Annual Report 2006/2007

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 10 to 24. The directors' report is not part of the financial report.

DIRECTORS
Timothy Holmes (Non-Executive Chairman)
Brian Jones (Managing Director)
Jarrod Smith (Finance Director)
Brian Benari (Non-Executive Director)
Robert Salmon (Non-Executive Director)
Robert Scott (Non-Executive Director)
Dominic Stevens (Non-Executive Director)

COMPANY SECRETARY
Jennifer Murray

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AUDITORS
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Tim Holmes

CHAIRMAN'S REPORT

On behalf of your Board I am pleased to present the 2007 annual report for Homeloans Ltd.

The year in review marked a number of significant achievements for Homeloans Ltd. In addition to the 5.5% growth in mortgages under management (on a pre-acquisition basis), the company has also strengthened its position through acquisition and by making a placement to a substantial new shareholder.

In December 2006 Homeloans Ltd announced that it had entered into an agreement to acquire the business of Independent Mortgage Corporation Pty Ltd (IMC), a Melbourne-based mortgage originator of managed and brokered loans, thereby increasing the Homeloans Ltd mortgage book by almost 25%. This transaction took effect on 12 March 2007, contributing four months of earnings.

In February 2007 Homeloans Ltd announced that Challenger Mortgage Management ("Challenger"), a subsidiary of Challenger Financial Services Group Limited had agreed to purchase 40 million new ordinary shares in Homeloans Ltd, subject to shareholder approval for the second tranche. This was subsequently approved by Shareholders in May 2007. These placements raised approximately $44.7 million before costs and resulted in Challenger having around a 40% share in the enlarged company.

The transaction also resulted in two Challenger representatives joining the Board. On behalf of the Board I am delighted to welcome Dominic Stevens, Deputy Managing Director of Challenger Financial Services Group Limited and Brian Benari, Chief Executive of Challenger Mortgage Management, to the Board of Directors. Messrs Stevens and Benari bring a wealth of skill and experience from the financial services industry and add considerable strength to the Board.

In June 2007, the Homeloans Ltd associate, Mosaic Financial Services Pty Ltd, announced its merger with national Mortgage Brokers (nMB).

These achievements will have significant impact in terms of positive growth for your company in the ensuing years.

The mortgage lending industry is entering a new phase of development. There will be consolidation in the non-bank sector over the coming years as the organisations that lack management infrastructure, capital and distribution find it harder to compete.

The restructuring of Homeloans Ltd that has taken place over the past few years has been bolstered by our activities in the year in review. Our position is substantially strengthened through partnerships and investment and also through our ongoing focus on funding and distribution networks including our own propriety funding line the Residential Mortgage Trust (RMT).

For the year in review Homeloans Ltd recorded a full year net profit after tax of $2.39m, up 160% on the restated prior year result of $0.92m. Following the recent investment by Challenger the Board has reviewed the current accounting policies adopted by the group and decided to align the accounting policies of Homeloans Ltd with its new major shareholder.

The result reflected an increase in Net Interest Margin of 2%, bringing it to $11.9m. Net Fees and Commission income increased by 66% to $8.6m. At the same time, operating expenses increased by only 4% bringing them to $17.6m. The increasing revenue, without a parallel increase in operating cost base, shows the leverage ability and scale benefits which the Homeloans Ltd model possesses.

Earnings per share were up strongly, more than doubling to 3.74 cents per share (3.57 cents on a diluted basis). Net tangible asset backing also more than doubled to 49.45 cents per share, as a result of the placement of 40% of new capital to Challenger for a total consideration of approximately $44.7m, before costs.

In the year ahead Homeloans Ltd will continue to grow organically as well as through investing the capital from Challenger. As the mortgage industry continues through a natural phase of consolidation Homeloans Ltd is well positioned to further capitalise on opportunities as they arise and build further on the achievements of the year in review.

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

Yours faithfully,

Tim Holmes
Chairman

Brian Jones

MANAGING DIRECTOR'S REPORT

The year in review saw Homeloans Ltd continue to strengthen underlying profitability as a result of improved business performance, productivity and distribution.

Through growing our broker market nationally, expanding our retail distribution, as well as strengthening our funding options we are now more competitive in the mainstream mortgage market, with a resultant improvement in financial performance.

We have enjoyed significant growth over the last few years as a result of substantial restructuring. We are now in a strong position to capitalise on current market opportunities, while continuing to build for future growth.

Our average monthly settlements this year increased by 26.4% (21.2% excluding loans originated by IMC) and continue to gain momentum. This is largely due to our ongoing growth and the increasing acceptance of the third-party (mortgage broker) distribution channel; in addition our acquisition of IMC has also boosted our retail distribution capability.

This growth has been facilitated by significant and visible improvements in our underwriting capability. We've also continued to cultivate alliances with key broker groups and strengthened our sales team.

Combined with increased productivity, an improved product offering, reduced turnaround times and cultural improvements, we now deliver a strong proposition – and the response from both new and established brokers has been very positive.

The year has also seen Homeloans Ltd continue to become more self sufficient in funding; another significant strengthening of the business. Our own proprietary funding line the Residential Mortgage Trust (RMT) now represents 35% of all our loan originations.

Moreover, a number of substantial product improvements were also made during the year in review, delivering our customers one of the most competitive standard variable rates available in the market, as well as a highly competitive low documentation loan.

Notwithstanding these initiatives, we have also worked closely with key strategic partner Adelaide Bank Limited (ABL) to strengthen our relationships. Adelaide Bank is one of Australia's leading wholesale funder and provides ideal balance for our own funding requirements.

Through our relationship with ABL, Homeloans Ltd was the first Australian lender to write the proprietary Equity Finance Mortgage (EFM), and continues to be the main writer of EFM loans.

Since financial year end the capital markets globally have experienced volatility in funding mortgage portfolios most particularly in higher risk non conforming loan products. Homeloans Ltd was able to take a watchful and measured approach to this volatility as our lending portfolio is heavily weighted towards the lower end of the risk curve and funding is sourced primarily from quality Bank-backed providers plus the Residential Mortgage Trust, our proprietary securitisation vehicle.

Looking ahead, 2007 will see continued focus on funding efficiencies, productivity and cost management. A systems efficiency project is to be delivered in the second half of the financial year that will provide considerable process and productivity gains.

The investment from Challenger and the opportunity to access the broader Challenger Group resources, places us in a strong position to further develop the business and continue to better compete in the mainstream mortgage market.

The coming year will be a challenging one for the market as a whole but I see it as an opportunity for further growth for Homeloans Ltd.

The executive team of Homeloans Ltd are confident that the continued strengthening and market recognition of our distribution network and management processes, combined with the continued self reliance on funding and investment in business retention and productivity enhancement, 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

YEAR IN REVIEW 06 / 07

PROFIT
Under the new accounting policy, the company recorded a full year net profit after tax of $2.39 million, up 160% on the restated prior year result of $0.92 million.

The net tangible asset backing increased to 49.45 cents per share.

DIVIDEND
The final dividend will be 1.2 cents per share. The dividend will be unfranked and will be payable to all shareholders as of record date of 2 November 2007. The dividend represents a 98% payout ratio on earnings per share.

EARNINGS PER SHARE
Basic earnings per share were 3.74 cents and 3.57 cents on a diluted basis.

CHANGES TO BOARD OF DIRECTORS
Dominic Stevens and Brian Benari were appointed to the Board on 3 May 2007.

PERSONNEL
Homeloans Ltd has 134 full time staff and 43 retail 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, expanding their knowledge of the industry.

MORTGAGES – DISTRIBUTION AND MARKETING
Over the last 20 years Homeloans Ltd has grown from a small West Australian mortgage manager to a leading national non-bank lender that originates and manages a comprehensive range of loans for home owners and investors.

As Australia’s non-bank lending industry has evolved, Homeloans has developed two distinct distribution channels to reach Australian borrowers: third party – whereby our mortgage broker partners distribute loans to the end customer – and direct distribution to customers via our mobile lenders and satellite offices.

Third party – broker channel
The third party sales channel presents considerable opportunity for growth, particularly on the Eastern Seaboard.

Mortgage brokers are playing an increasingly significant role in writing home loans 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 in this regard.

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 channel – this is a key point of difference for Homeloans Ltd.

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. Through this approach we develop strong and loyal relationships with brokers at multiple points in the delivery process.

Homeloans Ltd currently has a team of sixteen (16) 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 – mobile lenders and satellite offices
While supporting the fast growing broker market, Homeloans Ltd has also concentrated on developing its direct sales channel.

While the Eastern seaboard is the focal point for developing broker distribution, the West Australian and South Australian markets have been the focus for growing our retail and direct sales channel.

In Victoria the acquisition of the business of Independent Mortgage Corporation Pty Ltd during the year in review has boosted our retail distribution capabilities on the East Coast through strengthening our loan book as well as expanding our client base.

The pending merger of Homeloans Ltd's associate, Mosaic Financial Services, with National Mortgage Brokers (nMB), will further strengthen our retail network through giving our mobile lenders and satellite licences access to a wider lending panel, as well as bringing considerable strength in platforms and distribution to both parties.

Our products and funding
Equally as important as our distribution is the development of a comprehensive range of innovative products.

Over the year in review, significant improvements have been made to our proprietary funding line, the Residential Mortgage Trust (RMT). The product refinements together with faster turnaround times – since they are approved in house – have further increased RMT's market penetration.

These improvements include the introduction of the popular Easy Saver, a fully-featured standard product launched in April 2007. It is one of the most competitively priced and featured products in the market. Improvements were also made to our low documentation range to give strong market positioning and enable these products to compete more effectively.

In conjunction with Adelaide Bank and Rismark International, Homeloans Ltd was the first lender in Australia to write an Equity Finance Mortgage (EFM). EFM has:

- a broad appeal across a number of segments. These include the first home buyer – by increasing the amount that can be borrowed – and the up-grader, through enabling them to buy a larger home while keeping loan repayments down.

- for those facing a significant lifestyle change the EFM also enables the customer to reduce their loan repayments.

THE YEAR AHEAD
Over the coming year Homeloans Ltd will continue to strengthen its position as a national mortgage lender, focusing on the reinforcement of our distribution channels coupled with ongoing product development. There is a growing awareness amongst borrowers that there are alternatives to bank branch originated home loans, and Homeloans Ltd is well positioned to capitalise on this trend.

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HOMELOANS LIMITED

FINANCIALS 2007

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2007.

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

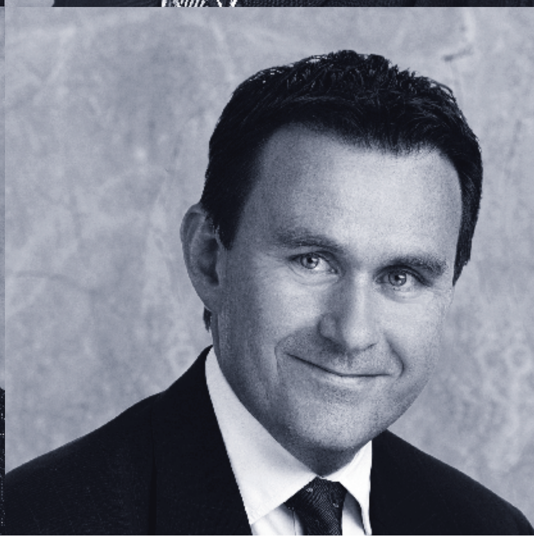
Timothy Alastair Holmes (Non-Executive Chairman)
Tim was appointed a director on 9 November 2000 and appointed Chairman on 1 July 2003. He has 39 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He 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. Tim is a member of the company's audit committee.

Robert Peter Salmon (Non-Executive Director)
Appointed 9 November 2000. Rob has 37 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. Rob is a member of the company's audit committee.

Brian Donald Jones (Managing Director)
Brian was appointed to the board in an executive capacity on 28 May 2004. He has 41 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 Masters of Business Administration from the AGSM. Brian was appointed Managing director on 1 January 2006.







The Directors: Timothy Holmes; Brian Jones; Jarrod Smith; Dominic Stevens (top row); Robert Salmon; Robert Scott; Brian Benari (bottom row).

Robert Norman Scott (Non-Executive Director)
Appointed 9 November 2000. Rob is a Chartered Accountant with over 40 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 is chairman of the company's audit committee.

Rob serves as a director of the following listed companies:

- Amadeus Energy Ltd (Appointed 30 October 1996)
- BioMD Limited (Appointed 23 June 1999) - Chairman
- Australian Renewable Fuels Limited (Appointed 24 December 2002)
- Neptune Marine Services limited (Appointed 17 May 2007)
- Previously served as a director of Evans & Tate Limited (July 2005 to August 2007)

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

Brian Roland Benari (Non-Executive Director)
Appointed 3 May 2007. Brian is the Chief Executive of Challenger Mortgage Management. He led the acquisition by Challenger of Interstar Securities, Australia's largest non-bank lender from Zurich Capital Markets. Prior to this Brian was formerly Chief Operating Officer/ Chief Financial Officer with Zurich Capital Markets, and also held senior executive roles with Macquarie Bank and Bankers Trust. Brian is a Chartered Accountant and has a Bachelor of Business from Curtin University (WA).

Dominic Stevens (Non-Executive Director)
Appointed 3 May 2007. Dominic is the Deputy Managing Director of Challenger Financial Services Group Limited, and is responsible for overseeing their Capital, Risk and Strategy operation. Prior to this Dominic was Senior Managing Director of Zurich Capital Markets (Asia region). Dominic has a Bachelor of Commerce (Hons) Finance (UNSW) and is a member of the Australian Institute of Company Directors.

Jennifer Murray (Company Secretary)
Jennifer Murray was appointed company secretary to Homeloans Limited on 9 November 2000. She is a Chartered Secretary and has over 24 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 and options of Homeloans Limited were:

	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
T A Holmes	12,434,781	-
B D Jones	225,952	2,000,000
R P Salmon	12,114,186	-
R N Scott	2,077,982	-
J L A Smith	86,883	1,150,000
B R Benari	-	-
D Stevens	-	-

DIVIDENDS

	CENTS	$'000
Final dividend recommended:		
- on ordinary shares	1.2	827
Dividends paid in the year:		
Interim for the year		
- on ordinary shares	2.5	1,514
Final dividend for 2006 shown as recommended in the 2006 report		
- on ordinary shares	2.5	1,259

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
- securitisation of mortgages through the Residential Mortgage Trust (RMT), a special purpose vehicle (SPV) used to issue residential mortgage backed securities.

The principal activities were conducted under the brand names Homeloans Limited, Access Home Loans, Independent Mortgage Corporation Pty Ltd and FAI Home Loans. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, Challenger Mortgage Management, 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.

Operating Results for the Year

The consolidated entity experienced an increase in loan originations of 26% on the prior corresponding year.

Revenue increased to $94,812,000 (2006: $74,697,000) primarily due to continued strong growth of the RMT loan book. Consolidated net profit after tax for the year was $2,390,000 (2006:$917,000), up 160% on the previous corresponding period, reflecting a positive result from:

- increased loan volumes (up 26% on 2006) including originations from Independent Mortgage Corporation;

- interest earned on proceeds from new share capital issued during the year; and
- continued focus on restricting operating costs .

In the year ahead the company will continue to grow organically, both through its recently increased retail sales force and its broker network. It will also look to play a part in any upcoming industry consolidation by utilising the capital received from Challenger Mortgage Management.

Summarised operating results are as follows:

	2007	
	REVENUES $'000	RESULTS $'000
Business segments		
Origination and Management	39,874	1,560
Securitisation of Mortgages	63,387	2,992
	103,261	4,552
Consolidated entity adjustments	(8,449)	-
Non-segment and unallocated revenues	-	-
Non-segment and unallocated expenses	-	(1,066)
Consolidated entity sales and profit from ordinary activities before income tax expense	94,812	3,486

Shareholder Returns
The consolidated entity is pleased to report that return to shareholders, both through dividends and capital growth, continues in line with measures implemented by management in the last 3 years. This is reflected in the significant improvement in most financial measures for the current year.

	AIFRS			AGAAP	
	2007	2006	2005	2004[1]	2003[1]
Basic earning per share (cents)	3.74	1.82	3.95	1.73	(40.01)
Return on assets (%)	0.3%	0.1%	0.4%	1.7%	(35.6%)
Return on equity (%)	4.6%	3.4%	6.9%	2.9%	(64.9%)
Dividend payout ratio (%)	97.9%	274.6%[2]	30.3%	0.0%	N/A[3]

Debt to equity measures have not been disclosed due to the impact of the consolidation of RMT. Consolidation of RMT adds significant 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.

1 These ratios were calculated under accounting standards applicable before 1 July 2005. The results for 2005, 2006, and 2007 are calculated under Australian equivalents of International Financial Reporting Standards (AIFRS). Results for 2006 and 2007 have been further adjusted based upon the Group's new accounting policy (See Note 3 in the financial statements). Results for 2005 and earlier financial periods do not reflect this change in policy.

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.

2 It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year (See Note 3 in the financial statements).

3 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 2007 of $6,319,000 (2006: Increase of $8,628,000).

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 2007, primarily to allow for timing mismatches. The consolidated entity has a cash advance facility with its bankers at 30 June 2007 of $16,200,000 which was only drawn down to the extent of $12,867,000 (2006 $1,000,000). The Residential Mortgage Trust has a net interest margin facility of $9,000,000 drawn to $7,189,000 (2006 $5,377,000) and a warehouse facility of $500,000,000 drawn to $367,699,000 at 30 June 2007 (2006 $60,531,000).

Under AIFRS operating cash flow includes cash available to the investors in the special purpose vehicles (SPV) of RMT. This cash is not available to the consolidated entity. The increased operating cash flow in part reflects the growth in these SPVs throughout the year.

Asset and capital structure

PROFILE OF DEBTS	2007 $'000	2006 $'000
The profile of the consolidated entity's debt finance is as follows:		
Lease liability – secured	762	1,061
HP liability – secured	63	101
Bank loans – secured	387,755	66,908
Due to bondholders	436,948	635,915
Other loans	5,010	3,529
Loans from funders	3,657	5,444
Reset preference shares	-	4,998
	834,195	717,956

The amount of the consolidated entity's debts has increased over the last year due to the continued significant usage of RMT and the use of debt to fund the purchase of Independent Mortgage Corporation.

CAPITAL EXPENDITURE

There has been a slight increase in cash used to purchase plant and equipment for 30 June 2007 to $295,000 from $199,000 in the year ended 30 June 2006.

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.

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

On the 28th of September 2007, the directors of Homeloans Ltd declared a final dividend on ordinary shares in respect to the 2007 financial year. The total amount of the dividend is $827,125, which represents an unfranked dividend of 1.20 cents per share.

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 6,912,500 (2006: 7,665,000) unissued ordinary shares under options.

Balance at 30 June 2007 (Note 16)	6,912,500
Options forfeited on resignation of staff since 30 June 2007	-
Balance at the date of this report	6,912,500

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.

202,500 ordinary 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 end of 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.

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.

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. Details of company performance and shareholder returns are discussed on page 22 of this report.

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 the November 2005 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.

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 on. The remuneration of non-executive directors for the period ending 30 June 2007 is detailed in Table 1 on page 19 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 detailing market levels of remuneration for comparable executive roles.

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 19 details the variable component of the named senior executives.

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.

Since 2005 the level of individual fixed remuneration to members of the senior management team has been held steady.

Structure
The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the named senior executives is detailed in Table 2 on page 19.

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. These options are issued to executives as a form of retention bonus and incentive to contribute to the creation of shareholder wealth .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.

Options issued to Mortgage Asset Services (MAS) are subject to performance hurdles based on the 3 month rolling average settlement volumes. Options are usually issued in tranches with various termination dates based on an increasing settlement volume hurdle. If the target volumes are not reached by the set date, the options will lapse.

Table 3 on page 20 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

Employment contracts
Except as outlined below, no executives are 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 than 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 and General Manager Product and Funding 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 2004 will vest, provided loan origination volumes are within 90% of the hurdle volumes.

Subject to review, this contract expires on 31 December 2007.

Other senior executives
Under their conditions of employment the employment of the senior executives 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 senior executives 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 2007

		SHORT TERM			POST EMPLOYMENT		LONG TERM	SHARE BASED PAYMENT		
		SALARY & FEES	CASH BONUS [3]	NON-MONETARY BENEFITS	SUPERANNUATION	RETIREMENT BENEFITS	INCENTIVE PLANS	OPTIONS	TOTAL	% PERFORM. RELATED
T.A. Holmes	2007	75,000	-	4,058	-	-	-	-	79,058	0%
	2006	166,723	-	2,767	11,630	-	-	-	181,120	0%
B.D. Jones	2007	275,000	350,000	4,855	24,750	-	-	32,734	687,339	51%
	2006	275,000	-	4,854	24,750	-	-	75,887	380,491	0%
R.P. Salmon	2007	50,000	-	4,058	-	-	-	-	54,058	0%
	2006	154,223	-	2,767	11,630	-	-	-	168,620	0%
R.N. Scott	2007	57,500	-	-	-	-	-	-	57,500	0%
	2006	50,000	-	-	-	-	-	-	50,000	0%
J.L Smith	2007	240,000	166,500	4,855	21,600	-	-	61,059	494,014	34%
	2006	240,000	60,000	4,854	21,600	-	-	77,726	404,181	15%
B.R. Benari [1]	2007	-	-	-	-	-	-	-	-	0%
D. Stevens [1]	2007	-	-	-	-	-	-	-	-	0%

1 Acting as a director in connection with discharging their duties as an executive of Challenger Financial Services Group ("Challenger") and consequently do not currently take fees for their service.

Table 2: Remuneration of named executives for the year ended 30 June 2007

		SHORT TERM			POST EMPLOYMENT		LONG TERM	SHARE BASED PAYMENT		
		SALARY & FEES	CASH BONUS [3]	NON-MONETARY BENEFITS	SUPERANNUATION	RETIREMENT BENEFITS	INCENTIVE PLANS	OPTIONS	TOTAL	% PERFORM. RELATED
L.McDonald	2007	150,000	64,652	4,855	13,500	-	-	8,986	241,993	27%
	2006	150,000	50,000	4,854	13,500	-	-	11,375	229,729	22%
K.Carter	2007	125,000	72,352	4,058	11,250	-	-	12,225	224,885	32%
	2006	125,000	40,000	2,767	11,250	-	-	15,725	194,742	20%
A.Curr	2007	117,500	57,675	-	10,575	-	-	6,923	192,673	30%
	2006	117,500	25,000	-	10,575	-	-	8,950	162,025	15%
T.Phillips [2]	2007	400,451	71,540	-	-	-	-	50,090	522,081	100%
	2006	282,271	-	-	-	-	-	24,186	306,457	100%
B.Hartley [2]	2007	87,200	-	-	-	-	-	-	87,200	0%
K.Shaw [4]	2007	100,900	-	2,790	9,081	-	-	2,156	114,927	0%

2 T. Phillips and B. Hartley are directors of Mortgage Asset Services Pty Ltd (MAS). T.Phillips' 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 $400,451 (2006:$282,271) in the current financial year. This performance condition was determined to be appropriate for the General Manager Sales and specifically it addressed the requirements of his role. The terms and conditions of this commission payment are based on an increasing scale of commission as various settlement volume hurdles are exceeded.
B. Hartley's services as General Manager Product and Funding are remunerated by way of a consulting fee of $10,900 per month payable to MAS. MAS also hold 1,500,000 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 T. Phillips or to B. Hartley.
The options on issue to MAS include 250,000 options exercisable any time from grant date subject to performance hurdles which are related to the expected role of MAS on behalf of Homeloans Ltd. These hurdles are as follows:
- 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.

3 Cash bonuses paid in the current financial year were in respect of performance in the financial year ended 30 June 2006. Correspondingly, the cash bonuses paid in the year ended 30 June 2006 were in respect of the financial year ended 30 June 2005.

4 Remuneration covers the period for the 8 months of K. Shaw's employment in the financial year.

Table 3: Options granted as part of remuneration for the year ended 30 June 2007
(in accordance with the LTI plan)

	GRANT DATE	GRANT NUMBER	VESTING DATE	VALUE PER OPTION AT GRANT DATE [@]	EXERCISED NUMBER	VALUE PER OPTION AT EXERCISE DATE	VALUE AT DATE OPTION LAPSED	% OF REMUNERATION
K.Shaw	15/02/07	50,000	29/12/08	$0.2205	Not applicable	Not applicable	Not applicable	1 %
	15/02/07	50,000	29/12/09	$0.2623	Not applicable	Not applicable	Not applicable	1 %

[@] From 1 July 2002, options granted as part of senior executive 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.

In the year ended 30 June 2007 an Executive exercised 80,000 options that had vested during the year. The details were:

NAME	OPTIONS EXERCISED	EXERCISE DATE	EXERCISE PRICE $
Executive			
L.McDonald	50,000	23/3/2007	0.35
	30,000	23/3/2007	0.36
	80,000		

No shares were issued during the year ended 30 June 2006 on exercise of compensation options.

In the year ended 30 June 2007 1,200,000 options on issue to directors and officers lapsed during the year. The details were:

NAME	OPTIONS LAPSED	EXPIRY DATE
Director		
J.Smith	200,000	1/4/2007
Executive		
T.Phillips	1,000,000	31/3/2007
	1,200,000	

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	14 OCT 05	14 OCT 05	23 NOV 05
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Expected volatility	38%	44%	44%	38%	45%	45%	45%	45%	45%	45%
Risk-free interest rate	5.532%	5.442%	5.518%	4.700%	4.905%	4.900%	5.005%	5.266%	5.276%	5.143%
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	3.9 years	4.9 years	3.8 years

GRANT DATE	23 NOV 05	20 FEB 06	20 FEB 06	7 APR 06	7 APR 06	7 APR 06	15 FEB 07	15 FEB 07	17 APR 07	17 APR 07
Dividend yield	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	5.0%	5.0%	5.0%	5.0%
Expected volatility	45%	45%	45%	45%	45%	45%	45%	45%	45%	45%
Risk-free interest rate	5.157%	5.052%	5.048%	5.423%	5.337%	5.337%	6.115%	6.010%	6.3%	6.1126%
Expected life of option	4.8 years	3.5 years	4.5 years	3.7 years	3.7 years	3.7 years	1.9 years	2.9 years	1.2 years	1.2 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
250,000	7 Apr 2006	30 Sep 2006	$0.1456	100% vested
250,000	7 Apr 2006	31 Mar 2007	$0.1154	100% vested
250,000	7 Apr 2006	31 Dec 2007	$0.1058	Vesting if any 3 month period up to 31 December 2007 exceeds an average $137.5million
350,000	15 Feb 2007	29 Dec 2008	$0.2205	Vests 29 Dec 2008
350,000	15 Feb 2007	29 Dec 2009	$0.2623	Vests 29 Dec 2009
200,000	17 Apr 2007	30 Jun 2008	$0.57	Will only vest if loan book targets are met by business partners by 30 June 2008. Vesting occurs at date of target achievement.
250,000	17 Apr 2007	30 Jun 2008	$0.47	Will only vest if loan book targets are met by business partners by 30 June 2008. Vesting occurs at date of target achievement.

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 3 years. This is highlighted by the significant improvement in most financial measures for the current year as listed below:

	AIFRS			NON-AIFRS	
	2007	2006	2005	2004 [1]	2003 [1]
Basic earnings per share (cents)	3.74	1.82	3.95	1.73	(40.01)
Return on assets (%)	0.3%	0.1%	0.4 %	1.7 %	(35.6 %)
Return on equity (%)	3.1%	3.4%	6.9 %	2.9 %	(64.9 %)
Dividend payout ratio (%)	97.9%	274.6% [2]	30.3 %	0.0 %	N/A [3]
Total Shareholder Return (TSR)					
Share price (cents)	56.5	10.5	0.0	(7.5)	(32.5)
Dividends (cents)	3.7	5.0	1.5	0.0	1.2
	60.2	15.5	1.5	(7.5)	(31.3)

1 These ratios were calculated under accounting standards applicable before 1 July 2005. The results for 2005 and 2006 are calculated under Australian equivalents of International Financial Reporting Standards (AIFRS). Results for 2006 and 2007 have been further adjusted based upon the Group's new accounting policy (See Note 3 in the financial statements).

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.

2 It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year (See Note 3 in the financial statements).

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

The share price increase during the financial year under review has shown the benefit of our improved performance. At 30 June 2007 the company's share price was $1.00. It is pleasing to see the continuing positive trend in the TSR. 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 benefit from playing a part in the consolidation of the non-bank sector, and with continued 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	NOMINATION AND REMUNERATION COMMITTEE
Number of meetings held:	12	2	1
Number of meetings attended:			
T. A. Holmes	12	2	1
R. P. Salmon	9	2	1
R. N. Scott	12	2	1
B. D. Jones	12	-	-
J.L.A.Smith	12	-	-
B.R. Benari	3*	-	-
D. Stevens	3*	-	-

* There were 3 Directors' meetings held during the period in which B.R.Benari and D.Stevens were 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	$38,278

Signed in accordance with a resolution of the directors

Robert N. Scott
Non Executive Director
Perth, 28 September 2007

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 2007, 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

Date 28 September 2007

CORPORATE GOVERNANCE STATEMENT

The Board of Homeloans Limited 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 2007 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 5 non-executive directors and 2 executive directors.

BOARD RESPONSIBILITIES

The Board of Homeloans Limited 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 is 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	6yrs 11 months	J.L.A. Smith	1 yr 7 months
R.P Salmon	6yrs 11 months	B.R.Benari	5 months
R.N Scott	6yrs 11 months	D. Stevens	5 months
B.D Jones	3 yrs 4 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 Board 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, 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 receives 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 two non-executive directors and an independent chairman.

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 BA 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.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	HOMELOANS LIMITED 2007 $'000	HOMELOANS LIMITED 2006 $'000
Interest income	5(a)	62,757	49,885	4,017	3,863
Interest expense	5(d)	(50,844)	(38,204)	(1,857)	(1,968)
Net interest income		11,913	11,681	2,160	1,895
Fees and commission income	5(b)	31,481	23,532	27,202	24,234
Fees and commission expense	5(e)	(22,885)	(18,350)	(18,213)	(14,944)
Other operating income	5(c)	574	1,281	7,251	5,834
Impairment losses on loans and advances		-	-	-	-
General administrative expenses		(5,571)	(5,940)	(5,314)	(5,683)
Employee benefits	5(g)	(11,786)	(10,343)	(11,600)	(10,343)
Other operating expenses		(240)	(634)	(192)	(175)
Profit before income tax		3,486	1,227	1,294	818
Income tax expense	6	(1,096)	(310)	(434)	(367)
Net profit attributable to members of the Homeloans Limited		2,390	917	860	451
Basic earnings per share (cents per share)	7	3.74	1.82		
Diluted earnings per share (cents per share)	7	3.57	1.82		
Unfranked dividend (cents per share)					
- Ordinary shares	8	1.20	2.50		

The income statement is to be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

BALANCE SHEET AS AT 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	HOMELOANS LIMITED 2007 $'000	HOMELOANS LIMITED 2006 $'000
ASSETS					
Cash assets	9	31,893	25,574	787	300
Receivables	10	9,059	6,390	23,602	9,399
Loans and advances to customers	11	790,567	686,855	-	-
Other financial assets	12	79,297	30,310	69,990	26,826
Plant and equipment	13	1,711	1,672	1,653	1,672
Investments in controlled entities	14	-	-	19,178	19,178
Goodwill	15	26,907	15,996	-	-
TOTAL ASSETS		939,434	766,797	115,210	57,375
LIABILITIES					
Payables	17	9,620	7,702	13,953	10,866
Interest-bearing liabilities	18	834,195	712,958	17,285	7,462
Other financial liabilities	19	11,450	8,902	9,436	8,082
Reset preference shares	20	-	4,998	-	4,998
Lease incentives	21	503	561	503	561
Deferred income tax liabilities	6	6,187	3,803	2,163	1,587
Provisions	22	811	680	786	680
TOTAL LIABILITIES		862,766	739,604	44,126	34,236
NET ASSETS		76,668	27,193	71,084	23,139
EQUITY					
Issued capital	23	98,194	48,624	98,194	48,624
Reserves	23	655	367	655	367
Accumulated losses	23	(22,181)	(21,798)	(27,765)	(25,852)
TOTAL EQUITY		76,668	27,193	71,084	23,139

The balance sheet is to be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	ISSUED CAPITAL $'000	ACCUM. LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
CONSOLIDATED				
At 1 July 2005	48,624	(17,374)	102	31,352
Change in accounting policies				
- Recognition of the NPV assets*	-	30,842	-	30,842
- Recognition of the NPV liabilities*	-	(15,138)	-	(15,138)
- De-recognition of the deferred expenses*	-	(19,470)	-	(19,470)
- Change from approved to settled*	-	(986)	-	(986)
- Tax effect of above adjustments*	-	1,425	-	1,425
	48,624	(20,701)	102	28,025
Profit for the year	-	917	-	917
Total recognised income and expense for the year	-	917	-	917
Cost of share-based payment	-	-	265	265
Equity dividends	-	(2,014)	-	(2,014)
At 1 July 2006	48,624	(21,798)	367	27,193
Profit for the year	-	2,390	-	2,390
Total recognised income and expense for the year	-	2,390	-	2,390
Cost of share-based payment	-	-	288	288
Shares issued:				
- conversion of reset preference shares	5,035	-	-	5,035
- exercise of options	71	-	-	71
- share placement	44,680	-	-	44,680
Transaction costs on share issues	(216)	-	-	(216)
Equity dividends	-	(2,773)	-	(2,773)
At 30 June 2007	98,194	(22,181)	655	76,668

The statement of changes in equity is to be read in conjunction with the accompanying notes.

* refer to note 3 in the financial statements on the change in accounting policy.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007 (CONT)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	ISSUED CAPITAL $'000	ACCUM. LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
PARENT				
At 1 July 2005	48,624	(21,211)	102	27,515
Change in accounting policies*				
- Recognition of the NPV assets*	-	30,842	-	30,842
- Recognition of the NPV liabilities*	-	(14,782)	-	(14,782)
- De-recognition of the deferred expenses*	-	(19,470)	-	(19,470)
- Change from approved to settled*	-	(986)	-	(986)
- Tax effect of above adjustments*	-	1,318	-	1,318
	48,624	(24,289)	102	24,437
Profit for the year	-	451	-	451
Total recognised income and expense for the year	-	451	-	451
Cost of share-based payment	-	-	265	265
Equity dividends	-	(2,014)	-	(2,014)
At 1 July 2006	48,624	(25,852)	367	23,139
Profit for the year	-	860	-	860
Total recognised income and expense for the year	-	860	-	860
Cost of share-based payment	-	-	288	288
Shares issued:				
- conversion of reset preference shares	5,035	-	-	5,035
- exercise of options	71	-	-	71
- share placement	44,680	-	-	44,680
Transaction costs on share issues	(216)	-	-	(216)
Equity dividends	-	(2,773)	-	(2,773)
At 30 June 2007	98,194	(27,765)	655	71,084

The statement of changes in equity is to be read in conjunction with the accompanying notes.

* refer to note 3 in the financial statements on the change in accounting policy.

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	HOMELOANS LIMITED 2007 $'000	HOMELOANS LIMITED 2006 $'000
Cash flows from operating activities					
Interest received		60,560	50,650	3,776	3,863
Interest paid		(51,080)	(36,957)	(1,899)	(1,971)
Loan fees and other income		34,355	25,781	23,039	30,333
Salaries and other expenses		(38,571)	(28,382)	(30,972)	(26,655)
Proceeds from/(repayments to) warehouse facility [A]		307,168	(153,978)	-	-
(Repayments to)/proceeds from bondholders [A]		(198,967)	341,751	-	-
Net loans (advanced)/repayments from borrowers [A]		(104,005)	(190,000)	-	(245)
RMT SPV set up costs		(304)	(716)	-	-
Income taxes paid		(66)	(82)	(66)	(79)
Net cash flows from operating activities	9	9,090	8,067	(6,122)	5,246
Cash flows from investing activities					
Acquisition of Independent Mortgage Corporation business	24	(12,593)	-	-	-
Purchase of plant and equipment		(295)	(199)	(295)	(199)
Refund of stamp duty claim		-	861	-	861
Loan to associate		-	(17)	-	(17)
Loan to related party		(44,680)	-	(44,680)	-
Net cash flows (used in)/from investing activities		(57,568)	645	(44,975)	645
Cash flows from financing activities					
Proceeds from issue of shares		44,751	-	44,751	-
Transaction costs on issue of shares		(216)	-	(216)	-
Proceeds from borrowings		20,280	10,671	14,869	3,809
Repayment of borrowings		(7,245)	(8,741)	(5,047)	(8,155)
Payment of dividends	8	(2,773)	(2,014)	(2,773)	(2,014)
Net cash flows from/(used in) financing activities		54,797	(84)	51,584	(6,360)
Net increase/(decrease) in cash held		6,319	8,628	487	(469)
Add: Opening cash brought forward		25,574	16,946	300	769
Closing cash carried forward	9	31,893	25,574	787	300

[A] The cash flows of the group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the consolidated entity's operating cash flows. These cash flows are not available for the use of shareholders.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: CORPORATE INFORMATION

The financial report of Homeloans Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of directors on 28 September 2007.

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 4.

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, 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). The financial report also complies with International Financial Reporting Standards (IFRS).

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2007 are outlined in the table below.

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 7 *Financial Instruments: Disclosures.*	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 AASB 2 *– Group and Treasury Share Transactions*.	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments, so the amendments are not expected to have any impact on the Group's financial report.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB *Interpretation 12 Service Concession Arrangements*.	1 January 2008	The Group currently has no service concession arrangements or public-private-partnerships (PPP), so the amendments are not expected to have any impact on the Group's financial report.	1 July 2008

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of *AASB 8 Operating Segments*.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under AASB 114 Segment Reporting.	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	Amendments arising as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, other than those now considered particularly relevant in the Australian reporting environment.	1 July 2007	These amendments are expected to reduce the extent of some disclosures in the Group's financial report.	1 July 2007
AASB 2007-5	Amendments to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities [AASB 102]	This Standard makes amendments to AASB 102 *Inventories*.	1 July 2007	This amendment only relates to Not-for-Profit Entities and as such is not expected to have any impact on the Group's financial report.	1July 2007
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of revisions to AASB 123 *Borrowing Costs*.	1 January 2009	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial report.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standards for wording errors, discrepancies and inconsistencies.	1 July 2007	The amendments are minor and do not affect the recognition, measurement or disclosure requirements of the standards. Therefore the amendments are not expected to have any impact on the Group's financial report.	1 July 2007
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and AASB 132 *Financial Instruments: Disclosure and Presentation*.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	*Operating Segments*	New standard replacing AASB 114 *Segment Reporting*, which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 123 (amended)	*Borrowing Costs*	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

REFERENCE	TITLE	SUMMARY	APPLICATION DATE OF STANDARD*	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB Interpretation 10	*Interim Financial Reporting and Impairment*	Addresses an inconsistency between AASB 134 *Interim Financial Reporting* and the impairment requirements relating to goodwill in AASB 136 *Impairment of Assets* and equity instruments classified as available for sale in AASB 139 *Financial Instruments: Recognition and Measurement.*	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139, which are to take precedence over the more general statement in AASB 134, are not expected to have any impact on the Group's financial report.	1 July 2007
AASB Interpretation 11	AASB 2 – *Group and Treasury Share Transactions*	Addresses whether certain types of share-based payment transactions with employees (or other suppliers of good and services) should be accounted for as equity-settled or as cash-settled transactions under AASB 2 *Share-based Payment*. It also specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	*Service Concession Arrangements*	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
IFRIC Interpretation 13	*Customer Loyalty Programmes*	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customers to buy their products or use their services.	1 July 2008	The Group does not have any customer loyalty programmes and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
IFRIC Interpretation 14	IAS 19 - *The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements*	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does have a defined benefit pension plan and as such this interpretation may have an impact on the Group's financial report. The Group has not yet determined the extent of the impact, if any.	1 July 2008

* designates the beginning of the applicable annual reporting period.

(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).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another 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 obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

(d) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) 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.

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.

(f) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

(g) 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.

(h) Intangibles
Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis. A summary of the policies applied to the Group's intangible assets is as follows:

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

(i) 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 employees.

The cost of these equity-settled transactions with employees and business partners 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, 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 attaching market based performance conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(j) 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;

- The group receives management fees from lenders on loans originated by Homeloans Limited on behalf of those lenders. The management fees are received over the life of the loans based on the loan book balance outstanding. The group also makes trailing commission payments to brokers and commissioned staff based on the loan book balance outstanding.

- Under a revised accounting policy adopted during the financial year (Refer Note 3), on settling loans, the fair value of the management fee revenue and asset is recognised. This represents the net present value of the expected management fee receivables under the origination and management agreement, less a cost to perform ongoing management. In addition, the fair value of the trail expense and payable is also recognised. This represents the net present value of the expected future trail payables due to staff and brokers associated with the origination of the loan.

Origination of Non-managed Loans
- The company receives management fees 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 broker agreements.

- On initial recognition, management fee revenue and receivables are recognised at fair value, being the expected future management fee 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.

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

(k) Borrowing costs
Borrowing costs are recognised as an expense when incurred.

(l) 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.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Future management fees receivable represents the net present value of the expected future trail income receivable under the origination and management agreement, less a cost to perform ongoing management.

Subsequent to initial recognition and measurement, the management fee receivable is measured at amortised cost. The carrying amount of the management fee receivable is 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 rates. The resulting adjustment is recognised as income in the Income Statement.

(n) De-recognition of financial instruments
The de-recognition 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 utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being a 'subsidiary' under AASB 127 – *Consolidated and separate financial statements*. These transactions do not meet the criteria under AASB 139 – *Financial Instruments: Recognition and Measurement* in regards to de-recognition 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.

(o) Recoverable amount of non-financial 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.

(p) Costs of establishing a SPV
The initial set up costs of an SPV to issue residential mortgage backed securities (RMBS) form part of the effective interest rates on the bond issued and are amortised on a straight line basis over the estimated life of the underlying SPV. These costs comprise legal fees and ratings agency fees. The estimated life of each SPV is 50 months.

(q) 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.

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 (i.e. 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

(r) Loans and advances

All loans and advances are initially recognised at fair value of consideration received plus directly attributable costs.

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.

(s) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(t) 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.

Future trailing commission payable represents the net present value of the expected future trail commission payable.

The trailing commission payable is measured at amortised cost. The carrying amount of the commission payable is 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 rates. The resulting adjustment is recognised as expense in the Income Statement.

(u) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less transaction costs.

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.

(v) 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.

(w) 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.

(x) 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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

Tax consolidation legislation
Homeloans Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2004.

The head entity, Homeloans Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Homeloans Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Asset or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in Note 6.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(y) 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 Cash Flow Statement 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(z) Investments and other financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets held for trading, 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 held for trading, 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 held for trading

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 de-recognised or impaired, as well as through the amortisation process.

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.

(aa) 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.

(bb) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 benefits 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.

Employee incentive payments are paid and/or recognised as follows:

- non-executive staff – no contractual entitlement to an incentive payment. Payments decided by the board based on observed achievements and performance. Expense is recognised on payment of the incentive.
- executive staff – contractual entitlement based on a mixture of personal performance in relation to specific KPIs and performance of the company in relation to company wide targets and/or the budget. The Group recognises an expense when either part of the incentive payment can be quantified with some certainty.

(cc) 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.

(dd) 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.

(ee) Significant accounting judgments, estimates and assumptions

Significant accounting judgments
In the process of applying the group's accounting policies, management has made judgements involving estimations, which have had an impact on the amounts recognised in the financial statements.

Recovery of deferred tax assets
Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences

Consolidation of SPVs
The Group has decided that the RMT SPVs meet the criteria of being a subsidiary under AASB 127 – *Consolidated and Separate Financial Statements*. The SPVs do not meet the criteria for de-recognition of financial instruments. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the balance sheet using the effective interest method 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 2007 (Cont.)

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 15.

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 the Binomial valuation model, based on assumptions in note 16.

Future management fees receivable and future trail expense payable
The company receives management fees from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the group is entitled. The company also makes trailing commission payments to introducers based on the loan book balance outstanding.

The fair value of management fees receivable and the corresponding payable to introducers is determined by using the discounted cash flow valuation technique. These calculations require the use of assumptions. The key assumptions underlying the fair value calculation of management fees receivable and the corresponding payable to introducers at balance date include the prepayment rate and the discount rate. These assumptions are determined by management as follows:

	2007	**2006**
Prepayment rate	2.93% per month reducing balance	2.93% per month reducing balance
Discount rate	12.0%	12.0%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 3: CHANGES IN ACCOUNTING POLICY

During the year the Group changed its accounting policies in relation to revenue and expense recognition on its origination and loan management business. Where necessary, the Group has changed its accounting policies to provide a more transparent representation of management fee income and trail commission expense and provide consistency of treatment with non managed loans.

Origination and loan management business - managed loans
The Group receives management fees from lenders on loans originated by Homeloans Limited on behalf of those lenders. The management fees are received over the life of the loans based on the loan book balance outstanding. The group also makes trailing commission payments to brokers and commissioned staff based on the loan book balance outstanding.

Under the Group's previous accounting policy, revenue and expense recognition resulted in the gross margin on day one being equivalent to the margin on the ongoing trail. That is, whilst upfront commission income was recognised on an as incurred basis, certain direct upfront costs were deferred and then matched against management fees as it was received.

Under the revised accounting policy:

a) Revenue and expenses relating to managed loans are recognised (excluding ongoing management costs) upfront based upon a discounted cash flow calculation (refer Discounted Cash Flow Calculation, below);

b) Loan origination costs are no longer deferred to future periods; and

c) Income and expenditure for managed loans are recognised upon settlement of loans, not when they are approved as under the previous policy.

Discounted Cash Flow Calculation
Under the revised accounting policy, on settling loans, the fair value of the management fee revenue and asset is recognised. This represents the net present value of the expected future management fees receivable under the origination and management agreement, less a cost to perform ongoing management. In addition, the fair value of the trail expense and payable is also recognised. This represents the net present value of the expected future trail payables due to staff and brokers associated with the origination of the loan.

Subsequent Measurement
Subsequent to initial recognition and measurement, both the management fee asset and trail commission payable are measured on an amortised cost basis.

This revised accounting policy on managed loans brings the treatment in line with how non managed loans have previously been accounted for.

The impact of the change in accounting policy is quantified, reflected in comparative amounts and disclosed as follows. The impact on the Group's basic earnings per share is also quantified. It should be noted that a reconciliation of the impact of the change in accounting policy on the results for the current financial year was not practicable as the changes were implemented during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

i) Reconciliation of total equity:

	CONSOLIDATED		HOMELOANS LIMITED	
	30 JUNE 2006 $'000	1 JULY 2005 $'000	30 JUNE 2006 $'000	1 JULY 2005 $'000
Total accumulated losses before changes to accounting policies	(16,791)	(17,374)	(20,942)	(21,211)
Change in accounting policies				
- Recognition of the management fees receivable	26,633	30,842	26,633	30,842
- Recognition of the trail commission payable	(13,527)	(15,138)	(13,388)	(14,782)
- De-recognition of the deferred expenses	(19,514)	(19,470)	(19,514)	(19,470)
- Change from approved to settled	(744)	(986)	(744)	(986)
- Tax effect of above adjustments	2,145	1,425	2,103	1,318
Total accumulated losses after changes to accounting policies	(21,798)	(20,701)	(25,852)	(24,289)

ii) Reconciliation of profit after tax

	CONSOLIDATED	HOMELOANS LIMITED
	30 JUNE 2006 $'000	30 JUNE 2006 $'000
Net profit after tax before changes to accounting policies	2,597	2,283
Change in accounting policies		
- Recognition of the management fees receivable	(4,209)	(4,209)
- Recognition of the trail commission payable	1,610	1,394
- Derecognition of the deferred expenses	(44)	(44)
- Change from approved to settled	242	242
- Tax effect of above adjustments	721	785
Net profit after tax after changes to accounting policies	917	451

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

iii) Reconciliation of the balance sheet before the changes to accounting policies to that after the changes:

	CONSOLIDATED			HOMELOANS LIMITED		
AS AT 30 JUNE 2006	2006 $'000	EFFECT OF CHANGES TO ACCOUNTING POLICIES $'000	2006 $'000	2006 $'000	EFFECT OF CHANGES TO ACCOUNTING POLICIES $'000	2006 $'000
ASSETS						
Cash assets	25,574	-	25,574	300	-	300
Receivables	11,652	(5,262)	6,390	11,180	(1,781)	9,399
Loans and advances to customers	686,855	-	686,855	-	-	-
Deferred expenses	19,514	(19,514)	0	19,514	(19,514)	-
Other financial assets	17	30,293	30,310	17	26,809	26,826
Plant and equipment	1,672	-	1,672	1,672	-	1,672
Investments in controlled entities	-	-	-	19,178	-	19,178
Goodwill	15,996	-	15,996	-	-	-
TOTAL ASSETS	761,280	5,517	766,797	51,861	5,514	57,375
LIABILITIES						
Payables	9,383	(1,681)	7,702	11,721	(855)	10,866
Interest-bearing liabilities	707,514	5,444	712,958	2,162	5,300	7,462
Other financial liabilities	-	8,902	8,902	-	8,082	8,082
Reset preference shares	4,998	-	4,998	4,998	-	4,998
Lease incentives	561	-	561	561	-	561
Deferred income tax liabilities	5,944	(2,141)	3,803	3,690	(2,103)	1,587
Provisions	680	-	680	680	-	680
TOTAL LIABILITIES	729,080	10,524	739,604	23,812	10,424	34,236
NET ASSETS	32,200	(5,007)	27,193	28,049	(4,910)	23,139
EQUITY						
Issued capital	48,624	-	48,624	48,624	-	48,624
Reserves	367	-	367	367	-	367
Accumulated losses	(16,791)	(5,007)	(21,798)	(20,942)	(4,910)	(25,852)
TOTAL EQUITY	32,200	(5,007)	27,193	28,049	(4,910)	23,139

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

iv) Reconciliation of income statement before the changes to accounting policies and that after the changes:

	CONSOLIDATED			HOMELOANS LIMITED		
FOR THE YEAR ENDED 30 JUNE 2006	2006 $'000	EFFECT OF CHANGES TO ACCOUNTING POLICIES $'000	2006 $'000	2006 $'000	EFFECT OF CHANGES TO ACCOUNTING POLICIES $'000	2006 $'000
Interest income	45,806	4,079	49,885	162	3,701	3,863
Interest expense	(36,824)	(1,380)	(38,204)	(670)	(1,298)	(1,968)
Net interest income	8,982	2,699	11,681	(508)	2,403	1,895
Fees and commission income	29,410	(5,878)	23,532	29,963	(5,729)	24,234
Fees and commission expense	(19,129)	779	(18,350)	(15,653)	709	(14,944)
Other operating income	1,281	-	1,281	5,834	-	5,834
Impairment losses on loans and advances	-	-	-	-	-	-
General administrative expenses	(5,940)	-	(5,940)	(5,683)	-	(5,683)
Other operating expenses	(10,977)	0	(10,977)	(10,518)	-	(10,518)
Profit before income tax	3,627	(2,400)	1,227	3,435	(2,617)	818
Income tax expense	(1,030)	720	(310)	(1,152)	785	(367)
Net profit after income tax	2,597	(1,680)	917	2,283	(1,832)	451
Net profit attributable to members of the Homeloans Limited	2,597	(1,680)	917	2,283	(1,832)	451
Basic earnings per share (cents per share)	5.16	(3.34)	1.82			
Diluted earnings per share (cents per share)	4.82	(3.00)	1.82			

NOTE 4: 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 2007 and 30 June 2006. 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 issues bonds with rights to the principal repayments and interest received from borrowers via a securitised mortgage trust.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

YEAR ENDED 30 JUNE 2007	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	4,651	58,106	62,757
Fee and commission income	29,858	5,281	35,139
Other operating income	5,365	-	5,365
Total segment revenue	39,874	63,387	103,261
Inter-segment elimination			(8,449)
Total consolidated revenue			94,812
Result			
Segment results	1,560	2,992	4,552
Profit / (loss) before tax and finance costs			4,552
Finance costs			(1,066)
Profit / (loss) before income tax and minority interest			3,486
Income tax expense			(1,096)
Net profit for the year			2,390
Assets and liabilities			
Segment assets	121,253	818,181	939,434
Total assets			939,434
Segment liabilities	45,097	817,669	862,766
Total liabilities			862,766
Other segment information			
Capital expenditure	295	-	295
Depreciation	402	-	402
Other non-cash expenses:	803	414	1,217

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

YEAR ENDED 30 JUNE 2006	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	4,192	45,693	49,885
Fee and commission income	29,106	4,131	33,237
Other operating income	435	-	435
Total segment revenue	33,733	49,824	83,557
Non-segment revenue			936
Inter-segment elimination			(9,795)
Total consolidated revenue			74,698
Result			
Segment results	860	369	1,229
Non-segment revenue			936
Profit / (loss) before tax and finance costs			2,165
Finance costs			(938)
Profit / (loss) before income tax and minority interest			1,227
Income tax expense			(310)
Net profit for the year			917
Assets and liabilities			
Segment assets	58,730	708,067	766,797
Total assets			766,797
Segment liabilities	31,363	708,241	739,604
Total liabilities			739,604
Other segment information			
Capital expenditure	199	-	199
Depreciation	457	-	457
Other non-cash expenses:	687	310	997

Geographical Segments
The consolidated entity's business segments are located in Australia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 5: REVENUES AND EXPENSES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
REVENUE				
(a) Interest income				
Interest received – other person/corporations	62,757	49,885	4,017	3,863
(b) Fee and commission income				
Mortgage origination income	14,152	10,708	16,069	15,628
Loan management fees	17,329	12,824	11,133	8,606
(c) Other operating income				
Rental income	402	101	392	101
Management Fees – Wholly owned controlled entities	-	-	6,696	4,563
Insurance commission	94	87	94	87
Stamp duty refund	-	846	-	846
Loss on sale of plant and equipment	(7)	-	(7)	-
Other	85	247	76	237
	94,812	74,698	38,470	33,931
EXPENSES				
(d) Interest expense				
Interest on bank loan	818	342	310	45
Finance charges on leases	74	121	74	121
Interest on other loans	299	393	293	378
Interest recognised on NPV trailer expense	1,089	988	970	920
Interest on reset preference shares	210	504	210	504
Interest payable to bondholders	33,458	16,632	-	-
Interest payable to warehouse facility provider	14,896	19,224	-	-
	50,844	38,204	1,857	1,968
(e) Fee and commission expense				
Mortgage origination expense	13,314	10,678	11,973	10,260
Loan management expense	9,571	7,672	6,240	4,684
	22,885	18,350	18,213	14,944
(f) General administrative expenses				
(i) Depreciation consists of:				
Depreciation and amortisation of:				
Plant and equipment	86	39	82	39
Plant and equipment under lease	316	418	316	418
	402	457	398	457
(ii) Rent:	1,578	1,537	1,537	1,537

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(g) Employee benefits				
Wages & salaries	8,412	8,080	8,266	8,080
Workers' compensation costs	45	49	44	49
Annual leave provision	26	2	18	2
Long service leave provision	60	94	59	94
Share-based payments expense	288	265	288	265
Employee incentive payments	1,340	288	1,336	288
Payroll tax	600	831	600	831
Other employee costs	1,015	734	989	734
	11,786	10,343	11,600	10,343

NOTE 6: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	524	-	521	-
Adjustments in respect of current income tax of previous years	(129)	-	(134)	70
Deferred income tax				
Relating to origination and reversal of temporary differences	701	310	47	297
Income tax expenses reported in the income statement	1,096	310	434	367
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:				
Accounting profit before income tax	3,486	1,227	1,294	818
At the consolidated entity's statutory income tax rate of 30% (2006: 30%)	1,046	368	388	245
Reset preference share interest	63	151	63	151
Stamp duty settlement	-	(258)	-	(258)
Entertainment expenses	28	32	28	32
Share option expense	86	79	86	79
Other	(127)	(62)	(131)	118
Income tax expense reported in the consolidated income statement	1,096	310	434	367

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	BALANCE SHEET		INCOME STATEMENT	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deferred income tax				
Deferred income tax at 30 June related to the following:				
CONSOLIDATED				
Deferred tax liabilities				
Effective interest adjustments – Deferred selling expenses	(2,008)	(1,673)	335	671
Derivative instrument	(43)	(14)	29	21
Lease incentives	(54)	-	54	-
Prepayments	(41)	(59)	(18)	(20)
Leased assets	(282)	(375)	(93)	(125)
Accrued income	(516)	(897)	(381)	495
NPV of future management fees receivable	(10,380)	(9,088)	(670)	664
Deferred income tax liabilities	(13,324)	(12,106)		
Deferred tax assets				
Losses available for offset against future taxable income	2,344	4,448	2,104	(1,388)
Accrued expenses	382	223	(159)	(119)
Effective interest adjustments – Deferred application fee margins	273	223	(50)	(81)
Lease incentives	151	168	17	31
Finance leases	229	318	89	145
Provisions	243	204	(39)	(32)
Capital items	80	49	(31)	48
NPV future trail commission expense payable	3,435	2,670	(486)	-
Deferred income tax assets	7,137	8,303		
Net deferred income tax liabilities	(6,187)	(3,803)		
Deferred tax expense			701	310
PARENT				
Deferred tax liabilities				
NPV future management fees receivable	(7,588)	(8,042)	(455)	-
Lease incentives	(54)	-	11	-
Prepayments	(40)	(56)	(18)	(17)
Leased assets	(282)	(375)	(93)	(125)
Accrued income	(425)	(896)	(471)	495
Deferred income tax liabilities	(8,389)	(9,369)		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	BALANCE SHEET		INCOME STATEMENT	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deferred tax assets				
Losses available for offset against future profits	2,344	4,408	1,520	(136)
NPV future trail commission payable	2,831	2,424	(406)	-
Accrued expenses	355	209	(144)	(105)
Lease incentives	151	168	17	31
Provisions	236	204	(32)	(32)
Capital items	80	51	29	44
Finance leases	229	318	89	142
Deferred income tax assets	6,226	7,782		
Net deferred income tax liabilities	(2,163)	(1,587)		
Deferred tax expense			47	297

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 expense to the wholly-owned subsidiaries on a pro-rata basis. 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
The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is set out below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Measurement method adopted under UIG 1052 Tax Consolidation Accounting
The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*. The nature of the tax funding agreement is discussed further below.

In addition to its own current and deferred tax amounts, the head entity also recognises current tax liabilities or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Nature of the tax funding agreement
Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payment to/from the head entity equal to the current tax liability/asset assumed by the head entity and any tax loss deferred tax asset assumed by the head entity.

NOTE 7: 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 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	
	2007 $'000	2006 $'000
Net profit attributable to ordinary equity holders of the parent	2,390	917
Net profit used in calculating basic earnings per share	2,390	917
Net profit attributable to ordinary equity holders used in the calculation of diluted EPS	2,390	917

	2007 '000	2006 '000
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	63,900	50,354
Effect of dilution:		
Share options	2,966	155
Reset preference shares	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	66,866	50,509
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	-	6

Reset preference shares were excluded from the calculation of diluted earnings per share because they are anti-dilutive for the periods presented. Reset preference shares were fully converted to ordinary shares during the financial year.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 8: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Declared and paid during the year:				
Unfranked dividends:				
Final dividend on ordinary shares for 2006 – 2.5 cents per share (2005: 1.5 cents)	1,259	755	1,259	755
Interim dividend on ordinary shares for 2007 - 2.5 cents per share (2006: 2.5 cents)	1,514	1,259	1,514	1,259
	2,773	2,014	2,773	2,014
Proposed and not recognised				
Dividends on ordinary shares:				
Final unfranked dividend for 2007 – 1.2 cents (2006: 2.5 cents)	827	1,259	827	1,259

Franking credit balance

	HOMELOANS LIMITED	
	2007 $'000	2006 $'000
The amount of the franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2006: 30%)	190	107
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	296	57
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
	486	164
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorized for issue but not recognised as a distribution to equity holders during the period	-	
	486	164

The tax rate at which dividends have been franked is 0% (2006: 0%).
Dividends proposed will be franked at the rate of 0% (2006: 0%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 9: CASH ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'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 bank and in hand	31,831	25,505	787	300
Short-term deposits	62	69	-	-
	31,893	25,574	787	300

Cash at bank earns interest at floating rates based on daily bank deposit rates and has a term less than 12 months. The carrying amount of cash assets represents fair value.

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 $31,893,000 (2006: $25,574,000).

Under AIFRS the cash at bank includes monies held in the RMT Special Purpose Vehicles (SPV's) on behalf of investors in those trusts and is not available to Homeloans Limited.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Reconciliation of net profit after tax to net cash flows from operations				
Net profit	2,390	917	860	451
Adjustments for:				
Depreciation	402	457	398	457
Amortisation of bond distribution costs	414	310	-	-
Amortisation of Eurofinance	-	249	-	249
Amortisation of prepaid royalties & commissions	68	81	61	81
Amortisation of reset preference share issue costs	38	92	38	92
Stamp duty refund	-	(861)	-	(861)
Net (profit)/loss on disposal of plant and equipment	7	-	7	-
Share options expensed	288	265	288	265
Changes in assets and liabilities				
(Increase)/decrease in receivables	(563)	5,356	(11,616)	918
(Increase)/decrease in due from borrowers	(103,713)	(190,000)	-	-
(Decrease)/increase in due to bondholders	(198,967)	341,751	-	-
Increase/(decrease) in due to warehouse facility	307,168	(153,978)	-	-
Increase/(decrease) in deferred tax liabilities	729	246	575	(144)
Increase/(decrease) in current tax liability	297	(12)	629	(12)
Increase/(decrease) in trade and other payables	475	3,190	2,590	3,746
(Decrease)/increase in non-interest bearing liabilities	(57)	(104)	(57)	(104)
Increase/(decrease) in provisions	114	108	105	108
Net cash from operating activities	9,090	8,067	(6,122)	5,246

Disclosure of financing facilities
Refer to note 18.

Disclosure of non-cash financing and investing activities
Refer to note 13 and note 24.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 10: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Fees receivables				
Non-related parties [i]	4,051	4,522	2,924	4,889
Related parties [ii]				
– wholly owned controlled entity	-	-	19,883	4,031
– other	326	11	83	4
	4,377	4,533	22,890	8,924
Prepaid royalties and trailing commissions [iii]	77	145	73	134
Lease incentive [iv]	180	-	180	-
Accrued interest [v]	2,062	119	13	105
Prepayments [vi]	1,103	714	440	229
RMT SPV set up costs	609	745	-	-
Other [vii]	507	88	6	7
Derivative financial asset [viii]	144	46		
	9,059	6,390	23,602	9,399

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 28.

[iii] Prepaid royalties and trailing commissions represent the buyout of royalty and trailer commitments.

[iv] Lease incentive relates to rent free periods provided to sub-tenants in the Head Office of the chief entity. The lease terms for these sub-leases are for an average 6.4 years with most expiring in 2011 (see Note 27).

[v] Accrued interest is due and payable within 30 days.

[vi] Prepayments are non-interest-bearing and due in the ordinary course of business between 30 days and 12 months.

[vii] Other receivables non-interest-bearing and due in the ordinary course of business between 30 days and 12 months.

[viii] The Group uses interest rate swaps for interest risk management purposes. Some of the loans and advances have fixed interest rates. In order to protect against rising interest rate, the Group entered into fixed interest swap contracts under which it has right to receive interest at a variable rate and to pay interest at fixed rates. The swaps are used as an effective alternative to physical assets in order to achieve a desired level of total exposure and as a means to hedge against interest rate risk. Deliberate gearing up or leverage exposure to an asset is not permitted.

At 30 June 2007, the notional principal amount and period of expiry of the interest rate swap contracts are as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Less than 1 year	3,197	321	-	-
1 – 2 years	3,047	982	-	-
2 – 3 years	4,479	4,765	-	-
3 – 4 years	892	583	-	-
4 - 5 years	2,711	5,607	-	-
Total	14,326	12,258	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 11: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans and advances to customers	790,567	686,855	-	-
Maturity Analysis				
Loans will be repaid under current repayment arrangements over the following periods:				
Up to 3 months	4,440	4,758	-	-
From 3 months to 1 year	13,878	14,741	-	-
From 1 year to 5 years	124,819	121,578	-	-
From 5 years and over	647,430	545,778	-	-

Loans and advances to customers represent lending for residential mortgages at either fixed or floating rates. At 30 June 2007 the weighted average interest rate on these loans was 7.87% (2006: 7.26%). Refer Financial Risk Management – Note 26.

NOTE 12: OTHER FINANCIAL ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loan to associate [i]	17	17	17	17
Future management fee receivable [ii]	34,600	30,293	25,293	26,809
Loan to related party [iii]	44,680	-	44,680	-
	79,297	30,310	69,990	26,826

Terms and conditions relating to the above financial instruments

[i] Loan to associates comprises:
- Subordinated loan to Mosaic Financial Services Pty Ltd.

[ii] Fair value of future management fee receivable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trail income receivable under the origination and management agreement, less a cost to perform ongoing management. Subsequent to initial recognition and measurement, the future management fee receivable is measured at amortised cost.

[iii] Loan to related party comprises:
- Subordinated loan to Challenger Mortgage Management Limited. It is repayable on 31 December 2007 and carries a fixed interest rate of 9.5%.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 13: PLANT AND EQUIPMENT

	CONSOLIDATED	HOMELOANS LIMITED
	PLANT AND EQUIPMENT $'000	PLANT AND EQUIPMENT $'000
Year ended 30 June 2007		
At 1 July 2006, net of accumulated depreciation and impairment	1,672	1,672
Additions	379	379
On acquisition of the business of Independent Mortgage Corporation Pty Ltd	62	-
Depreciation charge for the year	(402)	(398)
At 30 June 2007, net of accumulated depreciation and impairment	1,711	1,653
At 30 June 2007		
Cost or fair value	5,583	5,521
Accumulated depreciation and impairment	(3,872)	(3,868)
Net carrying amount	1,711	1,653
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

The useful life of the assets was estimated as follows for both 2006 and 2007:

Plant and equipment 5 to 15 years

A first mortgage was granted over all plant and equipment 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 2007 is $941,000 (2006: $1,249,000). Additions during the year include $Nil (2006: $Nil) of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 14: INVESTMENTS IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Investments in controlled entities (Note 28)	-	-	19,178	19,178

NOTE 15: GOODWILL

	CONSOLIDATED $'000	HOMELOANS LIMITED $'000
Year ended 30 June 2007		
At 1 July 2006, net of impairment	15,996	-
Add: On acquisition of the business of Independent Mortgage Corporation Pty Ltd (Refer Note 24)	10,911	-
Less: Impairment	-	-
At 30 June 2007, net of impairment	26,907	-
At 30 June 2007		
Cost (gross carrying amount)	26,907	-
Less: Impairment	-	-
Net carrying amount	26,907	-
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	-

Goodwill acquired through business combinations has 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 5 year period, which are then extrapolated to perpetuity at a constant growth rate of 6% per annum for loan settlements.

Management believes 6% to be reasonable given it is less than the long term market growth rate for loan originations.

The pre tax discount rate applied to cash flow projections is 15.4%.(2006: 15.2%).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 5 year period, which are then extrapolated to perpetuity at a constant growth rate of 6% per annum.

The pre tax discount rate applied to cash flow projections is 15.4%.(2006: 15.2%).

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

	CONSOLIDATED					
	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		TOTAL	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Carrying amount of goodwill	21,378	10,467	5,529	5,529	26,907	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 2007 and 30 June 2006
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 3.0% per annum.
- Taxation – Cash flows 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:

	2008	2009	2010	2011	2012	>2012
Origination and Management						
- Growth in Settled loans	16.0%	10.0%	10.0%	7.5%	7.5%	6.0%
- Growth in Funds under management	3.0%	6.6%	7.1%	7.0%	7.0%	7.0%
Securitisation of Mortgages						
- Percentage settled through RMT	38%	38%	38%	38%	38%	38%
- Growth - RMT funds under management	29%	21%	16%	12%	12%	12%

- RMT trusts pay to the Origination and Management CGU both an origination and management fee based on external funders rates.
- Interest margin earned of 1.1%pa within RMT.
- Maintenance of existing commission rates earned and paid.
- Loan prepayment rates – 2.93% per month reducing balance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Sensitivity to changes in assumptions

Origination and Management
With regard to the assessment of the value in use of the origination and management unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Securitisation of Mortgages
With regard to the assessment of the value in use of the securitisation of mortgages unit, management believe that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

NOTE 16: 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 30 members of this plan of whom 22 are current employees or directors.

Information with respect to the number of options granted under the employee option scheme and options issued to directors, employees, and business partners are as follows:

	2007		2006	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	7,880,000	0.48	8,130,000	0.66
Granted during the year	1,150,000	0.50	2,905,000	0.42
Forfeited during the year	(1,915,000)	0.67	(3,155,000)	0.89
Exercised during the year	(202,500)	0.35	-	-
Outstanding at the end of the year	6,912,500	0.38	7,880,000	0.48
Exercisable at the end of the year	3,978,500	0.41	3,025,000	0.57

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Options held at the beginning of the reporting period:
The following table summarises information about options held by employees and other related parties as at 1 July 2006:

NO. 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

^^ Average share price on the date of grant.
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 exceed $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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 $
Business partners	17 April 2007	200,000	30 June 2008 [E]	30 June 2010 [E]	0.35
	17 April 2007	250,000	30 June 2008 [E]	30 June 2010 [E]	0.45
Staff	15 February 2007	350,000	29 December 2008	29 December 2011	0.56
	15 February 2007	350,000	29 December 2009	29 December 2011	0.56
		1,150,000			

[E] Subject to performance hurdles. Options are exercisable up to 2 years from the date of vesting or 30 June 2008, whichever is the earlier. Business partners are required to grow their loan books to pre-agreed thresholds to vest.

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	15 FEB 07	15 FEB 07	17 APR 07	17 APR 07
Dividend yield	5.0%	5.0%	5.0%	5.0%
Expected volatility	45%	45%	45%	45%
Risk-free interest rate	6.115%	6.010%	6.300%	6.1126%
Expected life of option	1.9 years	2.9 years	1.2 years	1.2 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.

Options exercised:
The following table summarises information about options exercised by option holders during the year:

NO. OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE [^^] $
112,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
40,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
50,000	17 April 2007	30 June 2008	30 June 2010	0.35	0.92
202,500				0.35	0.53

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Options held as at the end of the year:
The following table summarises information about options held by employees and other related parties as at 30 June 2007:

NO. OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
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
312,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
425,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
326,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
549,000	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	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 [A]	7 December 2009	0.51	0.40
350,000	15 February 2007	29 December 2008	29 December 2011	0.56	0.64
350,000	15 February 2007	29 December 2009	29 December 2011	0.56	0.64
150,000	17 April 2007	30 June 2008 [B]	30 June 2010	0.35	0.92
250,000	17 April 2007	30 June 2008 [B]	30 June 2010	0.45	0.92
6,912,500				0.38	0.38

[A] Only exercisable if average mortgage settlements in any three (3) month period prior to 31 December 2007 exceeds $137.5 million per month.
[B] Subject to performance hurdles. Options are exercisable up to 2 years from the date of vesting or 30 June 2008, whichever is the earlier.
^^ 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 2007 (Cont.)

NOTE 17: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Trade payables [i]	820	520	820	520
Payable to related parties:				
Wholly-owned consolidated entity				
– controlled entity [ii]	-	-	9,886	7,476
Accrued commissions [iii]	1,732	1,404	1,612	1,373
Sundry creditors and accruals [iv]	1,628	2,784	1,338	1,292
Cash flow claim creditors [v]	-	205	-	205
Current income tax payable	297	-	297	-
Interest payable [vi]	2,595	2,789	-	-
Deferred acquisition instalment [vii]	2,548	-	-	-
	9,620	7,702	13,953	10,866

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 Details of the terms and conditions of related party payables are set out in Note 28.

iii Accrued commissions are non-interest bearing and are payable between 30 and 90 days.

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

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

vi Interest payable is non-interest bearing and is payable within 30 days.

vii Provisional estimate of final purchase instalment in relation to the acquisition of 100% of the business of Independent Mortgage Corporation (See Note 24). Final instalment is due for payment before 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 18: INTEREST-BEARING LIABILITIES

	MATURITY	CONSOLIDATED 2007 $'000	CONSOLIDATED 2006 $'000	HOMELOANS LIMITED 2007 $'000	HOMELOANS LIMITED 2006 $'000
Bank loans					
Secured bank loans [ii]	31/12/2007	12,867	1,000	12,867	1,000
Net interest margin [iii]	12/12/2007	7,189	5,377	-	-
Warehouse facility [iv]	20/12/2007	367,699	60,531	-	-
Non-bank loans					
Obligations under finance leases and hire purchase contracts [v]	2007 – 2009	825	1,162	825	1,162
Bonds [vi]	2028 – 2038	436,948	635,915	-	-
Other [vii]	On demand	5,010	3,529	-	-
Loans from funders [viii]	2008 - 2012	3,657	5,444	3,593	5,300
		834,195	712,958	17,285	7,462
Maturity Analysis					
Interest bearing liabilities will be repaid under current repayment arrangements over the following periods:					
Up to 3 months		8,114	8,304	293	362
From 3 months to 1 year		390,345	14,696	13,707	1,029
From 1 year to 5 years		74,382	177,502	2,111	4,344
From 5 years and over		361,354	512,456	1,174	1,727

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 undertakings of the Company and its controlled entities. Interest is recognised at an average rate of 7.29% (2006: 6.95%).

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 8.14% (2006: 7.65%).

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 6.67% (2006: 6.15%).

v 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 8.77% (2006: 8.74%). 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 6.62% (2006: 6.09%).

vii Other loans represent 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% (2006: 5.25%).

viii Some of the funders used by the company and its controlled entities provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then paid back via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The company recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period.

Fair value disclosures

Details of the fair value of the consolidated entity's interest bearing liabilities are set out in note 26.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Total Facilities				
- bank overdraft	900	900	900	900
- cash advance	25,200	9,800	16,200	3,800
- RMT warehouse facility	500,000	500,000	-	-
	526,100	510,700	17,100	4,700
Facilities used at reporting date				
- bank overdraft	-	-	-	-
- cash advance	20,056	6,377	12,867	1,000
- RMT warehouse facility	367,699	60,531	-	-
	387,755	66,908	12,867	1,000
Facilities unused at reporting date				
- bank overdraft	900	900	900	900
- cash advance	5,144	3,423	3,333	2,800
- RMT warehouse facility	132,301	439,469	-	-
	138,345	443,792	4,233	3,700
Total facilities	526,100	510,700	17,100	4,700
Facilities used at reporting date	387,755	66,908	12,867	1,000
Facilities unused at reporting date	138,345	443,792	4,233	3,700

Assets pledged as security
The carrying amounts of assets pledged as security for interest bearing liabilities are:

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
ASSETS				
First mortgage				
Finance lease	941	1,249	941	1,249
Plant and equipment	770	423	712	423
Loans and advances to customers	790,567	686,855	-	-
Floating charge				
Cash assets	31,893	25,574	787	300
Receivables	9,059	6,390	23,602	9,399
Other financial assets	79,297	30,310	69,990	26,826
Total assets pledged as security	912,527	750,801	96,032	38,197

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 19: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Future trail expense payable [i]	11,450	8,902	9,436	8,082

Terms and conditions relating to the above financial instruments:

[i] Fair value of trail expense payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trail payments due to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trail commission payable is measured at amortised cost.

NOTE 20: RESET PREFERENCE SHARES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Reset preference shares	-	4,998	-	4,998

On 30 November 2006, 503,528 reset preference shares were converted into ordinary shares on the basis of a minimum of 20 ordinary shares for each reset preference share.

Each share had a nominal value of $10.00 and was 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 was dependent on the average share price over the last 20 trading days prior to the reset date.

Reset preference shares carried 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 was 30 November 2006. Reset dates after the first reset date were expected to be every three years. If the dividend was franked to any extent, it was to 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.

Under the application of AASB 132 *Financial Instruments: Disclosure and Presentation*, the dividends paid on the Reset Preference Shares have been treated as an interest expense.

NOTE 21: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Lease incentives [i]	503	561	503	561

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 2007 (Cont.)

NOTE 22: PROVISIONS

	PROVISION FOR EMPLOYEE BENEFITS $'000
CONSOLIDATED	
At 1 July 2006	680
Arising during the year	131
At 30 June 2007	811
PARENT	
At 1 July 2006	680
Arising during the year	106
At 30 June 2007	786

NOTE 23: CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Ordinary shares issued and fully paid	98,194	48,624	98,194	48,624
	98,194	48,624	98,194	48,624

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 or par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

	CONSOLIDATED		HOMELOANS LIMITED	
	THOUSANDS	$'000	THOUSANDS	$'000
Movement in ordinary shares on issue				
At 1 July 2005	50,354	48,624	50,354	48,624
Issued during the year	-	-	-	-
At 1 July 2006	50,354	48,624	50,354	48,624
Issued during the year				
- conversion of reset preference shares [i]	10,071	5,035	10,071	5,035
- exercise of options [ii]	202	71	202	71
- share placement [iii]	40,000	44,680	40,000	44,680
Transaction costs [iv]	-	(216)	-	(216)
At 30 June 2007	100,627	98,194	100,627	98,194
Movement in reset preference shares on issue				
At 1 July 2005	504	4,771	504	4,771
Reclassification as interest bearing liability 1 July 2005	(504)	(4,771)	(504)	(4,771)
At 1 July 2006	-	-	-	-
Issued during the year	-	-	-	-
At 30 June 2007	-	-	-	-

Refer to note 20 for the terms attaching to the reset preference shares.

i On 30 November 2006, 10,070,560 shares were issued to reset preference shareholders on the conversion of 503,528 reset preference shares on the basis of 20 ordinary shares for each reset preference share.

ii On 23 March 2007, 152,500 shares were issued for cash on the exercise of share options. On 9 May 2007, 50,000 shares were also issued for cash on the exercise of options.

iii On 23 February 2007, 8,300,000 shares @ $0.80 each were issued for cash under the first tranche of a capital issue to Challenger Mortgage Management. On 11 May 2007, a further 31,700,000 shares @ $1.20 were issued under the second tranche of the capital issue to Challenger Mortgage Management. The second tranche of 31,700,000 shares is not entitled to a dividend in respect of the 2007 financial year.

iv The transaction costs represent the cost of issuing shares associated with items (i) to (iii) above.

Share options
There were 1,150,000 options (2006: 2,905,000) over ordinary shares granted during the financial year

At the end of the year there were 6,912,500 (2006: 7,880,000) unissued ordinary shares in respect of which options were outstanding. For more information refer to note 16.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Accumulated losses
Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance 30 June	(21,798)	(17,374)	(25,852)	(21,211)
Change in accounting policies:				
- recognition of NPV management fee receivable*	-	30,842	-	30,842
- recognition of NPV trailer expense payable*	-	(15,138)	-	(14,782)
- de-recognition of deferred expenses*	-	(19,470)	-	(19,470)
- change from approved to settled*	-	(986)	-	(986)
- tax effect of changes in respect of the above items*	-	1,425	-	1,318
Balance 1 July	(21,798)	(20,701)	(25,852)	(24,289)
Net profit for the year *	2,390	917	860	451
Dividends	(2,773)	(2,014)	(2,773)	(2,014)
Balance 30 June	(22,181)	(21,798)	(27,765)	(25,852)

* Refer Note 3 for details of impact of changes in accounting policy affecting net profit reported in the previous reporting period.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Balance 1 July	367	102	367	102
Charge for the period	288	265	288	265
Balance 30 June	655	367	655	367

The employee option reserve recognises the fair value of options issued to employees and other related parties as remuneration. It applies to all share-based payments issued after 7 November 2002, which had not vested as at 1 January 2005. The option value is calculated using a Binomial model and expensed over the period in which the options vest. The value allocated to each option issue is determined, among other things, by reference to, the share price at the date of grant, the volatility of the share price, and current risk free interest rates (see Note 16).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 24: ACQUISITION OF CONTROLLED ENTITY

On 12 March 2007, Homeloans Limited acquired 100% of the business of Independent Mortgage Corporation Pty Ltd, a Melbourne based mortgage originator of managed and brokered loans with long established customer and funder relationships. The acquisition was entered into under a business sale agreement dated 1 December 2006 with a number of conditions precedent to Homeloans Limited acquiring control of the business. These conditions were satisfied by 12 March 2007.

The total cost of the combination is estimated at $15,782,000 and comprises the payment of cash and costs directly attributable to the combination, plus a deferred instalment due for payment after the end of the reporting period. At the date of this report the final instalment of the purchase price has yet to be paid. This payment is expected to be approximately $2,548,000.

The fair value of the identifiable assets and liabilities of Independent Mortgage Corporation Pty Ltd as at the date of acquisition were:

	CONSOLIDATED	
	RECOGNISED ON ACQUISITION $'000	CARRYING VALUE $'000
Net Assets acquired:		
- Cash	641	641
- Plant and equipment	62	62
- Other financial assets	6,895	6,895
	7,598	7,598
- Provisions	(16)	(16)
- Other financial liabilities	(1,028)	(1,028)
- Deferred tax liability	(1,683)	(1,683)
	(2,727)	(2,727)
- Fair value of net tangible assets acquired	4,871	
- Goodwill arising on acquisition	10,911	
Cost of acquisition	15,782	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	$'000
Cost of the acquisition:	
- Cash paid during the year ended 30 June 2007	12,876
- Direct costs relating to the acquisition	358
	13,234
- Deferred instalment (provisional[1])	2,548
Total cost of the acquisition	15,782
Net cash effect	
Cash paid	(13,234)
Cash included in net assets acquired	641
Net consolidated cash outflow	(12,593)

From the date of acquisition, Independent Mortgage Corporation Pty Ltd has contributed $465,000 to the net profit of the Group.

If the combination had taken place at the beginning of the year, the profit from continuing operations for the Group would have been approximately $4,060,000 and revenue from continuing operations would have been approximately $98,900,000.

The goodwill arising on consolidation is attributable to various factors including synergistic savings arising from combining administrative activities and inseparable intangible assets such as employee skills and experience.

1 Total cost of the acquisition and allocation is provisional at the date of this report as the conditions of the Business Sale Agreement requires agreement between the vendors and the Company on the calculation of the deferred instalment price. It is expected that this will be finalised before 31 December 2007.

NOTE 25: AVERAGE BALANCE SHEET AND INTEREST RATES

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

	CONSOLIDATED 2007			CONSOLIDATED 2006		
	AVERAGE BALANCE $'000	INTEREST $'000	AVERAGE RATE %	AVERAGE BALANCE $'000	INTEREST $'000	AVERAGE RATE %
Interest earning assets						
Cash	28,734	1,189	4.14%	24,174	1,220	5.05%
Other financial assets	7,589	721	9.50%	-	-	0.00%
Future management fee receivable	31,892	3,827	12.00%	33,992	4,079	12.00%
Loan and advances	738,711	57,020	7.72%	591,855	44,586	7.53%
Total interest earning assets	806,926	62,757	7.78%	650,021	49,885	7.67%

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	CONSOLIDATED 2007			CONSOLIDATED 2006		
	AVERAGE BALANCE $'000	INTEREST $'000	AVERAGE RATE %	AVERAGE BALANCE $'000	INTEREST $'000	AVERAGE RATE %
Interest bearing liabilities						
Bonds and warehouse facility	750,547	48,354	6.44%	602,559	35,858	5.95%
Cash advance and net interest margin facilities	13,217	818	6.19%	5,885	342	5.81%
Leases	994	74	7.45%	1,439	121	8.41%
Future trailer expense payable	9,075	1,089	12.00%	8,242	988	12.00%
Loans from funders	4,551	299	6.57%	6,458	391	6.05%
Reset preference shares	2,100	210	10.00%	5,040	504	10.00%
Total interest bearing liabilities	780,484	50,844	6.52%	629,623	38,204	6.07%
NET INTEREST MARGIN		11,913	1.26%		11,681	1.61%

NOTE 26: 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.

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 a floating interest rate, are set out in the following table on page 85.

The Group's exposure to the risk of changes in market interest rates relates primarily to the groups mismatch between asset obligation and liability obligations. The majority of lending and borrowing is at variable interest rates. The group manages its risk by repricing its loans to maintain its interest margin. Where fixed rates are made the group managers its risk through interest rates swaps.

Credit risk exposures

The Group is in the business of lending money. The group has lending policies to manage the credit risk inherent in lending. The dominant lending focus has been in the housing market where standard lending practice is that the borrowing facilities for each client is mortgage secured against residential property and via lenders mortgage insurance.

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount, net of any allowance 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 borrower. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Liquidity risk
The Group manages its liquidity risk by maintaining adequate undrawn borrowing facilities to meet its obligations as they fall due.

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. The future management fees receivable and future trailing commission payable have a carrying amount that approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	CARRYING AMOUNT		FAIR VALUE	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
CONSOLIDATED				
Financial assets				
Interest bearing assets				
Cash	31,893	25,574	31,893	25,574
Other financial assets	79,297	30,310	79,297	30,310
Loans and advances to customers	790,567	686,855	790,567	686,809
Non-interest bearing receivables	9,059	6,390	9,059	6,390
Financial liabilities				
On balance sheet				
Interest-bearing liabilities				
Leases and hire purchase	825	1,162	825	1,162
Secured bank loans	387,755	66,908	387,755	66,908
Reset preference shares	-	4,998	-	5,035
Bonds	436,948	635,915	436,948	635,915
Loans from funders	3,657	5,444	3,657	5,444
Other financial liabilities	11,450	8,902	11,450	8,902
Other	5,010	3,529	5,010	3,529
Non-interest bearing payables	9,620	7,702	9,620	7,702
PARENT				
Financial assets				
Interest bearing assets				
Cash	787	300	787	300
Other financial assets	69,990	26,826	69,990	26,826
Non-interest bearing receivables	23,602	9,399	23,602	9,399
Financial liabilities				
On balance sheet				
Interest-bearing liabilities				
Leases and hire purchase	825	1,162	825	1,162
Secured bank loans	12,867	1,000	12,867	1,000
Reset preference shares	-	4,998	-	5,035
Other financial liabilities	9,436	8,082	9,436	8,082
Loans from funders	3,593	5,300	3,593	5,300
Non-interest bearing payables	13,953	10,866	13,953	10,866

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

Interest rate risk

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

CONSOLIDATED	FLOATING	FIXED RATE						TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
	$'000	<1 YEAR $'000	>1-<2 YEARS $'000	>2-<3 YEARS $'000	>3-<4 YEARS $'000	>4-<5 YEARS $'000	5 YEARS $'000	$'000	
Year ended 30 June 2007									
FINANCIAL ASSETS									
Cash assets	31,893	-	-	-	-	-	-	31,893	5.49%
Loan to related party	-	44,680	-	-	-	-	-	44,680	9.50%
NPV Management fee receivable	-	13,651	8,311	5,004	3,071	1,827	2,736	34,600	12.0%
Loans and advances to customers	776,241	3,197	3,047	4,479	892	2,711	-	790,567	7.87%
Weighted average effective interest rate	7.78%	9.94%	10.80%	9.98%	11.04%	9.48%	12.00%		
FINANCIAL LIABILITIES									
Leases and hire purchase	-	357	468	-	-	-	-	825	8.77%
NPV trail expense payable	-	4,549	2,824	1,682	997	586	812	11,450	12.0%
Interest bearing liabilities									
Secured bank loans									
– Cash advance facility	12,867	-	-	-	-	-	-	12,867	7.29%
– Net interest margin facility	7,189	-	-	-	-	-	-	7,189	8.14%
– RMT Warehouse facility	367,699	-	-	-	-	-	-	367,699	6.67%
– Bonds	436,948	-	-	-	-	-	-	436,948	6.62%
Other loan	5,010	-	-	-	-	-	-	5,010	5.25%
Loans from funders	3,280	189	188	-	-	-	-	3,657	6.45%
Interest rate swaps	(14,326)	3,197	3,047	4,479	892	2,711	-	-	
Weighted average effective interest rate	6.66%	9.35%	8.81%	7.84%	9.32%	7.46%	12.00%		

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

CONSOLIDATED	FLOATING	FIXED RATE						TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
	$'000	<1 YEAR $'000	>1-<2 YEARS $'000	>2-<3 YEARS $'000	>3-<4 YEARS $'000	>4-<5 YEARS $'000	5 YEARS $'000	$'000	
Year ended									
30 June 2006									
FINANCIAL ASSETS									
Cash assets	25,574	-	-	-	-	-	-	25,574	4.83%
NPV management fee receivable	-	11,857	7,273	4,352	2,666	1,627	2,518	30,293	12.0%
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%	11.89%	11.45%	9.46%	11.08%	8.40%	12.00%		
FINANCIAL LIABILITIES									
Reset preference shares	-	4,998	-	-	-	-	-	4.998	10.0%
Leases and hire purchase	-	337	357	468	-	-	-	1,162	8.74%
NPV trail expense payable	-	3,495	2,169	1,306	783	465	684	8,902	12.0%
Interest bearing liabilities									
Secured bank loans									
– Cash advance facility	1,000	-	-	-	-	-	-	1,000	6.95%
– Net interest margin facility	5,377	-	-	-	-	-	-	5,377	7.65%
– RMT Warehouse facility	60,531	-	-	-	-	-	-	60,531	6.15%
– Bonds	635,915	-	-	-	-	-	-	635,915	6.09%
Other loans	3,529							3,529	5.25%
Loans from funders	4,877	190	189	188				5,444	6.21%
Interest rate swaps	(12,258)	321	982	4,765	583	5,607	-	-	
Weighted average effective interest rate	6.10%	10.48%	9.79%	7.55%	9.58%	6.90%	12.00%	-	

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

PARENT	FLOATING	FIXED RATE						TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %
	$'000	<1 YEAR $'000	>1-<2 YEARS $'000	>2-<3 YEARS $'000	>3-<4 YEARS $'000	>4-<5 YEARS $'000	5 YEARS $'000	$'000	
Year ended									
30 June 2007									
FINANCIAL ASSETS									
Cash assets	787	-	-	-	-	-	-	787	4.10%
NPV management fees receivable	-	9,972	6,036	3,639	2,252	1,331	2,063	25,293	12.0%
Loan to related party	-	44,680	-	-	-	-	-	44,680	9.50%
Weighted average effective interest rate	5.35%	9.96%	12.00%	12.00%	12.00%	12.00%	12.00%		
FINANCIAL LIABILITIES									
Leases and hire purchase	-	357	468	-	-	-	-	825	8.77%
NPV trail expense payable		3,770	2,329	1,381	813	474	669	9,436	12.0%
Loans from funders	3,216	189	188	-	-	-	-	3,593	6.60%
Secured bank loans	12,867	-	-	-	-	-	-	12,867	7.29%
Weighted average effective interest rate	7.13%	11.47%	11.12%	12.00%	12.00%	12.00%	12.00%		
Year ended									
30 June 2006									
FINANCIAL ASSETS									
Cash assets	300	-	-	-	-	-	-	300	4.83%
NPV management fees receivable	-	10,753	6,520	3,830	2,301	1,370	2,035	26,809	12.0%
Weighted average effective interest rate	4.83%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%		
FINANCIAL LIABILITIES									
Reset preference shares	-	4,998	-	-	-	-	-	4,998	10.0%
NPV trail expense payable	-	3,237	1,991	1,182	696	405	571	8,082	12.0%
Leases and hire purchase	-	337	357	468	-	-	-	1,162	8.74%
Loans from funders	4,733	190	189	188	-	-	-	5,300	5.98%
Secured bank loans	1,000	-	-	-	-	-	-	1,000	6.95%
Weighted average effective interest rate	6.36%	10.60%	11.09%	10.56%	12.00%	12.00%	12.00%		

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 27: 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	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within one year	1,840	1,642	1,709	1,642
After one year but not more than five years	6,057	6,185	5,928	6,185
More than five years	1,412	2,774	1,400	2,774
	9,309	10,601	9,037	10,601

Operating lease payments – 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 6.4 years.

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Within one year	712	238	712	238
After one year but not more than five years	2,783	1,404	2,783	1,404
More than five years	534	18	534	18
	4,029	1,660	4,029	1,660

The average discount rate implicit in the leases is 8.77% (2006: 8.74%).

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 2007 (Cont.)

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 5 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 8.77% (2006: 8.74%). 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:

	2007		2006	
	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000
CONSOLIDATED				
Within one year	414	357	424	337
After one year but not more than five years	479	468	893	825
Total minimum lease payments	893	825	1,317	1,162
Less amounts representing finance charges	(68)	-	(155)	-
Present value of minimum lease payments Note 18	825	825	1,162	1,162
PARENT				
Within one year	414	357	424	337
After one year but not more than five years	479	468	893	825
Total minimum lease payments	893	825	1,317	1,162
Less amounts representing finance charges	(68)	-	(155)	-
Present value of minimum lease payments Note 18	825	825	1,162	1,162

The weighted average interest rate implicit in the leases for both the consolidated entity and Homeloans is 8.77% (2006: 8.74%).

Loans approved but not advanced

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loans approved but not advanced	60,873	45,263	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 28: 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 2007 %	2006 %	INVESTMENT 2007 $'000	2006 $'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%	-	-
Independent Mortgage Corporation Pty Ltd	Australia	100%	100%	-	-
Match Funds Management Limited	Australia	100%	100%	340	340
Residential Mortgage Trust Warehouse Trust No.1 [a]	Australia	100%	100%	-	-
Residential Mortgage Trust [*]	Australia	-	100%	-	-
RMT Securitisation Trust No.2 [*]	Australia	-	100%	-	-
RMT Securitisation Trust No.3 [*]	Australia	-	100%	-	-
RMT Securitisation Trust No.4 [^]	Australia	100%	100%	-	-
RMT Securitisation Trust No.5 [a]	Australia	100%	100%	-	-
RMT Securitisation Trust No.6 [a]	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 [a]	Australia	100%	100%	-	-
				19,178	19,178

[a] Capital unit is held by a third party.
[*] Trust was closed during the previous financial year ended 30 June 2006.
[^] Trust was closed during the current financial year ended 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 $	PURCHASES FROM RELATED PARTIES $	AMOUNTS OWED BY RELATED PARTIES $	AMOUNTS OWED TO RELATED PARTIES $
PARENT					
Subsidiaries:					
FAI First Mortgage Pty Ltd	2007	8,448,517	-	7,664,900	-
	2006	9,209,145	-	4,023,639	-
Access Network Management Pty Ltd	2007	1,897,008	-	-	6,180,313
	2006	-	-	-	4,665,901
Match Funds Management Limited	2007	-	-	-	13,979
	2006	-	-	7,775	-
Independent Mortgage Corporation Pty Ltd	2007	-	22,418	12,264,436	-
	2006	-	-	-	4,436
Residential Mortgage Trusts	2007	-	-	-	3,705,795
	2006	-	-	-	2,810,313
Other related parties:					
Mosaic Financial Services Pty Ltd	2007	-	-	16,800	-
	2006	-	-	16,800	-
Challenger Mortgage Management	2007	427,507	-	44,687,563	-
Mortgage Asset Services Pty Ltd	2007	92,778	559,191	43,938	56,345
	2006	104,662	282,271	-	144,672

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.

Transactions with other related parties
1. During the financial year Challenger Mortgage Management Limited ("Challenger") acquired a 40% interest in the share capital of Homeloans Limited. The funds paid for this investment were loaned back to Challenger under a subordinated loan arrangement at an interest rate of 9.5% until 31 December 2007.

   The Company has received interest revenue, upfront commissions and management fees on loans originated by the company on behalf of a Challenger company since the date of Challenger acquiring its interest in the share capital of Homeloans Limited.

2. The Group has a 12.5% (2006: 23.67%) interest in Mosaic Financial Services Pty Ltd (acquired 1 July 2005).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 29: EVENTS AFTER THE BALANCE SHEET DATE

On the 28th of September 2007, the directors of Homeloans Limted declared a final dividend on ordinary shares in respect of the 2007 financial year. The total amount of the dividend is $827,125, which represents an unfranked dividend of 1.20 cents per share.

NOTE 30: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'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	434,596	366,128	351,309	320,185
■ other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	38,278	21,583	38,278	21,583
- accounting advice	-	-	-	-
	38,278	21,583	38,278	21,583
	472,874	387,711	389,587	341,768

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

NOTE 31: DIRECTORS AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

T.A.Holmes	Chairman (Non-Executive)
B.D.Jones	Managing Director
J.L.A.Smith	Finance Director
B.R.Benari	Director (Non-Executive) – appointed 3 May 2007
R.P.Salmon	Director (Non-Executive)
R.N.Scott	Director (Non-Executive)
D.Stevens	Director (Non-Executive) – appointed 3 May 2007

(ii) Executives

T.Phillips	General Manager, Sales (Director of MAS)
B.Hartley	General Manager, Product and Funding (Director of MAS) – appointed November 2007
K.Shaw	Head of Operations – appointed October 2006
L.McDonald	National Head of Underwriting
K.Carter	National Human Resources Manager
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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 the November 2005 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. 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.

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').

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

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 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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.

Table 3 on page 20 provide details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

(ii) Compensation of Key Management Personnel (Consolidated) for the year-ended 30 June 2007

	SHORT TERM				POST EMPLOYMENT		LONG TERM	SHARE BASED PAYMENT		
	SALARY & FEES	CASH BONUS [3]	NON-MONETARY BENEFITS	OTHER	SUPERAN-NUATION	RETIREMENT BENEFITS	INCENTIVE PLANS	OPTIONS	TOTAL	% PERFORM. RELATED
30 JUNE 2007										
Directors										
T.A. Holmes	75,000	-	4,058	-	-	-	-	-	79,058	0%
R. P Salmon	50,000	-	4,058	-	-	-	-	-	54,058	0%
B. D. Jones	275,000	350,000	4,855	-	24,750	-	-	32,734	687,339	51%
R. N. Scott	57,500	-	-	-	-	-	-	-	57,500	0%
J.L.A.Smith	240,000	166,500	4,855	-	21,600	-	-	61,059	494,014	34%
B.R. Benari [1]	-	-	-	-	-	-	-	-	-	0%
D. Stevens [1]	-	-	-	-	-	-	-	-	-	0%
Executives										
L.McDonald	150,000	64,652	4,855	-	13,500	-	-	8,986	241,993	27%
T. Phillips [2]	400,451	71,540	-	-	-	-	-	50,090	522,081	100%
B. Hartley [2]	87,200	-	-	-	-	-	-	-	87,200	0%
K. Shaw [3]	100,900	-	2,790	-	9,081	-	-	2,156	114,927	0%
K. Carter	125,000	72,352	4,058	-	11,250	-	-	12,225	224,885	32%
A. Curr	117,500	57,675	-	-	10,575	-	-	6,923	192,673	30%
	1,678,551	782,719	29,529	-	90,756	-	-	174,173	2,755,728	

1 Acting as a director in connection with discharging their duties as an executive of Challenger Financial Services Group ("Challenger") and consequently do not currently take fees for their service.

2 T.Phillips and B.Hartley are directors of Mortgage Asset Services Pty Ltd (MAS). T.Phillips' 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 $400,451 (2006:$282,271) in the current financial year.
B.Hartley's services as General Manager, Product and Funding are remunerated by way of a consulting fee of $10,900 per month payable to MAS amounting to $87,200 (2006: Nil). MAS also hold 1,500,000 options over unissued shares in Homeloans Limited. The amortised value of these options during the year has been allocated to T.Phillips . None of the remuneration noted above was actually paid directly to T.Phillips or to B.Hartley.

3 Remuneration covers the period for 8 months for K. Shaw's employment in the financial year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

	SHORT TERM				POST EMPLOYMENT		LONG TERM	SHARE BASED PAYMENT		
	SALARY & FEES	CASH BONUS [3]	NON-MONETARY BENEFITS	OTHER	SUPERAN-NUATION	RETIREMENT BENEFITS	INCENTIVE PLANS	OPTIONS	TOTAL	% PERFORM. RELATED
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	100%
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.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 T.Phillips.

(iii) Compensation by Category: Key Management Personnel

	CONSOLIDATED		HOMELOANS LIMITED	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Short-Term	2,549,819	1,758,580	2,549,819	1,758,580
Post Employment	90,756	104,935	90,756	104,935
Other Long-Term	-	-	-	-
Termination Benefits	-	-	-	-
Share-based Payment	174,173	213,849	174,173	213,849
	2,814,748	2,077,364	2,814,748	2,077,364

(iv) Contracts for Services

Employment contracts

Other than as outlined below 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

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 than 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, and the General Manager Product and Funding 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.

Subject to review this contract terminates on 31 December 2007.

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.

(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 executives, T.Phillips and B.Hartley.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

				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 2007								
Directors								
B.D.Jones	315,000	-	23/11/2005	0.1459	0.36	31/8/2009	31/8/2006	31/8/2009
J.L.A.Smith	100,000	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	100,000	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
	200,000	-	20/2/2006	0.1535	0.36	31/8/2009	31/8/2006	31/8/2009
Executives								
L.McDonald	50,000	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	30,000	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
K.Carter	50,000	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	50,000	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
A.Curr	25,000	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009
	30,000	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009
T.Phillips/B.Hartley	250,000	-	7/4/2006	0.1456	0.36	7/12/2009	30/9/2006	7/12/2009
	250,000	-	7/4/2006	0.1154	0.46	7/12/2009	31/3/2007	7/12/2009
K. Shaw	-	50,000	15/2/2007	0.2205	0.56	29/12/2011	29/12/2008	29/12/2011
		50,000	15/2/2007	0.2623	0.56	29/12/2011	29/12/2009	29/12/2011
Total	1,450,000	100,000						
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	0.1456	0.36	7/12/2009	30/9/2006	7/12/2009
	-	250,000	7/4/2006	0.1154	0.46	7/12/2009	31/3/2007	7/12/2009
	-	250,000	7/4/2006 [A]	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 31 December 2007 exceeds $137.5 million per month

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(d) Shares issued on Exercise of Compensation Options (Consolidated)

In the year ended 30 June 2007 an Executive exercised 80,000 options that had vested during the year. The details were:

NAME	OPTIONS EXERCISED	EXERCISE DATE	EXERCISE PRICE $
Executive			
L.McDonald	50,000	23/3/2007	0.35
	30,000	23/3/2007	0.36
	80,000		

No shares were issued during the year ended 30 June 2006 on exercise of compensation options.

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

30 JUNE 2007	BALANCE AT BEGINNING OF PERIOD 1 JULY 06	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 07	VESTED AT 30 JUNE 2007 TOTAL	EXERCISABLE	NOT EXERCISABLE
Directors								
B.D.Jones	2,000,000	-	-	-	2,000,000	2,000,000	1,690,000	310,000
J.L.Smith	1,350,000	-	-	(200,000)	1,150,000	1,150,000	600,000	550,000
Executives								
L.McDonald	175,000	-	(80,000)	-	95,000	95,000	-	95,000
K.Shaw	-	100,000	-	-	100,000	100,000	-	100,000
K.Carter	225,000	-	-	-	225,000	225,000	100,000	125,000
T.Phillips/ B.Hartley	2,500,000	-	-	(1,000,000)	1,500,000	1,500,000	1,250,000	250,000
A.Curr	125,000	-	-	-	125,000	125,000	55,000	70,000
Total	6,375,000	100,000	(80,000)	(1,200,000)	5,195,000	5,195,000	3,695,000	1,500,000

includes forfeits and options that lapsed or did not meet performance hurdles.

30 JUNE 2006	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
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 options that lapsed or did not meet performance hurdles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(f) Shareholdings of Key Management Personnel

Shares held in Homeloans Limited (number)

	BALANCE 01 JULY 2006		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2007	
30 JUNE 07	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.	ORD.	PREF.
Directors										
T.A.Holmes	9,019,781	170,750	-	-	-	-	3,415,000	(170,750)	12,434,781	-
R.P.Salmon	8,705,366	170,441	-	-	-	-	3,408,820	(170,441)	12,114,186	-
B.D.Jones	225,952	-	-	-	-	-	-	-	225,952	-
J.L.Smith	82,723	208	-	-	-	-	4,160	(208)	86,883	-
R.N.Scott	1,489,794	29,458	-	-	-	-	588,188	(29,458)	2,077,982	-
Executives										
L.McDonald	-		-	-	80,000	-	(80,000)	-	-	-
K.Carter	1,048	-	-	-	-	-	-	-	1,048	-
T.Phillips/ B.Hartley	2,518,811	-	-	-	-	-	80,000	-	2,598,811	-
A.Curr	-	-	-	-	-	-	-	-	-	-
Total	22,043,475	370,857	-	-	80,000	-	7,416,168	(370,857)	29,539,643	-

	BALANCE 01 JULY 2005		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2006	
30 JUNE 06	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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007 (Cont.)

(g) Loans to Key Management Personnel

(i) Details of aggregates of loans to key management personnel are as follows:

	BALANCE AT BEGINNING OF PERIOD	NEW LOANS	INTEREST CHARGED	INTEREST NOT CHARGED	BALANCE AT END OF PERIOD	NUMBER IN GROUP
	$'000	$'000	$'000	$'000	$'000	#
2007	6,451	844	485	-	7,171	6
2006	4,439	1,586	369	-	6,451	6

(ii) Details of key management personnel with loans above $100,000 in the reporting period are as follows:

	BALANCE AT BEGINNING OF PERIOD	NEW LOANS	INTEREST CHARGED	INTEREST NOT CHARGED	BALANCE AT END OF PERIOD	HIGHEST BALANCE IN PERIOD
	$'000	$'000	$'000	$'000	$'000	$'000
Directors						
T.A. Holmes	223		17		240	240
	1,930		138		1,930	1,930
	1,287		88		1,287	1,287
B.D. Jones	380		27		380	380
	-	550	46		551	551
R.P. Salmon	153		12		179	179
	154		9		154	154
	450		25		415	450
	397		24		397	397
	208		12		160	208
	472		27		350	472
R.N Scott	434		32		424	434
Executives						
K. Carter	331		21		327	331
		80	-		80	80
A. Curr	31		6		86	86
	-	214	12		210	214
Total for Key Management Personnel	6,450	844	496	-	7,170	7,393

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 2007 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 2007.

On behalf of the Board

Robert N. Scott
Non-executive Director

Perth, 28 September 2007

INDEPENDENT AUDIT REPORT

ERNST & YOUNG

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11 Mounts Bay Road
Perth WA 6000
Australia

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Tel 61 8 9429 2222
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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOMELOANS LIMITED

We have audited the accompanying financial report of Homeloans Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of 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.

ERNST & YOUNG

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Auditor's Opinion
In our opinion:

1. the financial report of Homeloans Limited is in accordance with 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 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2

Ernst & Young

Ernst & Young

R A Kirkby
Partner
Perth

Date 28 September 2007

INVESTOR INFORMATION

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) Distribution of shareholders and their holdings as at 21st September 2007

SIZE OF HOLDINGS OF HOLDERS	ORDINARY SHARES NUMBER OF HOLDERS
1 – 1,000	98
1,001 - 5,000	325
5,001 – 10,000	113
10,001 – 100,000	158
100,001 and over	43
TOTAL	737

Unmarketable parcel of shares	29

A marketable parcel of shares is defined by the ASX as a parcel worth more than $ 500.00

(b) Top 20 holders of Ordinary Shares as at 21st September 2007

	LISTED ORDINARY SHARES	
NAME	NUMBER OF SHARES	% OF ORDINARY SHARES
Challenger Mortgage Management Holdings Pty Ltd	40,000,000	39.75
Tico Pty Ltd	11,881,406	11.81
Peterlyn Pty Ltd	11,747,975	11.68
Redbrook Nominees Pty Ltd	10,596,956	10.53
UBS Wealth Management Australia Nominees Pty Ltd	3,446,312	3.43
Gemtrick Pty Ltd	2,658,418	2.64
Hartley Phillips Securities Pty Ltd (Hartley Phillips Inv. Tst A/c)	2,598,811	2.58
UBS Nominees Pty Ltd	2,590,434	2.57
Carpenter Nominees Pty Ltd	1,220,127	1.21
Invia Custodian Pty Ltd (WAM Capital Ltd)	1,004,777	1.00
Ferber Holdings Pty Ltd	857,855	0.85
JAMAC Holdings Pty Ltd	429,955	0.43
Mr Timothy Alastair Holmes	423,211	0.42
Mr Kim David Cannon & Mrs Aspasia Elizabeth Cannon	405,343	0.40
Mr Robert Peter Salmon	366,211	0.36
Invia custodian Pty Ltd (WAM Equity Fund A/c)	355,000	0.35
Beecraft Pty Ltd	305,400	0.30
Daisson Holdings Pty Ltd	280,000	0.28
Challenger Group Pty Ltd	250,000	0.25
Beneficial Home Loans Pty Ltd	243,863	0.24
Cumulative Total after Top 20 Shareholders	91,662,054	91.08

INVESTOR INFORMATION (CONT.)

(c) Substantial Shareholders details as at 21st September 2007 were:
Set out below is an extract of the Company's register of substantial shareholders, showing the substantial shareholders and the number of equity securities in which they have a relevant interest as disclosed by notices received by the Company under Part 6.7 of the Corporations Act 2001

Number of ordinary shares in which interest held

SUBSTANTIAL HOLDER	NUMBER OF ORDINARY SHARES IN WHICH INTEREST HELD
Challenger Mortgage Management Holdings Pty Ltd	40,000,000
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	12,434,781
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/C), Peterlyn Pty Ltd (Salmon Superfund A/C)	12,114,186
Redbrook Nominees Pty Ltd	10,596,956

The number of holders of each class of security

- There are 737 holders of Ordinary Shares
- There are 2 holders of Executive Directors' Options
- There are 11 holders of Employee Options
- There are 15 holders of a different class of Employee Options
- There are 10 holders of Senior Executive Options
- There are 6 holders of Other Options

(d) Voting rights
The Company has Ordinary Shares on issue. All of the Ordinary Shares are fully paid.

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.

(e) Share Trading
The Company's shares are listed on the Australian Stock Exchange Limited and the Home Exchange is Perth. Ordinary shares are traded under the code HOM.

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Homeloans LTD

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