

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES

FINANCIAL REPORT & DIRECTORS' REPORT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES

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**MCMILLAN SHAKESPEARE LIMITED
AND CONTROLLED ENTITIES**

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

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

Web:

www.mcms.com.au

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES

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 entities, for the half-year ended 31 December 2004.

DIRECTORS

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

Name	Position	Appointment
Mr R. Pitcher	Independent Non-Executive Chairman	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	Appointed 18 March 2004

REVIEW AND RESULTS OF OPERATIONS

During the half-year ended 31 December 2004, the Company acquired Remuneration Services (Qld) Pty Limited (**Remuneration Services**). As part of the consideration for the acquisition, 1,176,470 fully paid ordinary shares in the Company were issued.

Net profit after income tax for the half-year ended 31 December 2004 was \$1,942,605. The results of the consolidated entity include the results of Remuneration Services from 1 November 2004. The reported NPAT compares to a prospectus forecast of \$1,455,000 for the relevant period.

As detailed in the Financial Report, basic earnings per share were 2.99 cents per share and earnings per share on a diluted basis were 2.92 cents per share. Earnings per share amounts have been calculated after the deduction of amortisation of goodwill.

AUDITOR INDEPENDENCE DECLARATION

The independence declaration of our auditor is on page 3 and forms part of this Directors' Report.

Dated at Melbourne this 17th day of February 2005



Ronald Pitcher
Chairman

Auditor's Independence Declaration to the directors of McMillan Shakespeare Limited

I declare that, to the best of my knowledge and belief, in relation to our review of McMillan Shakespeare Limited for the half-year ended 31 December 2004 there have been:

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



William Buck
Chartered Accountants



Brad Taylor
Lead Audit Partner

Dated this 17th day of February 2005.
Melbourne, Australia.

MCMILLAN SHAKESPEARE LIMITED
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STATEMENT OF FINANCIAL PERFORMANCE
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Note	Economic Entity 2004 \$	Parent Entity 2004 \$
Revenue from ordinary activities	2	15,359,214	2,239
Employee & Director benefits expenses		(7,015,385)	(88,251)
Depreciation, amortisation & writedown expenses	3	(1,768,619)	-
Technology expenses		(431,535)	-
Communication expenses		(454,618)	-
Property expenses		(650,417)	-
Borrowing costs expense	3	(549,999)	(549,999)
Corporate expenses		(285,804)	(100,938)
Other expenses from ordinary activities		<u>(1,118,499)</u>	<u>(77,894)</u>
Profit (Loss) from ordinary activities before (income tax expense) income tax revenue		<u>3,084,338</u>	<u>(814,843)</u>
(Income tax expense) income tax revenue relating to ordinary activities		<u>(1,141,733)</u>	<u>300,905</u>
Profit (Loss) from ordinary activities after related (income tax expense) income tax revenue	5	<u>1,942,605</u>	<u>(513,938)</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u><u>1,942,605</u></u>	<u><u>(513,938)</u></u>
Basic earnings per share (cents per share)		<u><u>2.99</u></u>	
Diluted earnings per share (cents per share)		<u><u>2.92</u></u>	

The accompanying notes form part of these financial statements.

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

	Note	Economic Entity 2004 \$	Parent Entity 2004 \$
CURRENT ASSETS			
Cash assets		5,437,506	
Receivables		955,612	-
Other		837,922	306,531
TOTAL CURRENT ASSETS		7,231,040	306,531
NON-CURRENT ASSETS			
Other financial assets		-	40,660,871
Property, plant and equipment		2,664,518	-
Intangible assets		31,038,028	-
Deferred tax assets		2,456,931	557,340
Other		380,394	174,144
TOTAL NON-CURRENT ASSETS		36,539,871	41,392,355
TOTAL ASSETS		43,770,911	41,698,886
CURRENT LIABILITIES			
Payables		3,106,576	7,409,001
Interest-bearing liabilities		2,005,212	2,005,212
Current tax liabilities		1,901,734	-
Provisions		966,908	-
Other		108,109	-
TOTAL CURRENT LIABILITIES		8,088,539	9,414,213
NON-CURRENT LIABILITIES			
Interest-bearing liabilities		13,750,000	13,750,000
Provisions		64,661	-
TOTAL NON-CURRENT LIABILITIES		13,814,661	13,750,000
TOTAL LIABILITIES		21,903,200	23,164,213
NET ASSETS		21,867,711	18,534,673
EQUITY			
Contributed equity	4	19,273,669	19,273,669
Retained profits (Accumulated losses)	5	2,594,042	(738,996)
TOTAL EQUITY		21,867,711	18,534,673

The accompanying notes form part of these financial statements.

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
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STATEMENT OF CASH FLOWS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

	Note	Economic Entity 2004 \$	Parent Entity 2004 \$
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts from customers		18,253,571	-
Payments to suppliers and employees		(12,445,032)	(216,142)
Interest received		100,670	2,239
Interest paid		(534,974)	(534,974)
Income tax paid		(1,079,587)	-
Net cash used in operating activities		4,294,648	(748,877)
CASH FLOW FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(426,731)	-
Payment for purchase of controlled entity, net of cash acquired		(5,756,016)	(6,245,478)
Net cash used in investing activities		(6,182,747)	(6,245,478)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from controlled entity		-	4,078,261
Proceeds from borrowings		3,000,000	3,000,000
Repayment of borrowings		(1,000,000)	(1,000,000)
Capitalised borrowing costs		(50,194)	(50,194)
Net cash provided by financing activities		1,949,806	6,028,067
Net increase in cash held		61,707	(966,028)
Cash at beginning of financial period		5,370,587	961,076
Cash at end of financial period	6	5,432,294	(5,212)

The accompanying notes form part of these financial statements.

**MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2004**

NOTE 1: BASIS OF PREPERATION

The half year financial report is a general purpose report prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 1029 "Interim Financial Reporting". The 31 December 2004 half-year financial report is to be read in conjunction with the Annual Financial Report for the year ended 30 June 2004 and any public announcements made by McMillan Shakespeare Limited during the half year in accordance with continuous disclosure obligations arising under the Corporations Act 2001.

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.

These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those applied in the 30 June 2004 Annual Financial Report.

The half-year report does not include full note disclosures of the type normally included in an annual financial report

MCMILLAN SHAKESPEARE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2004

	Note	Economic Entity 2004 \$	Parent Entity 2004 \$
NOTE 2: REVENUE			
Operating activities			
- Administration income		11,992,191	-
- Finance commissions		3,232,694	-
- Other		31,880	-
		15,256,765	-
Non-operating activities			
- interest	2(a)	102,449	2,239
		15,359,214	2,239
(a) Interest received:			
- other persons		102,449	2,239
		102,449	2,239
NOTE 3: PROFIT FROM ORDINARY ACTIVITIES			
Profit (losses) from ordinary activities before income tax expense (income tax revenue) has been determined after:			
(a) Expenses:			
Borrowing costs – other persons		549,999	549,999
Depreciation of non-current assets			
- plant & equipment		318,488	-
- software development		543,313	-
Total Depreciation		861,801	-
Amortisation of non-current assets			
- goodwill		906,818	-
Remuneration of the auditors for			
- audit or review services		24,000	-
Remuneration for other services		79,051	-

MCMILLAN SHAKESPEARE LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2004

Note	Economic Entity 2004 \$	Parent Entity 2004 \$
NOTE 4: CONTRIBUTED EQUITY		
64,683,430 fully paid ordinary shares	21,140,115	21,140,115
Transaction costs relating to share issue	<u>(1,866,446)</u>	<u>(1,866,446)</u>
	19,273,669	19,273,669
(a) Ordinary shares		
At the beginning of the period	17,450,140	17,450,140
Shares issued during the period		
- 1,176,470 on 9 November 2004	<u>1,823,529</u>	<u>1,823,529</u>
At reporting date	19,273,669	19,273,669

NOTE 4: CONTRIBUTED EQUITY

(b) Ordinary shares		
At the beginning of the period	No. 64,683,430	No. 64,683,430
Shares issued during the period		
- 9 November 2004	<u>1,176,470</u>	<u>1,176,470</u>
At reporting date	65,859,900	65,859,900

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.

**NOTE 5: RETAINED PROFITS
(ACCUMULATED LOSSES)**

Retained profits (accumulated losses)		
at the beginning of the period	651,437	(225,058)
Net profit (loss)		
attributable to the members of the parent entity	<u>1,942,605</u>	<u>(513,938)</u>
Retained profits (accumulated losses)		
at the end of the financial period	2,594,042	(738,996)

MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
AND CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2004

Note	Economic Entity 2004 \$	Parent Entity 2004 \$
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NOTE 6: CASH FLOW INFORMATION

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:

Cash at bank	5,437,506	-
Bank overdraft	(5,212)	(5,212)
	5,432,294	(5,212)

NOTE 7: 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.

As this will be the first full year of operations, comparative figures are not applicable.

NOTE 8: DIVIDENDS

No dividends have been recognised by the consolidated entity in the half-year ended 31 December 2004.

NOTE 9: 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. 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.

NOTE 9: INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (CONTINUED)

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 with respect to 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.

**MCMILLAN SHAKESPEARE LIMITED
ABN 74 107 233 983
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DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes set out on pages 3 to 10:
 - a. are in accordance with the *Corporations Act 2001*;
 - b. comply with Accounting Standard AASB1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
 - c. give a true and fair view of the financial position as at 31 December 2004 and of the performance for the half-year ended on that date of the company and economic entity; and
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

Dated this 17th day of February 2005
Melbourne, Victoria

**INDEPENDENT REVIEW REPORT
TO THE MEMBERS OF MCMILLAN SHAKESPEARE LIMITED AND CONTROLLED ENTITIES**

Scope

We have reviewed the half year financial report of McMillan Shakespeare Limited and controlled entities for the half year ended 31 December 2004 comprising the Consolidated Statement of Financial Performance, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows, notes to and forming part of the financial statements and the Directors' Declaration.

The half year financial report includes the financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the half year financial report.

We have performed an independent review of the half year financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the half year financial report is not presented fairly in accordance with Accounting Standard AASB 1029: Interim Financial Reporting and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to meet its obligations to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report, as defined in the scope section of McMillan Shakespeare Limited and controlled entities is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029: Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



WILLIAM BUCK
Chartered Accountants



Brad Taylor
Partner

Dated this 17th of February 2005.