MMC CONTRARIAN LIMITED

ANNUAL REPORT 2004

ANNUAL REPORT JUNE 2004

MMC Contrarian Limited

MMC Contrarian Limited
ABN 83 106 248 248

DIRECTORY

Directors
Simon Rowell, Chairman
Erik Metanomski
Kevin Eley
Peter Constable
(alternate for Erik Metanomski)

Secretary
David Sutherland

Registered Office and Contact Details
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Sydney NSW 2000

GPO Box 4406, Sydney NSW 2001

Telephone: 02 9221 7155
Facsimile: 02 9233 2713
Email: enquiries@mmccontrarian.com.au
Website: www.mmccontrarian.com.au

Share Registry
Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone: 1300 855 080
03 9415 4000
Facsimile: 02 8234 5050

For all enquiries relating to shareholdings, dividends (including participation in the Dividend Reinvestment Plan) and related matters please contact the share registry.

Auditors
Deloitte Touche Tohmatsu

Investment Manager
MMC Asset Management Limited
Australian Financial Service Licence 230920

Stock Exchange Codes:

Shares	MMA
Options expiring 30 June 2005	MMAO

FINANCIAL CALENDAR
expected dates only

Final Dividend
7 October 2004

Annual General Meeting
20 October 2004

Half Year End
31 December 2004

Half year result announced
February 2005

Interim Dividend
March 2005

Year End
30 June 2005

Annual Report
September 2005

CONTENTS

MMC Contrarian Limited is an investment company listed on the Australian Stock Exchange (ASX) which primarily invests in other ASX listed securities. The Company was founded in December 2003 raising $200 million of capital. As part of the initial public offer the Company also issued 200 million options with an exercise price of $1.00 exercisable by 30 June 2005. The Company has over 9,000 shareholders and 6,000 option holders.

The name MMC Contrarian was chosen because the investment philosophy adopted by the Company is contrary to the "herd" mentality which can often influence fund managers. Our philosophy is that investments will be evaluated on fundamental criteria to identify opportunities which have been undervalued by the market in general and therefore over time are expected to be rerated.

COMPANY OBJECTIVES

The objectives of the Company are to:

- exceed the return of the All Ordinaries Accumulation Index over the medium to long term;
- pay regular dividends, franked where possible; and
- preserve the capital of the Company.

INVESTMENT MANAGER

The Company has engaged MMC Asset Management Limited (MMC) as its investment manager. This role is performed in conjunction with HGL Limited (ASX code: HNG) through an ongoing alliance in relation to the Company. Both HGL and MMC are experienced investors with an outstanding long term record of wealth creation.

Additional information on both companies can be found on their websites:

- MMC Asset Management Limited
  www.mmcfunds.com.au
- HGL Limited
  www.hgl.com.au

INVESTMENT PHILOSOPHY

The investment philosophy is aimed at preserving and growing shareholders' capital. This is achieved by:

- investing for the medium to long term;
- acquiring a concentrated portfolio of companies primarily listed on the Australian Stock Exchange that are trading at a discount to their fair value (value investing);
- thinking independently and not following the herd (contrarianism);
- having a structured and methodical approach to investing (discipline); and
- maintaining potentially large cash holdings if attractive, low risk investments cannot be found.

2004 OVERVIEW

- *Listed on Stock Exchange on 5 December 2003 having raised $200 million*
- *Before tax portfolio return of 8.2%*
- *Net tangible assets, before provision for tax on unrealised gains, of 105.3 cents per share at 30 June 2004 compared with 98.1 cents per share at listing*
- *On 30 June 2004 35% of the portfolio invested in ordinary shares and unit trusts, 7% in interest bearing securities and 58% in cash deposits and fixed interest*
- *Profit after tax of $2.7 million and realised capital gains after tax of $1.3 million*
- *Unrealised revaluation gains, after tax, of $7.5 million*
- *Earnings per share of 1.4 cents and realised capital gains per share of 0.6 cents*
- *Unrealised capital gains per share of 3.8 cents*
- *Dividends of 1.0 cents per share, fully franked*

I am pleased to present this first report on your Company's development and performance for the period to 30 June 2004. MMC Contrarian listed on 5 December 2003 after a very successful public offer raised $200 million in capital, before costs. Since listing, the Investment Manager has made a number of equity investments and has also managed the cash balances of the Company.

Satisfactory performance compared to objectives

MMC Contrarian has achieved the following results in the 7 months since listing:

- Profit from ordinary activities of $2.73 million after tax (1.4 cents per share)
- Capital profits of $1.26 million after tax (0.6 cents per share)
- Increase in asset revaluation reserve of $7.53 million after tax (3.8 cents per share)

This gives a combined performance of $11.52 million after tax, equal to 5.8 cents per share.

The prospectus set out the principal objectives of the Company, being:

- Exceed the return of the All Ordinaries Accumulation Index over the medium to long term;
- Pay regular franked dividends;
- Preserve the capital of the Company.

In the period since listing, the portfolio has achieved an increase of 8.2% before tax. This performance was however achieved when your company started with $200 million cash and continued to hold $137m of cash and cash equivalents at 30 June 2004. The increase before tax on the equity portfolio exceeds 30% for the period. The All Ordinaries Accumulation Index increased 11.5% in the same period, and therefore the manager's performance was below the benchmark. It is however important to realise that the manager does not place undue emphasis on short term performance especially when investing in contrarian opportunities.

The first dividend will be paid on 7 October 2004 and will be one cent, fully franked. This is the first of what we intend to be a regular and growing stream of franked dividends.

The initial capital of the Company was equal to 98.1 cents per share and at 30 June 2004 this had grown to 103.7 cents per share after provision for all taxes, meeting the objective of preserving the Company's capital.

Experienced Investment Manager

MMC Asset Management Limited is the investment manager. This role is performed in conjunction with HGL Limited (ASX code: HNG) through an ongoing alliance in relation to the Company. The management agreement is summarised on pages 31 to 34.

The investment portfolio at 30 June 2004 is summarised as follows:

	$m	
Listed equities	74	35%
Hybrids	15	7%
Fixed interest and cash deposits	122	58%
Total investments	211	100%

The investments are shown in detail on page 35.

The report of the Investment Manager is on pages 39 to 40.

At 30 June 2004 65% of the investments were cash deposits, fixed interest and hybrid securities. As outlined in the Investment Manager's report, the assets of the Company are managed with a strong philosophy of capital preservation, consequently the Company has large cash holdings when suitable equity investments cannot be found.

Understanding LIC accounting

MMC Contrarian is a Listed Investment Company (LIC) and so the accounts are prepared using a specialised accounting framework. The main differences to a "normal" set of accounts are as follows:

- The profit from ordinary activities consists of interest, fees earned and dividend income offset by expenses and taxation; it excludes revaluations and capital gains from the sale of investments. The profit after tax is available for distribution to shareholders as dividends.
- Investments are revalued daily and therefore the cost of disposal equals sales revenue when investments are sold and the disposal of investments does not result in a profit or a loss which is reflected in the profit from ordinary activities. The revaluations are credited directly to the asset revaluation reserve after deducting a provision for the capital gains tax that would arise if the investment was sold. The asset revaluation reserve is not able to be used for the payment of dividends to shareholders.
- When investments are disposed of, the balance in the asset revaluation reserve relating to the disposed investment is transferred to the capital profits reserve. The capital profits reserve consists of realised profits which are available for distribution to shareholders as dividends.

In assessing the performance of an LIC it is important to include the effect of all three of the above, as together they reflect the overall performance.

Dividends begin in October 2004

The Board has declared a fully franked final dividend of 1 cent per share payable on 7 October 2004.

Our policy is to distribute a growing stream of franked dividends, paid to shareholders every 6 months. Dividends may be paid from profits from ordinary activities and from capital profits arising from the sale of investments. As our investments grow, we expect that capital profits will increase and profits from ordinary activities may fluctuate depending on the level of interest and dividend income received.

Capital profits are generated from the sale of investments, not from holding investments which are increasing in value. The philosophy of the Investment Manager is to continue to hold investments which they consider have further upside, as this is more beneficial to shareholders than selling to crystallise a short term gain. We therefore do not anticipate that investments will be sold with the sole purpose of providing capital profits for dividends, although we are confident that a flow of capital profits will be generated over a period of years as successful investments are identified by the Investment Manager.

The capital profits reserve in future may contain Listed Investment Company (LIC) capital gains. LIC capital gains arise if a security is sold after being held for in excess of 12 months and entitle certain shareholders to a special deduction in their taxation return.

The board will take various factors into account in determining the dividend each half year, including the amount of profits earned in the period, the levels of retained profits and the amount of unrealised profits identified in the asset revaluation reserve.

Keeping in Touch

We strive to communicate with shareholders on a regular basis, but are keen to keep costs to a reasonable level and avoid bombarding shareholders with too much information. Our website at www.mmccontrarian.com.au is regularly updated and includes monthly NTA statements which are also submitted to the ASX, and we will continue to send investors the quarterly investment updates from MMC Asset Management Limited.

A presentation from the Investment Manager will be given at the Annual General Meeting. The Investment Manager will also answer questions from shareholders.

SIMON ROWELL
CHAIRMAN

The Directors of MMC Contrarian Limited present their annual financial report for the period from incorporation on 9 September 2003 to 30 June 2004.

Directors

The names of Directors in office at the date of this report are as follows:

Simon Rowell BA (Hons), CA, FAICD – Chairman

Simon Rowell is independent as defined by the ASX Corporate Council's Principles. He is an experienced businessman who has been a director of public listed companies for many years. Simon is Chairman of Green's Foods Limited, a listed food manufacturing company and a director of McPherson's Limited, a listed consumer product and printing company. He is the former Managing Director of Snack Foods Limited, which was Australia's 2nd largest salty snack manufacturer before being acquired by Arnott's Biscuits Ltd in 2002 for more than $250 million. Prior to Snack Foods Simon spent 5 years with PricewaterhouseCoopers in Melbourne and 12 years as General Manager of the Jack Chia Group, a diversified business encompassing construction, food, engineering, textiles, and finance.

Simon is a member of the Audit Committee and the Chair of the Nomination and Remuneration Committee.

Simon was appointed a director on 9 September 2003. Age 49.

Erik Metanomski BA B.EC – Non-executive

Erik Metanomski is a director and the chairman of the investment committee of MMC Asset Management Limited. MMC Asset Management is a boutique value focussed funds manager founded by Erik in 1993. Erik is experienced in the analysis of equities and portfolio management having worked within the funds management industry for the last 17 years with a variety of groups including Taylor Collison and Providence Funds Management. Erik has been responsible for building and developing the investment philosophy of MMC Asset Management. Erik is a member of the Audit Committee.

Erik was appointed a director on 9 September 2003. Age 47.

Kevin Eley CA, ASIA - Non-executive

Kevin Eley is a director and chief executive officer of HGL Limited (ASX code: HNG) and a director of MMC Asset Management Limited. HGL is a listed company that specialises in owning easy to understand, small and medium sized import and distribution businesses, usually distributors of market leading branded products. Kevin joined HGL in 1985 and has assisted HGL with all its private and public company acquisitions. Kevin has represented HGL on a number of public company boards. He has been instrumental in developing HGL's philosophy of partnering with management in its investments.

Kevin is the Chairman of the Audit Committee and a member of the Nomination and Remuneration Committee.

Kevin was appointed a director on 9 September 2003. Age 55.

Peter Constable B.EC – alternate

Peter is an alternate non-executive director for Erik Metanomski. Peter Constable is the Chief Investment Officer and a director of MMC Asset Management Limited. Peter has worked in the funds management industry for 14 years.

Peter was appointed a director on 11 December 2003. Age 34.

Review of operations and activities

The company was incorporated on 9 September 2003.

On 10 October 2003 the company lodged a prospectus with the Australian Securities and Investments Commission (ASIC) and the Australian Stock Exchange Limited (ASX) offering 150 million $1 shares and 150 million options with an exercise price of $1 exercisable by 30 June 2005. On 28 October 2003 the company lodged a supplementary prospectus with ASIC increasing the number of shares for subscription to 200 million shares of $1.00 per share and 200 million options with an exercise price of $1 exercisable by 30 June 2005.

On 4 December 2003 the company closed its prospectus having received subscriptions for 200 million shares and options. The company was admitted to the official list of the ASX on 5 December 2003. Trading in the shares and options of the company commenced on 11 December 2003.

In the supplementary prospectus the directors estimated the net tangible assets (NTA) of the company on completion of the share issue would be 98.0 cents per share. The actual NTA of 98.1 cents per share was higher than forecast.

The Directors report a pre tax return of 8.2% for the period from 5 December 2003 to 30 June 2004 compared with the All Ordinaries Accumulation Index which increased by 11.5% over the same period.

Profit before tax was $3.4 million, realised capital gains before tax were $1.8 million and unrealised revaluation gains before tax were $10.8 million.

Net tangible assets, before provision for tax on unrealised gains, increased by 7.3% from 98.1 cents per share on listing to 105.3 cents per share on 30 June 2004.

Dividends

The Directors have declared a final fully franked dividend of 1.0 cents per share. No interim dividend was declared. The final dividend will be paid on 7 October 2004. The dividend totals $1,999,650.

The final dividend does not include a Listed Investment Company (LIC) capital gain. LIC capital gains entitle certain shareholders to a special deduction in their taxation return. LIC gains arise if a security is sold for a profit after being held for in excess of 12 months.

Share buy back

The Company has an on market share buy back in place so it can buy back and cancel up to 20 million of its shares. Where shares can be purchased at a significant discount to the net tangible assets of the Company this would increase the net tangible asset value of the remaining shares on issue. During the period 50,000 shares were purchased for $46,500.

Options

At the date of this report the Company had 199,985,000 options on issue. The option holders are able to subscribe for a share in the Company at an exercise price of $1.00 exercisable by 30 June 2005.

During the period to 30 June 2004 the Company issued 15,000 shares following the receipt of option monies on 15,000 options.

Dividend reinvestment plan

The Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 7 October 2004. The Directors have resolved that the shares will be allotted to eligible shareholders participating in the DRP with no discount from the market price of the Company's shares, as defined in the DRP. No brokerage is payable if shares are allotted under the DRP.

Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Significant changes in the state of affairs

The Directors are not aware of any other significant changes in the state of affairs of the company that will adversely affect the results in subsequent years.

Future developments

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly we do not provide a forecast of the likely results of our activities.

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 has issued equivalents to IFRS and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretation adopted by the International Accounting Standards Board.

The Company is reviewing the IFRS to evaluate the impact of the transition to the Company. The adoption of IFRS will be reflected in the financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006. The Company Secretary is overseeing the transition process and is reporting periodically to the Audit Committee.

Based on work to date the key issue that has been identified is the realised capital gains, net of tax, will be included in the profit rather than being treated as an equity adjustment. The capital profits reserve will no longer be required and the balance will be transferred to retained profits.

Directors' remuneration

Non executive Directors are remunerated by fees with the aggregate limit approved by shareholders from time to time. Directors fees can be paid as superannuation contributions. The Nomination and Remuneration Committee recommends to the Board the remuneration framework for Directors and the Board as a whole determines the nature and amount of emoluments of non-executive Directors within the limit approved by shareholders.

The aggregate amount of Directors' fees will not exceed $75,000 per annum. This maximum is subject to change if approved by shareholders in future general meetings.

Details of the nature and amounts of each Directors' emoluments in respect of the period to 30 June 2004 were as follows:

	Fees $	*Superannuation* $	*Total fees* $
Simon Rowell	36,516	24,344	60,860
Erik Metanomski	0	0	0
Kevin Eley	0	0	0
Peter Constable	0	0	0

Simon Rowell is remunerated at a rate of $75,000 per annum; Simon began being remunerated with effect from 9 September 2003, the date of his appointment as a Director.

Meetings of directors

The numbers of meetings of the Company's Board of Directors and of each board committee held during the period to 30 June 2004, and the numbers of meetings attended by each Director were as follows:

	BOARD		AUDIT COMMITTEE	
	Eligible to attend	*Attended*	*Eligible to attend*	*Attended*
Simon Rowell	12	12	3	3
Erik Metanomski	12	8	3	1
Kevin Eley	12	12	3	3
Peter Constable*	8	5	3	1

* Peter Constable is alternate director for Erik Metanomski.

The Nomination and Remuneration Committee was constituted on 21 April 2004 but had not held any meetings before 30 June 2004.

Directors' interest in securities

As at the date of this report the interest of directors in the securities of the Company are as follows:

	BENEFICIAL INTEREST	
	Shares	***Options***
Simon Rowell	140,000	100,000
Erik Metanomski	100,000	100,000
Kevin Eley	150,000	100,000
Peter Constable	20,000	–

Indemnification of directors and officers

During the period, the Company purchased Directors' and Officers' Liability Insurance to provide cover in respect of claims made against the directors and officers in office during the financial period and as at the date of this report, as far as is allowable by the Corporations Act 2001. The total amount of insurance premium paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement. As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above. Directors and officers contributed a proportion of the total insurance premium.

The Company has not otherwise, during or since the financial period, indemnified or agreed to indemnify the auditor of the Company against a liability incurred as an auditor.

Rounding of amounts

The Company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order amounts in this report, and the financial report, have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Board of Directors of MMC Contrarian Limited:

SIMON ROWELL
CHAIRMAN

Sydney 30 August 2004

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

	Note	2004 $'000
Revenue from ordinary activities	2	12,811
Expenses from ordinary activities	3	(9,312)
Profit from ordinary activities before income tax expense		3,499
Income tax expense	4	(769)
Net profit from ordinary activities after income tax expense		2,730
Direct adjustments against equity		
Increase in asset revaluation reserve, net of tax	5	7,531
Increase in capital profits reserve, net of tax	5	1,261
Total revenue and valuation adjustments recognised directly in equity		8,792
Total changes in equity other than those resulting from transactions with owners as owners		11,522
		cents
Basic and diluted earnings per share	6	1.36
Basic and diluted earnings per share including revaluation of listed securities and the capital profits on the sale of listed securities	6	5.76

To be read in conjunction with the accompanying notes

AS AT 30 JUNE 2004

	Note	2004 $'000
Assets		
Cash assets	7	50,933
Receivables	8	986
Fixed interest deposits	9	71,156
Listed securities	10	89,078
Total Assets		212,153
Liabilities		
Payables	11	310
Current tax liabilities		1,309
Deferred tax liabilities		3,228
Total Liabilities		4,847
Net Assets		207,306
Equity		
Contributed equity	12	195,784
Retained profits	5	2,730
Asset revaluation reserve	5	7,531
Capital profits reserve	5	1,261
Total Equity		207,306

To be read in conjunction with the accompanying notes

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

	Note	2004 $'000
Cash Flows from Operating Activities		
Dividends and trust distributions received		474
Interest received		4,366
Other receipts		69
Administration and other operating costs paid		(1,813)
Income taxes and GST (paid)/refunded		360
Net operating cash flows	13	3,456
Cash Flows from Investing Activities		
Acquisitions of listed securities		83,805
Fixed interest deposits		71,156
Proceeds from sale of listed securities		(6,952)
Net investing cash outflows		148,009
Cash Flows from Financing Activities		
Proceeds from issue of equity securities		200,015
Payment for share buy back		(47)
Payment for share issue costs		(4,482)
Net financing cash flows		195,486
Net increase/(decrease) in cash held		50,933
Cash at the beginning of the financial period		–
Cash at the end of the financial period	7	50,933

To be read in conjunction with the accompanying notes

1 Principal accounting and valuation policies

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

A Basis of accounting

The financial report has been prepared using the valuation methods described below for holdings of securities. All other items have been treated in accordance with the historical cost convention.

B Investments

Shares and securities listed on the Australian Stock Exchange (ASX) are valued at market as quoted on the ASX. Non ASX listed shares and securities are valued at their estimated market value.

Investments including shares and securities are valued continuously and for this reason cost of disposal equals sales revenues when investments are sold. Revaluation increments are credited directly to the Asset Revaluation Reserve after deducting a provision for potential deferred capital gains tax. Revaluation decrements are charged to the Asset Revaluation Reserve while it has a positive balance in respect of that class of asset, otherwise they are included in net profit. When shares, securities and other investments are disposed of revaluations related to that disposed share, security or other investment are transferred to the Capital Profits Reserve, while the Asset Revaluation Reserve has a positive balance in respect of the asset, otherwise the loss is included in the retained profits.

C Dividend Income

Dividend income is recognised on a receivable basis on the date the shares are quoted ex-dividend.

D Distribution Income

Distribution income is recognised on a receivable basis as of the date the unit value is quoted ex-distribution.

E Interest Income

Interest from fixed interest and discount securities is recognised as income on the basis of the accumulated entitlement that would be received on the disposal of the security according to the trading practices accepted by the market for the relevant security. Interest on cash on deposit is recognised in accordance with the terms and conditions which apply to the deposit.

F Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

G Income tax

Tax-effect accounting principles are adopted whereby income tax expense is calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in deferred tax assets or deferred tax liabilities, as applicable.

H Initial Public Offer Set Up Costs

Set up costs paid resulting from the initial public offer, including GST paid for which a reduced input tax credit refund is available, have been charged against contributed equity.

I Comparative Results

The Company was incorporated on 9 September 2003 and accordingly only current period figures covering the period from incorporation are shown.

	2004 *$'000*
2 Revenue	
Proceeds from sale of listed securities	7,286
Dividends from listed securities	552
Interest income	4,749
Trust distributions	155
Other	69
Revenue from ordinary activities	12,811

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

3 Expenses from ordinary activities

	2004 $'000
Cost of disposal of listed securities	7,286
Management fees	1,462
Performance fees	–
Share registry and mailing costs	185
Custody and accounting fees	54
Directors fees	61
Australian stock exchange fees	49
Other costs	215
	9,312

The auditors were remunerated for the following services: auditing the financial statements $20,000, reviewing the half year accounts $7,000, taxation advice $2,000 and other services $7,000.

4 Income tax

	2004 $'000
The prima facie tax payable on the profit from ordinary activities differed from the income tax provided in the accounts and is reconciled as follows :-	
Profit from ordinary activities before income tax expense	3,499
Prima facie tax payable calculated at 30%	1,050
Tax effect of permanent difference:-	
Franking credits on dividends received	(30)
Amortisation of share issue expenses	(251)
Income tax expense relating to ordinary activities	769

Franking account

The balance of the franking account after allowing for tax payable in respect of the current years profit, the receipt of franked dividends recognised as receivables and the payment of any dividends recognised as a liability at the reporting date	1,309

The ability of the Company to continue to pay franked dividends is dependent upon the receipt of franked dividends from the investment portfolio and the Company itself paying tax.

	2004 $'000

4 Income tax *continued*

Future tax deduction

The Company expects to receive a future income tax deduction of $1 million arising as a result of the amortisation of share issue and listing costs. No deferred tax asset has been created as a result of this benefit as the costs of approximately $4.2 million have been written off against issued equity and were not expensed. The income tax benefit will only be received if:

- the Company continues to derive future assessable income of a nature and of an amount sufficient to enable the benefit to be realised;
- the Company continues to comply with conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Company in realising the benefit.

5 Movements in reserves during the period

Retained profits

	2004 $'000
Balance at the beginning of the period	–
Net profit attributable to members of the entity	2,730
Dividends paid or payable	–
Balance at the end of the period	2,730

The Directors have declared a final fully franked dividend of 1.0 cents per share payable on 7 October 2004. The dividend totals $2.0 million.

Asset revaluation reserve

	2004 $'000
Balance at beginning of period	–
Revaluation of listed securities, net of tax	8,792
Transfer to capital profits reserve	(1,261)
Balance at end of period	7,531

Increments or decrements on the revaluation of listed securities after provision for deferred capital gains tax, as described in accounting policy note 1(b), are recorded in the asset revaluation reserve. This reserve is not available for distribution to shareholders as dividends.

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

5 Movements in reserves during the period *continued*

	2004 $'000
Capital profits reserve	
Balance at beginning of period	–
Transfer to provision for dividend	–
Transfer from asset revaluation reserve, net of tax	1,261
Balance at end of period	1,261

Gains and losses after tax arising from the disposal of listed securities, as described in accounting policy note 1(b) are recorded in this reserve. This reserve is available for distribution to shareholders as dividends.

6 Earnings per share

	2004 cents
Basic earnings per share based on profit from ordinary activities after tax	1.36
Earnings per share including revaluation of listed securities and the capital profits on the sale of listed securities.	5.76

	Number 000
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	200,005

	$'000
Earnings used in calculating basic earnings per share	2,730
Earnings used in calculating earnings per share including the revaluation of listed securities and the capital profits on the sale of listed securities	11,522

The diluted earnings per share is the same as the basic earnings per share. The number of potential ordinary shares is 199,985,000. The Directors consider there is no dilution as the shares were trading below the exercise price of the options. During the period 15,000 options were exercised.

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

	2004 $'000

7 Cash

Deposits at call	50,933
	50,933

Deposits at call yield an average floating interest rate of 5.29%.

8 Receivables

Dividends receivable	156
Trust distribution receivable	77
Interest receivable	
- deposits at call	221
- fixed interest deposits	164
Outstanding settlements	334
Others	34
	986

Receivables are non interest bearing and unsecured. Outstanding settlements usually require payment within three days of the date of the transaction.

9 Fixed interest deposits

Fixed interest term deposits	71,156
	71,156

Fixed interest term deposits, all of which mature within 30 days, yield an average floating interest rate of 5.48%.

10 Listed securities

Shares and unit trusts - market value	73,725
Convertible notes and other interest bearing securities - market value	15,353
	89,078

The market value of listed securities is the same as their carrying value. Listed securities are shown in detail on page 35.

	2004 $'000
11 Payables	
Management fees	221
Performance fees	–
Custody and accounting fees	15
Other creditors	74
	310

Payables are non interest bearing and unsecured.

12 Contributed equity

	2004 No. of shares	2004 $
Issued and fully paid ordinary shares		
Opening balance	1	1
Issued during period from initial public offer	200,000,000	200,000,000
Issued from exercise of options	15,000	15,000
Share buy back*	(50,000)	(46,500)
Share issue costs		(4,184,234)
Closing Balance	199,965,001	195,784,267

	No. of options
Options expiring 30 June 2005 with an exercise price of $1.00	
Opening balance	–
Issued during period from initial public offer	200,000,000
Exercise of options	(15,000)
Closing Balance	199,985,000

* The Company has an on market share buy back in place so it can buy back and cancel up to 20 million shares. During the period 50,000 ordinary shares were bought back at 93 cents a share.

FOR THE PERIOD 9 SEPTEMBER 2003 TO 30 JUNE 2004

	2004 $'000

13 Reconciliation of net cash flows from operating activities to profit after income tax

Profit after income tax	2,730
Increase / (decrease) in provision for income tax	769
Refund of GST on share issue costs	298
Increase / (decrease) in other creditors	310
(Increase) / decrease in other debtors	(651)
Net cash flows from operating activities	3,456

14 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 has issued equivalents to IFRS and Urgent Issues Group abstracts corresponding to International Financial Reporting Interpretation adopted by the International Accounting Standards Board. The Company is reviewing the IFRS to evaluate the impact of the transition to the Company. The adoption of IFRS will be reflected in the financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006. The Company Secretary is overseeing the transition process and is reporting periodically to the Audit Committee. Based on work to date the key issue that has been identified is the realised capital gains, net of tax, will be included in the profit rather than being treated as an equity adjustment. The capital profits reserve will no longer be required and the balance will be transferred to retained profits.

15 Financial reporting by segments

The Company operates predominately in the securities industry in Australia.

16 Directors' and executives' remuneration

Remuneration of Directors	$
Aggregate of income received or due and receivable by non executive Directors of the Company	60,860

The number of Directors shown in their relevant income bands:	No.
$0 - $9,999	3
$60,001 - $70,000	1

Other than the directors, the Company has no employees, or specified executives.

17 Related parties

The names of the persons who were Directors of the Company during the period are S Rowell, E Metanomski, K Eley and P Constable (as alternate for E Metanomski). S Rowell received fees of $60,860 comprising fees of $36,516 and superannuation of $24,344, E Metanomski, K Eley and P Constable received $nil in respect of the period.

Directors received or were entitled to receive dividends from the Company on shares held in the Company in their own names and associated entities. These transactions were on the same basis as with other shareholders.

During the period, Directors or their personally related entities acquired 540,000 shares and 450,000 options in the Company. The options expire 30 June 2005 with an exercise price of $1.00. The number of shares and options in the Company held at 30 June 2004 by Directors or their personally related entities is shown below.

	BENEFICIAL INTEREST	
	Shares	*Options*
Simon Rowell	140,000	100,000
Erik Metanomski	100,000	100,000
Kevin Eley	150,000	100,000
Peter Constable	150,000	150,000

E Metanomski, K Eley and P Constable are directors of MMC Asset Management Limited. K Eley is a director of HGL Limited. Details of the management agreement between the Company, MMC Asset Management and HGL Limited are on pages 31 to 34, management fees of $1.46 million were incurred in the period.

18 Additional financial instruments disclosure

Credit Risk Exposure

The credit risk on financial assets is the Statement of Financial Position carrying amount.

Net Fair Value of Financial Assets and Liabilities

Investments traded on organised markets have been valued at fair value by reference to market process prevailing at balance date.

The net fair value of the investments are calculated by valuing them at market value, adjusted for transaction costs necessary to realise the investments.

The net fair value of all other financial assets and liabilities of the entity is represented by their carrying value.

The Directors declare that the attached financial statements and notes there to:

(a) comply with Australian Accounting Standards, and are in accordance with the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) give a true and fair view of the Company's financial position as at 30 June 2004 and of its performance, as represented by the results of its operation and its cash flows, for the financial period ended on that date.

In the Directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

SIMON ROWELL
CHAIRMAN

Sydney 30 August 2004

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 MMC Contrarian Limited, for the financial period ended 30 June 2004 as set out on pages 13 to 25.

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 have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance 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 controls, 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 form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations and its cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and 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.

The audit opinion expressed in this report has been formed on the above basis.

Independence

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

Audit Opinion

In our opinion, the financial report of MMC Contrarian Limited is in accordance with:

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its 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 professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sarah W

SARAH WOODHOUSE
PARTNER
CHARTERED ACCOUNTANTS

Sydney 30 August 2004

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extend of, the Accountant's Scheme under the Professional Standards Act 1994 (NSW).

The Board of Directors of MMC Contrarian Limited is responsible for the Company's corporate governance. The Board guides and monitors the business and affairs of the Company on behalf of shareholders, by whom they are elected and to whom they are accountable.

To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of Directors and for the operation of the Board. The Board charters and policy documents are available in the corporate governance section of the Company's website www.mmccontrarian.com.au.

The Board is committed to the highest standards of ethical behaviour and corporate governance.

Board composition and primary functions

As of the date of this report, the Board is comprised of three non-executive Directors. Mr S Rowell is the sole independent director, as defined by the ASX Corporate Governance Council (CGC) in their paper titled "Principles of Good Corporate Governance and Best Practice Recommendations" dated March 2003. The Board does not have a majority of independent directors.

The Board has considered its composition and believes that as the principal management function, being the management of the investments, resides with MMC Asset Management Limited, the participation of one independent director is appropriate for the Company.

The Board meets at least 10 times a year with its primary functions including:

- review and adoption of the annual budget of the Company;
- monitoring of the performance on a monthly basis of the Company against its budget;
- reviewing the effectiveness, composition and charter of the Board committees;
- ensuring that the Company has implemented adequate systems of internal control and risk management;
- approval of the half yearly and annual financial reports;
- declaring the interim and final dividends;
- monitoring listed investment company tax status;
- reviewing compliance with management agreement and the reports from the investment manager;
- ensuring effective external disclosure policies so that the market is fully informed on all matters that may influence the share price; and
- reviewing the reports from custodian and considering the performance of the custodian.

Details regarding the experience and tenure of the Directors are included in the Directors' report.

The Board has created a written set of annual objectives for itself and its Committees. The first annual review of the performance of the Board will take place during the financial year ending 30 June 2005.

Compliance and continuous disclosure

The Board aims to ensure that shareholders, on whose behalf they act, are informed of all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- compliance with Australian Stock Exchange reporting and disclosure requirements. Of note is the disclosure within 14 days of the month end of the Company's net tangible asset backing per share;
- the Company's website on which all important Stock Exchange announcements are posted;
- quarterly reports from MMC Asset Management;
- the annual and interim reports; and
- the Annual General Meeting and any other meetings called to obtain approval for Board action as appropriate.

The Company Secretary is responsible for communications with the Australian Stock Exchange.

Audit Committee

It is the Board's ultimate responsibility to ensure that effective internal controls exist within the Company. To assist the Board in this regard it established an Audit Committee on 11 December 2003. As at the date of this report, the Committee consisted of the following non-executive Directors:

KJ Eley (Chairman) - appointed 11 December 2003

S Rowell – appointed 11 December 2003

E Metanomski – appointed 11 December 2003

The Chairman of this Committee is not an independent director and the committee does not have a majority of independent directors. Committee meetings are held at least three times a year. The functions of the Committee include:

- considering the half yearly and annual financial reports before they are approved by the Board;
- ensuring the effectiveness of management information systems and systems of internal control;
- reviewing the appointment of the external auditors, the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- establishing and maintaining the framework of internal control;
- ensuring compliance with statutory, Australian Stock Exchange and other reporting requirements.

The Audit Committee generally invites the Company Secretary and the external auditors to attend Audit Committee meetings.

The external auditors can meet privately with the Committee. The partner managing the audit was appointed in October 2003 and will be rotated after a maximum of five years. It is the policy of the external auditors to provide an annual declaration of their independence to the Committee.

Nomination and Remuneration Committee

The Company established a Nomination and Remuneration Committee on 21 April 2004. As at the date of this report the Committee consisted of the following Directors:

S Rowell (Chairman) - appointed 21 April 2004

KJ Eley – appointed 21 April 2004

The functions of the Nomination and Remuneration Committee include:

- reviewing the composition of the Board and making recommendations to the Board;
- evaluating the performance of the Board; and
- reviewing the remuneration framework for Directors and making recommendations to the Board.

Risk assessment and management

The Board is responsible for ensuring the risk management systems are effective.

Independent professional advice

All Directors have the right to seek independent legal and financial advice, at the expense of the Company, concerning any aspect of the Company. However, prior approval of the Chairman is required, which is not unreasonably withheld.

Share trading policy

Directors are permitted to deal in the securities of the Company at any time, subject to the insider trading provisions of the Corporations Act. The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors of the Company.

Prior to dealing in MMC Contrarian securities Directors must notify the Chairman of the number of securities involved, the proposed date of the transaction and whether it is a sale or a purchase. The Directors must consider any views expressed by the Chairman.

Notification to the Chairman does not constitute approval. It is the responsibility of the person dealing in the MMC Contrarian securities to ensure it does not constitute insider trading and to ensure the proposed dealing preserves the reputation of each of MMC Contrarian and the Directors and is not only fair but seen to be fair. Dealings of the Chairman must be notified to the Chairman of the Audit Committee.

The share trading policy relates not only to those MMC Contrarian securities held directly but also to MMC Contrarian securities where the Director has in substance, rather than form, the ability or power, whether direct or indirect, to dominate the decision about the trading of MMC Contrarian securities.

The Company currently receives portfolio management services from MMC Asset Management Limited (MMC) under an interim management agreement the key terms of which are summarised below. This role is performed in conjunction with HGL Limited (HGL) (ASX code: HNG) through an ongoing alliance in relation to the Company. As at the date of this report, HGL owns 38% of MMC.

MMC is acting as interim manager pending a new joint venture company established by MMC and HGL obtaining an Australian Financial Services licence (AFSL).

Both HGL and MMC are experienced investors with an outstanding long term record of wealth creation.

For more information, the website addresses are:

- MMC Asset Management Limited www.mmcfunds.com.au
- HGL Limited www.hgl.com.au

The joint venture company, M&GIC Pty Limited (M&GIC), has been established to provide portfolio management services to the Company under a long term management agreement the substantive terms of which are identical to the terms of the interim management agreement with MMC except as follows:

- M&GIC's management agreement commences on the date it is granted an AFSL.
- It terminates on the date 25 years after commencement unless terminated earlier in accordance with its terms.
- If M&GIC fails to obtain an AFSL by 31 December 2004, the management agreement with M&GIC terminates and the interim management agreement with MMC continues until the date 25 years after its commencement unless terminated earlier in accordance with its terms.

As at the date of this report M&GIC does not have an AFSL.

Interim Management Agreement

Provided MMC continues to manage the investments of the Company in accordance with the investment approach outlined later in this section, it has absolute and unfettered discretion to manage the investments and to do all things considered necessary or desirable in relation to the investments. Any material deviation from the investment approach requires the prior approval of the Company.

Any investment which would result in the Company holding more than 10% of the issued securities of an investee may only be made with the prior approval of the Board.

The interim management agreement commenced on 5 December 2003. It terminates on the earlier of the date M&GIC receives an AFSL with authorisations necessary to enable it to provide portfolio management services to the Company in accordance with its management agreement and the date 25 years after commencement unless terminated earlier in accordance with its terms.

MMC may with the prior written consent of HGL terminate the interim management agreement at any time by giving the Company at least 6 months written notice.

The Company may also immediately terminate the interim management agreement if:

(a) an insolvency event occurs with respect to MMC;

(b) MMC is in default or breach of its obligations under the agreement in a material respect and such default or breach cannot be rectified or, if rectifiable, is not rectified within 30 days after the Company has notified MMC in writing to rectify the default or breach;

(c) MMC's AFSL is suspended or cancelled at any time in accordance with the Corporations Act;

(d) there is a change in control of MMC and the Company has not previously granted its prior written consent to the change in control (which must not be unreasonably withheld or delayed);

(e) MMC persistently fails to ensure that investments made on behalf of the Company are consistent with the investment strategy applicable at the time the investment is made.

Management & Performance Fees

A management fee equivalent to 1.25% per annum of the gross assets of the Company is payable to the manager monthly in arrears.

Where the value of the Company's investments has increased in value over a performance calculation period (initially 5 December 2003 to 30 June 2004, and then yearly thereafter or part thereof if terminated other than on 30 June), a performance fee of 15% of the portfolio's out-performance is payable equivalent to:

- where the level of the All Ordinaries Accumulation Index has increased over the period, the amount by which the value of the Company's investments exceeds this increase; or
- where the All Ordinaries Accumulation Index has decreased over the period, the amount of the increase in the value of the Company's investments.

In line with the Company's objective of capital preservation, no performance fee is payable in respect of any performance calculation period where the value of the Company's investments has decreased in value over that period, even if the performance of the Company is ahead of the All Ordinaries Accumulation Index.

If the interim management agreement is terminated due to the grant of an AFSL to M&GIC, no performance fee is payable to MMC for the final performance calculation period. Rather, the fee for that period is payable to M&GIC and not to MMC.

Management fees amounting to $1,462,000 and performance fees of $nil were incurred in respect of the period to 30 June 2004. MMC has directed the Company to pay 40% of all management and performance fees to HGL.

Outline of investment strategy

The investment strategy of MMC is to identify investment opportunities at a discount to what MMC deems intrinsic value. Additionally, MMC may identify situations where it can contribute to an improvement in the underlying business by participating in the operational process of the business. This may take the form of a board seat, consultancy or executive position. MMC and HGL have access to skilled personnel for such roles or may choose to bring in external specialists.

MMC will seek out attractive investment opportunities that develop due to sentiment or stockmarket driven mispricing of securities or mismanagement of core businesses. MMC refers to these as “event driven” opportunities, where events have created a market mood or sentiment that has led the market to sell securities down to prices that are attractive to value investors.

MMC’s strategy is to take advantage of event driven opportunities such as:

- change of management
- business downturn due to short-term industry issues
- liquidation and the distribution of cash or securities to shareholders
- takeover, merger or break-up of a company
- litigation that would increase a company’s value if resolved in its favour
- expansion through a valuable acquisition
- company or industry rationalisation
- an important technological breakthrough or discovery

MMC will take a medium to long term approach to investment outcomes regardless of market fashion or short term trends. This discipline can lead to short term underperformance as sentiment sometimes drives markets in irrational ways. MMC will maintain a disciplined approach in its attempts to avoid investments that do not comply with its absolute value focus.

The investment portfolio of the Company may comprise shares, cash, hybrid securities and debentures. Subject to attractive and available opportunities that meet MMC's investment criteria there is likely to be 10 to 30 Securities in the portfolio, which MMC and the Company believes will reduce investment risk and achieve adequate portfolio diversification.

MMC will use a broad and value based investment procedure to value entities before calculating a risk/reward ratio for potential investments. This risk/reward ratio ultimately leads to a decision to allocate capital or not and if so, how much to allocate. Every different investment has a different risk profile and therefore needs to be looked at on an individual basis.

The emphasis of MMC's research process will be on the long term operating performance and outlook of a business. MMC will not be concerned with day to day share price movements except as they provide opportunities to take advantage of the market's over-pessimism or optimism.

MMC will typically assess management ability, the historic profitability of a business, free cash flow generation, balance sheet strength and future prospects to calculate the intrinsic value of a business. This process involves a thorough analysis of an investee's financial accounts. Also, members of the investment team will generally meet with key management of the investee to obtain a comprehensive understanding of the business. Further research may include discussion with industry competitors, employees, customers, suppliers and other interested parties to increase understanding of a business.

Ongoing monitoring of an investment will be conducted via regular meetings with management and industry and press reports. As well, MMC will monitor the operating and financial progress of a company by its return on invested capital, profit margin, operating cash flows and debt levels over a period of time.

Details of the listed securities at 30 June 2004 are shown below. The portfolio may change during the course of the year so this list should not be used to determine future net tangible assets per share or portfolio performance. The Company's net tangible assets are advised to the Australian Stock Exchange by the 14th of each month and posted to the Company's website, www.mmccontrarian.com.au. In addition the investment manager produces quarterly investment updates which are provided to the Australian Stock Exchange, posted to the Company's website and sent to security holders.

Ordinary shares and unit trusts

ASX code	*Name*	*Number of shares*	*Market value at 30 June 2004 $'000*
PMP	PMP	11,785,888	19,329
BPC	Burns Philp	26,642,114	18,116
IFL	IOOF Holdings	2,049,128	9,836
HHV	Hunter Hall Global Value	8,611,652	8,439
GGL	Gribbles Group	19,166,709	8,146
RAC	Reinsurance Australia Corporation	7,792,467	3,896
ABP	Abacus Property	2,775,436	3,247
PIF	Prime Infrastructure	1,648,880	1,929
*	Ridley Inc Com Stk	70,000	787
			73,725

* listed on Toronto Stock Exchange

Convertible notes and other interest bearing securities

ASX code	*Name*	*Number of shares*	*Market value at 30 June 2004 $'000*
ANZPA	ANZ StEPS	100,000	10,160
CBAPA	Commonwealth Bank of Australia PERLS	25,000	5,193
			15,353

Total number of transactions during the period was 193 and the total brokerage paid was $209,460.

On 19 August 2004 there were 9,275 shareholders and 6,001 option holders. All the shares in the Company are ordinary and fully paid carrying one vote. The options are exercisable by 30 June 2005 with an exercise price of $1.00.

Twenty largest share shareholders

Rank	*Name*	*No. of shares held*	*% of Issued Capital*
1	TOWER TRUST LIMITED	10,566,657	5.28
2	AVANTEOS INVESTMENTS LIMITED	9,697,291	4.85
3	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	4,924,827	2.46
4	AVANTEOS INVESTMENTS LIMITED	4,648,491	2.32
5	INVIA CUSTODIAN PTY LIMITED	3,743,305	1.87
6	NATIONAL NOMINEES LIMITED	3,006,000	1.50
7	INVIA CUSTODIAN PTY LIMITED	1,640,000	0.82
8	FLEXIPLAN MANAGEMENT PTY LTD	1,625,000	0.81
9	ENVI FINANCIAL SYSTEMS PTY LTD	770,000	0.39
10	DAVID HANDLEY NOMINEES PTY LTD	750,000	0.38
11	CRESWICK HOLDINGS PTY LTD	600,000	0.30
12	MR WILLIAM FREDERICK MOSS + MRS AILEEN MAE MOSS	560,000	0.28
13	BRIDGE-SHEPP NOMINEE PTY LIMITED	545,000	0.27
14	AHRENS ENGINEERING PTY LTD	500,000	0.25
15	AUSTRALIAN INTERNATIONAL INSURANCE LTD	500,000	0.25
16	FADMOOR PTY LTD	500,000	0.25
17	GIOVANNI NOMINEES PTY LTD	500,000	0.25
18	KRISJADE PTY LTD	500,000	0.25
19	M & J JOHNS PTY LTD	500,000	0.25
20	RURAL HOLDINGS PTY LIMITED	450,000	0.23
		46,526,571	23.26

Number of shareholders with less than a marketable parcel (491 shares) is 10.

Twenty largest option holders

Rank	Name	No. of options held	% of options
1	AVANTEOS INVESTMENTS LIMITED	8,698,896	4.35
2	TOWER TRUST LIMITED	7,411,000	3.71
3	RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LIMITED	4,323,000	2.16
4	AVANTEOS INVESTMENTS LIMITED	4,112,351	2.06
5	PERMANENT TRUSTEE AUSTRALIA LIMITED	2,500,000	1.25
6	PERMANENT TRUSTEE AUSTRALIA LIMITED	2,102,651	1.05
7	MR YUH CHENG FOO	1,895,000	0.95
8	MR GREG PAUL SPURGIN	1,580,000	0.79
9	GIOVANNI NOMINEES PTY LTD	1,500,000	0.75
10	MR STEPHEN FIRTH	1,300,000	0.65
11	MALVINA PARK PTY LIMITED	1,200,000	0.60
12	FORTIS CLEARING NOMINEES P/L	1,050,000	0.53
13	MR FRANK LAWRENCE	1,000,000	0.50
14	BARKALA PTY LTD	800,000	0.40
15	MR GERALD JOHN JENSEN + MRS RUBY JENSEN	795,000	0.40
16	DAVID HANDLEY NOMINEES PTY LTD	750,000	0.38
17	RAH (STC) PTY LIMITED	680,000	0.34
18	MR CARLO GALEANO	610,000	0.31
19	AVANTEOS INVESTMENTS LIMITED	600,000	0.30
20	GJP INVESTMENTS PTY LTD	600,000	0.32
		43,507,898	21.78

Number of option holders with less than a marketable parcel (10,205 options) is 3,287.

Distribution of shareholders

	No. of shareholders	No. of shares
1 - 1,000	162	129,711
1,001 - 5,000	2,863	10,817,184
5,001 - 10,000	2,643	23,382,100
10,001 - 100,000	3,485	99,583,958
100,001 and over	122	66,052,048
Total	9,275	199,965,001

Distribution of option holders

	No. of option holders	No. of options
1 - 1,000	8	5,151
1,001 - 5,000	1,727	6,738,800
5,001 - 10,000	1,552	14,348,168
10,001 - 100,000	2,468	83,159,647
100,001 and over	246	95,733,234
	6,001	199,985,000

Substantial shareholders

The following information is extracted from the Company's Register of Substantial Shareholders as at 19 August 2004:

Substantial shareholder	*Number of shares*
Tower Trust Limited	10,010,408

Your investment manager is MMC Asset Management Limited and this role is performed in conjunction with HGL Limited (ASX Code HNG). It is our pleasure to report on the performance of MMC Contrarian Limited since the company listed on the Australian Stock Exchange on 5 December 2003 after a very successful capital raising of $200million ($196 million after costs).

As at the end of June 2004 your capital has increased to $211 million and is invested as follows:

Investment category	***%***	***$000***
Listed equities	35	73,725
Hybrids	7	15,353
Fixed interest and cash deposits	58	122,089
	100	211,167

During the seven month period under review your portfolio achieved an increase of 8.2% before tax. This performance was achieved despite the large amount invested in cash and represents an actual increase in excess of 30% on your equity portfolio. As a result the Net Tangible Assets (NTA) before tax on unrealised gains has grown from 98.1 cents to 105.3 cents at 30 June 2004. These achievements are reassuring however it is important to realise that we focus on the long term and do not place undue emphasis on short term performance especially when investing in contrarian opportunities.

Our investment team consists of five experienced executives who read the financial press, industry magazines, talk to intermediaries, screen companies and monitor share price movements on the ASX on a daily basis and keep their ears close to the ground to identify likely contrarian opportunities before commencing our thorough research process.

At 30 June they had identified nine investments that meet our selection criteria. The investments comprising this concentrated equity portfolio have unusually all risen in value over the period. We say "unusually" as when investing in contrarian opportunities the company's share price can fall substantially before the market changes its perception of the Company.

A detailed list of these investments is shown on page 35 of the Annual Report.

Your portfolio currently contains a substantial amount of cash. We are comfortable with a high holding of cash or cash equivalents while we continue to seek suitable opportunities in what we consider to be a market with limited value investment opportunities that meet our criteria.

In order to assist you assess the value of your shares and options and to comply with ASX listing rules the Company issues a NTA backing statement to ASX each month. In addition the manager issues quarterly investment updates which provide background information on our investment philosophy and methodology, a summary of investments held at those periods and comments on major investments. These reports have been mailed to shareholders, are published on the Company's website and through the ASX.

We have summarised below some of the important aspects in relation to our investment philosophy which are explained in more detail in the March and June 2004 quarterly reports.

- We are value managers and usually identify and invest in companies whose share price is trading at a substantial discount to its fundamental value
- We identify and invest in companies that are either misunderstood, unloved or are perceived by the investment market to be operating sub-optimally
- We believe that the stock market is not perfectly efficient in creating rational prices and that investors fail to distinguish between knowledge of a company's fundamentals and the expectations implied by the share price
- We have a structured and methodical approach to investing which involves detailed research and analysis, visiting management and the Company's operations and attempting to verify our findings before investing your money
- We have a comprehensive list of criteria we assess when analysing a company which places a substantial weighting on a company's ability to generate high levels of recurring free cash flow
- After an investment has been made the research process continues and often seems more rigorous because we monitor every investment every working day
- We expect to invest your capital in a concentrated share portfolio.

Our philosophy therefore, is one that ignores the herd mentality, identifies value and focuses on the long term. Our investment process is disciplined and rigorous, and these characteristics have historically shown that HGL and MMC can out perform the market over the long term.

The recently released July NTA statement to the ASX indicated that your Company's NTA had increased a further 3.1 cents during the month of July to 108.6 cents before tax on unrealised gains and dividends declared. In addition the Company's share price at the date of our report is trading in excess of its issue price but below the NTA disclosed in the July 2004 statement. As mentioned we focus on the long term and one of our key objectives is to out perform the market over that period. If we are able to achieve this objective the market will then hopefully put some value on our management expertise and the future performance of our investment portfolio.

ERIK METANOMSKI	**KEVIN ELEY**
EXECUTIVE DIRECTOR	**DIRECTOR**
MMC ASSET MANAGEMENT LIMITED	**MMC ASSET MANAGEMENT LIMITED**

26 August 2004

Below is the June 2004 quarterly investment update from MMC Asset Management Limited that was issued to the Australian Stock Exchange on 2 August 2004 and sent to investors shortly thereafter.

In this, the second quarterly update we explain the structured and methodical approach we adopt when investing your capital – our investment process. There are also reports on two further contrarian opportunities – IOOF Holdings Limited (IFL) and Reinsurance Company of Australia Limited (ReAC).

A summary of MMC Contrarian's (MMA's) investments at the end of June 2004 is set out on the next page. MMA's NTA per share before tax on unrealised gains has increased from 100.8 cents at 31st March 2004 to 105.4 cents as at 30 June 2004. The composition of the portfolio has not changed materially except for a substantial investment in the Gribbles Group Limited (GGL), a healthcare provider with interests in several diagnostic businesses in Australasia.

Your company's gross assets have increased in value by $9.2m over the three month period with 42.3% of the portfolio at 30 June 2004 invested in equities and hybrids compared with 37.6% at 31st March 2004. The investments comprising this concentrated equity portfolio have all risen in value during the three month period except for ReAC. Although this may be re assuring for both you and us it is important to realise that we aim to outperform over the long term and do not place undue emphasis on short term performance especially when investing in contrarian opportunities.

Your portfolio currently comprises a substantial amount of cash. This does not concern us as we do not feel compelled to invest your company's assets in the share market if suitable contrarian opportunities are not available. We are comfortable with holding a high level of cash or cash equivalents while we continue to seek suitable opportunities in what we consider to be a market with few value investment opportunities.

An unaudited summary of MMA investments at 31st March and 30th June 2004 is detailed below:

Summary of Investments valued at market	*31st March 2004 $000*	*% of portfolio*	*30 June 2004 $000*	*% of portfolio*
Equities				
Burns Philp & Company Ltd (BPC)	18,065	9.0	18,117	8.6
PMP Limited (PMP)	16,854	8.4	19,329	9.2
Gribbles Group Limited (GGL)	-	-	8,145	3.9
Hunter Hall Global Value (HHV)	9,515	4.7	8,439	4.0
IOOF Holdings Limited (IFL)	7,394	3.7	9,836	4.7
Reinsurance Australia Corporation Ltd (RAC)	4,286	2.1	3,896	1.8
Other	4,398	2.1	5,963	2.8
	60,512	30.0	73,725	35.0
Hybrids				
ANZ Ltd 8% Preferred Securities (StEP)	10,140	5.0	10,160	4.8
Commonwealth Bank Pref shares (PERLS)	5,175	2.6	5,193	2.5
	15,315	7.6	15,353	7.3
Funds on deposit	126,000	62.4	121,869	57.8
Total capital employed	201,827	100.0	210,983	100.00
NTA per share before tax –cents	100.8		105.4	
MMA share price	93.0		97.0	
(Discount) Premium to NTA before tax-%	(8.4)		(8.7)	
NTA per share after tax- cents	100.2		103.7	
(Discount)Premium to NTA after tax-%	(7.7)		(6.9)	
MMA option price –cents	3.4		4.0	

The NTA at the time of listing was 98.1 cents.

Investment process

MMC has a structured and methodical approach to investing.

We believe that the stock market is not perfectly efficient in creating rational prices. MMC and HGL Limited have historically shown that if we consistently apply our disciplined investment process and apply these principals over the long term, we can out perform the market.

Identification of contrarian opportunities: We consistently monitor the market for contrarian opportunities (we refer you to our March 2004 quarterly update where we explain in our opinion what constitutes a 'contrarian investment'). These opportunities are identified by our investment team which now consists of five experienced executives who read the financial press, industry magazines, talk to intermediaries, screen companies and monitor share price movements on the ASX on a daily basis and keep their ears close to the ground for likely opportunities.

Research: After identifying a potential target we then commence appraisal of the company which includes:

- Researching and analysing the company's financials to assess likely future earnings and cash flow estimates and the strength of the business
- Visiting management and the operations to assess the company's commercial prospects
- Reviewing and monitoring announcements, brokers reports on the company, its industry or competitors or suppliers to obtain a better understanding of the company and then
- Verifying and cross checking our findings with as many independent sources as possible.

We also have a comprehensive list of criteria we assess when analysing a company and are attracted to companies that:

- are not capital intensive, are easily understood and produce an attractive level of 'free' cash flow
- generate high returns on capital employed
- have attractive investment fundamentals such as low price to earnings and cash flow multiples based on facts, rather than rosy perceptions of what may happen in the future and
- have management whose interests are aligned with shareholders who have a record of performance and integrity

Our investment process places a substantial weighting on the company's ability to generate high levels of 'free cash flow' and not just accounting profits and managements ability to run and achieve the company's strategic plans.

By putting all the above information together we gain an informed view of the factors that determine the company's value. When the investment team meets to discuss an opportunity they have a good idea of the company's prospects and are able to discuss and challenge each other to ensure it is an opportunity for MMA.

Portfolio Structure: The portfolio will be invested in a concentrated number of companies principally listed on the ASX which meet the criteria listed above. Most of these companies by nature are likely to be outside the top 50 ASX ranked companies. To date we have not invested more than 10% of the portfolio in any one opportunity.

Monitor: After an investment has been made the research process continues and often becomes more rigorous. We monitor every investment every working day with a critical eye and keep analysing and researching. We keep close contact with the company to ensure that everything is going as expected and that the company's management are implementing the strategies previously articulated.

Should any of the above criteria that led us to investing in the company change, or should the price in our view increase substantially and the shares became overvalued we would re-evaluate our position and may consider selling all or part of our holding.

The above summary provides you with some insight into our investment process. It requires rigour, focusing on value, investing in a concentrated portfolio with low investment turnover, patience and persistence.

IOOF Holdings Limited

Market capitalisation: $337m

IOOF is one of Australia's oldest remaining independent financial services institutions having been established as a mutual in 1846. The company listed on the ASX in December 2003 and now predominantly operates in the funds management industry which has experienced significant growth in recent years. A phenomenon which is set to continue given current population age dynamics and government mandated growth generated through the superannuation industry.

Much of this growth has been concentrated in retail master funds and platforms offering investors broad choice and access to a wide range of fund managers.

IOOF has positioned itself well in this regard by offering a range of platform and managed funds as well as having a substantial investment in the rapidly growing Perennial Investment Management Group. In addition, through the recently acquired AM Corporation, IOOF now is able to offer an extensive range of superannuation products.

At the time of writing IOOF was capitalised by the share market at around $337m. We estimate there to be surplus cash within IOOF of approximately $70m, implying a value of around $267m ($337-$70m) for the Brand and the continuing businesses encompassing AM Corporation, company owned financial planning groups, the master trusts and a substantial investment in Perennial Investment Management Groups. Total funds under management and administration should approximate between $15-16b as at end June 04.

When IOOF listed last December it was not well understood by the market. There were also a number of risks facing the company. It was looking for a new CEO, had recently expanded by acquiring AM Corporation and was still in the process of integrating this acquisition and was negotiating with the Perennial Investment Management team to ensure their long term commitment to the group.

After carrying out extensive research on IOOF shortly after it listed we concluded that the market had not recognised the full value of the Perennial Management Group and the potential benefits that the AM Corporation acquisition provided.

Other reasons for taking an initial large stake in the company and then subsequently increasing our holding include:

- Management, now led by former J.P. Morgan M.D Ron Dewhurst carry a wealth of industry experience particularly with regard to Ron Dewhurst who has a history and track record in growing and developing a large funds management business;
- The strong brand name recognition of IOOF and Perennial;
- Further potential to significantly increase funds under management in the Perennial group of companies;
- The opportunity to decrease the current cost to income ratio which is extremely high by industry standards and thereby improve profitability significantly;
- Potential to consistently grow and pay fully franked dividends to shareholders;
- The opportunity to either utilise the company's significant cash reserves in accretive add-on acquisitions or to return capital to shareholders;
- The company's vulnerability to takeover at what would need to be a very generous price given IOOF's brand, market position and the ability to remove significant cost duplication;
- The highly scalable and non capital intensive nature of the business and its ability to thereby generate strong free cash flows;
- The identifiable growth profile of the company evidenced by the large growth in funds under management and administration.

IOOF also, as is the case with any other investment, carries a number of risks, including:

- Competitive influences which may impact on funds growth and margins;
- Vulnerability to Perennial should its investment returns under perform for a protracted period of time;
- Potential integration difficulties with respect to AM Corporation;
- Failure to deploy cash reserves in an earnings accretive manner;
- Negative share-market conditions which could impact funds under management and administration growth;
- Failure to significantly reduce the cost to income ratio.

While building a stake in the company we noticed that there were an abnormal number of sellers in the market who had been long term policy holders who were now able to capitalise on the liquidity of their investment. This allowed us to acquire a decent size stake in the company. At the time of writing the company share price has reached an all time high and your investment has appreciated substantially over this short period.

Reinsurance Australia Corporation Limited

Market capitalisation: $109m

For those unfamiliar with the actual business of reinsuring we provide a simple outline as follows.

In each type of insurance there are risks which because of their size or nature an insurance company cannot afford to bear on its own; the jumbo jet is one of the best examples. Generally an insurance company will in this case insure the whole risk and then lay off a large amount to other reinsurance companies keeping only what it can bear.

A reinsurance transaction thereby eventuates where the insurance company agrees to cede and a reinsurer agrees to accept a share of risk upon certain terms as set out in an agreement. In essence it is similar to a bookmaker at the horse races laying off a large bet to a number of other bookmaking colleagues who share the risk in the event the horse with high odds wins.

Reinsurance Australian Corporation Limited (ReAC) listed on the Australian Stock Exchange in 1993 to provide a reinsurance portfolio of risk and catastrophe business for the Property, Marine and Aviation industries. The company expanded into the international markets opening offices in Europe, America and Asia while its capital base had grown to $515m by 1998.

In 1999 ReAC suffered huge underwriting losses, resulting from catastrophic events in the insurance industry and bad underwriting decisions due to poor management within the company which put its total capital base at risk. This led to a dramatic plunge in ReAC's share price from $5.00 to a low of 3 cents – putting the company at risk of total collapse. As a result ReAC ceased underwriting and engaged in a self managed run off. This entailed trying to settle its outstanding claims (some of which were already known while others had not eventuated because of the length of the reinsurance contracts) against the assets it held which were predominantly cash, fixed interest securities, and money due from third parties.

On 2nd May 2000 APRA appointed an inspector to oversee ReAC's run off process as the company had not maintained its solvency requirements.

The run off process which is now almost complete involved outstanding claims being reduced by over $1.4 billion through commutation or payment over a period of 5 years to December 2003. Approximately 77% of client relationships were commuted involving the cancellation of over 92% of the reinsurance contracts outstanding at the time ReAC engaged in the self managed run off.

A milestone for the company was reached when ReAC announced on the 22nd October 2003 that they had settled the majority of its exposure to the film indemnity business which had the effect of increasing its net assets by $37m (18 cents per share) to $75m (38 cents per share).

This settlement substantially reduced the risk profile of ReAC and created the possibility of rehabilitation of the group as an insurer.

MMC acquired a 5% holding in ReAC in January 2004. There are a number of reasons we believe this to be an attractive investment which include:

- ReAC shares were trading just above the company's NTA. However, at the time MMA acquired majority of its shareholding ReAC had two major unrecorded intangible assets that were not being reflected in the market value of the company. These intangible assets were $150m of tax losses and $66m of franking credits
- The company had a board which was pro-active with strong shareholder representation with an incentive to rejuvenate the company
- ReAC had replaced its senior management with a professional and experienced management team who over the past five years successfully managed the very difficult task of commuting the company's liabilities while at the same time keeping the liquidators at bay. We formed the view at the time of making our investment that ReAC would utilise its "run off" expertise in other areas and this was confirmed at the recent AGM in May 2004 where the chairman acknowledged that the company would be pursuing consulting activities to assist other reinsurers in the area of managing run offs under the stewardship of Mark Moyes
- As a result of the settlement of majority of company's exposure to the film indemnity business ReAC's capital base had grown to 7.8 times the minimum level required by APRA prudential standards. This allows ReAC to pursue strategic initiatives beyond run off such as entering the general insurance market. In this regard the company announced at the AGM in May 2004 that Nick Kirk who came from Promina had been appointed CEO of general insurance and was highly regarded in developing speciality insurance lines
- ReAC still held $50m reserved for outstanding claims at December 2003. However, only a small number of the contracts outstanding were exposed to unexpired risk. In our view there could be further possible write backs which would result in an increase in the company's NTA.

Our research and assessment of ReAC therefore confirmed that an investment in ReAC provided limited downside with substantial upside. This is a true contrarian investment where the odds were favourable as ReAC was unloved, not well understood and undervalued when the unrecorded tax assets and potential future income from run off consulting services and re-entering the insurance market are taken into account.

Cash and hybrid securities

At the end of June 2004 MMA held investments of $122m in cash deposits and a further $15m in hybrid securities.

Approximately $52m is held on short term deposit with the Adelaide Bank, $20m with Westpac, $50m held on deposit at call with the ANZ Bank and we have invested $15m in ANZ StEPS and Commonwealth Bank Preference shares (PERLS). The investment in hybrid securities generally provides an additional margin over cash held on deposit and we have one full time executive managing this part of the portfolio.

While MMA holds substantial amounts of cash we continuously look for opportunities to improve returns.

The next quarterly investment update will be issued in October 2004.

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