets and liabilities, net of the effects of purchase of controlled entity:		
(Increase) decrease in receivables	927,159	(1,726)
(Increase) decrease in other assets	(176,385)	(170,983)
(Increase) decrease in deferred taxes	(495,497)	(256,434)
Increase (decrease) in payables	9,211	298,536
Increase (decrease) in income tax payable	(609,476)	–
Increase (decrease) in administration fees received in advance	30,100	–
Increase (decrease) in employee benefits	27,987	–
Cash flows from operations	1,637,273	(316,382)

(c) Acquisition of Entities

During the period 100% of the controlled entity McMillan Shakespeare Australia Pty Limited was acquired. The details of this transaction are:

	Economic Entity 2004 $	Parent Entity 2004 $
Purchase consideration	32,500,000	32,500,000
Cash consideration	32,500,000	32,500,000
Assets and liabilities held at acquisition date:		
Cash	5,807,114	5,376,581
Receivables (net of provisions)	2,130,947	2,561,480
Other	319,691	319,691
Tax assets	1,750,663	1,750,663
Plant & Equipment (net of provisions)	3,290,789	3,290,789
Goodwill	24,582,498	24,582,498
Creditors	(2,478,029)	(2,478,029)
Tax liabilities	(2,198,021)	(2,198,021)
Employee entitlements	(705,652)	(705,652)
	32,500,000	32,500,000

	Economic Entity 2004 $	Parent Entity 2004 $

NOTE 26: CASH FLOW INFORMATION continued

(d) Non-cash Financing and Investing Activities

(i) Share Issue

500,050 ordinary shares were issued as part of the Underwriting agreement made with Underwriters.

(e) Credit Standby Arrangements with Banks

	Economic Entity 2004 $	Parent Entity 2004 $
Credit facility	3,000,000	3,000,000
Unused facility	3,000,000	3,000,000
	–	–

Banking overdrafts

Bank overdraft facilities are arranged with an Australian bank with the general terms and conditions being set and agreed to annually. Interest rates are variable and subject to adjustment.

(f) Loan facilities with Banks

	Economic Entity 2004 $	Parent Entity 2004 $
Loan facilities	13,750,000	13,750,000
Unused facilities	–	–
	13,750,000	13,750,000

Loan facilities

The loan facility is for a period of 3 years with principal repayments to be paid quarterly. Interest rates are variable and subject to fluctuation. Finance will be provided under all facilities provided the Company and the economic entity have not breached any borrowing requirements and the required financial ratios are met, which include an interest cover ratio, a debt to cashflow ratio and a debt service cover ratio.

NOTE 27: EVENTS SUBSEQUENT TO REPORTING DATE

Since the end of the financial period, the Directors have not become aware of any matter or circumstance not otherwise dealt with in the financial statements that has significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

NOTE 28: COMPANY DETAILS

The registered office of the company is:

Level 4, 321 Exhibition Street
Melbourne VIC 3000

The principal place of business is:

Level 4, 321 Exhibition Street
Melbourne VIC 3000

NOTE 29: FINANCIAL INSTRUMENTS

(a) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial report. The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by it. All customers are concentrated in Australia.

(b) Net Fair Values

The net fair value of listed investments have been valued at the quoted market bid price at balance date adjusted for transaction costs expected to be incurred. For other assets and other liabilities the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form other than listed investments, forward exchange contracts and interest rate swaps. Financial assets where the carrying amount exceeds net fair values have not been written down as the economic entity intends to hold these assets to maturity. The aggregate net fair values and carrying amount of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

(c) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate 2004 %	Floating Interest Rate $	Fixed Interest Rate Maturing			Non-Interest Bearing $	Total $
			Within 1 Year $	1 to 5 Years $	Over 5 Years $		
Financial assets							
Cash	4.47	5,367,887	–	–	–	2,700	5,370,587
Trade debtors and other debtors	–	–	–	–	–	1,203,788	1,203,788
Total financial assets		5,367,887	–	–	–	1,206,488	6,574,375
Financial liabilities							
Bank loans and overdrafts	8.57	–	2,000,000	11,750,000	–	–	13,750,000
Trade and sundry creditors	–	–	–	–	–	2,495,558	2,495,558
Total financial liabilities		–	2,000,000	11,750,000	–	2,495,558	16,245,558

DIRECTORS DECLARATION

The directors of the company declare that:

1. the financial statements and notes set out on pages 12 to 31 are in accordance with the *Corporations Act 2001*:
   a. comply with Accounting Standards and the Corporations Regulations 2001; and
   b. give a true and fair view of the financial position as at 30 June 2004 and of the performance for the year ended on that date of the company and economic entity;

2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Ronald Pitcher
Chairman

Anthony Podesta
Chief Executive Officer

Dated this 9th day of September 2004
Melbourne, Victoria.

INDEPENDENT AUDIT REPORT

Independent audit report to members of McMillan Shakespeare Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both McMillan Shakespeare Limited (the Company) and the McMillan Shakespeare Group (the consolidated company), for the period ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included;

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian accounting ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of McMillan Shakespeare Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) gives a true and fair view of the McMillan Shakespeare Limited's and consolidated entity's financial position as at 30 June 2004 and of their performance for the period ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

William Buck
Chartered Accountants

Brad Taylor
Partner

Dated this 9th day of September 2004.
Melbourne, Australia.

ADDITIONAL INFORMATION

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this Annual Report is set out below:

SUBSTANTIAL SHAREHOLDINGS

As at the date of this Annual Report, the number of shares held by substantial shareholders and their associates is as follows:

Shareholder	Number of Ordinary Shares[4]
Meddiscope Pty Limited[1]	15,101,819
Chessari Holdings Pty Limited[2]	8,590,792
Asia Pac Technology Pty Limited[3]	7,730,546

1 Meddiscope Pty Limited is a company associated with Mr Anthony Podesta.
2 Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari.
3 Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts.
4 The number of ordinary shares includes restricted securities.

NUMBER OF SHARE & OPTION HOLDERS

As at the date of this Annual Report, the number of holders of ordinary shares and options in the Company are as follows:

Class of Security	Number of Holders
Fully paid ordinary shares	463[1]
Options exercisable at $0.50 and expiring on 15 March 2008	24

1 The number of holders of fully paid ordinary shares in the Company includes the holders of restricted securities.

VOTING RIGHTS

In accordance with the Constitution of the Company and the *Corporations Act 2001*, every member present in person or by proxy at a general meeting of the members of the Company has:

- on a vote taken by a show of hands, one vote; and
- on a vote taken by a poll, one vote for every fully paid ordinary share held in the Company.

A poll may be demanded at a general meeting of the members of the Company in the manner permitted by the *Corporations Act 2001*.

DISTRIBUTION OF SHARE & OPTION HOLDERS

Distribution of Shares & Options	Number of Holders of Ordinary Shares[1]	Number of Holders of Options
1 - 1,000	13	-
1,001 - 5,000	85	-
5,001 - 10,000	176	-
10,001 - 100,000	147	21
100,001+	42	3

1 The number of holders of fully paid ordinary shares in the Company includes the holders of restricted securities.

There is one shareholder who holds less than a marketable parcel of fully paid ordinary shares in the Company.

TOP 20 SHAREHOLDERS

As at the date of this Annual Report, the details of the top 20 shareholders in the Company are as follows:

No.	Name	Number of Ordinary Shares[1]	Percentage of Ordinary Shares[2]
1	Meddiscope Pty Ltd[3]	15,101,819	23.35%
2	Chessari Holdings Pty Ltd[4]	8,590,792	13.28%
3	Asia Pac Technology Pty Ltd[5]	7,730,546	11.95%
4	Ms Ann Leslie Ryan	2,455,558	3.80%
5	National Nominees Limited	2,408,070	3.72%
6	Invia Custodian Pty Limited	2,077,938	3.21%
7	Westpac Custodian Nominees Ltd	1,877,588	2.90%
8	UBS Private Clients Australia Nominees Pty Ltd	1,320,264	2.04%
9	Merrill Lynch (Australia) Nominees Pty Ltd	1,300,000	2.01%
10	IP Factory Pty Ltd	1,298,701	2.01%
11	Mirrabooka Investments Limited	1,217,000	1.88%
12	J P Morgan Nominees Australia	1,028,244	1.59%
13	Equity Trustees Limited <Australian New Horizons A/C>	1,025,000	1.58%
14	Mooroolbark International Pty Ltd	844,156	1.31%
15	Ms Kristine Anne Tsiamis	760,247	1.18%
16	ANZ Nominees Limited	746,504	1.15%
17	Benefund Limited	700,000	1.08%
18	Mr Andrew Max Mohl	690,909	1.07%
19	Finmare Pty Ltd	688,312	1.06%
20	Thaw Nominees Pty Ltd	649,351	1.00%

[1] The number of ordinary shares includes restricted securities.
[2] As at the date of this Annual Report, 64,683,430 fully paid ordinary shares have been issued by the Company.
[3] Meddiscope Pty Limited is a company associated with Mr Anthony Podesta.
[4] Chessari Holdings Pty Limited is a company associated with Mr Ross Chessari.
[5] Asia Pac Technology Pty Limited is a company associated with Mr John Bennetts.

RESTRICTED SECURITIES

As at the date of this Annual Report, the number of securities in the Company subject to voluntary escrow (excluding securities issued under the Employee Option Plan) and the date that the securities cease to be restricted are as follows:

Number of restricted securities	Date cease to be restricted
5,921,738	15 September 2004
13,130,849	15 March 2005
23,677,597	15 March 2006[1]

[1] Any disposal of ordinary shares after 15 March 2006 must occur at or above $0.50 per ordinary share.

UNQUOTED SECURITIES

Class	Number of Securities	Number of Holders
Options exercisable at $0.50 and expiring on 15 March 2008	1,500,000	24

No person holds 20% or more of the class of unquoted securities noted above.

ON-MARKET BUY BACK

The Company does not have a current on-market buy-back.

FUNDING ARRANGEMENTS

To further assist the market in understanding the nature of its funding arrangements and consistent with its disclosures in the prospectus dated 4 February 2004 and the supplementary prospectus dated 19 February 2004, the Company confirms that under the Facility Agreement between the Company and the Bank of Western Australia Limited (**Bank West**) dated 24 December 2003 it is an event of default if, in Bank West's reasonable opinion, there is a change in the identity of any of the persons who are able to control:

- the composition of the Board or other governing bodies of the Company;
- more than half of the voting rights attaching to the capital of the Company; or
- more than half of the issued capital of the Company (excluding any part of that capital that carries no right to participate beyond a specified amount in the distribution of the either profit or capital),

including the acquisition by any means by a person of a relevant interest (as defined in the *Corporations Act 2001*) in the securities of the Company that is sufficient to allow that person either alone or jointly with others to exercise control referred to above.

The Company confirms that the above provision applies to secondary trading of securities in the Company.

McMillan Shakespeare Limited
Level 4
321 Exhibition Street
Melbourne Victoria 3000
www.mcms.com.au