Annual Report 2005/2006

Homeloans LTD

CORPORATE INFORMATION

This annual report covers both Homeloans Limited as an individual entity and the Consolidated Entity's financial report incorporating the entities that it controlled during the financial year. The Consolidated Entity's functional and presentation currency is AUD($).

A description of the consolidated operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 5 to 19. The directors' report is not part of the financial report.

DIRECTORS
Timothy Holmes
(Non-Executive Chairman)

Brian Jones
(Managing Director)

Robert Salmon
(Non-Executive Director)

Robert Scott
(Non-Executive Director)

Jarrod Smith
(Finance Director)

COMPANY SECRETARY
Jennifer Murray

REGISTERED OFFICE
Level 9, The Quadrant
1 William Street
Perth WA 6000
Phone: (08) 9327 1777
Facsimile: (08) 9327 1778

CORPORATE OFFICE
Level 7, BT Tower
1 Market Street
Sydney NSW 2000
Phone: (02) 8267 2000
Facsimile: (02) 8267 2045

NATIONAL OFFICE
Level 2, The Atrium
168 St George's Terrace
Perth WA 6000
Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
www.homeloans.com.au

POSTAL ADDRESS
PO Box 7216
Cloisters Square
Perth WA 6850

SHARE REGISTRY
Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000
Phone: (08) 9323 2000
Facsimile: (08) 9323 2033

AUDITORS
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

BANKERS
Westpac Institutional Bank
Level 4, 255 Elizabeth Street
Sydney NSW 2000

ASX CODE
Ordinary shares—HOM
Reset Preference shares—HOMPA

CONTROLLED ENTITIES
NSW Home Loans Pty Ltd
VIC Home Loans Pty Ltd
QLD Home Loans Pty Ltd
SA Home Loans Australia Pty Ltd
WA Home Loans Australia Pty Ltd
IF & I Securities Pty Ltd
FAI First Mortgage Pty Limited
Access Network Management Pty Ltd
Access Home Loans Pty Ltd
HLL Pty Ltd
St Michael Investments Pty Ltd
Match Funds Management Limited

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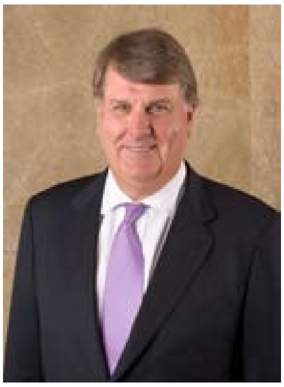
CHAIRMAN'S REPORT



We continue to focus on third party distribution Australia-wide and our retail channel, primarily in Western Australia and South Australia.

On behalf of your Board I am pleased to present the 2006 annual report for Homeloans Ltd.

The year in review has seen your company continue to focus on third party distribution Australia wide and our retail channel, primarily in Western Australia and South Australia.

The emphasis of the last two years on improved operational efficiencies and the controlling of costs remains a top priority. Our proprietary funding line the Residential Mortgage Trust (RMT) continues to grow exponentially as a proportion of our overall business. The combination of these areas has impacted favourably on the underlying results for the year.

This is the first full year in which results are reported under the Australian equivalent of International Financial Reporting Standards ("AIFRS"). Under AIFRS the Residential Mortgage Trust ("RMT"), Homeloans Ltd's proprietary funding line, is brought onto Homeloans Ltd's balance sheet. This has the impact of dramatically increasing the assets and liabilities, revenue, expenses and operating cash flow of Homeloans Ltd. In essence the balance sheet is increased by the $687 million of loans in the trusts. Revenue is also increased by the interest revenue earned by the trusts.

Under AIFRS RMT is now accounted for under the effective interest rate model, AASB139. That is, income is now brought to account over the life of the loan rather than booked as an origination fee (upfront) and a management fee (ongoing). The increased penetration of the RMT programme in the same year as the introduction of AIFRS has had a negative impact on Homeloans Ltd's reported AIFRS result of approximately $3.9 million. This $3.9 million will now be brought to account in future accounting periods, resulting in a stronger recurring earning stream.

For the year ending 30 June 2006 Homeloans Ltd recorded Net Profit Before Tax of $3.6 million.

Net profit after tax was $2.6 million, an increase of 4.2% on the prior corresponding period.

Operating cash flow under AIFRS was $9.0 million (up from $2.0 million on 2005). The Net Tangible Asset backing increased by 1.95 cents (6%) to 32.45 cents per share.

In light of the favourable result, the Directors are pleased to announce the 3rd consecutive payment of dividends on the ordinary shares. The final dividend will be 2.5 cents per share. The dividend will be unfranked and will be payable to all shareholders 13 October 2006. The dividend represents a 81% payout ratio on earnings per share, excluding the dividend on reset preference shares.

In June 2006 Homeloans Ltd issued RMT Securitisation Trust No.7 consisting of $460 million of residential mortgage backed securities. This is a significant achievement for Homeloans as it demonstrates increased acceptance of Homeloans Ltd's proprietary funding line through our expanding distribution network and considerable saving on Homeloans cost of funds.

Brian Jones was appointed Managing Director in January 2006. Since his appointment as an executive director in May 2004 Brian has been instrumental in refocusing Homeloans' strategy and establishing a new management team which has developed a solid platform for the Company to build on.

On behalf of the Board I am pleased to welcome Jarrod Smith to the Board of Directors. Jarrod, who joined Homeloans Limited in January 2002, was elected to the Board in February 2006. In his four years at Homeloans Ltd Jarrod has been a key part of the executive team and pivotal in the company's cost reduction initiatives and the increasing penetration of Homeloans Ltd's proprietary funding line.

This year we celebrated the milestone of twenty years since Rob Salmon and I started the business which is now Homeloans Ltd. In December we stepped down from our executive roles but will continue our involvement with Homeloans Ltd as non executive director and Chairman respectively.

We are proud to have projected an initially small West Australian operation into a successful national public company. Where we are today, in terms of profit, cash flow and the quality of our people, dwarfs our position when we listed in 2000. Since listing operating cashflow has improved every year, to this year $9.0m. We have also brought together an executive team, led by Brian Jones, that is well experienced in a diverse range of fields which compliment the business.

The board and management are excited by the next phase of your company's growth and the opportunities that will become available to us.

In closing, thank you to my fellow Directors and the staff of Homeloans Ltd for their ongoing support throughout the year.

Yours faithfully,

Timothy Alastair Holmes
Chairman

MANAGING DIRECTOR'S REPORT

We are now in a position to better compete in the mainstream mortgage market.

The year in review saw Homeloans continue to strengthen underlying profitability as a result of improved business performance and productivity. The effect of the implementation of our strategy to enable us to better compete in the mainstream mortgage market, grow our national broker market and further develop our West Australian and South Australian retail segments, positively influenced Homeloans resultant financial performance.

The introduction of new international accounting standards (AIFRS) presents our results as a more conservative outcome in the current year but underlying performance continues to improve sharply.

To demonstrate this our NPBT expressed under the old standard (AGAAP) improved by over 400% to $6.2 million.

Key to the success of our strategy was consolidating our efforts of the past 18 months focused on developing a broker friendly positioning, improving our underwriting capability, improving productivity and thereby reducing operational costs, as well as leveraging our proprietary funding line to enable us to have more control over our own destiny with funding.

Our average monthly settlements this year increased by 12% over the last year and continues to gain momentum, due largely to the growth in distribution via the Third Party (Mortgage Broker) distribution channel, which grew from 55% to 61% of our business. This growth to the business can be contributed to continued development and consolidation of our broker friendly positioning in the third party distribution market. This was delivered through significant and visible improvements in our underwriting capability, development of alliances with key broker groups and a strengthened sales team. Productivity, turnaround time and cultural improvements together now deliver a strong proposition and the response from existing and demand from new brokers is positive.

We have continued to consolidate our strengths in the direct sales channel through increased support of our existing satellite offices and mobile lenders, providing brand presence at the local and community level in particular in our traditional strengths of Western Australia and South Australia.

The year has seen Homeloans become more self reliant on funding. RMT, our proprietary funding line now represents 30% of loan originations. Several new products were released and have been well received by the market, these, together with increasing demand for our flagship products have lead to this growth. Notwithstanding these initiatives, we have worked closely with key strategic partner Adelaide Bank to strengthen our relationship. Adelaide Bank is the leading wholesale funder in Australia and provides ideal balance for our own funding initiatives.

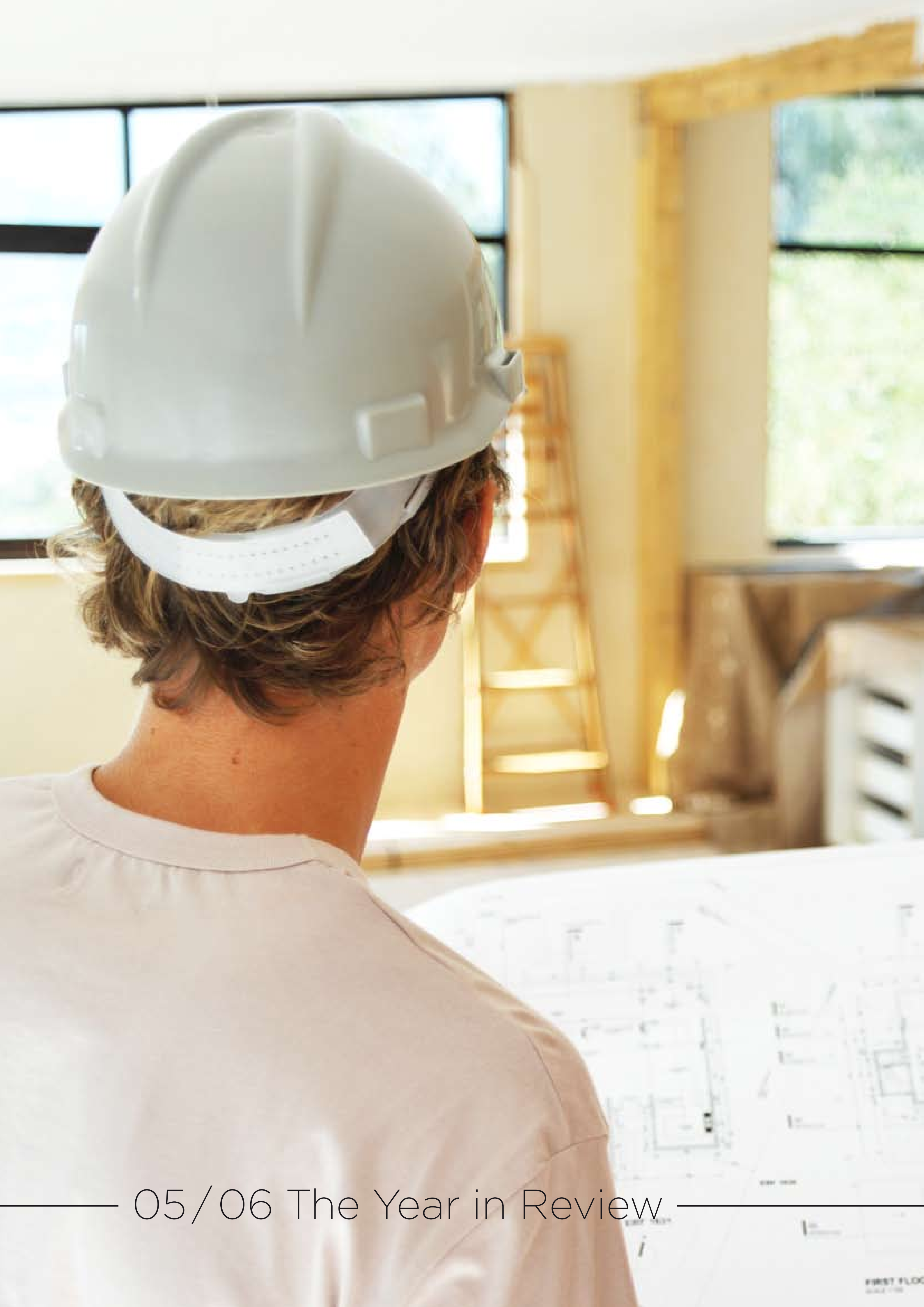
2006/2007 will see continued focus on processes, systems, productivity and cost management. Two key projects have been allocated considerable resources reflective of the importance placed on them to take Homeloans forwards in the years to follow. A systems efficiency project is well underway and will deliver considerable process and productivity gains. A retentions project has also begun, to ensure Homeloans has a holistic and more pro-active approach to retaining clients.

Your Board and the executive team of Homeloans Ltd are confident that the continued strengthening and market recognition of our distribution network, management processes and continued self reliance on funding will lead to continued growth for your Company in the years ahead.

I would like to take this opportunity to thank the entire Homeloans Ltd team for their dedication and continued support.

Yours faithfully,

Brian Jones
Managing Director



05/06 The Year in Review

YEAR IN REVIEW 05/06

Homeloans Ltd's objective when recruiting staff is to identify and employ staff who fit the corporate culture of Homeloans Ltd and facilitate their growth within the business.

PROFIT/LOSS

AGAAP
Under AGAAP the results were:

- net profit before tax up over 400% to $6.2 million.
- basic earnings per share up from 0.02 cents to 7.03 cents.
- operating cashflow up 31% to $5.5 million.

AIFRS
The Company made a net profit after tax of $2.6 million.

The net tangible asset backing increased 6% to 32.45 cents per share.

DIVIDEND

The final dividend will be 2.5 cents per share. The dividend will be unfranked and will be payable to all shareholders as of record date 6 October 2006. The dividend represents a 80% payout ratio on earnings per share, excluding the dividend on reset preference shares.

EARNINGS PER SHARE

Basic earnings per share was 5.16 cents and 4.03 cents on a diluted basis.

CHANGES TO BOARD OF DIRECTORS

Brian Donald Jones was appointed as Managing Director on 1st January 2006.

Jarrod Smith, Finance Director was elected to the Board of Directors on 20 Feburary 2006.

Rob Salmon stepped down from his role as Managing Director and Tim Holmes relinquished his executive role on 31 December 2005. Tim Holmes and Rob Salmon remain on the Board as Chairman and non executive director respectively.

PERSONNEL

Homeloans Ltd has 133 full time staff and 18 direct consultants nationally.

Homeloans Ltd's objective when recruiting staff is to identify and employ staff who fit the corporate culture of Homeloans Ltd and facilitate their growth within the business. Skills are developed by a combination of mentoring, training and on the job experience, while expanding their knowledge of the industry.

MORTGAGES—DISTRIBUTION AND MARKETING

Homeloans Ltd began as a West Australian mortgage manager over twenty years ago. Today, as a successful national lender Homeloans Ltd originates and manages a comprehensive range of loans for home owners and investors. From enquiry and application to ongoing management of their loan, Homeloans customers receive personally tailored customer service for the life of the loan.

Loans are distributed to our customers via two sales channels: Third party, whereby our mortgage broker partners distribute loans to the end customer; and direct, whereby our mobile lenders and satellite licencees distribute loans direct to our customers.

THIRD PARTY—BROKER CHANNEL

The third party sales channel presents considerable opportunity for growth in the lending market, particularly on the eastern seaboard and Homeloans Ltd is committed to delivering a broker friendly model. Our "Better Broker Support" program launched in 2005 has gained considerable acknowledgement from the market. We provide brokers the support they need to help grow their businesses, the kind of assistance that is becoming less common in the third party market. Central to this is the delivery of a quality product offering, broker friendly systems and personalised service supported by sales, underwriting and marketing teams dedicated to delivering the promise to our customers, thereby developing strong and loyal relationships with brokers at multiple points in the delivery process.

Homeloans Ltd currently has a team of twelve (12) Business Development Managers, with growth planned over the next financial year to enable further penetration into capital city markets nationally as well as other key markets including Newcastle, Canberra, Wollongong and major regional areas of Queensland and Victoria.

DIRECT SALES

Throughout the year in review Homeloans Ltd continued to concentrate efforts on its direct sales channel on our strengths in this market, Western Australia and South Australia in particular.

In August Homeloans Ltd's subsidiary, Access Home Loans Pty Ltd entered into an agreement to aggregate its broker generated loans through Mosaic Financial Services Ltd. This has bolstered our internal distribution capability by providing our retail sales team with access to the Mosaic lending panel in addition to the Homeloans' product portfolio.

OUR PRODUCTS AND FUNDING

Homeloans offers a comprehensive range of products. Over the year in review significant improvements have been made to our proprietary funding line (RMT) to enable Homeloans Ltd to become more self sufficient in funding. Our standard and low documentation products introduced in financial year 2004 are now our flagship products and are continuing to grow in popularity.

A true 100% product was launched this year enabling Homeloans Ltd to participate competitively in the first home buyer, no deposit market. An easy documentation product was also launched. Both products have seen strong demand from the market following their launch. Over 30% of Homeloans Ltd's new loan originations are now from products in the RMT range.

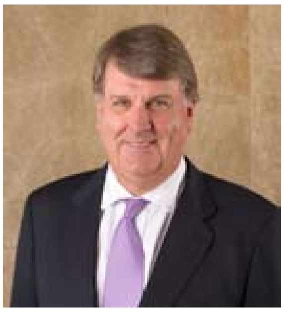
In the year ahead Homeloans will continue to strengthen our own funded products and focus on these and our niche products from other funders which provide us with competitive advantage in the market.

SPONSORSHIP AND THE COMMUNITY

Homeloans Ltd continues to support community and cultural events at the community level. This year your Company again sponsored the Great Bike Ride in Perth. 2,500 participants cycled 53 kilometres, raising $116,000 for the Heart Foundation, St John of God Foundation Lighthouse Project and Hope for Children.

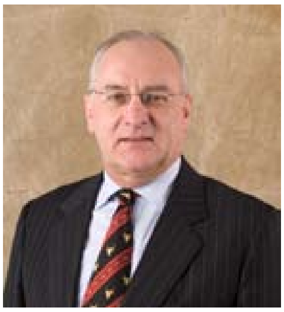
Homeloans also continues to support other charitable causes such as "Telethon", Radio 6PR's "Children's Christmas Party, and "Movember".

DIRECTORS' REPORT

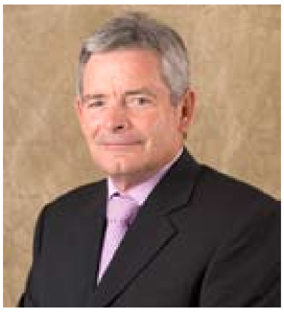


Timothy Alastair Holmes

Robert Peter Salmon



Brian Donald Jones



Robert Norman Scott

Jarrod Lorne Andrew Smith

YOUR DIRECTORS SUBMIT THEIR REPORT FOR THE YEAR ENDED 30 JUNE 2006.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

TIMOTHY ALASTAIR HOLMES

Non-Executive Chairman

Tim was appointed a director on 9 November 2000 and appointed Chairman on 1 July 2003. He has 38 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He is also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry.

ROBERT PETER SALMON

Non-Executive Director

Appointed 9 November 2000. Rob has 36 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia.

BRIAN DONALD JONES

Managing Director

Brian was appointed to the board in an executive capacity on 28 May 2004. He has 40 years experience in the finance and banking industry. Brian was a senior executive with National Australia Bank from 1993 to 2003. Most recently he was head of the bank's Australian third party mortgage origination arm, HomeSide Lending. Prior to this he held senior positions with the bank's subsidiary, Bank of New Zealand Australia including Head of Consumer Markets and Head of Banking Services. He has a Master of Business Administration from the AGSM. Brian was appointed Managing director on 1 January 2006.

ROBERT NORMAN SCOTT
Non-Executive Director

Appointed 9 November 2000. Rob is a Chartered Accountant with over 39 years experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995. Rob now consults on corporate structuring and taxation to Perth based Gooding Pervan Chartered Accountants.

Rob serves as a director of the following listed companies:

- Amadeus Energy Ltd
(Appointed 30 October 1996)
Chairman
- BioMD Limited
(Appointed 23 June 1999)
Chairman
- Australian Renewable Fuels Limited
(Appointed 24 December 2002)
Chairman
- Evans & Tate Limited
(Appointed 18 July 2005)
- New Guinea Limited
(Appointed 17 July 2006)

JARROD LORNE ANDREW SMITH
Finance Director

Appointed 20 February 2006. Jarrod joined Homeloans Ltd as Chief Financial Officer in January 2002. Prior to joining Homeloans Ltd, Jarrod was a Director of Westpac Institutional Bank. Jarrod has a Bachelor of Commerce (UNSW), a Master of Business Administration (AGSM) and is a graduate member of the Australian Institute of Company Directors.

JENNIFER MURRAY
Company Secretary

Jennifer Murray was appointed company secretary to Homeloans Ltd on 9 November 2000. She is a Chartered Secretary and has over 23 years experience in providing corporate secretarial services for both public and proprietary companies. She is presently the Senior Manager, Corporate Secretarial Services for Perth based Gooding Pervan Chartered Accountants.

Interests in the shares and options of the company and related bodies corporate.
As at the date of this report, the interests of the directors in the shares, reset preference shares, and options of Homeloans Limited were:

	NUMBER OF ORDINARY SHARES	NUMBER OF 10% RESET PREFERENCE SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
T A Holmes	9,019,781	170,750	-
B D Jones	225,952	-	2,000,000
R P Salmon	8,705,366	170,441	-
R N Scott	1,489,794	29,458	-
J L A Smith	82,723	208	1,350,000

Return to shareholders, both through dividends and capital growth, continues in line with measures implemented by management in the last two years.

This is reflected in the significant improvement in most financial measures for the current year

DIVIDENDS

	CENTS	$'000
Final dividends recommended:		
—on ordinary shares	2.5	1,259
Dividends paid in the year:		
Interim for the year		
—on ordinary shares	2.5	1,259
Final dividend for 2005 shown as recommended in the 2005 report		
—on ordinary shares	1.5	755

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the Consolidated Entity were:

- mortgage origination;
- management of home loan mortgages for a number of financiers; and
- funding of mortgages through the Residential Mortgage Trust (RMT)

The principal activities were conducted under the brand names Homeloans Limited, Access Home Loans and FAI Home Loans. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, Origin Mortgage Management Services, ING Bank (Australia) Limited, Residential Mortgage Trust and other institutions.

OPERATING AND FINANCIAL REVIEW

Group Overview

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 9 November 2000 acquiring the assets and liabilities of IF & I Securities Pty Ltd (as trustee for the IF & I Securities Unit Trust) and Anedo Pty Ltd. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

Homeloans Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

Review of operations

A review of operations of the Consolidated Entity during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the Consolidated Entity are set out in this report.

Performance Indicators

Management and the Board monitor the Consolidated Entity's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets. The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitor KPIs on a regular basis. Directors receive the KPIs for review prior to each monthly board meeting allowing all directors to actively monitor the Consolidated Entity's performance.

Directors also have access to an on-line reporting database allowing access to details of performance against KPIs on a daily, month to date, and year to date basis.

Operating Results for the Year

The Consolidated Entity experienced an increase in loan originations of 14.8% on the prior corresponding year. A pleasing part of this was the increased penetration of the Homeloans Ltd proprietary funding line, the Residential Mortgage Trust ("RMT").

Revenue increased to $76,497,000 (2005: $71,727,000) primarily due to the increased usage of RMT. However, under AIFRS there is no origination income recognised on the RMT loans. Instead income is recognised as a net interest margin on the loans over the life of the loans. Consolidated net profit after tax for the year was $2,597,000 (2005:$2,492,000), up 4.2% on the previous corresponding period, reflecting a positive result from:

- increased loan volumes;
- continued cost reductions; and
- the refund of the stamp duty assessment; and

An adverse result from the need to defer income recognition on RMT volumes.

Summarised operating results are as follows:

	2006 REVENUES $'000	2006 RESULTS $'000
Business segments		
Origination and Management	37,009	7,155
Securitisation of Mortgages	51,580	342
	88,589	7,497
Consolidated Entity adjustments	(13,028)	(3,746)
Non-segment and unallocated revenues	936	936
Non-segment and unallocated expenses	-	(1,060)
Consolidated Entity sales and profit from ordinary activities before income tax expense	76,497	3,627

SHAREHOLDER RETURNS

The Consolidated Entity is pleased to report that return to shareholders, both through dividends and capital growth, continues to improve in line with measures implemented by management in the last two years. This is reflected in the significant improvement in most financial measures for the current year.

Debt to equity measures have not been disclosed due to the impact of the consolidation of RMT during the year. Consolidation of RMT has added over $650 million of debt to the Consolidated Entity's balance sheet without any commensurate impact on equity. RMT, under its trust structure, has assets and liabilities that offset and no equity interests. The traditional ratios do not provide an accurate measure of the Consolidated Entity's ability to manage its debts.

	AIFRS		NON-AIFRS	
	2006	2005	2004^^	2003^^
Basic earning per share (¢)	5.16	3.95	1.73	(40.01)
Return on assets (%)	0.3%	0.4%	1.7%	(35.6%)
Return on equity (%)	8.1%	6.9%	2.9%	(64.9%)
Dividend payout ratio (%)	97.0%	30.3%	0.0%	N/A**

^^ These ratios were calculated under Australian Generally Accepted Accounting Practices (AGAAP). The results for 2005 and 2006 are calculated under Australian equivalents of International Financial Reporting Standards (AIFRS).

As a result of the AIFRS requirement under AASB 127—*Consolidated and Separate Financial Statements* to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit. The group previously recognised the distributions from the RMT as revenue and was not required to include the RMT asset base. The unadjusted measure is using current AIFRS results.

** Dividend paid of 1.2 cents per share cannot be measured against reported loss for the relevant financial year.

LIQUIDITY AND CAPITAL RESOURCES

The Consolidated Entity's cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2006 of $8,628,000 (2005: Decrease of $11,413,000). Operating activities generated $8,980,000 (2005: $2,042,000) of net cash in-flows.

The increase in cash from operating activities was largely due to the continued cost reduction and the increased revenue from improved loan originations. The increase in loans originated through RMT resulted in a significant increase in the net interest income collected.

There was an increase in receipts from funders of approximately 10% (2005: 2%) and the ratio of payments to suppliers as a percentage of receipts from customers improved slightly to 107% (2005: 109%).

The Consolidated Entity has sufficient funds to finance its operations. The Consolidated Entity also has an overdraft facility of $900,000 which was unutilised at 30 June 2006, primarily to allow for timing mismatches. The Consolidated Entity has a cash advance facility with its bankers at 30 June 2006 of $3,800,000 which was only drawn down to the extent of $1,000,000. The Residential Mortgage Trust has a net interest margin facility of $6,000,000 drawn to $5,377,000 and a warehouse facility of $500 million drawn to $60,531,000 at 30 June 2006.

ASSET AND CAPITAL STRUCTURE

PROFILE OF DEBTS	2006 $'000	2005 $'000
The profile of the Consolidated Entity' debt finance is as follows:		
Lease liability—secured	1,061	1,559
HP liability—secured	101	157
Bank loans—secured	66,908	219,901
Due to bondholders	635,915	294,164
Other Loans	3,529	-
Reset preference shares	4,998	-
	712,512	515,781

The amount of the Consolidated Entity's debts have increased over the last year due to the increased usage of RMT.

CAPITAL EXPENDITURE

There has been a slight increase in cash used to purchase plant and equipment for 30 June 2006 to $199,000 from $168,000 in the year ended 30 June 2005.

RISK MANAGEMENT

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the company's risk management framework.

The fundamental aim of the company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders. The company recognises 3 main types of risk:

- Market risk—the risk of change in earnings from changes in market factors such as interest rates, housing market and economic conditions;

- Operational risk—the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events; and

- Liquidity risk—the risk of failure to adequately fund cash demand in the short term.

The Managing Director and Finance Director periodically provide formal statements to the Board that in all material aspects:

- the company's financial statements present a true and fair view of the company's financial condition and operational results; and

- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Consolidated Entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.

- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

- The establishment of committees to report on specific business risks, including for example, such matters as occupational health and safety.

STATEMENT OF COMPLIANCE

This report is based on the guidelines in The Consolidated Entity of 100 Incorporation publication *Guide to the Review of Operations and Financial Condition*.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There were no significant events after the balance date.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the Consolidated Entity would, in the opinion of the directors, be likely to result in unreasonable prejudice to the Consolidated Entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Consolidated Entity is not subject to any specific licence or agreement to comply with the requirements of environmental protection authorities in Australia.

SHARE OPTIONS

Unissued shares
As at the date of this report, there were 7,665,000 unissued ordinary shares under options.

Balance at 30 June 2006 (Note 15)	7,880,000
Options forfeited on resignation of staff since 30 June	215,000
Balance at the date of this report	**7,665,000**

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

No shares were issued as a result of the exercise of options during the year under review. No shares have been issued as a result of the exercise of options since the end of the financial year to the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums in respect of a contract insuring all the directors of Homeloans Limited against a liability incurred in their role as directors of the company, except where:

(a) The liability arises out of conduct involving a wilful breach of duty; or

(b) There has been a contravention of Sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

Terms, conditions and rates are commensurate with the market. The policy prohibits disclosure of the nature of the indemnification and insurance cover, and the amount of the premium.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of Homeloans Limited (the company).

Remuneration philosophy
The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives. To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive remuneration ‘at risk’, dependent upon meeting pre-determined performance benchmarks; and,
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure
In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At last year's annual general meeting the aggregate maximum sum available for the remuneration of non-executive directors was increased to $250,000 per anum with effect from and including 1 January 2006.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits. The remuneration of non-executive directors for the period ending 30 June 2006 is detailed in Table 1 on page 20 of this report.

Senior manager and executive director remuneration

Objective
The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- link reward with the strategic goals and performance of the company.

Structure
In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee will, from time to time, engage an external consultant to provide independent advice both in the form of a written report detailing market levels of remuneration for comparable executive roles as well as the participation of the independent consultant in the meeting from which the Nomination and Remuneration Committee makes its recommendations to the Board.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
    - Short Term Incentive ('STI'); and
    - Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Nomination and Remuneration Committee. Table 2 on page 20 details the variable component of the 5 most highly remunerated senior managers.

Fixed remuneration

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Nomination and Remuneration Committee and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external independent advice on policies and practices.

Structure
The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the 5 most highly remunerated senior managers is detailed in Table 2 on page 20.

Variable remuneration— Short term incentive (STI)

Objective
The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure
Actual STI payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance.

Typically included are measures such as contribution to net profit after tax, loan originations, customer service, risk management, product management, and leadership/team contribution. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme. These measures are designed so as to align employee behaviour with long term shareholder wealth creation.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the company and each individual business unit is approved by the Nomination and Remuneration Committee. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive pool that is allocated to each executive.

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Nomination and Remuneration Committee. Payments made are usually delivered as a cash bonus.

Variable remuneration—
Long term incentive (LTI)

Objective
The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure
LTI grants to executives are delivered in the form of options.

These options vest with the executive over varying periods and are not usually subject to a performance hurdle. They usually have a life from date of grant of five years, and are exercisable at specific dates and proportions set at the time of granting the options. Usually 50% of these options are exercisable after two years with the remaining 50% exercisable after three years.

Table 3 on page 21 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

Employment contracts
No executives are currently employed under a fixed term contract.

Upon termination all vested options remain in place.

Managing Director
Under his conditions of employment, the employment of the Managing Director may be terminated:

- by the Company by giving 12 months notice; or,
- by the Managing Director giving the Company 3 months notice.

The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Managing Director is also entitled to his statutory entitlements to accrued annual and long service leave.

Upon termination of employment by the Managing Director giving notice, the Managing Director is entitled to any STI that would otherwise be payable.

Finance Director
Under his conditions of employment, the employment of the Finance Director may be terminated by either party, by giving 3 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Finance Director is entitled to his statutory entitlements to accrued annual and long service leave.

Upon termination of employment, the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

Mortgage Asset Services Pty Ltd
The services of the General Manager Sales are provided by way of a contract with Mortgage Asset Services Pty Ltd ("MAS"). This contract may be terminated by either party, by giving 3 months notice.

Should the Company terminate the contract prior to 31 December 2007, then MAS is entitled to six months payment and any unvested options from those granted on 7 December 2005 will vest, provided loan origination volumes are within 90% of the hurdle volumes.

Other Key Management Personnel
Under their conditions of employment the employment of the Key Management Personnel may be terminated by either party, by giving 1 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Key Management Personnel are entitled to their statutory entitlements to accrued annual and long service leave.

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

REMUNERATION OF DIRECTORS AND NAMED EXECUTIVES

Table 1: Directors' remuneration for the year ended 30 June 2006

		PRIMARY BENEFITS			POST EMPLOYMENT		EQUITY	OTHER	TOTAL	% PERFORMANCE RELATED
		SALARY & FEES	NON-MONETARY	CASH STI	SUPER-ANNUATION	RETIREMENT BENEFITS	OPTIONS			
T.A.Holmes	2006	166,723	2,767	-	11,630		-	-	181,120	0%
	2005	160,218	2,986	-	89,629		-	-	252,833	0%
B.D.Jones	2006	275,000	4,854	--	24,750		75,887	-	380,491	0%
	2005	231,528	4,612	300,000	20,838		103,030	-	660,008	61%
R.P.Salmon	2006	154,223	2,767	-	11,630		-	-	168,620	0%
	2005	160,218	2,986	-	89,629		-	-	252,833	0%
R.N.Scott	2006	50,000	-	-	-		-	-	50,000	0%
	2005	42,500	-	-	-		-	-	42,500	0%
J.L Smith	2006	240,000	4,854	60,000	21,600		77,726	-	404,181	34%

Table 2: Remuneration of the 5 named executives who received the highest remuneration for the year ended 30 June 2006

		PRIMARY BENEFITS			POST EMPLOYMENT		EQUITY	OTHER	TOTAL	% PERFORMANCE RELATED
		SALARY & FEES	NON MONETARY	CASH STI	SUPER-ANNUATION	RETIREMENT BENEFITS	OPTIONS			
L.McDonald	2006	150,000	4,854	50,000	13,500	-	11,375	-	229,729	27%
K.Carter	2006	125,000	2,767	40,000	11,250	-	15,725	-	194,742	29%
A.Curr	2006	117,500	-	25,000	10,575	-	8,950	-	162,025	21%
T.Phillips **	2006	282,271	-	-	-	-	24,186	-	306,457	62%
	2005	73,020	-	-	-	-	148,222	-	221,242	100%
G.McFadden	2006	130,000	-	10,000	11,770	-	4,600	-	156,370	9%
	2005	129,987	-	5,000	12,149	-	1,412	-	148,548	4%

** Troy Phillips is a director of Mortgage Asset Services Pty Ltd (MAS). His services as General Manager Sales for the Consolidated Entity are remunerated by way of a monthly commission payment to MAS based on mortgages settled during the previous month. This amounted to $282,271 (2005: $73,020) in the current financial year. MAS also holds 2,500,000 options over unissued shares in Homeloans Limited. The amortised value of these options during the year has been included. None of the remuneration noted above was actually paid directly to Troy Phillips.

The options on issue to MAS include 750,000 options exercisable any time from grant date with the balance subject to performance hurdles. These hurdles are as follows:

- 1,000,000 options exercisable if home loan settlements in any 3 month period prior to 31 March 2007 exceed an average $225m per month.

- 250,000 options exercisable if home loan settlements in any 3 month period prior to 30 Sept 2006 exceed an average $100m per month.

- 250,000 options exercisable if home loan settlements in any 3 month period prior to 31 March 2007 exceed an average $112.5m per month.

- 250,000 options exercisable if home loan settlements in any 3 month period prior to 31 Dec 2007 exceed an average $137.5m per month.

Table 3: Options granted as part of remuneration for the year ended 30 June 2006
(in accordance with the LTI plan)

	GRANT DATE	GRANT NUMBER	VEST	VALUE PER OPTION AT GRANT DATE @	EXERCISED NUMBER	VALUE PER OPTION AT EXERCISE DATE	VALUE AT DATE OPTION LAPSED	% OF REMUNERATION
B.D.Jones	23/11/05	315,000	31/08/06	0.1459	Not applicable	Not applicable	Not applicable	5.2%
	23/11/05	310,000	31/08/07	0.1294	Not applicable	Not applicable	Not applicable	2.0%
J.L.A.Smith	14/10/05	100,000	31/08/06	0.1859	Not applicable	Not applicable	Not applicable	3.7%
	14/10/05	150,000	31/08/07	0.1583	Not applicable	Not applicable	Not applicable	2.2%
	20/02/06	200,000	31/08/06	0.1535	Not applicable	Not applicable	Not applicable	5.2%
	20/02/06	300,000	31/08/07	0.1363	Not applicable	Not applicable	Not applicable	1.8%
T.Phillips **	7/04/06	250,000	30/09/06	0.1456	Not applicable	Not applicable	Not applicable	4.6%
	7/04/06	250,000	31/03/07	0.1154	Not applicable	Not applicable	Not applicable	1.4%
	7/04/06	250,000	31/12/07	0.1058	Not applicable	Not applicable	Not applicable	0.6%
L.McDonald	14/10/05	30,000	31/08/06	0.1859	Not applicable	Not applicable	Not applicable	2.0%
	14/10/05	45,000	31/08/07	0.1583	Not applicable	Not applicable	Not applicable	0.9%
K. Carter	14/10/05	50,000	31/08/06	0.1859	Not applicable	Not applicable	Not applicable	3.9%
	14/10/05	75,000	31/08/07	0.1583	Not applicable	Not applicable	Not applicable	1.7%
A. Curr	14/10/05	30,000	31/08/06	0.1859	Not applicable	Not applicable	Not applicable	2.6%
	14/10/05	45,000	31/08/07	0.1583	Not applicable	Not applicable	Not applicable	1.2%
G.McFadden	14/10/05	10,000	31/08/06	0.1859	Not applicable	Not applicable	Not applicable	1.0%
	14/10/05	15,000	31/08/07	0.1583	Not applicable	Not applicable	Not applicable	0.4%

@ From 1 July 2002, options granted as part of senior manager remuneration have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option.

** Refer to Note on Table 2 Page 21.

Fair values of options:
The fair value of each option is estimated on the date of grant using a Binomial option-pricing model with the following weighted average assumptions used for grants made:

GRANT DATE	29 APR 2002	2 MAY 2002	2 MAY 2002	1 APR 2003	1 DEC 2004	7 DEC 2004	14 JAN 2005
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Expected volatility	38%	44%	44%	38%	45%	45%	45%
Risk-free interest rate	5.532%	5.442%	5.518%	4.700%	4.905%	4.900%	5.005%
Expected life of option	4.9 years	4.9 years	4.9 years	4.8 years	5.0 years	5.0 years	4.9 years

GRANT DATE	14 OCT 2005	14 OCT 2005	23 NOV 2005	23 NOV 2005	20 FEB 2006	20 FEB 2006	7 APR 2006	7 APR 2006	7 APR 2006
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Expected volatility	45%	45%	45%	45%	45%	45%	45%	45%	45%
Risk-free interest rate	5.266%	5.276%	5.143%	5.157%	5.052%	5.048%	5.423%	5.337%	5.337%
Expected life of option	3.9 years	4.9 years	3.8 years	4.8 years	3.5 years	4.5 years	3.7 years	3.7 years	3.7 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on period from grant date to expiry as so far no options have been exercised, and is therefore not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The resulting weighted average fair values per option for those options vesting after 1 July 2005 are:

NUMBER	GRANT DATE	VESTING DATE	WEIGHTED AVERAGE FAIR VALUE PER OPTION	VESTING DETAILS
100,000	1 Apr 2003	21 Jan 2006	$0.1398	100% vested
950,000	14 Jan 2005	14 Dec 2006	$0.1420	475,000 vest on 14 Dec 2006 and 475,000 vest on 14 Dec 2007
1,030,000	14 Oct 2005	31 Aug 2006	$0.1693	412,000 vest on 31 Aug 2006 and 618,000 vest on 31 Aug 2007
500,000	20 Feb 2006	31 Aug 2006	$0.1432	200,000 vest on 31 Aug 2006 and 300,000 vest on 31 Aug 2007
615,000	23 Nov 2005	31 Aug 2006	$0.1377	315,000 vest on 31 Aug 2006 and 310,000 vest on 31 Aug 2007
1,000,000	7 Dec 2004	31 Mar 2007	$0.0924	Vesting will only occur if settlements targets are met.
750,000	7 Apr 2006	30 Sep 2006	$0.1223	250,000 to vest on 30 Sep 2006, 250,000 to vest on 31 Mar 2007 and a further 250,000 to vest on 31 Dec 2007. Vesting will only occur if settlements targets are met.

COMPANY PERFORMANCE AND SHAREHOLDER RETURNS

The Consolidated Entity is pleased to report that return to shareholders, both through dividends and increased share price, is now reflecting the numerous changes effected by the Board and management over the past two years. This is highlighted by the significant improvement in most financial measures for the current year as listed below:

	AIFRS		NON-AIFRS	
	2006	2005	2004^^	2003^^
Basic earnings per share (cents)	5.16	3.95	1.73	(40.01)
Return on assets (%)	0.3%	0.4%	1.7%	(35.6%)
Return on equity (%)	8.1%	6.9%	2.9%	(64.9%)
Dividend payout ratio (%)	97.0%	30.3%	0.0%	N/A*
Total Shareholder Return (TSR)				
Share price (cents)	10.5	0.0	(7.5)	(32.5)
Dividends (cents)	5.0	1.5	0.0	1.2
	15.5	1.5	(7.5)	(31.3)

^^ These ratios were calculated under Australian Generally Accepted Accounting Practices (AGAAP). The results for 2005 and 2006 are calculated under Australian equivalents of International Financial Reporting Standards (AIFRS).

As a result of the AIFRS requirement under AASB 127—*Consolidated and Separate Financial Statements* to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit. The group previously recognised the distributions from the RMT as revenue and was not required to include the RMT asset base.

* Dividend paid of 1.2 cents per share in 2003 cannot be measured against reported loss for the relevant financial year.

The share price increased during the financial year under review and at the date of this report has shown the benefit of our improved performance with a strong appreciation since the end of the financial year. It is pleasing to see this reflected in the Total Shareholder return measure which is now showing a positive trend. The Board is confident that, as a result of the initiatives in place to increase mortgage origination volumes, increase the penetration of the Homeloans managed securitisation vehicle and continue cost control measures, the Consolidated Entity will continue to improve profitability.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	DIRECTORS' MEETINGS	AUDIT COMMITTEE	NOMINATIONS AND REMUNERATION COMMITTEE
Number of meetings held:	12	2	2
Number of meetings attended:			
T. A. Holmes	12	2	2
R. P. Salmon	12	2	2
R. N. Scott	12	2	2
B. D. Jones	11	-	-
J.L.A.Smith	3*	-	-

* There were 3 Director's meetings held during the period in which J.L.A. Smith was in office.

Committee Membership
As at the date of this report, the company had an Audit Committee and a Nomination and Remuneration Committee.

Members acting on the committees of the Board during the year were:

Audit
R.N Scott (Chairman)
T.A. Holmes
R.P. Salmon

Nomination and Remuneration Committee
T.A. Holmes (Chairman)
R.N Scott
R.P. Salmon

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the required declaration from the auditor of Homeloans Limited as to their compliance with auditor independence requirements of the Corporations Act. This declaration is shown on the next page and forms part of this report.

Non-Audit Services
The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor's independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services $21,583

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Executive Chairman

6 October 2006

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF HOMELOANS LIMITED

In relation to our audit of the financial report of Homeloans Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

R A Kirkby
Partner
Perth

6 October 2006


SOLD

05/06 Corporate Goverance

and Financial Statements

CORPORATE GOVERNANCE STATEMENT

The Board of Homeloans Ltd is committed to maintaining the highest standards of corporate governance. Corporate Governance establishes the framework for how the Board oversees the company and performs its functions on behalf of shareholders. The Board believes that good governance should be fully embedded in the company's framework and culture.

The Principles of Good Corporate Governance and Best Practice Recommendations published in March 2003 by the Australian Stock Exchange Corporate Governance Council, the Commonwealth Government's CLERP 9 reforms and the Australian Standard AS8000 Good Governance Principles have been examined in developing the company's corporate governance principles.

Due to the size of the company's operations, the Board is of the belief that a number of the ASX's recommendations are not appropriate or in the best interest of shareholders. In these cases, the board has elected not to follow the recommendations.

Homeloans Limited's corporate governance practices were in place throughout the year ended 30 June 2006 and were fully compliant with the Council's best practice recommendations except where noted.

For further information on corporate governance policies adopted by Homeloans Limited refer to our website:
www.homeloans.com.au/Corp/CorporateGovernance.aspx

Structure of the Board

The Board consists of directors with an appropriate mix of skill and experience, from different backgrounds, whom together provide the necessary breadth and depth of experience to meet the Board's roles and responsibilities.

The size of the Board is determined by the company's constitution which specifies a minimum of 3 and a maximum of 7 directors. The Board presently consists of 3 non-executive directors and 2 executive directors.

Board Responsibilities

The Board of Homeloans Ltd has the following responsibilities:

- oversee the conduct of the company's business to evaluate whether the business is being properly managed and to ensure that it is conducted in an honest and ethical manner;
- ensure that adequate procedures are in place to identify the principal risks of the company's business and delegate the implementation of appropriate systems to manage these risks to Board Committees and management;
- select, appoint, evaluate the performance of, determine the remuneration of, plan for the successor of, and removal of the Managing Director;
- ensure that adequate plans and procedures are in place for succession planning, including appointing, training and monitoring the performance of senior management;
- adopt a strategic planning process and review the company's financial objectives and major corporate plans and actions; and
- perform other functions as prescribed by law, or assigned to the Board to maximise shareholder value.

The Board of Directors may delegate the above responsibilities to its committees, a director or any other person of authority to perform any of its functions and exercise any of its powers.

Ultimate responsibility for the management and control of the company is vested in the directors, who may then delegate their power to management. The Board has a Delegation of Authority schedule in place, which is reviewed regularly.

An independent director is a non-executive director (i.e. is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company;
- within the last three years has not been employed in an executive capacity by the company or another Consolidated member;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another Consolidated Entity member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the company or other Consolidated member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the company or another Consolidated member other than as a director of the company; and
- is free from any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

It is the Board's view that Mr R.N. Scott is an independent non-executive director. The Board does not consist of a majority of independent directors.

The Board of Directors believes that it is hard to justify a larger Board given the size of the company's operations. They are also of the opinion that the company is actually benefiting from having the company's founders give of their experience in the industry and have a financial interest.

The term in office held by each director in office at the date of this report is as follows:

NAME	TERM IN OFFICE	NAME	TERM IN OFFICE
T.A Holmes	5yrs 11 months	B.D Jones	2 yrs 4 months
R.P Salmon	5yrs 11 months	J.L.A. Smith	7.5 months
R.N Scott	5yrs 11 months		

For additional details regarding Board appointments, please refer to our website.

Chairman of the Board

The Chairman of the Board is a non-executive director but is not an independent director. The Board believes that the Company benefits from the Chairman having a significant financial interest in the Company. Mr R N Scott is the lead independent director.

Succession Planning

The Board plans succession of its own members in conjunction with the Nomination and Remuneration Committee, taking into account the skill and experience of current board members and the company's future direction and needs.

The Board retains overall responsibility for succession planning of the Managing Director, via the Nomination and Remuneration Committee. The Nomination and Remuneration Committee and the Managing Director are responsible for the succession planning of other senior executives.

Review of Board and Senior Executives' Performance

The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and applicable budgets.

Senior executives participate in an annual performance review process which involves the establishment of performance objectives and measures, and the review of achievement. The process also involves assessment of remuneration tied to the company achieving its goals.

Conflict of Interest

Directors are required to disclose private or other business interests and any other matters which may lead to potential or actual conflict of interest to the Board.

Director's dealings with the company will always be at arm's length to avoid the possibility of actual and perceived conflict of interest.

Any director who has a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter.

Nomination and Appointment of New Directors

The Board's Nomination and Remuneration Committee has the responsibility for reviewing the membership of the Board on an annual basis to ensure the appropriate skill mix of the board as a whole.

Procedure for the selection and appointment of new directors:

- The Nomination and Remuneration Committee identifies the required skills, experience, and other qualities required of new directors;
- Potential candidates are then interviewed by members of the Nomination and Remuneration Committee and a short list prepared;
- The Board meets to consider the potential candidates, which is followed by Board members having the opportunity to interview any prospective candidate; and
- An appointment is then made by the Board.

Rotation of Directors

The company's constitution specifies that one third of the Board, excluding the Managing Director, must retire from the office and stand for re-election at each Annual General Meeting. Further, each director, excluding the Managing Director, must stand for re-election every 3 years.

Code of Conduct

The Company has a Code of Conduct to guide the directors, and key management personnel as to:

- the practices necessary to maintain confidence in the company's integrity;
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices; and,
- the guidelines for trading in the Company's securities.

Board Access to Information and Advice

All directors have access to any employees, company advisers, records and information they may require to carry out their duties. The Board also receive regular financial and operational reports from executive management.

Directors have the right to seek independent professional advice, in connection with their duties and responsibilities at the company's expense, to help them carry out their responsibilities. Prior notification to the Chairman, or the Board's approval, is required.

Board Education
The Board is committed to ensuring that new directors are familiar with the company's businesses. New directors are provided with an orientation and education program. Directors may undertake continuing education courses at the company's expense, with the prior approval of the Chairman or the Board.

Board Committees
There are currently two Board Committees whose powers and procedures are governed by the company's Constitution and the relevant Committee's charter. Other Committees may be established from time to time to consider matters of special importance.

The Board uses its committees to support it in matters which require more intensive review. Each committee has a written charter, approved by the Board defining its duties, reporting procedures and authority. Minutes from all Committee meetings are tabled at Board meetings.

Copies of the Board Committee charters are available on the company's website.

Nomination and Remuneration Committee
The primary duties of the committee are to:

- review the Board size and composition (mix of skill, experience and other competencies);
- determine and review position descriptions of directors and the Managing Director;
- develop and implement a process for the orientation and education of new directors;
- review and advise the Board on the remuneration of directors and senior management in light of company goals and objectives;
- recommend to the Board the succession plan for key senior management positions; and
- evaluate the effectiveness of the Board, its Committees and individual directors.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

Audit Committee
The primary functions of the Audit Committee are to:

- evaluate the adequacy and effectiveness of the internal control system and implement a risk management framework;
- appoint, monitor and review the activities of the company's external auditors;
- monitor the effectiveness and independence of the auditors;
- review and report to the board on the company's annual and half-year financial statements, and its accounting policies and principles adopted;
- ensure adequate compliance controls; and
- review and recommend any appropriate amendments to corporate governance policies and framework.

The Audit Committee consists of three non-executive directors and an independent chairman. Owing to the size of the board and the fact that there is only one independent director it is not possible for the majority of the committee to comprise of independent directors.

For details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 23 of the Directors' Report.

The members of the Audit Committee during the year were:
Mr R.N. Scott (Chairman)
Mr R.P. Salmon
Mr T.A. Holmes

Qualifications of audit committee members were:
R.N Scott CA
R.P Salmon B Economics
T.A Holmes

Performance
The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and budget applicable.

Senior executives participate in an annual performance review process which involves the establishment of performance objectives and measures, and the review of achievement. The process also involves assessment of remuneration tied to the company achieving its goals.

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	HOMELOANS LIMITED 2006 $'000	HOMELOANS LIMITED 2005 $'000
Interest income	4(a)	45,806	38,580	162	69
Interest expense	4(d)	(36,824)	(32,843)	(670)	(456)
Net interest income		**8,982**	**5,737**	**(508)**	**(387)**
Fees and commission income	4(b)	29,410	32,792	29,963	28,520
Fees and commission expense	4(e)	(19,129)	(15,200)	(15,653)	(13,509)
Other operating income	4(c)	1,281	355	5,834	6,241
Impairment losses on loans and advances		-	-	-	-
General administrative expenses		(5,940)	(7,522)	(5,683)	(7,034)
Other operating expenses		(10,977)	(12,474)	(10,518)	(11,750)
Profit before income tax		**3,627**	**3,688**	**3,435**	**2,081**
Income tax expense	5	(1,030)	(1,196)	(1,152)	(739)
Net profit after income tax		**2,597**	**2,492**	**2,283**	**1,342**
Net profit attributable to members of the Homeloans Limited		**2,597**	**2,492**	**2,283**	**1,342**
Basic earnings per share (cents per share)	6	5.16	3.95		
Diluted earnings per share (cents per share)		4.03	3.70		
Unfranked dividend (cents per share)					
—Ordinary shares		2.50	1.50		

BALANCE SHEET AS AT 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	HOMELOANS LIMITED 2006 $'000	HOMELOANS LIMITED 2005 $'000
ASSETS					
Cash assets	8	25,574	16,946	300	769
Receivables	9	11,652	10,074	11,180	8,575
Loans and advances to customers	10	686,855	496,855	-	-
Deferred expenses	11	19,514	22,149	19,514	19,895
Other financial assets	12	17	-	19,195	19,178
Plant and equipment	13	1,672	1,957	1,672	1,957
Goodwill	14	15,996	15,996	-	-
TOTAL ASSETS		**761,280**	**563,977**	**51,861**	**50,374**
LIABILITIES					
Payables	16	9,383	6,045	11,721	8,932
Interest-bearing liabilities	17	707,514	515,781	2,162	4,691
Reset preference shares	18	4,998	-	4,998	-
Lease incentives	19	561	665	561	665
Deferred income tax liabilities	5	5,944	4,788	3,690	3,119
Provisions	20	680	573	680	573
TOTAL LIABILITIES		**729,080**	**527,852**	**23,812**	**17,980**
NET ASSETS		**32,200**	**36,125**	**28,049**	**32,394**
EQUITY					
Issued capital	21	48,624	53,395	48,624	53,395
Reserves	21	367	102	367	102
Accumulated losses	21	(16,791)	(17,372)	(20,942)	(21,103)
TOTAL EQUITY		**32,200**	**36,125**	**28,049**	**32,394**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006

	Attributable to equity holders of the parent			
	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
CONSOLIDATED				
At 1 July 2004	53,395	(19,360)	6	34,041
Profit for the year	-	2,492	-	2,492
Cost of share-based payment *	-	-	96	96
Equity dividends	-	(504)	-	(504)
At 30 June 2005	**53,395**	**(17,372)**	**102**	**36,125**
At 30 June 2005	53,395	(17,372)	102	36,125
*Adoption of AASB 132 and AASB 139 effective 1 July 2005 **				
—reset preference shares now treated as a liability	(4,771)	(134)	-	(4,905)
—reset preference dividend paid in respect of prior financial period	-	(42)	-	(42)
—net loss on recognition of derivative instruments	-	(46)	-	(46)
—net gain on recognition of financial assets and liabilities associated with the present value of future trailing commission income and expenses	-	415	-	415
—tax effect of above adjustments	-	(195)	-	(195)
At 1 July 2005	48,624	(17,374)	102	31,352
Profit for the year	-	2,597	-	2,597
Cost of share-based payment*	-	-	265	265
Equity dividends	-	(2,014)	-	(2,014)
At 30 June 2006	**48,624**	**(16,791)**	**367**	**32,200**

* Please refer Note 30 for details of all movements in equity arising from AIFRS.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	ISSUED CAPITAL $	ACCUMULATED LOSSES $	OTHER RESERVES $	TOTAL $
PARENT				
At 1 July 2004	53,395	(21,941)	6	31,460
Profit for the year	-	1,342	-	1,342
Cost of share-based payment *	-	-	96	96
Equity dividends	-	(504)	-	(504)
At 30 June 2005	**53,395**	**(21,103)**	**102**	**32,394**
At 30 June 2005	53,395	(21,103)	102	32,394
*Adoption of AASB 132 and AASB 139 effective 1 July 2005 **				
—reset preference shares now treated as a liability	(4,771)	(134)	-	(4,905)
—reset preference dividend paid in respect of prior financial period	-	(42)	-	(42)
—tax effect of above adjustments	-	68	-	68
At 1 July 2005	48,624	(21,211)	102	27,515
Profit for the year	-	2,283	-	2,283
Cost of share-based payment*	-	-	265	265
Equity dividends	-	(2,014)	-	(2,014)
At 30 June 2006	**48,624**	**(20,942)**	**367**	**28,049**

* Please refer Note 30 for details of all movements in equity arising from AIFRS.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	NOTE	CONSOLIDATED 2006 $'000	CONSOLIDATED 2005 $'000	HOMELOANS LIMITED 2006 $'000	HOMELOANS LIMITED 2005 $'000
Cash flows from operating activities					
Interest received		46,570	38,260	133	71
Interest paid		(35,577)	(32,715)	(579)	(451)
Loan fees and other income		35,531	39,451	25,866	30,043
Salaries and other expenses		(37,462)	(42,945)	(21,892)	(25,760)
Income taxes paid		(82)	(9)	(79)	-
Net cash flows from operating activities	8	8,980	2,042	3,449	3,903
Cash flows from investing activities					
Acquisition of Match Funds Management Limited	22	-	(262)	-	(262)
Purchase of plant and equipment		(199)	(168)	(199)	(168)
Refund of stamp duty claim		861	-	861	-
Loan to associate		(17)	-	(17)	-
Bond issuance costs		(716)	(154)	-	-
Net loans (advanced)/repayments from borrowers		(190,000)	65,579	(245)	-
Net cash flows (used in)/from investing activities		(190,071)	64,995	400	(430)
Cash flows from financing activities					
(Repayments to)/proceeds from warehouse facility		(153,978)	130,716	-	-
Proceeds from borrowings		6,488	-	1,500	-
Repayment of borrowings		(2,529)	(2,247)	(3,804)	(2,234)
(Repayments to)/proceeds from bondholders		341,751	(206,415)	-	-
Payment of dividends	7	(2,014)	(504)	(2,014)	(504)
Net cash flows from/(used in) financing activities		189,719	(78,450)	(4,318)	(2,738)
Net increase/(decrease) in cash held		8,628	(11,413)	(469)	735
Add: Opening cash brought forward		16,946	28,359	769	34
Closing cash carried forward	**8**	**25,574**	**16,946**	**300**	**769**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

NOTE 1: CORPORATE INFORMATION

The financial report of Homeloans Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of directors on 2 October 2006.

Homeloans Limited is a company limited by shares incorporated and domiciled in Australia. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

The nature of the operations and principal activities of the Consolidated Entity are described in note 3.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and certain financial liabilities, which have been measured at fair value.

The Consolidated Entity provides mortgage origination services and housing loans and is a financial institution to which AASB 130 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" applies.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first year financial report prepared based on Australian Equivalents to International Financial Reporting Standards ("AIFRS") and except for financial institutions comparatives for the full-year ended 30 June 2005 have been restated accordingly. From 1 July 2005, the Consolidated Entity elected to take the exemption under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation* from 1 July 2005.

For information on previous accounting policies, refer to the 30 June 2005 full financial report under previous AGAAP.

Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 30.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

A summary of the significant accounting policies of the Consolidated Entity under AIFRS are disclosed below.

AASB AMENDMENT	AFFECTED STANDARD(S)	NATURE OF CHANGE TO ACCOUNTING POLICY	APPLICATION DATE OF STANDARD	APPLICATION DATE FOR COMPANY
2005-1	AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: *First-time adoption of AIFRS*, AASB 139: *Financial Instruments: Recognition and Measurement*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 101: *Presentation of Financial Statements*, AASB 114: *Segment Reporting*, AASB 117: *Leases*, AASB 133: *Earnings per share*, AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 1: *First-time adoption of AIFRS*, AASB 1023: *General Insurance Contacts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121: *The Effects of Change in Foreign Currency Rates*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
New Standard	AASB 7: *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
New UIG	UIG 4: *Determining whether an Arrangement contains a Lease*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

The following amendments are not applicable to the Company and therefore have no impact.

AASB AMENDMENT	AFFECTED STANDARD(S)
2004-3	AASB 1: *First time adoption of AIFRS*, AASB 101: *Presentation of Financial Statements*, AASB124: *Related Party Disclosures*
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement*, AASB 132: *Financial Instruments: Disclosure and Presentation*, AASB 1: *First-time adoption of AIFRS*, AASB 1023: *General Insurance Contracts* and AASB 1028: *Life Insurance Contracts*
2005-6	AASB 3: *Business Combinations*
2005-9	AASB 4: *Insurance Contracts*, AASB 1023: *General Insurance Contracts*, AASB 139: *Financial Instruments: Recognition and Measurement* and AASB 132: *Financial Instruments: Disclosure and Presentation*
AASB 119	AASB 119 *Employee Benefits*
NEW UIG	UIG 5: *Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*
NEW UIG	UIG 6: *Liabilities Arising form Participating in a Specific Market—Waste Electrical and Electronic Equipment*
NEW UIG	UIG 7: *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*
NEW UIG	UIG 8: *Scope of AASB 2*
NEW UIG	UIG 9: *Reassessment of Embedded Derivatives*

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Homeloans Limited and its subsidiaries as at 30 June each year (the Consolidated Entity). The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-Consolidated transactions have been eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity and cease to be consolidated from the date on which control is transferred out of the Consolidated Entity.

(d) Investment in associate

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the Consolidated Entity has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Consolidated Entity's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Consolidated Entity determines whether it is necessary to recognize any additional impairment loss with respect to the Consolidated Entity's net investment in the associate. The consolidated income statement reflects the Consolidated Entity's share of the results of operations of the associate.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Where there has been a change recognised directly in the associate's equity, the Consolidated Entity recognises its share of any changes and discloses this in the consolidated statement of recognised income and expense

(e) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Lease incentives are recognised in the income statement as an integral part of the total lease.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Consolidated Entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or estimated useful lives of the improvements, whichever is the shorter.

(f) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(g) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including directors) and to business partners of the Consolidated Entity in the form of share-based payment transactions, whereby the recipients render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Scheme in place which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the use of a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the share of Homeloans Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and

(ii) the number of awards that, in the opinion of the directors of the Consolidated Entity, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

At balance date, the Consolidated Entity did not have on issue any options with attaching market based performance conditions.

(h) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Origination and loan management business-Managed Loans

- Application fee revenue received in respect of loans is recognised when the service has been provided;
- Origination commissions are recognised as revenue once the origination of the loan has been completed;
- Management commission income in respect of loans is recognised once the management service has been provided.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Origination of Non-managed Loans

- The company receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the Consolidated Entity is entitled to without having to perform further services. The company makes trailing commission payments to brokers and commission staff based on the amounts received under the trailing commission arrangement.
- On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the brokers and commissioned staff are also recognised, initially at fair value being the future trailing commission payable to brokers and commissioned staff discounted to their net present value.
- Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the Income Statement.

Securitisation of mortgages

- Interest income from loans and advances operated by the Residential Mortgage Trust is recognised as it accrues using the effective interest method.

(i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(j) Cash and cash equivalents

Cash on hand and in banks and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(k) Receivables

Trade receivables are recognised and carried at the original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when there is objective evidence of impairment. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

(l) Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Consolidated Entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

The Consolidated Entity utilises special purpose vehicles (SPV), which issue securities to investors. These SPVs meet the criteria of being 'subsidiaries' under AASB 127—*Consolidated and separate financial statements*. This transaction does not meet the criteria under AASB 139 *Financial Instruments: Recognition and Measurement* in regards to derecognition of financial instruments. Accordingly, the value of the securitised loans has been recorded in the balance sheet with the related interest earned and interest paid recognised through the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(m) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(n) Recoverable amount of financial assets

The Consolidated Entity assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Consolidated Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(o) Loans and advances

All loans and advances are initially recognised at fair value and include transaction costs associated with the loans and advances.

Loans and advances are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains and losses are recognised in income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(p) Plant and equipment

Cost and valuation
Items of plant and equipment are measured at cost less accumulated depreciation and any impairment in value.

Depreciation
Depreciation is provided on a straight-line basis on all plant and equipment over the estimated useful life of the asset as follows:

Plant and equipment—over 5 to 15 years.

Impairment
The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of a fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

(q) Trade and other payables
Liabilities for trade creditors and other amounts are carried at amortised cost.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(r) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at fair value.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method other than those which are measured at fair value through the profit and loss. Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains or losses are recognised in the income statement when the liabilities are derecognised and also as well as through the amortisation process.

(s) Reset preference shares
Reset Preference Shares are classified as debt within the Balance Sheet and measured at amortised cost. Distributions to the holders are treated as interest expense in the Income Statement and are not deductible for tax purposes. The costs associated with the issue of the Reset Preference Shares are charged to the Income Statement on an effective yield basis.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(t) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events and it is probable that a future sacrifice of economic benefits will be required and reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(u) Deferred expenses

Mortgage origination costs relating to managed loans that are directly attributable to establishing specific loans, other than those funded by a Residential Mortgage Trust, and which would not have been incurred had these contracts not been entered into, have been deferred. They are amortised at a rate of 2.335% (2005: 2.335%) per month on a reducing balance basis. This rate is equal to the long-term average monthly run-off rate applicable to the underlying loan book upon which the management income is earned.

(v) Taxes

Income tax

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

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

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the costs of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

Cash flows are included in the Statement of Cash Flows on a gross basis and 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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(x) Investments and other financial assets
The Consolidated Entity has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for investments and other financial assets applicable for the years ending 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006
Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* is classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Consolidated Entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Consolidated Entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category `financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Consolidated Entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Available-for-sale investments
Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

Accounting policies applicable for the year ending 30 June 2005
Listed shares held for trading were carried at net market value. Changes in net market value were recognised as a revenue or expense in determining the net profit for the period.

All other non-current investments were carried at the lower of cost and recoverable amount.

Recoverable amount
Non-current financial assets measured using the cost basis were not carried at an amount above their recoverable amount, and when a carrying value exceeded this recoverable amount, the financial asset was written down to its recoverable amount. In determining recoverable amount, the expected net cash flows were discounted to their present value using a market determined risk adjusted discount rate of 15.2%.

(y) Derivative financial instruments
The Consolidated Entity uses derivative financial instruments such as interest rate swaps to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

(z) Employee benefits
Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are recognised against profits on a net basis in their respective categories.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(aa) Earnings per share
Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, outstanding during the period, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for the after tax effect of:

- Costs of servicing equity (other than dividends) and preference share dividends;
- Dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(bb) Provision for impairment of loans and advances
Provision is made for impaired loans when there is objective evidence that the principal amount of the loan can be collected in accordance with the terms of the loan agreement.

The Consolidated Entity provides for impaired loans based on the difference between the carrying amount and the present value of future principal and interest repayments as well as expected recoveries.

(cc) Contributed equity
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(dd) Significant accounting judgements, estimates and assumptions

Significant accounting judgements
In the process of applying the group's accounting policies, management has made judgements, apart from those involving estimations, which have had an impact on the amounts recognised in the financial statements. No judgements have been determined to be individually significant.

Significant accounting estimates and assumptions
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

Impairment of goodwill
The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 14.

Share-based payment transactions
The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial valuation model, based on assumptions in note 15.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Provisions for loans and advances
The Company provides for impaired loans where there is a reasonable doubt whether the principal amount of the loan can be collected in accordance with the terms of the loan agreement.

The Company provides for loans and advances based on anticipated losses on loans that are known to be impaired (specifically impaired assets), and also based on prior historical loss evidence and other factors on a group basis (collectively impaired assets).

Deferred expenses
Mortgage origination costs relating to managed loans that are directly attributable to establishing specific loans, other than those funded by a Residential Mortgage Trust, and which would not have been incurred had these contracts not been entered into, are deferred. They are amortised at a rate of 2.335% per month on a reducing balance basis. This rate is equal to the long-term average monthly run-off rate applicable to the underlying loan book upon which the management income is earned.

NOTE 3: SEGMENT INFORMATION

The Consolidated Entity's primary segment reporting format is business segments as the Consolidated Entity's risks and rates of return are affected predominantly by differences in the products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Business segments
The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2006 and 30 June 2005. The Consolidated Entity has two identifiable business segments:

- Origination and management; and
- Securitisation of mortgages

The origination and management segment originates residential mortgages through external mortgage brokers, satellite offices and internal consultants. The funding for these mortgages is supplied by a pool of funders, and then the origination and management segment continues the ongoing management of that loan after it is processed and settled.

The securitisation of mortgages segment is the Consolidated Entity's own funding source. Using a series of mortgage trusts, this segment packages groups of mortgages and sells the income stream via a securitised mortgage trust.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Year ended 30 June 2006	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	112	45,434	45,546
Fee and commission income	34,924	5,976	40,900
Other operating income	1,973	170	2,143
Total segment revenue	37,009	51,580	88,589
Non-segment revenue			936
Inter-segment elimination			(13,028)
Total consolidated revenue			76,497
Result			
Segment results	7,155	342	7,497
Unallocated expenses			(2,810)
Profit / (loss) before tax and finance costs			4,687
Finance costs			(1,060)
Profit / (loss) before income tax and minority interest			3,627
Income tax expense			(1,030)
Net profit for the year			2,597
Assets and liabilities			
Segment assets	50,360	710,920	761,280
Total assets			761,280
Segment liabilities	8,401	703,360	711,761
Unallocated liabilities			17,319
Total liabilities			729,080
Other segment information			
Capital expenditure	199	-	199
Depreciation	457	-	457
Other non-cash expenses	595	310	905
Cash flow information			
Net cash flow from operating activities	3,538	5,442	8,980
Net cash flow from investing activities	(418)	(189,653)	(190,071)
Net cash flow from financing activities	(1,808)	191,527	189,719

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Year ended 30 June 2005	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	108	38,473	38,581
Fee and commission income	34,805	3,378	38,183
Other operating income	1,722	-	1,722
Total segment revenue	36,635	41,851	78,486
Inter-segment eliminations			(6,759)
Total consolidated revenue			71,727
Result			
Segment results	4,700	1,731	6,431
Unallocated expenses			(2,064)
Profit / (loss) before tax and finance costs			4,367
Finance costs			(679)
Share of profit of associate			-
Profit / (loss) before income tax and minority interest			3,688
Income tax expense			(1,196)
Net profit for the year			2,492
Assets and liabilities			
Segment assets	48,179	515,798	563,977
Total assets			563,977
Segment liabilities	7,121	510,539	517,660
Unallocated liabilities			10,192
Total liabilities			527,852
Other segment information			
Capital expenditure	168	-	168
Depreciation	562	-	562
Other non-cash expenses	1,386	303	1,689
Cash flow information			
Net cash flow from operating activities	4,174	(2,132)	2,042
Net cash flow from investing activities	3,593	61,402	64,995
Net cash flow from financing activities	(2,750)	(75,700)	(78,450)

GEOGRAPHICAL SEGMENTS

The Consolidated Entity's business segments are located in Australia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 4: REVENUES AND EXPENSES

		CONSOLIDATED		HOMELOANS LIMITED	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
	REVENUE				
(a)	**Interest income**				
	Interest received—other person/corporations	45,806	38,580	162	69
(b)	**Fee and commission income**				
	Mortgage origination income	12,654	16,276	17,574	16,320
	Loan management fees	16,756	16,516	12,389	12,200
(c)	**Other operating income**				
	Rental income	101	66	101	66
	Management fees—Wholly owned controlled entities	-	-	4,563	5,917
	Telemarketing	79	201	79	201
	Insurance commission	87	85	87	85
	Stamp duty refund	846	-	846	-
	Other	168	3	158	(28)
		76,497	71,727	35,959	34,830
	EXPENSES				
(d)	**Interest expense**				
	Interest on bank loan	464	678	166	456
	Interest on reset preference shares	504	-	504	-
	Interest payable to bondholders	16,632	22,736	-	-
	Interest payable to warehouse facility provider	19,224	9,429	-	-
		36,824	32,843	670	456
(e)	**Fee and commission expense**				
	Mortgage origination expense	10,886	7,570	10,469	8,151
	Loan management expense	8,243	7,630	5,184	5,358
		19,129	15,200	15,653	13,509
(f)	**General administrative expenses**				
(i)	**Depreciation consists of:**				
	Depreciation and amortisation of:				
	Plant and equipment	39	38	39	38
	Plant and equipment under lease	418	524	418	524
		457	562	457	562
(ii)	**Employee benefits consists of:**				
	Wages & salaries	8,080	9,115	8,080	9,115
	Workers' compensation costs	49	52	49	52
	Annual leave provision	2	(42)	2	(42)
	Long service leave provision	94	(16)	94	(16)
	Share-based payments expense	265	96	265	96
	Other employee costs	1,853	2,426	1,843	2,426
		10,343	11,631	10,343	11,631

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 5: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	-	-	635	679
Adjustments in respect of current income tax of previous years	-	-	70	-
Deferred income tax				
Relating to origination and reversal of temporary differences	1,030	1,196	447	60
Income tax expenses reported in the income statement	1,030	1,196	1,152	739

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Consolidated Entity's applicable income tax rate is as follows:

	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Accounting profit before income tax	3,627	3,688	3,435	2,081
At the Consolidated Entity's statutory income tax rate of 30% (2005: 30%)	1,088	1,106	1,030	624
Reset preference share interest	151	-	151	-
Stamp duty settlement	(258)	-	(258)	-
Entertainment expenses	32	35	32	35
Share option expense	79	29	79	29
Other	(62)	26	118	51
Income tax expense reported in the consolidated income statement	1,030	1,196	1,152	739

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	BALANCE SHEET		INCOME STATEMENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred tax income				
Deferred income tax at 30 June related to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Deferred expenses	(5,854)	(6,645)	(791)	454
Effective interest adjustments—Deferred selling expenses	(1,673)	(1,002)	671	24
Derivative instrument	(14)	-	21	-
Prepayments	(59)	(79)	(20)	(56)
Leased assets	(375)	(500)	(125)	(214)
Accrued income	(1,377)	(882)	495	(71)
Application of AASB 132 and AASB 139	(799)	-	664	-
Deferred income tax liabilities	(10,151)	(9,108)		
Deferred tax assets				
Losses available for offset against future taxable income	3,022	3,145	123	766
Accrued expenses	223	104	(119)	44
Effective interest adjustments—Deferred application fee margins	223	142	(81)	(7)
Lease incentives	168	199	31	(21)
Finance leases	318	463	145	180
Provisions	204	172	(32)	50
Capital items	49	95	48	47
Deferred income tax assets	4,207	4,320		
Net deferred income tax liabilities	(5,944)	(4,788)		
Deferred tax expense			1,030	1,196

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	BALANCE SHEET		INCOME STATEMENT	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
PARENT				
Deferred tax liabilities				
Deferred expenses	(5,854)	(5,840)	14	121
Prepayments	(56)	(74)	(17)	(49)
Leased assets	(375)	(500)	(125)	(214)
Accrued income	(1,377)	(882)	495	(69)
Deferred income tax liabilities	(7,662)	(7,296)		
Deferred tax assets				
Losses available for offset against future profits	3,022	3,145	-	-
Accrued expenses	209	104	(105)	44
Lease incentives	168	199	31	(21)
Provisions	204	172	(32)	50
Capital items	51	95	44	18
Finance leases	318	463	142	180
Deferred income tax assets	3,972	4,178		
Net deferred income tax liabilities	(3,690)	(3,118)		
Deferred tax expense			447	60

Tax consolidation
Effective 1 July 2003, for the purposes of income taxation, Homeloans Limited and its 100% owned subsidiaries formed a tax consolidated group. The members of the group have entered into a tax sharing and funding arrangement in order to allocate income tax liability to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Homeloans Limited.

Homeloans Limited formally notified the Australian Tax Office of its adoption of the tax consolidation regime when it lodged its 30 June 2004 consolidated tax return.

Tax effect accounting by members of the tax consolidated group
Members of the tax consolidated group have entered into a tax sharing and funding agreement. The tax sharing and funding agreement provides for the allocation of the current income tax liability to members of the tax consolidated group based on a group allocation approach.

The allocation of taxes under the tax sharing and funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax Consolidated Entity's head company, Homeloans Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 6: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2006 $'000	2005 $'000
Net profit attributable to ordinary equity holders of the parent	2,597	2,492
Reset preference share dividend	-	(504)
Net profit used in calculating basic earnings per share	2,597	1,988
Add back: reset preference share dividend	-	504
Net profit attributable to ordinary equity holders used in the calculation of diluted EPS	2,597	2,492

Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	50,354	50,354
Effect of dilution:		
Share options	155	-
Reset preference shares	13,886	16,976
Weighted average number of ordinary shares adjusted for the effect of dilution	64,395	67,330
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	6	-

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 7: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Declared and paid during the year:				
Unfranked dividends:				
Final dividend on ordinary shares for 2005— 1.5 cents per share (2004: Nil cents)	755	-	755	-
Interim dividend on ordinary shares for 2006— 2.5 cents per share (2005: Nil cents)	1,259	-	1,259	-
Reset preference shares for 2006— 100 cents per share (2005: 100 cents)*	-	504	-	504
	2,014	504	2,014	504
Proposed for approval at AGM (not recognised as a liability as at 30 June):				
Dividends on ordinary shares:				
Final unfranked dividend for 2006— 2.5 cents (2005: 1.5 cents)	1,259	755	1,259	755

* As of 1 July 2005 Reset Preference Shares are now treated as a liability under the application of AASB 132 *Financial Instruments: Disclosure and Presentation*. The Company has adopted the AASB 1 *First Time adoption of AIFRS* option of applying AASB 132 and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Correspondingly, the dividends paid on the Reset Preference Shares are now treated as an interest expense.

Franking credit balance available at 30 June 2006 was $109,000 (2005—$21,000).

NOTE 8: CASH ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reconciliation to Cash Flow Statement				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at banks and in hand	25,505	16,392	300	269
Short-term deposits	69	554	-	500
	25,574	16,946	300	769

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Consolidated Entity, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is $25,574,000 (2005: $16,946,000).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	2,597	2,492	2,283	1,342
Adjustments for:				
Depreciation	457	562	457	562
Asset write off	-	537	-	537
Amortisation of bond distribution costs	310	303	-	-
Amortisation of Eurofinance	249	949	249	949
Amortisation of prepaid royalties & commissions	81	342	81	326
Amortisation of reset preference share issue costs	92	-	92	-
Stamp duty refund	(861)	-	(861)	-
Net (profit)/loss on disposal of plant and equipment	-	35	-	33
Share options expensed	265	96	265	96
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(1,502)	(2,612)	(2,605)	(1,385)
(Increase)/decrease in deferred expenses	2,636	(1,515)	381	(828)
(Decrease)/increase in deferred tax liabilities	1,156	1,188	571	1,196
(Decrease)/increase in current tax liability	(12)	(12)	(12)	(12)
(Increase)/decrease in trade and other payables	3,508	(311)	1,775	1,099
(Decrease)/increase in non-interest bearing liabilities	(104)	56	(104)	56
(Decrease)/increase in provisions	108	(68)	108	(68)
Net cash from operating activities	8,980	2,042	2,680	3,903

Disclosure of financing facilities
Refer to note 17.

Disclosure of non-cash financing and investing activities
Refer to note 13 and note 22.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 9: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Fees receivable				
Non-related parties (i)	10,035	8,063	6,787	4,816
Related parties—wholly owned controlled entity (ii)	-	-	4,031	2,679
Associate	11	-	-	-
	10,046	8,063	10,818	7,495
Prepaid royalties and trailing commissions (iii)	145	214	134	192
Loan book receivable (Eurofinance)	-	249	-	249
Prepayments and other (iv)	1,461	1,548	228	639
	11,652	10,074	11,180	8,575

Terms and conditions relating to the above financial instruments

(i) Fees receivable are non-interest-bearing and on settlement terms of between 4 to 60 days

(ii) Details of the terms and conditions of related party receivables are set out in Note 26.

(iii) Prepaid royalties and trailing commissions represent the buyout of royalty and trailer commitments. These are amortised over the average loan life of 50 months (See note 11).

(iv) Prepayments and other are non-interest-bearing and include GST refunds due in the ordinary course of business within 30 days and various retrospective GST claims receivable within 6 months

NOTE 10: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loans and advances to customers	686,855	496,855	-	-
Maturity Analysis				
Loans will be repaid under current repayment arrangements over the following periods:				
Up to 3 months	335	-	-	-
From 3 months to 1 year	171	-	-	-
From 1 year to 5 years	14,205	14,979	-	-
From 5 years and over	672,144	481,876	-	-

Loans and advances to customers represents lending for residential mortgages at either fixed or floating rates. At 30 June 2006 the weighted average interest rate on these loans was 7.35% (2005: 7.27%). Refer Financial Risk Management—Note 24.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 11: DEFERRED EXPENSES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Deferred expenses	19,514	22,149	19,514	19,895

Mortgage origination costs relating to managed loans that are directly attributable to establishing specific loans, other than those funded by a Residential Mortgage Trust, and which would not have been incurred had these contracts not been entered into, have been deferred. They are amortised at a rate of 2.335% (2005: 2.335%) per month on a reducing balance basis. This rate is equal to the long-term average monthly run-off rate applicable to the underlying loan book upon which the management income is earned.

NOTE 12: OTHER FINANCIAL ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Loan to associate	17	-	17	-
Investments in controlled entities (Note 26)	-	-	19,178	19,178
	17	-	19,195	19,178

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 13: PLANT AND EQUIPMENT

	CONSOLIDATED	HOMELOANS LIMITED
	PLANT AND EQUIPMENT $'000	PLANT AND EQUIPMENT $'000
Year ended 30 June 2006		
At 1 July 2005, net of accumulated depreciation and impairment	1,957	1,957
Additions	172	172
Depreciation charge for the year	(457)	(457)
At 30 June 2006, net of accumulated depreciation and impairment	1,672	1,672
At 30 June 2006		
Cost or fair value	5,212	5,212
Accumulated depreciation and impairment	(3,540)	(3,540)
Net carrying amount	1,672	1,672
Year ended 30 June 2005		
At 1 July 2004, net of accumulated depreciation and impairment	2,809	2,809
Additions	288	288
Disposals	(41)	(41)
Write-off*	(537)	(537)
Depreciation charge for the year	(562)	(562)
At 30 June 2005, net of accumulated depreciation and impairment	1,957	1,957
At 30 June 2005		
Cost or fair value	5,044	5,044
Accumulated depreciation and impairment	(3,087)	(3,087)
Net carrying amount	1,957	1,957

The useful life of the assets was estimated as follows both for 2005 and 2006:

Plant and equipment 5 to 15 years

All balances of Plant & Equipment have been granted first mortgages as security over bank loans. The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The first mortgage holder also requires all assets to be fully insured at all times.

The carrying value of plant and equipment held under finance leases at 30 June 2006 is $1,249,000 (2005: $1,668,000). Additions during the year include $Nil (2005: $70,000) of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease.

* The $537,000 represents the write-off of certain plant and equipment as a result of the closure and relocation of various Homeloans offices during the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 14: GOODWILL

	CONSOLIDATED $'000	HOMELOANS LIMITED $'000
Year ended 30 June 2006		
At 1 July 2005, net of impairment	15,996	-
Less: Impairment	-	-
At 30 June 2006, net of impairment	15,996	-
At 30 June 2006		
Cost (gross carrying amount)	15,996	-
Less: Impairment	-	-
Net carrying amount	15,996	-
Year ended 30 June 2005		
At 1 July 2004, net of impairment	15,996	-
Less: Impairment	-	-
At 30 June 2005, net of impairment	15,996	-
At 30 June 2005		
Cost (gross carrying amount)	15,996	-
Less: Impairment	-	-
Net carrying amount	15,996	-

Goodwill acquired through business combinations have been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Origination and Management
- Securitisation of Mortgages

Origination and Management
The recoverable amount of the Origination and Management cash generating unit has been determined based on a value in use calculation using cash flow projections covering a 3 year period, which are then extrapolated for 32 years at a constant growth rate of 3% per annum.

The pre tax discount rate applied to cash flow projections is 15.2%.(2005: 15.2%).

Securitisation of Mortgages
The recoverable amount of the Securitisation of Mortgages cash generating unit is determined based on a value in use calculation using cash flow projections covering a 3 year period, which are then extrapolated for 32 years at a constant growth rate of 3% per annum.

The pre tax discount rate applied to cash flow projections is 15.2%.(2005: 15.2%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Carrying amount of goodwill allocated to each of the cash generating units

	CONSOLIDATED					
	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		TOTAL	
	2006	2005	2006	2005	2006	2005
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount of goodwill	10,467	10,467	5,529	5,529	15,996	15,996

Key assumptions used in the value in use calculation for the Origination and Management CGU and the Securitisation of Mortgages CGU for 30 June 2006 and 30 June 2005

The following describes each key assumption on which management has based its cash flow projections when determining the value in use of the Origination and Management CGU and the Securitisation of Mortgages CGU:

- Inflation—constant 3.5% per annum
- Taxation—Cashflows are gross of tax and any deferred tax asset or liability has been excluded from the net assets used in valuing the goodwill. Tax losses are currently available to the Consolidated group.
- Volumes—Management have allowed for a continuation of the current growth patterns in our market as follows:

	2007	2008	2009	POST 2009
Origination and Management				
—Formalled loans	16%	8%	5%	3%
—Funds under management	8%	10%	11%	8%
Securitisation of Mortgages				
—Volume of formalled loans through RMT	31%	31%	31%	31%
—RMT funds under management	37%	27%	22%	15%

- RMT pays to the Origination and Management CGU both an origination and management fee based on external funder's rates.
- Interest margin earned of 0.9% within RMT
- Maintenance of existing commission rates earned and paid

NOTE 15: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan
An employee option plan exists where eligible employees of the Consolidated Entity, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently 22 members of this plan of whom 18 are current employees or directors.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Information with respect to the number of options granted are as follows:

	2006		2005	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	8,130,000	0.66	3,720,000	1.03
Granted during the year	2,905,000	0.42	5,175,000	0.43
Forfeited during the year	(3,155,000)	0.89	(315,000)	0.80
Exercised during the year	-	-	-	-
Outstanding at the end of the year	7,880,000	0.48	8,130,000	0.66
Exercisable at the end of the year	3,025,000	0.57	4,580,000	0.82

Options held at the beginning of the reporting period:
The following table summarises information about options held by employees as at 1 July 2005:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
400,000	9 March 2001	19 March 2002	9 March 2006	1.00	0.99
400,000	9 March 2001	19 March 2003	9 March 2006	1.15	0.99
400,000	9 March 2001	19 March 2004	9 March 2006	1.30	0.99
227,500	27 March 2001	27 March 2003	27 March 2006	1.01	1.05
227,500	27 March 2001	27 March 2004	27 March 2006	1.01	1.05
100,000	29 April 2002	1 April 2004	1 April 2007	0.99	0.94
100,000	29 April 2002	1 April 2005	1 April 2007	0.99	0.94
250,000	2 May 2002	27 March 2003	27 March 2006	1.01	0.90
250,000	2 May 2002	27 March 2004	27 March 2006	1.01	0.90
250,000	2 May 2002	1 April 2004	1 April 2007	0.99	0.90
250,000	2 May 2002	1 April 2005	1 April 2007	0.99	0.90
100,000	1 April 2003	21 January 2005	21 January 2008	0.52	0.50
100,000	1 April 2003	21 January 2006	21 January 2008	0.52	0.50
375,000	1 December 2004	1 December 2004	1 December 2009	0.40	0.34
500,000	1 December 2004	1 June 2005	1 December 2009	0.45	0.34
500,000	1 December 2004	1 June 2006	1 December 2009	0.50	0.34
750,000	7 December 2004	7 December 2004	7 December 2009	0.40	0.35
1,000,000	7 December 2004	31 March 2006#	7 December 2009	0.45	0.35
1,000,000	7 December 2004	31 March 2007#	7 December 2009	0.50	0.35
475,000	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
475,000	14 January 2005	14 December 2007	14 December 2009	0.53	0.38
8,130,000				**0.66**	**0.57**

\# Performance hurdles are involved in the conditions for vesting of these options (see note 29)

^^ Average share price on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Options granted:
The following table summarises information about options granted by Homeloans Limited during the year:

FAVOUREE	GRANT DATE	NUMBER GRANTED	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $
Director	14 October 2005	100,000	31 August 2006	31 August 2009	0.36
	14 October 2005	150,000	31 August 2007	31 August 2010	0.46
	23 November 2005	315,000	31 August 2006	31 August 2009	0.36
	23 November 2005	310,000	31 August 2007	31 August 2010	0.46
	20 February 2006	200,000	31 August 2006	31 August 2009	0.36
	20 February 2006	300,000	31 August 2007	31 August 2010	0.46
Mortgage Asset Services Pty Ltd	7 April 2006 (A)	250,000	30 September 2006	7 December 2009	0.36
	7 April 2006 (B)	250,000	31 March 2007	7 December 2009	0.46
	7 April 2006 (C)	250,000	31 December 2006	7 December 2009	0.51
Staff	14 October 2005	312,000	31 August 2006	31 August 2009	0.36
	14 October 2005	468,000	31 August 2007	31 August 2010	0.46
		2,905,000			

(A)—only exercisable if average mortgage settlements in any three (3) month period prior to 30 September 2006 exceeds $100 million per month.
(B)—only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2007 exceeds $112.5 million per month.
(C)—only exercisable if average mortgage settlements in any three (3) month period prior to 31 December 2007 exceeds $137.5 million per month.

Fair values of options:
The fair value of each option is estimated on the date of grant using a Binomial option-pricing model with the following weighted average assumptions used for grants made:

GRANT DATE	14 OCT 05	14 OCT 05	23 NOV 05	23 NOV 05	20 FEB 06
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%
Expected volatility	45%	45%	45%	45%	45%
Risk-free interest rate	5.266%	5.276%	5.143%	5.157%	5.052%
Expected life of option	3.9 years	4.9 years	3.8 years	4.8 years	3.5 years

GRANT DATE	20 FEB 06	7 APR 06	7 APR 06	7 APR 06
Dividend yield	3.0%	3.0%	3.0%	3.0%
Expected volatility	45%	45%	45%	45%
Risk-free interest rate	5.048%	5.423%	5.337%	5.337%
Expected life of option	4.5 years	3.7 years	3.7 years	3.7 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on period from grant date to expiry as so far no options have been exercised, and is therefore not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Options exercised:
No options were exercised by employees during the year ended 30 June 2006, or during the previous year ended 30 June 2005.

Options held as at the end of the year:
The following table summarises information about options held by employees as at 30 June 2006:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE^^ $
100,000	29 April 2002	1 April 2004	1 April 2007	0.99	0.94
100,000	29 April 2002	1 April 2005	1 April 2007	0.99	0.94
250,000	2 May 2002	1 April 2004	1 April 2007	0.99	0.90
250,000	2 May 2002	1 April 2005	1 April 2007	0.99	0.90
100,000	1 April 2003	21 January 2005	21 January 2008	0.52	0.50
100,000	1 April 2003	21 January 2006	21 January 2008	0.52	0.50
375,000	1 December 2004	1 December 2004	1 December 2009	0.40	0.34
500,000	1 December 2004	1 June 2005	1 December 2009	0.45	0.34
500,000	1 December 2004	1 June 2006	1 December 2009	0.50	0.34
750,000	7 December 2004	7 December 2004	7 December 2009	0.40	0.35
1,000,000	7 December 2004	7 December 2004 (D)	7 December 2009	0.50	0.35
475,000	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
475,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
412,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
618,000	14 October 2005	31 August 2007	31 August 2010	0.46	0.45
315,000	23 November 2005	31 August 2006	31 August 2009	0.36	0.40
310,000	23 November 2005	31 August 2007	31 August 2010	0.46	0.40
200,000	20 February 2006	31 August 2006	31 August 2009	0.36	0.42
300,000	20 February 2006	31 August 2007	31 August 2010	0.46	0.42
250,000	7 April 2006	30 September 2006 (A)	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007 (B)	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 (C)	7 December 2009	0.51	0.40
7,880,000				**0.48**	**0.43**

(A)—only exercisable if average mortgage settlements in any three (3) month period prior to 30 September 2006 exceeds $100 million per month.
(B)—only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2007 exceeds $112.5 million per month.
(C)—only exercisable if average mortgage settlements in any three (3) month period prior to 31 December 2007 exceeds $137.5 million per month.
(D)—Only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2007 exceeds $225 million per month

^^ Weighted average share price on the date of grant.

Superannuation Commitments
Employees and the employer contribute to a number of complying accumulation funds at varying percentages of salaries and wages. The Consolidated Entity's contributions of up to 9% of employees' wages and salaries are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 16: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Trade payables (i)	520	515	520	515
Payable to related parties:				
Wholly-owned Consolidated Entity				
—controlled entity	-	-	7,474	5,151
Accrued commissions (ii)	2,262	1,550	2,231	1,510
Sundry creditors and accruals (iii)	3,607	2,231	1,291	1,549
Cash flow claim creditors (iv)	205	195	205	195
Current income tax payable	-	12	-	12
Interest payable (v)	2,789	1,542	-	-
	9,383	6,045	11,721	8,932

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.

(ii) Accrued commissions are non-interest bearing and are payable between 30 and 90 days.

(iii) Sundry creditors and accruals are non-interest bearing are normally settled on 30 day terms.

(iv) Cash flow claim creditors are non-interest bearing are normally settled on 30 day terms.

(v) Interest payable is non-interest bearing and is payable within 30 days.

NOTE 17: INTEREST-BEARING LIABILITIES

	MATURITY	CONSOLIDATED		HOMELOANS LIMITED	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
Bank loans					
Secured bank loans (ii)	31/12/2007	1,000	2,975	1,000	2,975
Net interest margin (iii)	12/12/2007	5,377	2,418	-	-
Warehouse facility (iv)	20/12/2006	60,531	214,508	-	-
Non-bank loans					
Obligations under finance leases and hire purchase contracts (v)	2007—2009	1,162	1,716	1,162	1,716
Bonds (vi)	2028—2038	635,915	294,164	-	-
Other (vii)	On demand	3,529	-	-	-
		707,514	515,781	2,162	4,691

Terms and conditions relating to the above financial instruments:

(i) The Company has a bank overdraft which is not utilised at year end. The bank overdraft is repayable on demand. Interest is charged at the bank's floating rate. The overdraft is secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities.

(ii) Secured bank loans incur interest at the bank bill rate plus a margin. The bank loans are secured by way of registered first mortgages over all assets and

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

undertakings of the Company and its controlled entities. Interest is recognised at an average rate of 6.7% (2005: 6.6%).

(iii) The Net interest margin facility incurs interest at the bank bill rate plus a margin. The facility is secured by specified cash flows from the assets of the Residential Mortgage Trusts and is guaranteed by the Company. Interest is recognised at an average rate 7.7% (2005: 7.4%).

(iv) The Warehouse Facility incurs interest at the bank bill rate plus a margin. The facility is secured by the assets of the warehouse trust. Interest is recognised at an average rate 6.15% (2005: 5.99%).

(vii) Finance leases and hire purchases have an average lease term of 4.8 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 8.74% (2005: 8.14%). The lease liability is secured by a charge over the leased assets.

(vi) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. Interest is recognised at an average rate 6.09% (2005: 6.09%).

(vii) Other loans represents short term funding provided by the sub-servicer appointed to administer the Residential Mortgage Trusts. This funding is usually for 24 hours only and is repaid from RMT bank accounts the following day. Interest is recognised at an average rate 5.25% (2005: 5.25%).

Fair value disclosures

Details of the fair value of the Consolidated Entity's interest bearing liabilities are set out in note 24.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Total Facilities				
—bank overdraft	900	900	900	900
—cash advance	9,800	11,100	3,800	5,100
—RMT warehouse facility	500,000	350,000	-	-
	510,700	362,000	4,700	6,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Facilities used at reporting date				
—bank overdraft	-	-	-	-
—cash advance	6,377	5,392	1,000	2,975
—RMT warehouse facility	60,531	214,508	-	-
	66,908	219,900	1,000	2,975
Facilities unused at reporting date				
—bank overdraft	900	900	900	900
—cash advance	3,423	5,708	2,800	2,125
—RMT warehouse facility	439,469	135,492	-	-
	443,792	142,100	3,700	3,025
Total facilities	510,700	362,000	4,700	6,000
Facilities used at reporting date	66,908	219,900	1,000	2,975
Facilities unused at reporting date	443,792	142,100	3,700	3,025

Assets pledged as security
The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
ASSETS				
First mortgage				
Finance lease	1,249	1,668	1,249	1,668
Plant and equipment	423	289	423	289
Loans and advances to customers	686,855	496,855	-	-
Floating charge				
Cash assets	25,574	16,946	300	769
Receivables	11,652	10,074	11,180	8,575
Total assets pledged as security	725,753	525,832	13,152	11,301

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 18: RESET PREFERENCE SHARES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Reset preference shares	4,998	-	4,998	-

At 30 June 2006, there are 503,528 reset preference shares on issue. Each share has a nominal value of $10.00 and may be convertible at the option of the Company or the shareholder into ordinary shares on 30 November 2006 on the basis of a minimum of 20 ordinary shares and a maximum of 50 ordinary shares for each reset preference share. The final conversion factor will depend on the average share price over the last 20 trading days prior to the reset date.

Reset preference shares carry a cumulative entitlement to an unfranked dividend of 10% per annum payable half yearly (31 May and 30 November) in arrears until conversion to ordinary shares or into cash.

The first reset date is 30 November 2006. Reset dates after the first reset date are expected to be every three years. If the dividend is franked to any extent, it will be reduced so that the after tax return to the holder is the same as it would have been if the dividend were unfranked.

Reset preference shares do not entitle their holder to a vote at a meeting of the company, except in certain circumstances.

As of 1 July 2005, Reset Preference Shares are now treated as a liability under the application of AASB 132 *Financial Instruments: Disclosure and Presentation.* The Company has adopted the AASB 1 *First Time adoption of AIFRS* option of applying AASB 132 and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. Correspondingly, the dividends paid on the Reset Preference Shares are now treated as an interest expense.

NOTE 19: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Lease incentives	561	665	561	665

Terms and conditions relating to the lease incentive

(i) Net rental incentives were received or are receivable in the form of an upfront cash incentive and rent-free periods by the Consolidated Entity for entering into a non-cancellable operating lease for premises occupied by the chief entity. This was entered into in September 2003 in respect of the Head Office of the chief entity.

The lease term for the Head Office premises is 10 years. The value of these incentives has been deferred and amortised against occupancy costs over the lease term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 20: PROVISIONS

	LONG SERVICE LEAVE $'000	ANNUAL LEAVE $'000	TOTAL $'000
CONSOLIDATED			
At 1 July 2005	25	548	573
Arising during the year	96	11	107
At 30 June 2006	121	559	680
PARENT			
At 1 July 2005	25	548	573
Arising during the year	96	11	107
At 30 June 2006	121	559	680

NOTE 21: CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Ordinary shares issued and fully paid	48,624	48,624	48,624	48,624
Reset preference shares fully paid	-	4,771	-	4,771
	48,624	53,395	48,624	53,395

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Terms and conditions of contributed equity

Ordinary shares
Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Reset preference shares
Reset preference shares carry a cumulative entitlement to an unfranked dividend of 10% per annum payable half yearly (31 May and 30 November) in arrears until conversion to ordinary shares or into cash.

The first reset date is 30 November 2006. Reset dates after the first reset date is expected to be every three years. If the dividend is franked to any extent it will be reduced so that the after tax return to the holder is the same as it would have been

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

if the dividend were unfranked.

Reset preference shares do not entitle their holder to a vote at a meeting of the company, except in certain circumstances.

As of 1 July 2005, Reset Preference Shares are now treated as a liability under the application of AASB 132 *Financial Instruments: Disclosure and Presentation*. The Company has adopted the AASB 1 *First Time adoption of AIFRS* option of applying AASB 132 and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. Correspondingly, the dividends paid on the Reset Preference Shares are now treated as an interest expense.

	CONSOLIDATED		HOMELOANS LIMITED	
	THOUSANDS	$'000	THOUSANDS	$'000
Movement in ordinary shares on issue				
At 1 July 2004	50,354	48,624	50,354	48,624
Issued during the year	-	-	-	-
At 1 July 2005	50,354	48,624	50,354	48,624
Issued during the year	-	-	-	-
At 30 June 2006	50,354	48,624	50,354	48,624
Movement in reset preference shares on issue				
At 1 July 2004	504	4,771	504	4,771
Issued during the year	-	-	-	-
At 30 June 2005	504	4,771	504	4,771
Reclassification as interest bearing liability 1 July 05	(504)	(4,771)	(504)	(4,771)
Issued during the year	-	-	-	-
At 30 June 2006	-	-	-	-

Refer to note 18 for the terms attaching to the reset preference shares.

Share options
There were 2,905,000 options (2005: 5,175,000) over ordinary shares granted during the financial year.

At the end of the year there were 7,880,000 (2005: 8,130,000) unissued ordinary shares in respect of which options were outstanding. For more information refer to note 15.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Accumulated losses
Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance 30 June	(17,372)	(19,360)	(21,103)	(21,941)
Application of AASB 132 and AASB 139				
—reset preference shares now treated as a liability	(134)	-	(134)	-
—net loss on recognition of derivative instruments	(46)	-	-	-
—reset preference dividend paid during the period in respect of the prior year	(42)	-	(42)	-
—net gain on recognition of financial assets and liabilities associated with the present value of future trailing commission income and expenses	415	-	-	-
—tax effect of changes in respect of the above items	(195)	-	68	-
Balance 1 July	17,374	(19,360)	(21,211)	(21,941)
Net profit for the year	2,597	2,492	2,283	1,342
Dividends	(2,014)	(504)	(2,014)	(504)
Balance 30 June	(16,791)	(17,372)	(20,942)	(21,103)

Employee Option Reserve
Movements in the employee option reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Balance 1 July	102	6	102	6
Charge for the period	265	96	265	96
Balance 30 June	367	102	367	102

The employee option reserve recognises the fair value of options issued to employees and other related parties as remuneration and charges this to the income statement. It applies to all share-based payments issued after 7 November 2002 , which have not vested as at 1 January 2005. The option value is calculated using a Binomial model and the value is charged to the Employee Option Reserve over the period in which the options are due to vest. The value allocated to each option issue is determined, among other things, by reference to likelihood of the recipient exercising the option, the share price at the date of grant, the volatility of the share price, and current risk free interest rates (see Note 15).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 22: ACQUISITION OF CONTROLLED ENTITY

On 16 September 2004, Homeloans Ltd acquired 100% of the voting share capital of Match Funds Management Limited, a public company incorporated in Australia, that holds an Australian Financial Services Licence to operate as a Responsible Entity. The components of the acquisition cost were:

	$000'S
Consideration	
—cash paid in the year ended 30 June 2004	28
—cash paid in the year ended 30 June 2005	315
	343
Net Assets acquired	
—cash	53
—plant and equipment	4
—other financial assets	4
	61
—trade creditors	(2)
—fair value of net tangible assets acquired	60
—goodwill arising on acquisition	280
Carrying value of investment	340
—GST paid on acquisition costs	3
	343
Net cash effect	
Cash consideration paid	315
Cash included in net assets acquired	(53)
Net cash paid for purchase of controlled entity	262

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 23: AVERAGE BALANCE SHEET AND INTEREST RATES

The following table sets out the major categories of interest earning assets and liabilities

	CONSOLIDATED 2006			CONSOLIDATED 2005		
	AVERAGE BALANCE $000'S	INTEREST $000'S	AVERAGE RATE %	AVERAGE BALANCE $000'S	INTEREST $000'S	AVERAGE RATE %
Interest earning assets						
Cash	12,242	591	4.83	18,919	858	4.53
Loan and advances	587,895	45,215	7.69	517,797	37,722	7.29
Total interest earning assets	600,137	45,806	7.63	536,716	38,580	7.19
Interest bearing liabilities						
Bonds and warehouse facility	600,137	35,993	6.00	536,716	32,623	6.08
Cash advance and net interest margin facilities	4,407	327	7.42	3,045	220	7.22
Reset preference shares	4,951	504	10.18	-	-	-
Total interest bearing liabilities	609,495	36,824	6.04	539,761	32,843	6.08
NET INTEREST MARGIN		8,982	1.59		5,737	1.11

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 24: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Consolidated Entity has other financial assets and liabilities such as cash assets, trade receivables, payables and interest bearing liabilities, which arise directly from its operations. The Consolidated Entity also enters into derivative transactions, including interest rate swaps. The purpose is to manage the interest rate arising from the Consolidated Entity's operations and its sources of finance. The main risks arising from the Consolidated Entity's financial instruments are interest rate risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Credit risk exposures

The Consolidated Entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the balance sheet.

Concentration of credit risk

The Consolidated Entity minimises concentrations of credit risk in relation to accounts receivable by undertaking transactions with a number of investment grade lending institutions within the APRA regulated banking industry. The Consolidated Entity is not materially exposed to any individual lender. Some agreements with lenders also contain provisions requiring the Consolidated Entity to pay instalments due from borrowers until securities are enforced or an insurance claim has been paid and to purchase the mortgage from the lender if Homeloans Limited is in default. The Consolidated Entity's risk in this area is mitigated by insurance policies.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Consolidated Entity's financial instruments recognised in the financial statements.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments

Cash and cash equivalent: The carrying amount approximates fair value because of their short-term maturity.

Receivables, payables, non-interest bearing liabilities and variable rate interest bearing liabilities: The carrying amount approximates fair value. In the case of non-interest bearing liabilities, this is because they are short term in nature.

The fair value of interest rate swap contracts and fixed rate interest bearing liabilities is determined by reference to market value for similar instruments.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

	CARRYING AMOUNT		FAIR VALUE	
	2006	2005	2006	2005
	$'000	$'000	$'000	$'000
CONSOLIDATED				
Financial assets				
Cash	25,574	16,946	25,574	16,946
Receivables	10,046	8,063	10,046	8,063
Loans and advances to customers	686,855	496,855	686,809	496,878
Financial liabilities				
On balance sheet				
Interest-bearing liabilities				
Leases and hire purchase	1,162	1,716	1,162	1,716
Secured bank loans	66,908	219,901	66,908	219,901
Reset preference shares	4,998	-	5,035	-
Bonds	635,915	294,164	635,915	294,064
Other	3,529	-	3,529	-
PARENT				
Financial assets				
Cash	300	769	300	769
Receivables	10,818	7,495	10,818	7,495
Financial liabilities				
On balance sheet				
Interest-bearing liabilities				
Leases and hire purchase	1,162	1,716	1,162	1,716
Secured bank loans	1,000	2,975	1,000	2,975
Reset preference shares	4,998	-	5,035	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Interest rate risk

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

CONSOLIDATED	FLOATING $'000	FIXED RATE <1 YEAR $'000	>1–<2 YEARS $'000	>2–<3 YEARS $'000	>3–<4 YEARS $'000	>4–<5 YEARS $'000	5 YEARS $'000	TOTAL $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
Year ended 30 June 2006									
FINANCIAL ASSETS									
Cash assets	25,574	-	-	-	-	-	-	25,574	4.83%
Receivables	-	158	100	-	-	-	-	-	8.60%
Loans and advances to customers	674,597	321	982	4,765	583	5,607	-	686,855	7.26%
Weighted average effective interest rate	7.17%	7.95%	7.35%	7.14%	6.86%	7.36%			
FINANCIAL LIABILITIES									
Reset preference shares	-	4,998	-	-	-	-	-	4,998	10.0%
Leases and hire purchase	-	337	357	468	-	-	-	1,162	8.74%
Interest bearing liabilities									
Secured bank loans									
—Cash advance facility	1,000	-	-	-	-	-	-	1,000	6.95%
—Net interest margin facility	5,377	-	-	-	-	-	-	5,377	7.70%
—RMT Warehouse facility	60,531	-	-	-	-	-	-	60,531	6.15%
—Bonds	635,915	-	-	-	-	-	-	635,915	6.09%
Other loan	3,529							3,529	5.25%
Interest rate swaps	(12,258)	321	982	4,765	583	5,607	-	-	
Weighted average effective interest rate	6.10%	9.92%	8.74%	8.74%	8.74%	8.74%			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

CONSOLIDATED	FLOATING $'000	FIXED RATE <1 YEAR $'000	>1–<2 YEARS $'000	>2–<3 YEARS $'000	>3–<4 YEARS $'000	>4–<5 YEARS $'000	5 YEARS $'000	TOTAL $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
Year ended 30 June 2005									
FINANCIAL ASSETS									
Cash assets	16,946							16,946	4.53%
Loans and advances to customers	479,972	4,398	3,913	2,407	4,285	1,880	-	496,855	7.27%
Weighted average effective interest rate	7.19%	6.57%	7.18%	6.92%	7.28%	7.36%			
FINANCIAL LIABILITIES									
Leases and hire purchase	-	554	337	357	468	-	-	1,716	8.14%
Interest bearing liabilities									
Secured bank loans									
—Cash advance facility	2,975	-	-	-	-	-	-	2,975	6.73%
—Net interest margin facility	2,418	-	-	-	-	-	-	2,418	7.40%
—RMT Warehouse facility	214,508	-	-	-	-	-	-	214,508	5.99%
—Bonds	224,164	70,000	-	-	-	-	-	294,164	6.14%
Interest rate swap-bonds	70,000	(70,000)	-	-	-	-	-	-	
Interest rate swaps-loans	(16,883)	4,398	3,913	2,407	4,285	1,880	-	-	
Weighted average effective interest rate	6.09%	6.60%	8.14%	8.14%	8.14%	8.14%			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

PARENT	FLOATING $'000	FIXED RATE <1 YEAR $'000	>1-<2 YEARS $'000	>2-<3 YEARS $'000	>3-<4 YEARS $'000	>4-<5 YEARS $'000	5 YEARS $'000	TOTAL $'000	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
Year ended 30 June 2006									
FINANCIAL ASSETS									
Cash assets	300	-	-	-	-	-	-	300	4.83%
Receivables	-	158	100	-	-	-	-	258	8.6%
Weighted average effective interest rate	4.83%	8.6%	8.6%						
FINANCIAL LIABILITIES									
Reset preference shares	-	4,998	-	-	-	-	-	4,998	10.0%
Leases and hire purchase	-	337	357	468	-	-	-	1,162	8.74%
Secured bank loans	1,000	-	-	-	-	-	-	1,000	6.95%
Weighted average effective interest rate	6.95%	9.92%	8.74%	8.74%					
Year ended 30 June 2005									
FINANCIAL ASSETS									
Cash assets	769	-	-	-	-	-	-	769	4.60%
Weighted average effective interest rate	4.60%								
FINANCIAL LIABILITIES									
Cash advance facility	2,975	-	-	-	-	-	-	2,975	6.73%
Leases and hire purchase	-	554	337	357	468	-	-	1,716	8.14%
Weighted average effective interest rate	6.73%	8.14%	8.14%	8.14%	8.14%				

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 25: COMMITMENTS AND CONTINGENCIES

Operating lease commitments—Consolidated Entity as lessee
The Consolidated Entity has entered into commercial property leases on its office space requirements. Operating leases have an average lease term of 5.8 years. Assets, which are the subject of operating leases, include office space and items of office machinery.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	1,642	1,548	1,642	1,548
After one year but not more than five years	6,185	6,164	6,185	6,164
More than five years	2,774	4,043	2,774	4,043
	10,601	11,754	10,601	11,754

Operating lease commitments—Consolidated Entity as lessor
The Consolidated Entity has entered into commercial property leases on its surplus office space requirements. Operating leases have an average lease term of 6.3 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Within one year	238	46	238	46
After one year but not more than five years	1,404	198	1,404	198
More than five years	18	72	18	72
	1,660	316	1,660	316

The average discount rate implicit in the leases is 8.74% (2005: 8.14%).

Contingent liabilities and capital commitments
The directors were not aware of any contingent liabilities or capital commitments as at the end of the financial year or arising since balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Finance lease commitments—Consolidated Entity as lessee

The Consolidated Entity has entered into finance leases of plant and equipment. The leases have an average lease term of 4.8 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 8.74% (2005: 8.14%). The lease liability is secured by a charge over the leased assets.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2006		2005	
	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000
CONSOLIDATED				
Within one year	424	337	676	554
After one year but not more than five years	893	825	1,317	1,162
Total minimum lease payments	1,317	1,162	1,993	1,716
Less amounts representing finance charges	(155)	-	(277)	-
Present value of minimum lease payments (Note 17)	1,162	1,162	1,716	1,716

	2006		2005	
	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000
PARENT				
Within one year	424	337	676	554
After one year but not more than five years	893	825	1,317	1,162
Total minimum lease payments	1,317	1,162	1,993	1,716
Less amounts representing finance charges	(155)	-	(277)	-
Present value of minimum lease payments (Note 17)	1,162	1,162	1,716	1,716

The weighted average interest rate impact in the leases for both the Consolidated Entity and Homeloans is 8.74% (2005: 8.14%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 26: RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Homeloans Limited and the subsidiaries listed in the following table:

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT	
		2006 $'000	2005 $'000	2006 $'000	2005 $'000
Chief Entity					
Homeloans Limited					
Controlled entities of Homeloans Limited:					
NSW Home Loans Pty Ltd	Australia	100%	100%	-	-
VIC Home Loans Pty Ltd	Australia	100%	100%	-	-
QLD Home Loans Pty Ltd	Australia	100%	100%	-	-
SA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
WA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
IF & I Securities Pty Ltd	Australia	100%	100%	-	-
FAI First Mortgage Pty Ltd	Australia	100%	100%	7,115	7,115
Access Home Loans Consolidated incorporating:				11,723	11,723
—Access Network Management Pty Ltd	Australia	100%	100%	-	-
—Access Home Loans Pty Ltd	Australia	100%	100%	-	-
—HLL Pty Ltd	Australia	100%	100%	-	-
St Michael Investments Pty Ltd	Australia	100%	100%	-	-
Match Funds Management Limited	Australia	100%	100%	340	340
				19,178	**19,178**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to note 9 and note 17).

RELATED PARTY		SALES TO RELATED PARTIES $'000	PURCHASES FROM RELATED PARTIES $'000	AMOUNTS OWED BY RELATED PARTIES $'000	AMOUNTS OWED TO RELATED PARTIES $'000
PARENT					
Subsidiaries:					
FAI First Mortgage Pty Ltd	2006	4,564	-	4,023	-
	2005	5,466	-	2,679	-
Access Network Management Pty Ltd	2006	-	-	-	4,661
	2005	450	-	-	4,111
Match Funds Management Limited	2006	-	-	8	
	2005	-	-	5	
St Michael Investments Pty Ltd	2006	-	-	5	
	2005	-	-	5	-
Residential Mortgage Trust	2006	5,142	-	-	2,810
	2005	972	-	-	1,040
Associate:					
Mosaic Financial Services Pty Ltd	2006	-	-	17	-

* Transaction between subsidiaries:

FAI First Mortgage Pty Ltd (FAI) is the sole beneficiary of the Residential Mortgage Trust holding the sole income unit for each securitisation trust that is on issue. FAI receives a fee as manager, a fee as servicer of the trust, and the excess distribution payable at the monthly anniversary date after payment of all third parties including bondholders and the warehouse facility provider (Westpac Banking Corporation).

FAI does not pay anything to the trust, nor does it pay the trust for any services.

The loans to and from subsidiaries are interest free and are on demand.

Associate

The group has a 23.67% interest in Mosaic Financial Services Pty Ltd (acquired 1 July 2005).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 27: EVENTS AFTER THE BALANCE SHEET DATE

There were no significant events after the balance date.

NOTE 28: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• an audit or review of the financial report of the entity and any other entity in the consolidated group	366,128	90,150	320,185	80,150
• other services in relation to the entity and any other entity in the consolidated group				
—tax compliance	21,583	115,554	21,583	115,554
—accounting advice	-	6,800	-	6,800
	21,583	122,354	21,583	122,354
	387,711	212,504	341,768	202,504

NOTE 29: DIRECTORS AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

T.A.Holmes	Chairman (non-executive)
B.D.Jones	Managing Director
R.P.Salmon	Director (non-executive)
R.N.Scott	Director (non-executive)
J.L.A.Smith	Finance Director

(ii) Executives

T.Phillips	General Manager Sales (also a Director of MAS)
L.McDonald	National Head of Underwriting
K.Carter	National Manager Human Resources
A.Curr	National Marketing Manager

(b) Compensation of Key Management Personnel

(i) Compensation Policy

The Board of Directors of Homeloans Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and officers emoluments to the company's financial and operational performance.

In addition, all executives are entitled to annual bonuses payable upon the achievement of KPIs and annual corporate profitability measures, the most important being return on shareholder's equity.

(A) Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of Homeloans Limited is responsible for determining and reviewing compensation arrangements for the directors and other key management personnel.

The Nomination and Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

(B) Non-executive Director Compensation

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At last year's annual general meeting the aggregate maximum sum available for the remunerate of non-executive directors was increased to $250,000 per annum with effect from and including 1 January 2006.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. No additional fee is paid for each board committee on which a director sits.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits.

(C) Executive Compensation

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Structure
In determining the level and make-up of executive remuneration, the Board will from time to time engage an external consultant to provide independent advice both in the form of a written report detailing market levels of remuneration for comparable executive roles as well as the participation of the independent consultant in the meeting from which the Committee makes its recommendations to the Board.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short Term Incentive ('STI'); and
  - Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) is established for each senior manager by the Board.

(D) Fixed Compensation

Objective
The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Board and the process consists of a review of companywide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. As noted above, the Board has access to external advice independent of management.

Structure
Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

(E) Variable Compensation—Short Term Incentive (STI)

Objective
The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure
Actual STI payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the company and each individual business unit is approved by the the Board. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive pool that is allocated to each executive.

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Board. Payments made are usually delivered as a cash bonus.

(F) Variable Pay—Long Term Incentive (LTI)

Objective
The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long term performance hurdle.

Structure
LTI grants to executives are delivered in the form of options.

These options vest with the executive over varying periods and are not usually subject to a performance hurdle. They usually have a life from date of grant of five years, and are exercisable at specific dates and proportions set at the time of granting the options. Usually 50% of these options are exercisable after two years with the other 50% exercisable after three years.

Table 3 on page 21 provide details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(ii) Compensation of Key Management Personnel (Consolidated) for the year-ended 30 June 2006

		SHORT-TERM			POST EMPLOYMENT		LONG-TERM	SHARE-BASED PAYMENT	TOTAL	TOTAL PERFORMANCE RELATED
	SALARY & FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	OTHER $	SUPERAN NUATION $	RETIREMENT BENEFITS $	INCENTIVE PLANS $	OPTIONS $	$	
30 June 2006										
Directors										
T.A.Holmes *	166,723	-	2,767	-	11,630	-	-	-	181,120	0%
R. P Salmon *	154,223	-	2,767	-	11,630	-	-	-	168,620	0%
B. D. Jones	275,000	-	4,854	-	24,750	-	-	75,887	380,491	55%
R. N. Scott	50,000	-	-	-	-	-	-	-	50,000	0%
J.L.A.Smith	240,000	60,000	4,854	-	21,600	-	-	77,726	404,180	34%
Executives										
L.McDonald	150,000	50,000	4,854	-	13,500	-	-	11,375	229,729	27%
T. Phillips **	282,271	-	-	-	-	-	-	24,186	306,457	62%
K. Carter	125,000	40,000	2,767	-	11,250	-	-	15,725	194,742	29%
A. Curr	117,500	25,000	-	-	10,575	-	-	8,950	162,025	26%
	1,560,717	175,000	22,863	-	104,935	-	-	213,849	2,077,364	

* T. A. Holmes and R.P. Salmon were executive directors until 31 December 2005.

** T. Phillips is a director of Mortgage Asset Services Pty Ltd (MAS). Troy's services as General Manager Sales for the Consolidated Entity are remunerated by way of a commission payment to MAS monthly based on home loans settled during the previous month. This amounted to $282,271 in the current financial year. MAS also holds 2,500,000 options over unissued shares in Homeloans Limited. The amortised value of these options during the year has been included. None of the remuneration noted above was actually paid directly to Troy Phillips.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

		SHORT-TERM			POST EMPLOYMENT		LONG-TERM	SHARE-BASED PAYMENT	TOTAL	TOTAL PERFORMANCE RELATED
	SALARY & FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	OTHER $	SUPERANNUATION $	RETIREMENT BENEFITS $	INCENTIVE PLANS $	OPTIONS $	$	
30 June 2005										
Directors										
T.A.Holmes	160,218	-	2,986	-	89,629	-	-	-	252,833	0%
R. P Salmon	160,218	-	2,986	-	89,629	-	-	-	252,833	0%
B. D. Jones	231,528	300,000	4,612	-	20,838	-	-	103,030	660,008	61%
R. N. Scott	42,500	-	-	-	-	-	-	-	42,500	0%
Executives										
J.L.A.Smith	229,410	40,000	4,612	-	24,247	-	-	21,953	320,222	19%
T. Phillips **	73,020	-	-	-	-	-	-	148,222	221,242	100%
J. McGee	316,944	-	121	-	28,525	-	-	18,490	364,080	5%
K.Carter	153,340	15,000	2,986	-	13,801	-	-	2,232	187,359	9%
L.McDonald	82,283	-	1,996	492	20,980	-	-	2,232	107,983	2%
A.Curr	123,455	10,000	-	-	11,111	-	-	1,116	145,682	8%
	1,572,916	365,000	20,299	492	298,760	-	-	297,275	2,554,742	

** T. Phillips is a director of Mortgage Asset Services Pty Ltd (MAS). Troy's services as General Manager Sales for the Consolidated Entity are remunerated by way of a commission payment to MAS monthly based on home loans settled during the previous month. None of the remuneration noted above was actually paid directly to Troy Phillips.

(iii) Compensation by Category: Key Management Personnel

	CONSOLIDATED		HOMELOANS LIMITED	
	2006 $	2005 $	2006 $	2005 $
Short-Term	1,758,580	1,958,707	1,758,580	1,958,707
Post Employment	104,935	298,760	104,935	298,760
Other Long-Term	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payment	213,849	297,275	213,849	297,275
	2,077,364	2,554,742	2,077,364	2,554,742

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(iv) Contracts for Services

Employment contracts
No executives are currently employed under a fixed term contract.

Upon termination all vested options remain in place.

Managing Director
Under his conditions of employment, the employment of the Managing Director may be terminated:

- by the Company by giving 12 months notice; or,
- by the Managing Director giving the Company 3 months notice.

The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Managing Director is also entitled to his statutory entitlements to accrued annual and long service leave.

Upon termination of employment by the Managing Director giving notice, the Managing Director is entitled to any STI that would otherwise be payable.

Finance Director
Under his conditions of employment, the employment of the Finance Director may be terminated by either party, by giving 3 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Finance Director is entitled to his statutory entitlements to accrued annual and long service leave.

Upon termination of employment, the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

Mortgage Asset Services Pty Ltd
The services of the General Manager Sales are provided by way of a contract with Mortgage Asset Services Pty Ltd ("MAS"). This contract may be terminated by either party, by giving 3 months notice.

Should the Company terminate the contract prior to 31 December 2007, then MAS is entitled to six months payment and any unvested options from those granted on 7 December 2005 will vest, provided loan origination volumes are within 90% of the hurdle volumes.

Other Key Management Personnel
Under their conditions of employment the employment of the Key Management Personnel may be terminated by either party, by giving 1 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Key Management Personnel are entitled to their statutory entitlements to accrued annual and long service leave.

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(c) Compensation options: Granted and vested during the year (Consolidated)

During the financial year, options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at various exercise prices. The options may only be exercised immediately on vesting and expire between one and five years after vesting. The options granted vest at various times up to three years from grant. All options granted during the financial year are not subject to meeting key performance criteria except for those issued to Mortgage Asset Services (MAS). The benefit of MAS is disclosed as part of the remuneration for the specified executive, Troy Phillips.

			TERMS & CONDITIONS FOR EACH GRANT					
	VESTED NO.	GRANTED NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
30 June 2006								
Directors								
B.D.Jones	-	315,000	23/11/2005	0.1459	0.36	31/8/2009	31/8/2006	31/8/2009
	-	310,000	23/11/2005	0.1294	0.46	31/8/2010	31/8/2007	31/8/2010
	500,000	500,000	1/12/2004	0.0872	0.50	1/12/2009	1/6/2006	1/12/2009
J.L.A.Smith	-	100,000	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
	-	150,000	14/10/2005	0.1583	0.46	31/8/2010	31/8/2007	31/8/2010
	100,000	100,000	1/4/2003	0.1398	0.50	21/1/2008	21/1/2006	21/1/2008
	-	200,000	20/2/2006	0.1535	0.42	31/8/2009	31/8/2006	31/8/2009
	-	300,000	20/2/2006	0.1363	0.42	31/8/2010	31/8/2007	31/8/2010
Executives								
L.McDonald	-	30,000	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
	-	45,000	14/10/2005	0.1583	0.46	31/8/2010	31/8/2007	31/8/2010
K.Carter	-	50,000	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
	-	75,000	14/10/2005	0.1583	0.46	31/8/2010	31/8/2007	31/8/2010
A.Curr	-	30,000	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
	-	45,000	14/10/2005	0.1583	0.46	31/8/2010	31/8/2007	31/8/2010
T.Phillips*	-	250,000	7/4/2006 (A)	0.1456	0.36	7/12/2009	30/9/2006	7/12/2009
	-	250,000	7/4/2006 (B)	0.1154	0.46	7/12/2009	31/3/2007	7/12/2009
	-	250,000	7/4/2006 (C)	0.1058	0.51	7/12/2009	31/12/2007	7/12/2009
Total	600,000	3,000,000						

A—only exercisable if average mortgage settlements in any three (3) month period prior to 30 September 2006 exceeds $100 million per month

B—only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2007 exceeds $112.5 million per month

C—only exercisable if average mortgage settlements in any three (3) month period prior to 31 December 2007 exceeds $137.5 million per month

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

			TERMS & CONDITIONS FOR EACH GRANT					
	VESTED NO.	GRANTED NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE
30 June 2005								
Directors								
B.D.Jones	375,000	375,000	1/12/2004	0.1019	0.40	1/12/2009	1/12/2004	1/12/2009
	500,000	500,000	1/12/2004	0.0959	0.45	1/12/2009	1/6/2005	1/12/2009
	-	500,000	1/12/2004	0.0872	0.50	1/12/2009	1/6/2006	1/12/2009
Executives								
J.Smith	100,000	-	29/4/2002	0.2724	0.994	1/4/2007	1/4/2005	1/4/2007
	100,000	-	1/4/2003	0.1398	0.52	21/1/2008	21/1/2005	21/1/2008
	-	100,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	-	100,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
T.Phillips	750,000	750,000	7/12/2004	0.1098	0.40	7/12/2009	7/12/2004	7/12/2009
	-	1,000,000	7/12/2004	0.1010	0.45	7/12/2009	31/3/2006	7/12/2009
	-	1,000,000	7/12/2004	0.0924	0.50	7/12/2009	31/3/2007	7/12/2009
J.McGee	250,000	-	2/5/2002	0.2867	0.994	1/4/2007	1/4/2005	1/4/2007
L.McDonald	-	50,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	-	50,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
K.Carter	-	50,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	-	50,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
A.Curr	-	25,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	-	25,000	14/1/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009
Total	2,075,000	4,575,000						

(d) Shares issued on exercise of compensation options (Consolidated)

No shares were issued during the years ended 30 June 2006 or 30 June 2005 on exercise of Compensation Options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

(e) Option holdings of Key Management Personnel (Consolidated)

	BALANCE AT BEGINNING OF PERIOD 1 JULY 05	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 06	VESTED AT 30 JUNE 2006		
						TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2006								
Directors								
B.D.Jones	1,375,000	625,000	-	-	2,000,000	2,000,000	1,375,000	625,000
J.L.Smith	600,000	750,000	-	-	1,350,000	1,350,000	400,000	950,000
R.N.Scott	300,000	-	-	(300,000)	-	-	-	-
Executives								
L.McDonald	100,000	75,000	-	-	175,000	175,000	-	175,000
K.Carter	100,000	125,000	-	-	225,000	225,000	-	225,000
T.Phillips	2,750,000	750,000	-	(1,000,000)	2,500,000	2,500,000	750,000	1,750,000
A.Curr	50,000	75,000	-	-	125,000	125,000	-	125,000
Total	5,275,000	2,400,000	-	(1,300,000)	6,375,000	6,375,000	2,525,000	3,850,000

Includes forfeits and offer to all employees under the Employee Share Scheme.

	BALANCE AT BEGINNING OF PERIOD 1 JULY 04	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 05	VESTED AT 30 JUNE 2005		
						TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2005								
Directors								
R.N.Scott	300,000	-	-	-	300,000	300,000	-	300,000
B.D.Jones	-	1,375,000	-	-	1,375,000	1,375,000	500,000	875,000
Executives								
J. McGee	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000
J. Smith	400,000	200,000	-	-	600,000	600,000	300,000	300,000
T.Phillips	-	2,750,000	-	-	2,750,000	2,750,000	2,000,000	750,000
L.McDonald	-	100,000	-	-	100,000	100,000	-	100,000
K.Carter	-	100,000	-	-	100,000	100,000	-	100,000
A.Curr	-	50,000	-	-	50,000	50,000	-	50,000
Total	1,700,000	4,575,000	-	-	6,275,000	6,275,000	2,800,000	3,475,000

Includes forfeits and offer to all employees under the Employee Share Scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Shareholdings of Key Management Personnel
Shares held in Homeloans Limited (number)

	BALANCE 01 JULY 2005		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2006	
30 June 2006	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.
Directors										
T.A.Holmes	8,869,781	170,750	-	-	-	-	150,000	-	9,019,781	170,750
R.P.Salmon	8,665,366	170,441	-	-	-	-	40,000	-	8,705,366	170,441
B.D.Jones	50,000	-	-	-	-	-	175,952	-	225,952	-
J.L.Smith	67,723	208	-	-	-	-	15,000	-	82,723	208
R.N.Scott	1,489,794	29,458	-	-	-	-	-	-	1,489,794	29,458
Executives										
L.McDonald	-	-	-	-	-	-	-	-	-	
K.Carter	1,048	-	-	-	-	-	-	-	1,048	-
T.Phillips	2,419,456	-	-	-	-	-	99,355	-	2,518,811	-
A.Curr	-	-	-	-	-	-	-	-	-	
Total	21,563,168	370,857	-	-	-	-	480,307	-	22,043,475	370,857

	BALANCE 01 JULY 2004		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2005	
30 June 2005	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.
Directors										
T.A.Holmes	8,776,281	170,750	-	-	-	-	93,500	-	8,869,781	170,750
R.P.Salmon	8,665,366	170,441	-	-	-	-	-	-	8,665,366	170,441
B.D.Jones	50,000	-	-	-	-	-	-	-	50,000	-
R.N.Scott	1,489,794	29,458	-	-	-	-	-	-	1,489,794	29,458
Executives										
J.L.Smith	20,766	208	-	-	-	-	46,957	-	67,723	208
T.Phillips	377,322	-					2,042,134	-	2,419,456	-
K.Carter	1,048	-	-	-	-	-	-	-	1,048	-
A.Curr	-	-	-	-	-	-	-	-	-	-
Total	19,379,529	370,857	-	-	-	-	2,182,591	-	21,562,120	370,857

(f) Other transactions and balances with Key Management Personnel
There were no transaction between key management personnel and the Consolidated group during the year. There were no balances owed by/to the key management personnel and any member of the Consolidated Entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

NOTE 30: TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Consolidated Entity prepared its financial statements in accordance with Australian Generally Accepted Accounting Practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Consolidated Entity is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Consolidated Entity has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Consolidated Entity has started from an opening balance sheet as at 1 July 2004, the Consolidated Entity's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

This note explains the principal adjustments made by the Consolidated Entity in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Consolidated Entity has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and Consolidated Entity have adopted AASB 132: *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.
- AASB 3 *Business Combinations* has not been applied to acquisitions of subsidiaries or of interests in associates and joint ventures that occurred before 1 July 2004.
- AASB 2 Share-based Payment has not been applied to any equity instruments that were granted on or before 7 November 2002, nor has it been applied to equity instruments granted after 7 November 2002 that vested before 1 January 2005.

Explanation of material adjustments to the cash flow statement

The material difference between the cash flow statements presented under AIFRS and those presented under AGAAP relates to the consolidation of Residential Mortgage Trust ("RMT").

Under AASB 127 "Consolidated and Separate Financial Statements" the RMT has been consolidated as part of the Homeloans group, and the cash flows through the trusts form part of the consolidated cash flows. These cash flows are significantly larger than those previously recorded in the Homeloans Condensed Cash Flow Statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

		CONSOLIDATED			HOMELOANS LIMITED		
Balance sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004	NOTE	AGAAP $'000	AIFRS IMPACT $'000	AIFRS $'000	AGAAP $'000	AIFRS IMPACT $'000	AIFRS $'000
ASSETS							
Cash assets	a	623	27,736	28,359	34	-	34
Receivables	a, e	12,793	(3,867)	8,926	9,763	(1,092)	8,671
Loans and advances to customers	a	-	562,414	562,414	-	-	-
Deferred expenses	a	32,052	(11,418)	20,634	29,012	(9,946)	19,066
Other financial assets		-	-	-	18,838	-	18,838
Plant and equipment	a	2,809	(1)	2,808	2,808	-	2,808
Goodwill		15,716	-	15,716	-	-	-
TOTAL ASSETS		63,993	574,864	638,857	60,455	(11,038)	49,417
LIABILITIES							
Payables	a, c	4,387	1,529	5,916	5,862	1,823	7,685
Interest-bearing liabilities	a	6,755	587,303	594,058	6,755	-	6,755
Unearned revenue	a	10,220	(10,220)	-	9,229	(9,229)	-
Lease incentives		609	-	609	609	-	609
Deferred income tax liabilities	c	4,597	(1,005)	3,592	4,597	(2,330)	2,267
Provisions		641	-	641	641	-	641
TOTAL LIABILITIES		27,209	577,607	604,816	27,693	(9,736)	17,957
NET ASSETS		36,784	(2,743)	34,041	32,762	(1,302)	31,460
EQUITY							
Issued capital		53,395	-	53,395	53,395	-	53,395
Reserves	d	-	6	6	-	6	6
Accumulated losses	a,c,d,e,	(16,611)	(2,749)	(19,360)	(20,633)	(1,308)	(21,941)
TOTAL EQUITY		36,784	(2,743)	34,041	32,762	(1,302)	31,460

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005	NOTE	CONSOLIDATED AGAAP $'000	CONSOLIDATED AIFRS IMPACT $'000	CONSOLIDATED AIFRS $'000	HOMELOANS LIMITED AGAAP $'000	HOMELOANS LIMITED AIFRS IMPACT $'000	HOMELOANS LIMITED AIFRS $'000
ASSETS							
Cash assets	a	1,468	15,478	16,946	769	-	769
Receivables	a,e,c	10,194	(120)	10,074	9,020	(445)	8,575
Loans and advances to customers	a	-	496,855	496,855	-	-	-
Deferred expenses	a	34,762	(12,613)	22,149	29,094	(9,199)	19,895
Investment in associate		-	-	-	19,178	-	19,178
Plant and equipment		1,957	-	1,957	1,957	-	1,957
Goodwill	b	15,071	925	15,996	-	-	-
TOTAL ASSETS		63,452	500,525	563,977	60,018	(9,644)	50,374
LIABILITIES							
Payables	a,c	4,123	1,922	6,045	6,885	2,047	8,932
Interest-bearing liabilities	a	4,691	511,090	515,781	4,691	-	4,691
Unearned revenue	a	10,993	(10,993)	-	9,199	(9,199)	-
Lease incentives		665	-	665	665	-	665
Deferred income tax liabilities	c	5,611	(823)	4,788	5,611	(2,492)	3,119
Provisions		573	-	573	573	-	573
TOTAL LIABILITIES		26,656	501,196	527,852	27,624	(9,644)	17,980
NET ASSETS		36,796	(671)	36,125	32,394	-	32,394
EQUITY							
Issued capital		53,395	-	53,395	53,395	-	53,395
Reserves	d	-	102	102	-	102	102
Accumulated losses	a,c,d,e	(16,599)	(773)	(17,372)	(21,001)	(102)	(21,103)
TOTAL EQUITY		36,796	(671)	36,125	32,394	-	32,394

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

		CONSOLIDATED			HOMELOANS LIMITED		
Balance sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005 to changes under AIFRS effective 1 July 2005	NOTE	AIFRS 30 JUN 05 $'000	AIFRS IMPACT $'000	AIFRS 1 JUL 05 $'000	AIFRS 30 JUN 05 $'000	AIFRS IMPACT $'000	AIFRS 1 JUL 05 $'000
ASSETS							
Cash assets		16,946	-	16,946	769	-	769
Receivables	(ii)(iii),c	10,074	3,760	13,834	8,575	138	8,713
Loans and advances to customers		496,855	-	496,855	-	-	-
Deferred expenses	(i)(iii)	22,149	(2,679)	19,470	19,895	(425)	19,470
Investment in associate		-	-	-	19,178	-	19,178
Plant and equipment		1,957	-	1,957	1,957	-	1,957
Goodwill		15,996	-	15,996	-	-	-
TOTAL ASSETS		563,977	1,081	565,058	50,374	(287)	50,087
LIABILITIES							
Payables	(i)(iii)	6,045	731	6,776	8,932	(245)	8,687
Interest-bearing liabilities	(ii)	515,781	23	515,804	4,691	-	4,691
Reset preference shares	(i)	-	4,905	4,905	-	4,905	4,905
Lease incentives		665	-	665	665	-	665
Deferred income tax liabilities	c,(iii)	4,788	195	4,983	3,119	(68)	3,051
Provisions		573	-	573	573	-	573
TOTAL LIABILITIES		527,852	5,854	533,706	17,980	4,592	22,572
NET ASSETS		36,125	(4,773)	31,352	32,394	(4,879)	27,515
EQUITY							
Issued capital	(i)	53,395	(4,771)	48,624	53,395	(4,771)	48,624
Reserves		102	-	102	102	-	102
Accumulated losses	(i)(ii)c	(17,372)	(2)	(17,374)	(21,103)	(108)	(21,211)
TOTAL EQUITY		36,125	(4,773)	31,352	32,394	(4,879)	27,515

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

		CONSOLIDATED			HOMELOANS LIMITED		
Income statement for the year ended 30 June 2005	NOTE	AGAAP $'000	AIFRS IMPACT $'000	AIFRS $'000	AGAAP $'000	AIFRS IMPACT $'000	AIFRS $'000
Interest income	a, e	183	38,397	38,580	144	(75)	69
Interest expense	a	(466)	(32,377)	(32,843)	(466)	10	(456)
Net interest income		(283)	6,020	5,737	(322)	(65)	(387)
Fees and commission income	a	36,870	(4,078)	32,792	28,520	-	28,520
Fees and commission expense	a	(14,460)	(740)	(15,200)	(14,226)	717	(13,509)
Other operating income		355	-	355	6,241	-	6,241
General administrative expenses	a,e	(8,346)	824	(7,522)	(7,952)	918	(7,034)
Other operating expenses	a,b,d	(12,590)	116	(12,474)	(11,654)	(96)	(11,750)
Profit before income tax		1,546	2,142	3,688	607	1,474	2,081
Income tax expense	c	(1,030)	(166)	(1,196)	(471)	(268)	(739)
Net profit after income tax		516	1,976	2,492	136	1,206	1,342
Net profit attributable to members of the Homeloans Limited		516	1,976	2,492	136	1,206	1,342
Basic earnings per share (cents per share)		0.02		3.95			
Diluted earnings per share		0.77		3.70			
Unfranked dividend per ordinary share		1.5		0.0			

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

IMPACT OF ADOPTING AIFRS

Outlined below are the areas impacted upon adoption of AIFRS, including the financial impact on equity and profit.

REFERENCE	ITEM	AGAAP	AIFRS	IMPACT ($'000)	
				CONSOLIDATED	PARENT
a	Consolidation	Residential Mortgage Trust (RMT) was not consolidated under Homeloans Limited and was a standalone securitisation trust.	The Consolidated Entity utilises a special purpose vehicle (SPV), which issues securities to investors. This SPV meets the criteria of being a 'subsidiary' under AASB 127—*Consolidated and separate financial statements*. This transaction does not meet the criteria under AASB 139 *Financial Instruments: Recognition and Measurement* in regards to derecognition of financial instruments. Accordingly, the value of the securitised loans and corresponding liabilities has been recorded in the balance sheet using the effective interest method with the related interest earned and interest paid recognised through the consolidated income statement.	At transition: Retained Earnings decreased $1,934 Cash—increase $27,736 Receivables—decrease $2,080 Deferred expenses—decrease $11,418 Loans & advances—increase $562,414 Payables—increase $1,500 Interest Bearing Liabilities—increase $587,303 Unearned revenue—decrease $10,220 At 30 June 2005 the following assets & liabilities changed: Cash—increase $15,478 Receivables—increase $816 Deferred expenses—decrease $12,613 Loans & advances—increase $496,855 Payables—increase $1,910 Interest Bearing Liabilities—increase $511,090 Unearned revenue—decrease $10,993 At 30 June 2005 the following income and expense accounts changed: Interest income—increase $38,473 Origination income—decrease $972 Mortgage management income—decrease $3,106 Direct selling expenses—increase $421 Management expense—increase $320	At transition: Decrease in deferred expenses $9,946 Increase in receivables on re-allocation of deferred expenses to subsidiary on consolidation of RMT $716 Unearned revenue decrease of $9,229 At 30 June 2005: Decrease in deferred expenses $9,199 Increase in receivables & decrease in selling expenses on reversal of AGAAP entry. AGAAP entry was a re-allocation of deferred expenses to subsidiary. This was already recognised on consolidation of RMT in previous period under AIFRS. Profit increase of $716 Unearned revenue decrease of $9,199

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

REFERENCE	ITEM	AGAAP	AIFRS	IMPACT ($'000)	
b	Goodwill	Goodwill was amortised over its useful life (not exceeding 20 years)	The Group has chosen to adopt the exemption available under AASB 1 of not retrospectively applying AASB 3 *Business Combinations* to its business combinations occurring before transition date. Under AASB 3 Goodwill is subject to annual impairment testing and amortisation of goodwill is strictly prohibited. An adjustment is thus required to reverse the amortisation charge for 30 June 2005.	CONSOLIDATED Equity at transition: No effect Profit for 30 June 2005: Increase to profit of $925	PARENT No effect at any stage
c	Income tax	The income statement method was used, which involved tax-effecting only those items that impacted profit and loss. Deferred tax balances were transferred to the head office. All recognised deferred tax balances were transferred to the head entity.	AASB 112 Income Taxes requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. UIG 1052 transfers only tax losses and tax credits from the subsidiaries to the head entity. As a result of the above adjustment, the deferred tax liability changed as follows:	CONSOLIDATED Transition: A reduction in Provision for Deferred Tax by $1,005 Increase in retained earnings $984 Increase in payables $25 At 30 June 2005: Provision for Deferred tax decreased $823 Increase in payables $12 Increase in retained earnings $976 Increase in tax expense $166 At 1 July 2005: Decrease in retained earnings $70 Increase in provision for deferred tax $70	PARENT Transition: A reduction in Provision for Deferred Tax by $1,005 IIncrease in payables $25 Increase in retained earnings $984 UIG Changes: Receivable decrease $19 Increase payables $1,798 Decrease deferred tax $1,325 Decrease retained earnings $497 At 30 June 2005: Provision for Deferred tax decreased $2,492 Increase in payables $12 Increase in retained earnings $976 Increase in tax expense $166 UIG Changes: Receivable decrease $491 Payables increase $2,035 Deferred tax decrease $1,669 Reatained earnings increase $125 At 1 July 2005: Increase in retained earnings $68 Increase in provision for deferred tax $70 Increase in receivables $138 UIG changes: Increase payables $180, Decrease retained earnings $42, Decrease deferred tax $138

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

REFERENCE	ITEM	AGAAP	AIFRS	IMPACT ($'000) CONSOLIDATED	PARENT
d	Share-based payments	Share-based payments were not required to be expensed	AASB 2 *Share-based Payments* requires entities to recognise an expense in relation to shares, options, and other equity instruments provided to employees (including directors). These share-based payment transactions must be fair valued at grant date and recognised as an expense in profit or loss evenly over the vesting period. An adjustment was required to recognise share based payments granted after 7 November 2002 and vesting after 1 January 2005.	CONSOLIDATED Equity at transition: Decrease to retained earnings and increase to employee benefits reserve of $6. Net effect is zero. At 30 June 2005: Decrease to profit of $96 Decrease in retained earnings $6	PARENT Equity at transition: Decrease to retained earnings and increase to employee benefits reserve of $6. Net effect is zero. At 30 June 2005: Decrease to profit of $96 Decrease in retained earnings $6
e	Contingent assets	In 2003 Homeloans paid stamp duty to the WA Office of State Revenue in respect of the transfer of assets of IF&I Securities Pty Ltd as trustee for the IF&I Securities Unit Trust. This payment was in dispute and the value carried on the balance sheet on the basis that a full refund was being sought. Subsequently, in October 2005 the matter was settled and the non-recoverable balance was written off in the 2005 accounting period.	AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* prohibits the recognition of a contingent asset unless it is virtually certain that an inflow of economic benefit will arise in respect of an asset in the future. In regards to the Stamp Duty claim carried as an asset at 30 June 2004 under the previous AGAAP. As the amount was not virtually certain, under AASB 137 it cannot be recognised and has been written off. Correspondingly, the write-off under AGAAP in the year ended 30 June 2005 would need to be reversed.	CONSOLIDATED At transition: Charge to retained earnings of $1,789 Decrease in receivables by $1,789 At 30 June 2005: Interest revenue decreased by $75 Interest expense decreased by $10 General admin expense decreased by $918 Receivables decreased by $936 Retained earnings decreased by $1,789	PARENT At transition: Charge to retained earnings of $1,789 Decrease in receivables by $1,789 At 30 June 2005: Interest revenue decreased by $75 Interest expense decreased by $10 General admin expense decreased by $918 Receivables decreased by $936 Retained earnings decreased by $1,789

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

IMPACT OF ADOPTING AASB 132 FINANCIAL INSTRUMENTS: DISCLOSURE AND PRESENTATION AND AASB 139 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT

The Consolidated elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the areas impacted upon adoption of AASB 132 and AASB 139, including the financial impact to equity and profit.

REFERENCE	ITEM	AGAAP	AIFRS	IMPACT ($'000)	
				CONSOLIDATED	PARENT
(i)	Reset preference shares	Reset preference shares were treated as equity and dividends paid were posted to retained earnings.	Under AASB 132 the definitions of liability and equity are more stringent, thus requiring the reset preference shares to be treated as debt under AIFRS. Payments made to Reset Preference shareholders are therefore classified as interest expense under AIFRS. The cost associated with the issue of the reset preference share issue are charged to the income statement on an effective yield basis.	Equity at transition: No effect Equity at 30 June 2005: No effect Profit for 30 June 2005: No effect Equity at 1 July 2005: Decrease in shareholders equity of $4,771, a decrease in retained earnings of $134, for amortisation of set up costs, and an increase in interest bearing liabilities of $4,905 Interest expense of $50 and amortisation charge on set-up costs of $92 Payables increased by $42 for dividend accrued to 30 June Retained earnings decreased by $42	Equity at transition: No effect Equity at 30 June 2005: No effect Profit for 30 June 2005: No effect Equity at 1 July 2005: Decrease in shareholders equity of $4,771 a decrease in retained earnings of $134 for amortisation of set up costs, and an increase in interest bearing liabilities of $4,905 Interest expense of $50 and amortisation charge on set-up costs of $92 Payables increased by $42 for dividend accrued to 30 June Retained earnings decreased by $42
(ii)	Interest rate swap	Interest rate swaps were not recognised on balance sheet. Net receipts and payments were recognised as an adjustment to interest expense.	Under AASB 139, all derivatives must be recognised on balance sheet at fair value. The interest rate swap held at 30 June 2005 was not designated as a hedge and has been accounted for as a derivative.	CONSOLIDATED At 1 July 2005 Decrease in retained earnings $46 Recognition of derivative liability of $23 Reduction in prepayments $23	PARENT No impact

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006 (CONTINUED)

REFERENCE	ITEM	AGAAP	AIFRS	IMPACT ($'000)	
				CONSOLIDATED	PARENT
(iii)	Trailing commissions	Trailing commissions paid by third parties on Non-Managed loans are recognised as income in the income statement. Trailing commission paid by the company to internal and external parties in respect of Non-Managed loans is recognised as an expense in the income statement.	Under AASB 139 on initial recognition, trailing commision revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value.	As at 1 July 2005: The following adjustments were made against retained earnings increasing it by $290 Recognise asset for present value of Trailer income receivable of $3,783 Recognise liability for present value of Trailer expense payable of $688 Write off deferred expenses in respect of Non-Managed loans. Amount of write off was $2,679 Increase in tax liability in respect to the above transactions $125	At 1 July 2005 Decrease in deferred expenses $425 Decrease in payables $425

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Homeloans Limited, I state that:

1. In the opinion of the directors:

   (a) the financial statements and notes of the company and of the Consolidated Entity are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 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.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.

On behalf of the Board

Timothy Alastair Holmes
Chairman

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ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

INDEPENDENT AUDIT REPORT TO MEMBERS OF HOMELOANS LIMITED

Scope

The financial report and directors' responsibility
The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Homeloans Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

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

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

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

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and

- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion the financial report of Homeloans Limited is in accordance with:

(a) the Corporations Act 2001, including:

  (i) giving a true and fair view of the financial position of Homeloans Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

R A Kirkby
Partner
Perth

6 October 2006

ASX ADDITIONAL INFORMATION

HOMELOANS LIMITED ANNUAL REPORT 2005

Information as at 21 September 2006
The following information is furnished under the requirements of Chapter 4 of the Listing Rules of the Australian Stock Exchange Limited, to the extent that the information required does not appear elsewhere in the Financial Statements or the Directors' Report.

a) The names of substantial holders and the number of equity securities to which each substantial holder has a relevant interest as disclosed in substantial holding notices given to the Company.

SUBSTANTIAL HOLDER	RELEVANT INTEREST
Timothy Alastair Holmes , Tico Pty Ltd (TA Holmes Family Fund A/C), Tico Pty Ltd (TA Holmes Superfund A/C), Joanna Mary Holmes, Tiffany Eliza Farrar Holmes, Lucy Caroline Holmes and Carol Mary Holmes	9,019,781
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/C), Peterlyn Pty Ltd (Salmon Superfund A/C)	8,705,366
Redbrook Nominees Pty Ltd	9,341,970
Acres Holdings Pty Ltd	85,011
Westpac Banking Corporation	2,625,528
Mortgage Asset Services Pty Ltd	2,518,811

b) The number of holders of each class of the Company's securities

- There are 749 holders of Ordinary Shares
- There are 107 holders of Reset Preference Shares
- There is 1 holder of Executive Director's Options
- There are 11 holders of Employee Options
- There are 13 holders of Senior Executive Options
- There are 2 holders of other Executive Options
- There is 1 holder of Other Options

c) Voting Rights attaching to each class of equity securities

Ordinary Shares
The holders of fully paid Ordinary Shares are entitled to attend and vote at all general meetings of the company and are entitled to be represented at the meeting. On a show of hands every member present is entitled to one vote and on a poll every member present it entitled to one vote for every ordinary share held.

ASX ADDITIONAL INFORMATION (CONTINUED)

Reset Preference Shares
The holders of Reset Preference Shares may attend general meetings of the Company but are not entitled to vote at general meetings except in any one of the following circumstances:

- On a proposal to reduce the share capital of the Company
- On a proposal that affects rights attached to the preference shares
- On a proposal to wind up the Company
- On a proposal for the disposal of the whole of the Company's property, business and undertaking
- On a resolution to approve the terms of a buy-back agreement
- During the winding up of the Company
- During a period during which a dividend (or part of a dividend) in respect of the preference shares is in arrears; and
- In any other circumstances in which the Listing Rules require the holders of preference shares to be entitled to vote.

In the instances where a preference shareholder is entitled to vote, the preference shareholder is on a poll, entitled to that number of votes specified in, or determined in accordance with, the terms of issue.

d) Distribution schedule of the number of holders in each class of equity securities

DISTRIBUTION CATEGORIES	ORDINARY SHARES NUMBER OF HOLDERS	RESET PREFERENCE SHARES NUMBER OF HOLDERS
1 - 1,000	77	89
1,001 - 5,000	354	9
5,001 - 10,000	116	2
10,001 - 100,000	164	5
100,001 and over	38	2
TOTAL	**749**	**107**

e) There are 128 ordinary shareholders and 36 reset preference shareholders holding less than a marketable parcel of the Company's securities. A marketable parcel of shares is defined by the ASX as a parcel worth more than $ 500.00

ASX ADDITIONAL INFORMATION (CONTINUED)

f) The top 20 holders of Ordinary Shares

NAME	NUMBER OF SHARES	% OF ORDINARY SHARES
Redbrook Nominees Pty Ltd	9,346,326	18.56
Tico Pty Ltd	8,466,406	16.81
Peterlyn Pty Ltd	8,339,155	16.56
Gemtrick Pty Ltd	2,651,630	5.27
Westpac Banking Corporation	2,625,528	5.21
Mortgage Asset Services Pty Ltd	2,518,811	5.00
UBS Private Clients Australia Nominees Pty Ltd	2,475,692	4.92
National Nominees Limited	1,050,880	2.09
Carpenter Nominees Pty Ltd	1,050,367	2.09
Ferber Holdings Pty Ltd	438,455	0.87
Jamac Holdings Pty Ltd	429,955	0.85
Mr Timothy Alastair Holmes	423,211	0.84
Mr Robert Peter Cockburn Salmon	366,211	0.73
Pythagoras Investgment Coporation Pt Ltd	300,000	0.60
Challenger Group Pty Ltd	250,000	0.50
Beecraft Pty Ltd	225,000	0.45
Daisson Holdings Pty Ltd	210,047	0.42
Sigma Chemicals (1986) Pty Ltd	200,000	0.40
Mr Gary Ryan and Mrs Janice Ryan	191,503	0.38
DH Slatyer Pty Ltd	179,224	0.36
TOTAL	**41,738,401**	**82.89**

ASX ADDITIONAL INFORMATION (CONTINUED)

g) Top 20 holders of Reset Preference Shares

NAME	NUMBER OF PREFERENCE SHARES	% OF PREF.SHARES
Tico Pty Ltd	167,088	33.18
Peterlyn Pty Ltd	166,779	33.12
Redbrook Pty Ltd	58,371	11.59
UBS Wealth Management Aust Nom Pty Ltd	49,531	9.84
Ferber Holdings Pty Ltd	20,970	4.16
Carpenter Nominees Pty Ltd	8,488	1.69
Beecraft Pty Ltd	4,020	0.80
Mr Timothy Alastair Holmes	3,662	0.73
Mr Robert Peter Cockburn Salmon	3,662	0.73
Equal Heath Incorporated	2,000	0.40
Mrs Jean Ackland	1,426	0.28
Edplas Pty Ltd	1,125	0.22
Mr John Warren Booth	1,050	0.21
YSCA Nominees Pty Ltd	1,031	0.20
Mr Eric Hewett Dick	1,000	0.20
Mrs Dorothy Mary McGee	1,000	0.20
Ms Janice Leigh Forbes-Madden & Mr Felix Grant Forbes	950	0.19
Mr Robert Douglas Lewin	800	0.16
Mr John Macartney Coole	700	0.14
Mr Peter Howells	625	0.12
TOTAL	**494,278**	**98.16**