

FINANCIALS

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
REVENUES FROM ORDINARY ACTIVITIES	2	36,633,991	35,949,054	34,935,566	31,843,688
Salaries and employee benefits expense		11,535,928	12,331,415	11,535,725	12,311,097
Commissions and valuation fees		12,236,332	10,112,018	14,251,805	8,236,198
Consultancy and corporate affairs		991,681	482,684	638,207	427,144
Depreciation and amortisation	3	2,024,607	1,674,696	1,098,979	748,632
Borrowing costs	3	595,358	789,570	583,170	766,072
Advertising expenses		949,887	1,901,676	949,887	1,901,676
Occupancy costs		1,770,642	1,823,336	1,770,642	1,822,369
Portfolio management fees		1,145,813	1,351,217	-	-
Printing and stationery		262,525	432,852	260,174	425,647
Telephone costs		711,719	901,609	713,395	889,851
Insurance		382,078	452,343	372,417	452,343
Write down of investment in controlled entities	3	-	-	-	863,535
Stamp duty settlement	3	918,272	-	918,272	-
Other expenses from ordinary activities		1,562,968	1,765,571	1,235,573	1,548,518
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		1,546,181	1,930,067	607,320	1,450,606
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	1,030,627	865,106	471,349	705,864
NET PROFIT ATTRIBUTABLE TO MEMBERS OF HOMELOANS LIMITED	18	515,554	1,064,961	135,971	744,742
Share issue costs	17	-	(264,147)	-	(264,147)
TOTAL REVENUE, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF HOMELOANS LIMITED AND RECOGNISED DIRECTLY IN EQUITY		-	(264,147)	-	(264,147)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF HOMELOANS LIMITED		515,554	800,814	135,971	480,595
Basic earnings per share	24	0.02 cents	1.73 cents		
Diluted earnings per share	24	0.77 cents	1.83 cents		
Unfranked dividend per share					
—Ordinary shares	5	0.0 cents	0.0 cents		
—Reset preference shares	5	100.0 cents	38.0 cents		

FINANCIALS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005	2004	2005	2004
		\$	\$	\$	\$
CURRENT ASSETS					
Cash assets		1,468,061	623,078	769,313	34,377
Receivables	8	9,544,815	11,931,039	8,803,592	9,432,933
Prepaid expenses	7	8,581,701	8,991,720	7,182,556	8,129,207
TOTAL CURRENT ASSETS		19,594,577	21,545,837	16,755,461	17,596,517
NON-CURRENT ASSETS					
Receivables	11	649,208	862,214	215,866	329,550
Prepaid expenses	7	26,179,715	23,059,937	21,911,420	20,882,951
Investments	8	-	-	19,178,326	18,838,346
Plant and equipment	9	1,957,186	2,808,854	1,957,186	2,807,381
Intangibles	10	15,071,223	15,716,144	-	-
TOTAL NON-CURRENT ASSETS		43,857,332	42,447,149	43,262,798	42,858,228
TOTAL ASSETS		63,451,909	63,992,986	60,018,259	60,454,745
CURRENT LIABILITIES					
Payables	12	4,123,276	4,387,319	6,885,286	5,861,473
Non-interest bearing liabilities	13	81,242	87,372	81,242	87,372
Unearned revenue	14	2,713,895	2,867,196	2,271,021	2,586,082
Interest bearing liabilities	15	554,135	624,240	554,135	624,240
Provisions	16	547,707	600,350	547,707	600,350
TOTAL CURRENT LIABILITIES		8,020,255	8,566,477	10,339,391	9,759,517
NON-CURRENT LIABILITIES					
Deferred income tax liabilities	4	5,611,282	4,596,808	5,611,282	4,596,808
Non-interest bearing liabilities	13	583,485	521,794	583,485	521,794
Unearned revenue	14	8,279,127	7,352,458	6,928,079	6,643,332
Interest bearing liabilities	15	4,136,849	6,130,886	4,136,849	6,130,886
Provisions	16	25,174	40,852	25,174	40,852
TOTAL NON-CURRENT LIABILITIES		18,635,917	18,642,798	17,284,869	17,933,672
TOTAL LIABILITIES		26,656,172	27,209,275	27,624,260	27,693,189
NET ASSETS		36,795,737	36,783,711	32,393,999	32,761,556
EQUITY					
Contributed equity	17	53,395,348	53,395,348	53,395,348	53,395,348
Accumulated losses	18	(16,599,611)	(16,611,637)	(21,001,349)	(20,633,792)
TOTAL EQUITY		36,795,737	36,783,711	32,393,999	32,761,556

FINANCIALS

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		40,826,207	40,160,492	30,042,742	37,561,510
Payments to suppliers and employees		(36,306,296)	(37,608,445)	(25,760,074)	(33,252,308)
Interest received		110,406	88,741	71,431	50,796
Borrowing costs		(451,177)	(711,742)	(451,170)	(711,742)
Taxation paid		(12,164)	8,227	-	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	19(a)	4,166,976	1,937,273	3,902,929	3,648,256
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant and equipment		(168,077)	(1,717,739)	(168,077)	(1,717,739)
Acquisition of Match Funds Management Limited	19(e)	(261,550)	(28,600)	(261,550)	(28,600)
Residential mortgage set up costs		(154,000)	(420,602)	-	-
Payment of stamp duty in dispute		-	(1,788,512)	-	(1,788,512)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(583,627)	(3,955,453)	(429,627)	(3,534,851)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		-	5,035,280	-	5,035,280
Payment of share issue costs		-	(264,147)	-	(264,147)
Proceeds from borrowings		-	3,795,787	-	2,151,966
Repayment of borrowings		(1,500,000)	(4,954,459)	(1,500,000)	(5,144,459)
Repayment of principal on finance lease and hire purchase agreements		(734,838)	(744,591)	(734,838)	(744,591)
Payment of dividends		(503,528)	(191,340)	(503,528)	(191,340)
NET CASH FLOWS FROM / (USED IN) FINANCING ACTIVITIES		(2,738,366)	2,676,530	(2,738,366)	842,709
NET INCREASE/(DECREASE) IN CASH HELD		844,983	658,350	734,936	956,114
Opening cash brought forward		623,078	(35,272)	34,377	(921,737)
CLOSING CASH CARRIED FORWARD	19(b)	1,468,061	623,078	769,313	34,377

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****a) Basis of accounting**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

b) Changes in Accounting Policy

The accounting policies adopted are consistent with those of the previous year.

c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Homeloans Limited (the parent entity) and all entities, which Homeloans Limited controlled from time to time during the year ended 30 June 2005 and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

d) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purpose of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

e) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. 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.

f) Investments

Listed shares held for trading are carried at net market value. Changes in net market value are recognised as a revenue or expense in determining the net profit for the period.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Where listed shares have been revalued, any capital gains tax which may become payable has not been taken into account in determining the revalued carrying amount. Where it is expected that a liability for capital gains tax exists, this amount is recognised in the net profit for the reporting period.

Non-current debentures are carried at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition. Interest is recognised on an effective yield basis.

Investments in associates are carried at the lower of the equity-accounted amount and recoverable amount in the consolidated financial report.

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

g) Recoverable amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

h) Plant and equipment

Cost and valuation

Items of plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment.

Major depreciation periods for plant and equipment are 5 to 15 years.

i) 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.

The lease incentive liability in relation to the non-cancellable operating lease is being reduced on an imputed interest basis over the lease term (5 –10 years) at the interest rate implicit in the lease.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

j) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight-line basis over the period during which benefits are expected to be received. This is taken as being 20 years.

k) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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

l) Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB 1008 *Leases*.

m) 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, 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.

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.

n) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

o) 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:

- Application fee revenue received is deferred and recognised at a rate that matches the cost of origination and management of the underlying specific loans over the average loan life. Currently this rate is 2.335% per month (2004: 2.335%) on a reducing balance basis.
- Interest income is recognised when the right to receive the revenue is attained.
- Commission income is recognised upon the attainment of the right to receive consideration for the service rendered.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Direct mortgage origination costs

Mortgage origination costs that are directly attributable to establishing specific loans, and which would not have been incurred had these contracts not been entered into, have been deferred. These costs are recognised at a rate that matches the receipt of management fees and the amortisation of deferred application fee revenue on the underlying specific loans over the average loan life. Currently this rate is 2.335% per month (2004: 2.335%) on a reducing balance basis.

q) Taxes

Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between when items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised. The income tax expense for the year is calculated using the 30% tax rate.

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 Statement of Financial Position.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****r) Employee benefits**

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

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

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

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

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

The value of the equity-based compensation scheme described in note 25 is not being recognised as an employee benefits expense.

In respect of the consolidated entity's defined benefits superannuation plans, any contributions made to the superannuation plans by entities within the consolidated entity are recognised against profits when due.

s) Earnings per share

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

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of 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 (Refer note 24 for detailed calculations of this measure).

t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
2. REVENUES FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Mortgage origination income		17,248,232	17,337,907	16,320,234	17,115,585
Loan management fees		19,621,781	20,207,600	12,200,125	10,700,869
(Increase)/decrease in unearned mortgage origination income		(773,369)	(1,829,308)	30,313	(2,116,645)
Total revenues from operating activities		36,096,644	35,716,199	28,550,672	25,699,809
Revenues from outside the operating activities					
Interest received—other person/corporations		182,892	89,957	143,916	50,279
Other income		354,455	142,898	6,240,978	6,093,600
Total revenues from outside the operating activities		537,347	232,855	6,384,894	6,143,879
Total revenue from ordinary activities		36,633,991	35,949,054	34,935,566	31,843,688

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
3. EXPENSES AND SIGNIFICANT ITEMS					
(a) Expenses					
Depreciations and amortisation					
Plant and equipment		37,745	136,517	37,517	125,335
Plant and equipment under lease		524,486	623,297	524,486	623,297
Recoverable amount write-down					
Plant and equipment		347,098	-	347,098	-
Plant and equipment under lease		189,878	-	189,878	-
Amortisation of goodwill		925,400	914,882	-	-
Total depreciation and amortisation		2,024,607	1,674,696	1,098,979	748,632
Borrowing costs					
Borrowing costs and bank fees		147,743	159,228	135,555	135,730
Interest on bank loan		447,615	630,342	447,615	630,342
Total interest expense		595,358	789,570	583,170	766,072
Operating lease rental		1,547,980	1,545,471	1,547,980	1,545,471
(b) Significant items					
Profit from ordinary activities before income tax expense includes the following material expenses whose disclosure is relevant in explaining the financial performance of the entity:					
Write-down of investment in controlled entities		-	-	-	863,535
Stamp duty assessment	33	918,272	-	918,272	-

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
4. INCOME TAX					
The prima facie tax on profit from ordinary activities differs from the income tax provided in the financial statements as follows:					
Prima facie tax on profit from ordinary activities at 30%		463,854	579,020	182,196	435,213
Add/(less) tax effect of permanent differences:					
Goodwill amortisation		277,620	274,495	-	-
Stamp duty settlement		275,482	-	275,482	-
Entertainment expenses		34,507	36,044	34,507	36,044
Write-down investment in controlled entities		-	-	-	259,060
Other		(20,836)	(24,453)	(20,836)	(24,453)
Income tax expense attributable to ordinary activities		1,030,627	865,106	471,349	705,864
Deferred tax assets and liabilities					
Current tax payable		-	-	-	-
Deferred income tax liabilities		5,611,282	4,596,808	5,611,282	4,596,808

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 arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, due to the existence of significant unutilised tax losses within the group, the possibility of default is remote. 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.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES AND RESET PREFERENCE SHARES					
Dividends paid during the year					
i) Current year interim:					
Unfranked dividends					
Ordinary shares (Nil cents per share) (2004: Nil cents per share)		-	-	-	-
Reset preference shares (50 cents per share) (2004: 38.0 cents per share)		251,764	191,340	251,764	191,340
		251,764	191,340	251,764	191,340
ii) Previous year final:					
Unfranked dividends					
Ordinary shares (Nil cents per share) (2004: Nil cents per share)		-	-	-	-
Reset preference shares (50 cents per share) (2004: Nil cents per share)		251,764	-	251,764	-
		251,764	-	251,764	-
		503,528	191,340	503,528	191,340
6. RECEIVABLES (CURRENT)					
Fees receivable					
Non-related parties	6(i)	7,296,586	7,434,844	4,814,879	5,381,848
Related parties:					
Wholly-owned group					
— controlled entity	6(ii)	-	-	2,188,111	105,390
		7,296,586	7,434,844	7,002,990	5,487,238
Prepaid royalties and trailing commissions	6(iii)	85,390	363,371	76,475	353,038
Loan book receivable (Eurofinance)	6(iv)	248,760	948,702	248,760	948,702
Stamp Duty Assessment	33	936,045	1,788,512	936,045	1,788,512
Prepayments and other	6(v)	978,034	1,395,610	539,322	855,443
		9,544,815	11,931,039	8,803,592	9,432,933

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

6. RECEIVABLES (CONTINUED)

Terms and conditions

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. These are amortised over the average loan life of 50 months (See Note 11).
- (iv) Cost of acquiring the Eurofinance loan book is amortised over the average loan life of 50 months. There are just over 3 months remaining to be amortised at balance date (See Note 11).
- (v) Prepayments and other are non-interest bearing and include GST refunds due in the ordinary course of business within 30 days.

	Notes	Consolidated		Homeloans Limited	
		2005	2004	2005	2004
		\$	\$	\$	\$
7. PREPAID EXPENSES					
CURRENT					
Prepaid commissions and valuation fees		8,581,701	8,991,720	7,182,556	8,129,207
NON-CURRENT					
Prepaid commissions and valuation fees		26,179,715	23,059,937	21,911,420	20,882,951

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
8. INVESTMENTS					
Shares in unlisted company —at cost		-	-	19,178,326	18,838,346
		-	-	19,178,326	18,838,346
Particulars relating to controlled entities:					
	Country of Incorporation	Percentage held by consolidated entity		Chief Entity Investment	
		2005 %	2004 %	2005 \$	2004 \$
<i>Chief Entity</i>					
Homeloans Limited					
<i>Controlled entities of Homeloans Limited:</i>					
NSW Home Loans Pty Ltd	Australia	100	100	100	100
VIC Home Loans Pty Ltd	Australia	100	100	2	2
QLD Home Loans Pty Ltd	Australia	100	100	2	2
SA Home Loans Australia Pty Ltd	Australia	100	100	2	2
WA Home Loans Australia Pty Ltd	Australia	100	100	2	2
IF & I Securities Pty Ltd	Australia	100	100	100	100
FAI First Mortgage Pty Ltd	Australia	100	100	7,114,915	7,114,915
Access Home Loans Group incorporating:				11,723,223	11,723,223
- Access Network Management Pty Ltd	Australia	100	100		
- Access Home Loans Pty Ltd	Australia	100	100		
- HLL Pty Ltd	Australia	100	100		
St Michael Investments Pty Ltd	Australia	100	100	-	-
Match Funds Management Limited	Australia	100	-	339,980	-
				19,178,326	18,838,346

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
9. PLANT AND EQUIPMENT					
Plant and equipment					
—At cost		334,615	1,278,226	334,615	1,276,753
—Provision for depreciation		(45,165)	(784,903)	(45,165)	(784,903)
		<u>289,450</u>	<u>493,323</u>	<u>289,450</u>	<u>491,850</u>
Plant and equipment under lease					
—At cost		4,709,031	5,051,822	4,709,031	5,051,822
—Provision for amortisation		(3,041,295)	(2,736,291)	(3,041,295)	(2,736,291)
		<u>1,667,736</u>	<u>2,315,531</u>	<u>1,667,736</u>	<u>2,315,531</u>
Total plant and equipment		<u>1,957,186</u>	<u>2,808,854</u>	<u>1,957,186</u>	<u>2,807,381</u>

(a) Assets pledged as security

All balances of Plant & Equipment have been granted first mortgages as security over bank loans (see note 15). 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.

Assets under lease are pledged as security for the associated lease liabilities.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
9. PLANT AND EQUIPMENT (CONTINUED)					
(b) Reconciliations					
<i>Plant and equipment</i>					
Carrying amount at beginning		493,323	495,572	491,850	424,659
Additions		214,723	1,702,228	214,723	1,700,756
Additions through acquisition of Match Funds Management		3,877	-	-	-
Transferred to plant and equipment under lease		-	(1,493,000)	-	(1,493,000)
Disposals		(37,630)	(74,960)	(32,508)	(15,230)
Recoverable amount write down*		(347,098)	-	(347,098)	-
Depreciation expense		(37,745)	(136,517)	(37,517)	(125,335)
		<u>289,450</u>	<u>493,323</u>	<u>289,450</u>	<u>491,850</u>
<i>Plant and equipment under lease</i>					
Carrying amount at beginning		2,315,531	1,378,548	2,315,531	1,378,548
Additions		70,000	1,563,747	70,000	1,563,747
Disposals		(3,431)	(3,467)	(3,431)	(3,467)
Recoverable amount write down*		(189,878)	-	(189,878)	-
Amortisation expense		(524,486)	(623,297)	(524,486)	(623,297)
		<u>1,667,736</u>	<u>2,315,531</u>	<u>1,667,736</u>	<u>2,315,531</u>
* During the financial year a complete review of assets recorded in the group's asset register identified a number of assets that needed to be written down to nil value. The majority of these related to office fit-outs and miscellaneous office furniture and equipment that could not be used on the closure and relocation of various Homeloans offices during the financial year.					
10. INTANGIBLES (NON-CURRENT)					
Goodwill at cost		44,528,200	44,247,721	25,950,083	25,950,083
Accumulated amortisations		(29,456,977)	(28,531,577)	(25,950,083)	(25,950,083)
		<u>15,071,223</u>	<u>15,716,144</u>	<u>-</u>	<u>-</u>

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
11. RECEIVABLES (NON-CURRENT)					
Prepaid royalties and trailing commission	6(iii)	128,908	36,301	115,908	3,579
Loan book receivable (Eurofinance)	6(iv)	-	248,760	-	248,760
Refundable rent deposits	11(i)	700	17,444	700	15,444
Prepayments and other	6(vi)	519,600	559,709	99,258	61,767
		649,208	862,214	215,866	329,550

Terms and conditions:

Terms and conditions relating to the above financial instruments:

- (i) Rent deposits are refundable on termination of the lease with a term to expiry of 5 years.

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
12. PAYABLES (CURRENT)					
Trade creditors	12(i)	515,078	597,400	515,078	590,323
Payable to related parties:					
Wholly-owned group					
— controlled entity		-	-	3,118,236	1,764,489
Accrued commissions	12(ii)	1,549,165	1,970,594	1,510,640	1,982,431
Cash flow claim creditors	12(iii)	194,851	212,086	194,851	212,086
Sundry creditors and accruals	12(iv)	1,864,182	1,607,239	1,546,481	1,312,144
		4,123,276	4,387,319	6,885,286	5,861,473

Terms and conditions:

Terms and conditions relating to the above financial instruments:

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
 (ii) Accrued commissions are non-interest bearing and are payable between 30 and 90 days.
 (iii) Cash flow claim creditors are non-interest bearing and payable within 12 months.
 (iv) Sundry creditors and accruals are non-interest bearing and payable within 12 months.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
13. NON-INTEREST BEARING LIABILITIES					
CURRENT					
Deferred lease incentive	13(i)	81,242	87,372	81,242	87,372
NON-CURRENT					
Deferred lease incentive	13(i)	583,485	521,794	583,485	521,794

Terms and conditions:

Terms and conditions relating to the above financial instruments:

- (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	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
14. UNEARNED REVENUE					
CURRENT					
Unearned application fees		2,713,895	2,867,196	2,271,021	2,586,082
NON-CURRENT					
Unearned application fees		8,279,127	7,352,458	6,928,079	6,643,332

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
15. INTEREST-BEARING LIABILITIES					
CURRENT					
Lease liability—secured	15(ii)	498,078	585,942	498,078	585,942
HP liability—secured	15(ii)	56,057	38,298	56,057	38,298
		<u>554,135</u>	<u>624,240</u>	<u>554,135</u>	<u>624,240</u>
NON-CURRENT					
Bank loans—secured	15(iii)	2,975,000	4,475,000	2,975,000	4,475,000
Lease liability—secured	15(ii)	1,060,587	1,558,665	1,060,587	1,558,665
HP liability—secured	15(ii)	101,262	97,221	101,262	97,221
		<u>4,136,849</u>	<u>6,130,886</u>	<u>4,136,849</u>	<u>6,130,886</u>

Terms and conditions:

Terms and conditions relating to the above financial instruments

- (i) 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) Finance leases and hire purchases have an average lease term of 4 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 8.14% (2004: 8.6%). The lease liability is secured by a charge over the leased assets.
- (iii) The bank loan facility expires on 31 December 2007. Interest is charged at the bank's floating 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 6.6% (2004: 6.3%).

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
16. PROVISIONS					
CURRENT					
Employee entitlements	25	547,707	590,350	547,707	590,350
Other	16(i)/(ii)	-	10,000	-	10,000
		<u>547,707</u>	<u>600,350</u>	<u>547,707</u>	<u>600,350</u>
NON-CURRENT					
Employee entitlements	25	25,174	40,852	25,174	40,852
(i) Represents provision for amount payable against professional indemnity insurance cover on current legal matters.					
(ii) Movements in provisions:					
<i>Other</i>					
Carrying amount at the beginning of the financial year		10,000	30,700	10,000	30,700
Additional provision		-	-	-	-
Amounts utilised during the year		(10,000)	(20,700)	(10,000)	(20,700)
Carrying amount at the end of the financial year		<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
17. CONTRIBUTED EQUITY					
(a) Issued and paid up capital					
Ordinary shares fully paid		48,624,215	48,624,215	48,624,215	48,624,215
Reset preference shares fully paid		4,771,133	4,771,133	4,771,133	4,771,133
		<u>53,395,348</u>	<u>53,395,348</u>	<u>53,395,348</u>	<u>53,395,348</u>

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005		2004	
	Number of shares	\$	Number of shares	\$
17. CONTRIBUTED EQUITY (CONTINUED)				
(b) Movements in shares on issue				
<i>Ordinary shares</i>				
Beginning of the financial year	50,354,063	48,624,215	50,354,063	48,624,215
Issued during the year				
—Dividend reinvestment scheme	-	-	-	-
—Shares bought back	-	-	-	-
End of the financial year	50,354,063	48,624,215	50,354,063	48,624,215
<i>Reset preference shares</i>				
Beginning of the financial year	503,528	4,771,133	-	-
Issued during the year				
—Public equity raising	-	-	503,528	5,035,280
less transaction costs		-		(264,147)
End of the financial year	503,528	4,771,133	503,528	4,771,133

(c) Share Options

There were 5,175,000 options (2004: Nil) over ordinary shares granted during the financial year

At the end of the year there were 8,130,000 (2004: 3,270,000) unissued ordinary shares in respect of which options were outstanding (Note 25).

(d) Terms and conditions of contributed equity

Ordinary shares

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

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

Reset preference shares

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

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

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

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
18. (ACCUMULATED LOSSES)/ RETAINED PROFITS					
Balance at the beginning of the year		(16,611,637)	(17,485,258)	(20,633,792)	(21,187,194)
Net profit attributable to members of Homeloans Limited		515,554	1,064,961	135,971	744,742
Total available for appropriation		(16,096,083)	(16,420,297)	(20,497,821)	(20,442,452)
Dividends provided for or paid		(503,528)	(191,340)	(503,528)	(191,340)
Balance at end of the year		(16,599,611)	(16,611,637)	(21,001,349)	(20,633,792)

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
19. STATEMENT OF CASH FLOWS					
(a) Reconciliation of the net profit/ (loss) after tax to the net cashflows from operations		515,554	1,064,961	135,971	744,742
Non cash items					
Depreciation of non-current assets		1,099,207	759,814	1,098,979	748,632
Amortisation					
—goodwill		925,400	914,882	-	-
—prepaid commissions		341,964	447,318	326,735	447,318
—loan book acquired		948,702	948,702	948,702	948,702
—bond distribution costs		303,379	212,785	-	-
Loss on sale of assets		35,316	63,198	32,667	3,467
Write down investment in controlled entities		-	-	-	863,535
Changes in assets and liabilities					
(Increase)/decrease in receivables		1,134,763	(1,159,398)	(532,412)	(865,907)
Increase in deferred expenses		(2,709,759)	(5,297,581)	(81,818)	(7,058,633)
Increase in plant & equipment		(114,778)	(40,007)	(113,374)	(38,534)
Increase in investments		-	-	(78,430)	-
Increase/(decrease) in deferred revenue		773,368	1,829,308	(30,314)	2,116,645
Increase in non-interest bearing liabilities		55,561	609,166	55,561	609,166
Increase/(decrease) in payables and provisions		(330,859)	999,335	955,492	2,779,039
Increase/(decrease) in interest bearing liabilities		170,696	(282,461)	170,696	1,551,360
Increase in deferred income tax liability		1,018,462	867,251	1,014,474	798,724
Net cash flows from operating activities		4,166,976	1,937,273	3,902,929	3,648,256

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
19. STATEMENT OF CASH FLOWS (CONTINUED)					
(b) Reconciliation of cash					
—Cash on hand		3,250	3,250	3,250	3,250
—Cash at bank		1,464,811	619,828	766,063	31,127
—Bank overdraft		-	-	-	-
Closing cash balance		1,468,061	623,078	769,313	34,377
(c) Financing facilities available					
At balance date the following financing facilities had been negotiated and were available:					
Total facilities					
—Bank overdraft		900,000	900,000	900,000	900,000
—Cash advance		5,100,000	4,975,000	5,100,000	4,975,000
		6,000,000	5,875,000	6,000,000	5,875,000
Facilities used at reporting date					
—Bank overdraft		-	-	-	-
—Cash advance		2,975,000	4,475,000	2,975,000	4,475,000
		2,975,000	4,475,000	2,975,000	4,475,000
Facilities unused at reporting date					
—Bank overdraft		900,000	900,000	900,000	900,000
—Cash advance		2,125,000	500,000	2,125,000	500,000
		3,025,000	1,400,000	3,025,000	1,400,000

(d) Non-cash financing and investing activities
Finance Lease & Hire Purchase transactions:

During the year the consolidated entity acquired plant and equipment by means of a hire purchase contract with an aggregate fair market value of \$77,000 (2004: \$1,591,574 by means of finance leases).

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	Homeloans Limited	
	2005	2004
	\$	\$
19. STATEMENT OF CASH FLOWS (CONTINUED)		
(e) Acquisition of controlled entity		
On 16 September 2004, Homeloans Ltd acquired 100% of the voting share capital of Match Funds Management Limited, a public company incorporated in Australia, that holds an Australian Financial Services Licence to operate as a Responsible Entity. The components of the acquisition cost were:		
Consideration		
— cash paid in the year ended 30 June 2004	28,600	
— cash paid in the year ended 30 June 2005	314,885	
	<u>343,485</u>	
Net Assets acquired		
- cash	53,335	
- trade debtors	299	
- plant and equipment	3,877	
- other financial assets	3,990	
	<u>61,501</u>	
- trade creditors	(2,000)	
- fair value of net tangible assets acquired	59,501	
- goodwill arising on acquisition	280,479	
Carrying value of investment	339,980	
- GST paid on acquisition costs	3,505	
	<u>343,485</u>	
Net cash effect		
Cash consideration paid	314,885	
Cash included in net assets acquired	(53,335)	
Net cash paid for purchase of controlled entity	<u>261,550</u>	

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
20. EXPENDITURE COMMITMENTS					
(a) Finance lease and hire purchase commitments					
Payable:					
—not later than one year		675,456	791,726	675,456	791,726
—later than one year but not later than five years		1,317,268	1,925,894	1,317,268	1,925,894
—later than five years		-	-	-	-
Minimum lease payments		1,992,724	2,717,620	1,992,724	2,717,620
Less future finance charges		(276,741)	(437,494)	(276,741)	(437,494)
		1,715,983	2,280,126	1,715,983	2,280,126
Total lease liability accrued for:					
Current liability		554,135	624,240	554,135	624,240
Non-current liability		1,161,848	1,655,886	1,161,848	1,655,886
		1,715,983	2,280,126	1,715,983	2,280,126
(b) Operating leases (non-cancellable):					
Minimum lease payments					
—not later than one year		1,534,837	1,519,594	1,534,837	1,519,594
—later than one year but not later than five years		6,163,681	4,804,683	6,163,681	4,804,683
—later than five years		4,042,987	4,973,356	4,042,987	4,973,356
Aggregate lease expenditure contracted for at balance date but not provided for		11,741,505	11,297,633	11,741,505	11,297,633

(c) Finance leases have an average lease term of 4 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 8.14% (2004: 8.6%). The lease liability is secured by a charge over the leased assets.

Operating leases have an average lease term of 4 years. Assets, which are the subject of operating leases, include office space and items of small machinery.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

21. SEGMENT INFORMATION

Revenue is derived by the consolidated entity from mortgage origination and loans management. The consolidated entity operates predominantly within the finance sector in Australia.

22. FUNDS MANAGEMENT

In performing its business operation, the Company has entered into deeds of mortgage origination and management with a number of financiers. Under the agreement, the Company originates and manages loans for a number of financiers who will source funding for the mortgages. Therefore, the Company does not fund the loan from its own balance sheet.

23. ECONOMIC DEPENDENCY

The consolidated entity does not have significant economic dependency with any one client or group of clients.

	Notes	Consolidated	
		2005 \$	2004 \$
24. EARNINGS PER SHARE			
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:			
Net Profit		515,554	1,064,961
Adjustments:			
Reset preference share dividend		(503,528)	(191,340)
Earnings used in calculating basic earnings per share		12,026	873,621
<u>Add back:</u> reset preference share dividend		503,528	191,340
Earnings used in calculating diluted earnings per share		515,554	1,064,961
		No. of shares	No. of shares
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share		50,354,063	50,354,063
Effect of dilutive securities:			
Share options	24(i)	-	-
Reset preference shares	24(ii)	16,975,589	7,809,469
Adjusted weighted average number of ordinary shares on issue used in the calculation of diluted EPS		67,329,652	58,163,532

(i) The 8,130,000 options outstanding at 30 June 2005 are out of the money and therefore have no dilutive effect. Since the end of the financial year, no shares have been issued pursuant to the employee share incentive scheme. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

(ii) On 14 January 2004 503,528 reset preference shares were issued with the potential for conversion to ordinary shares.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Homeloans Limited	
		2005 \$	2004 \$	2005 \$	2004 \$
25. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS					
Employee Entitlements					
The aggregate employee entitlements liability is comprised of:					
Accrued wages and salaries		274,407	283,344	274,407	283,344
Provisions (current)	16	547,707	590,350	547,707	590,350
Provisions (non-current)	16	25,174	40,852	25,174	40,852
		<u>847,288</u>	<u>914,546</u>	<u>847,288</u>	<u>914,546</u>

Employee 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 36 members of this plan of whom 32 are current employees or directors.

Information with respect to the number of options granted under the employee option scheme, options issued to the non-executive directors of the Company and options issued to the Company's Chief Operating Officer and Finance Director are as follows:

	2005		2004	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at the beginning of the year	3,270,000	1.03	3,600,000	1.03
—granted	5,175,000	0.43	-	-
—cancelled	(315,000)	0.80	(330,000)	1.01
Balance at the end of the year	<u>8,130,000</u>	<u>0.66</u>	<u>3,270,000</u>	<u>1.03</u>
Exercisable at the end of the year	<u>4,580,000</u>	<u>0.82</u>	<u>2,720,000</u>	<u>1.07</u>

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

25. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (CONTINUED)

(a) Options held at the beginning of the reporting period:

The following table summarises information about options held by employees as at 1 July 2004:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
400,000	9 March 2001	19 March 2002	9 March 2006	1.00
400,000	9 March 2001	19 March 2003	9 March 2006	1.15
400,000	9 March 2001	19 March 2004	9 March 2006	1.30
335,000	27 March 2001	27 March 2003	27 March 2006	1.01
335,000	27 March 2001	27 March 2004	27 March 2006	1.01
100,000	29 April 2002	1 April 2004	1 April 2007	0.99
100,000	29 April 2002	1 April 2005	1 April 2007	0.99
250,000	2 May 2002	27 March 2003	27 March 2006	1.01
250,000	2 May 2002	27 March 2004	27 March 2006	1.01
250,000	2 May 2002	1 April 2004	1 April 2007	0.99
250,000	2 May 2002	1 April 2005	1 April 2007	0.99
100,000	1 April 2003	21 January 2005	21 January 2008	0.52
100,000	1 April 2003	21 January 2006	21 January 2008	0.52
3,270,000				1.03

(b) Options granted during the period:

The following table summarises information about options granted by Homeloans Limited during the year (None were issued in the 2004 financial year):

Favouree	Grant Date	Number Granted	Vesting date	Expiry date	Weighted average exercise price \$
Director	1 December 2004	375,000	1 December 2004	1 December 2009	0.40
	1 December 2004	500,000	1 June 2005	1 December 2009	0.45
	1 December 2004	500,000	1 June 2006	1 December 2009	0.50
Mortgage Asset Services Pty Ltd	7 December 2004	750,000	7 December 2004	7 December 2009	0.40
	7 December 2004	1,000,000	31 March 2006 ^A	7 December 2009	0.45
	7 December 2004	1,000,000	31 March 2007 ^B	7 December 2009	0.50
Staff	14 January 2005	525,000	14 December 2006	14 December 2009	0.35
	14 January 2005	525,000	14 December 2007	14 December 2009	0.35
Total		5,175,000			0.43

A – Only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2006 exceeds \$175 million per month.

B – Only exercisable if average mortgage settlements in any three (3) month period prior to 31 March 2006 exceeds \$225 million per month.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005
25 EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS (CONTINUED)
(c) Options exercised

No options were exercised by employees during the year ended 30 June 2005, or during the previous year ended 30 June 2004.

(d) Options held as at the end of the reporting period

The following table summarise information about options held by employees as at 30 June 2005:

Number of options	Grant date	Vesting date	Expiry date	Weighted average exercise price \$
400,000	9 March 2001	19 March 2002	9 March 2006	1.00
400,000	9 March 2001	19 March 2003	9 March 2006	1.15
400,000	9 March 2001	19 March 2004	9 March 2006	1.30
227,500	27 March 2001	27 March 2003	27 March 2006	1.01
227,500	27 March 2001	27 March 2004	27 March 2006	1.01
100,000	29 April 2002	1 April 2004	1 April 2007	0.99
100,000	29 April 2002	1 April 2005	1 April 2007	0.99
250,000	2 May 2002	27 March 2003	27 March 2006	1.01
250,000	2 May 2002	27 March 2004	27 March 2006	1.01
250,000	2 May 2002	1 April 2004	1 April 2007	0.99
250,000	2 May 2002	1 April 2005	1 April 2007	0.99
100,000	1 April 2003	21 January 2005	21 January 2008	0.52
100,000	1 April 2003	21 January 2006	21 January 2008	0.52
375,000	1 December 2004	1 December 2004	1 December 2009	0.40
500,000	1 December 2004	1 June 2005	1 December 2009	0.45
500,000	1 December 2004	1 June 2006	1 December 2009	0.50
750,000	7 December 2004	7 December 2004	7 December 2009	0.40
1,000,000	7 December 2004	31 March 2006 [#]	7 December 2009	0.45
1,000,000	7 December 2004	31 March 2007 [#]	7 December 2009	0.50
475,000	14 January 2005	14 December 2006	14 December 2009	0.35
475,000	14 January 2005	14 December 2007	14 December 2009	0.35
8,130,000				0.66

[#] Performance hurdles are involved in the conditions for vesting of these options (see note 25(b) above)

(e) 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. The assets of the funds are sufficient to satisfy all benefits that would have vested under the plans in the event of termination of the plans and voluntary or compulsory termination of employment of each employee. There are currently 143 employees who are eligible for this scheme.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

26. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

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

(ii) Specified executives

J.McGee	Chief Operating Officer (left the company 3 August 2004)
J.Smith	Finance Director
P.Sealy	National Sales Manager – External (left the company 25 September 2004)
T.Phillips	General Manager Sales (also a Director of MAS)
G.McFadden	Financial Controller

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration 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.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005
26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)
(ii) Remuneration of Specified Directors and Specified Executives

		Primary			Post	Equity	Total
		Salary & Fees	Cash Bonus	Non-Monetary Benefits	Employment Super-annuation	Options (Amortised value)	
		\$	\$	\$	\$	\$	\$
Specified Directors							
T.A.Holmes	2005	160,218	-	2,986	89,629	-	252,833
	2004	130,992	-	3,900	87,008	-	221,900
R.P.Salmon	2005	160,218	-	2,986	89,629	-	252,833
	2004	130,992	-	3,900	87,008	-	221,900
B.D.Jones	2005	231,528	300,000	4,612	20,838	103,030	660,008
	2004	13,973	-	238	-	-	14,211
R.N.Scott	2005	42,500	-	-	-	-	42,500
	2004	42,500	-	-	-	3,805	46,305
Total Remuneration: Specified Directors							
	2005	594,464	300,000	10,584	200,096	103,030	1,208,174
	2004	318,457	-	8,038	174,016	3,805	504,316
Specified Executives							
J. McGee	2005	316,944	-	121	28,525	18,490	364,080
	2004	299,885	-	7,615	26,990	42,299	376,789
J. Smith	2005	229,410	40,000	4,612	24,247	21,953	320,222
	2004	200,169	40,000	1,282	21,615	24,969	288,035
P.Sealy	2005	286,307	-	1,188	25,768	-	313,263
	2004	140,000	5,000	2,913	11,776	1,200	160,889
T.Phillips*	2005	73,020	-	-	-	148,222	221,242
G.McFadden	2005	129,987	5,000	-	12,149	1,412	148,548
Total Remuneration: Specified Executives							
	2005	1,035,668	45,000	5,921	90,689	190,077	1,367,355
	2004	640,054	45,000	11,810	60,381	68,468	825,713

* Troy Phillips is a director of Mortgage Asset Services Pty Ltd (MAS). Troy's services as General Manager Sales for the group are remunerated by way of a commission payment to MAS monthly based on home loans settled during the previous month. This amounted to \$73,020 in the current financial year. MAS also holds 2,750,000 options over unissued shares in Homeloans Limited. The amortised value of these options during the year has been included. None of the remuneration noted above was actually paid directly to Troy Phillips.

FINANCIALS

HOMELOANS LIMITED AND CONTROLLED ENTITIES NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Remuneration options: Granted and vested during the year

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 options is disclosed as part of the remuneration for the specified executive, Troy Phillips.

	Vested Number	Granted Number	Terms & Conditions for Each Grant				
			Grant date	Value per option at grant date (\$)	Exercise Price per share (\$)	First Exercise Date	Last Exercise Date
Specified Directors							
B.D.Jones	375,000	375,000	1 Dec 2004	0.1019	0.40	1 Dec 2004	1 Dec 2009
	500,000	500,000	1 Dec 2004	0.0959	0.45	1 Jun 2005	1 Dec 2009
	-	500,000	1 Dec 2004	0.0872	0.50	1 Jun 2006	1 Dec 2009
Specified Executives							
J.Smith	100,000	-	29 Apr 2002	0.2724	0.994	1 Apr 2005	1 Apr 2007
	100,000	-	1 Apr 2003	0.1398	0.52	21 Jan 2005	21 Jan 2008
	-	100,000	14 Jan 2005	0.1420	0.35	14 Dec 2006	14 Dec 2009
	-	100,000	14 Jan 2005	0.1420	0.35	14 Dec 2007	14 Dec 2009
T.Phillips [^]	750,000	750,000	7 Dec 2004	0.1098	0.40	7 Dec 2004	7 Dec 2009
	-	1,000,000	7 Dec 2004	0.1010	0.45	31 Mar 2006	7 Dec 2009
	-	1,000,000	7 Dec 2004	0.0924	0.50	31 Mar 2007	7 Dec 2009
J.McGee	250,000	-	2 May 2002	0.2867	0.994	1 Apr 2005	1 Apr 2007
G.McFadden	-	25,000	14 Jan 2005	0.1420	0.35	14 Dec 2006	14 Dec 2009
	-	25,000	14 Jan 2005	0.1420	0.35	14 Dec 2007	14 Dec 2009
Total	2,075,000	4,375,000					

[^] The options on issue to MAS include 750,000 options exercisable any time from grant date with the balance subject to performance hurdles. These hurdles are as follows:
- 1,000,000 exercisable if mortgage settlements in any 3 month period prior to 31 March 2006 exceed an average \$175m per month
- 1,000,000 exercisable if mortgage settlements in any 3 month period prior to 31 March 2007 exceed an average \$225m per month

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005
26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)
(d) Option Holdings of Specified Directors* and Specified Executives*

	Balance at beginning of period 1 July 2004	Granted as Remuneration Year ended 30 June 2005	Options Exercised	Net Change Other #	Balance at end of period 30 June 2005	Vested at 30 June 2005		
						Total	Not Exercisable	Exercisable
Specified Directors								
R.N.Scott	300,000	-	-	-	300,000	300,000	-	300,000
B.D.Jones	-	1,375,000	-	-	1,375,000	1,375,000	500,000	875,000
Specified Executives								
J. McGee	1,000,000	-	-	-	1,000,000	1,000,000	-	1,000,000
P. Sealy	40,000	-	-	(40,000)	-	-	-	-
J. Smith	400,000	200,000	-	-	600,000	600,000	300,000	300,000
T.Phillips ^A	-	2,750,000	-	-	2,750,000	2,750,000	2,000,000	750,000
G.McFadden	-	50,000	-	-	50,000	50,000	50,000	-
Total	1,740,000	4,375,000	-	(40,000)	6,075,000	6,075,000	2,850,000	3,225,000

Includes forfeits and offer to all employees under the Employee Share Scheme – refer to Note 25 for details of the Scheme.

* Does not include options on issue to ex-directors, non-specific executives and other employees that are included in the 8,130,000 options outstanding at balance date referred to in Note 25.

A—Troy Phillips, General Manager Sales, whilst a specified executive, does not hold options in his name. He does however have an interest as Director and major shareholder in Mortgage Asset Services Pty Ltd which was granted 2,750,000 options during the financial year.

(e) Shareholdings of Specified Directors and Specified Executives

	Shares held in Homeloans Limited		Balance 1 July 2004		Granted as Remuneration		On Exercise of Options		Net Change Other		Balance 30 June 2005	
	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref	Ord	Pref
Specified Directors												
T.A.Holmes	8,776,281	170,750	-	-	-	-	93,500	-	-	-	8,869,781	170,750
R.P.Salmon	8,665,366	170,441	-	-	-	-	-	-	-	-	8,665,366	170,441
B.D.Jones	50,000	-	-	-	-	-	-	-	-	-	50,000	-
R.N.Scott	1,489,794	29,458	-	-	-	-	-	-	-	-	1,489,794	29,458
Specified Executives												
J. Smith	20,766	208	-	-	-	-	46,957	-	-	-	67,723	208
T.Phillips ^B	377,322	-	-	-	-	-	2,042,134	-	-	-	2,419,456	-
Total	19,379,529	370,857	-	-	-	-	2,182,591	-	-	-	21,562,120	370,857

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(e) Shareholdings of Specified Directors and Specified Executives (continued)

All equity transactions with specified directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

B—Troy Phillips, General Manager Sales, whilst a specified executive, does not hold shares in the company in his name. He does however have an interest as Director and major shareholder in Mortgage Asset Services Pty Ltd which held 2,419,456 ordinary shares in the company at 30 June 2005.

Notes	Consolidated		Homeloans Limited	
	2005 \$	2004 \$	2005 \$	2004 \$

27. AUDITORS' REMUNERATION

Amounts received or due and receivable

by Ernst & Young for:

—an audit or review of the financial report of the entity and any other entity in the consolidated entity	90,150	73,003	80,150	73,003
—other advisory services in relation to the entity and any other entity in the consolidated entity:				
—tax compliance	115,554	183,501	115,554	183,501
—accounting advice	6,800	2,055	6,800	2,055
	122,354	185,556	122,354	185,556
	212,504	258,559	202,504	258,559

28. RELATED PARTY DISCLOSURES

Wholly-owned group transactions

During the year management fees totalling \$450,000 (2004: \$4,916) were charged to Access Network Management Pty Ltd by Homeloans Limited and \$5,466,583 (2004: \$5,886,930) were charged to FAI First Mortgage Pty Ltd by Homeloans Limited.

At balance date, Homeloans owed Access Network Management \$3,116,432 (2004: \$1,764,489). FAI First Mortgage Pty Ltd owed Homeloans \$2,188,111 at balance date (2004: \$107,156). Homeloans Limited owed St Michael Investments Pty Ltd \$1,804 at balance date (2004: \$1,767).

Ultimate parent

Homeloans Limited is the ultimate Australian parent company.

FINANCIALS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005
29. CONTINGENT LIABILITIES

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

30. SUBSEQUENT EVENTS

On 18 August 2005 Homeloans Limited announced that its subsidiary, Access Home Loans Pty Ltd ("Access"), had entered into an agreement to aggregate its broker generated loans through Mosaic Financial Services Pty Ltd ("Mosaic"). Mosaic is a newly formed service provider established by Access in conjunction with The Mortgage Detective, Auspak Financial Services and Required Finance. The founding members will be principal shareholders in Mosaic.

On 23 August 2005, the directors of Homeloans Limited declared a final dividend on ordinary shares in respect of the 2005 financial year. The total amount of the dividend is \$755,311 which is unfranked. The dividend has not been provided for in the 30 June 2005 financial statements.

The financial effect of each of the above events has not been recognised.

As disclosed in Note 33 subsequent to year end the company reached settlement with the Western Australian Office of State Revenue ("OSR") with respect to the outstanding \$1,788,512 Stamp Duty Assessment. The settlement will result in the OSR refunding \$951,490 to Homeloans Ltd.

31. FINANCIAL INSTRUMENTS
(a) Interest rate risk

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

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE \$	Fixed Interest Rate Maturing in:			NON-INTEREST BEARING \$	TOTAL \$	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
		1 YEAR OR LESS \$	OVER 1 TO 5 YEARS \$	MORE THAN 5 YEARS \$			
30 JUNE 2005							
(i) FINANCIAL ASSETS							
Cash assets	1,464,811	-	-	-	3,250	1,468,061	5.2%
Receivables	-	-	-	-	7,545,346	7,545,346	
Stamp Duty Receivable	-	936,045	-	-	-	936,045	6.0 %
Total Financial Assets	1,464,811	936,045	-	-	7,548,596	9,949,452	
Payables	-	-	-	-	4,123,277	4,123,277	
Interest bearing liabilities	4,690,984	-	-	-	-	4,690,984	7.2%
Total Financial Liabilities	4,690,984	-	-	-	4,123,277	8,814,261	

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

31. FINANCIAL INSTRUMENTS (CONTINUED)

Fixed Interest Rate Maturing in:

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE \$	1 YEAR OR LESS \$	OVER 1 TO 5 YEARS \$	MORE THAN 5 YEARS \$	NON- INTEREST BEARING \$	TOTAL \$	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
30 JUNE 2004							
(I) FINANCIAL ASSETS							
Cash assets	619,828	-	-	-	3,250	623,078	5.0%
Receivables	-	-	-	-	8,383,546	8,383,546	N/A
Total Financial Assets	619,828	-	-	-	8,386,796	9,006,624	
(II) FINANCIAL LIABILITIES							
Payables	-	-	-	-	4,387,319	4,387,319	N/A
Interest bearing liabilities	6,755,126	-	-	-	-	6,755,126	7.1%
Total Financial Liabilities	6,755,126	-	-	-	4,387,319	11,142,445	

(b) Net fair values of financial assets and liabilities

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at balance date, are as follows:

	CARRYING AMOUNT		AGGREGATE NET FAIR VALUE	
	2005	2004	2005	2004
	\$	\$	\$	\$
(I) FINANCIAL ASSETS				
Cash	1,468,061	623,078	1,468,061	623,078
Receivables	8,481,391	8,383,546	8,481,391	8,383,546
Total Financial Assets	9,949,452	9,006,624	9,949,452	9,006,624
(II) FINANCIAL LIABILITIES				
Payables	4,123,277	4,387,319	4,123,277	4,387,319
Interest bearing liabilities	4,690,984	6,755,126	4,690,984	6,755,126
Total Financial Liabilities	8,814,261	11,142,445	8,814,261	11,142,445

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.

Trade receivables, payables, non-interest bearing liabilities and interest bearing liabilities: The carrying amount approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005**31. FINANCIAL INSTRUMENTS (CONTINUED)****(c) Credit risk exposures**

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

(d) Concentration of Credit Risk

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

32. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Homeloans Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. In 2004, the company allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to AIFRS. As Homeloans has a 30 June year-end, priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Homeloans' transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Homeloans prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate (where it is possible to give a reliable estimate) of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed (if any) are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the AIFRS project team; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

Goodwill

Under AASB 3 - *Business Combinations*, goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired on an annual basis or upon the occurrence of triggers which may indicate a potential impairment. The Group has not elected to apply AASB 3 retrospectively and hence, prior year amortisation would not be written-back as at the date of transition. In the year ended 30 June 2005 the amortisation of goodwill of \$925,400 would not have been recognised under AIFRS.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

32. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (CONTINUED)

Impairment of Assets

Under AASB 136 - *Impairment of Assets*, the recoverable amount of an asset is determined as the higher of net selling price and value in use. Whilst the group's current accounting policy determines the recoverable amount of an asset on the basis of discounted cash flows, AASB 136 is more definitive on the basis of this calculation. The Group is currently assessing whether this will result in an impact on adoption of AIFRS.

Share Based Payments

Under AASB 2 - *Share Based Payments*, the company would recognise the fair value of options issued to employees and other related parties as remuneration and recognise an expense in the Income Statement. It applies to all share-based payments issued after November 2002, which have not vested as at 1 January 2005. At the date of this report the appropriate model/s to be used to value the options have yet to be agreed upon due to the varying nature of performance hurdles required before some options can be exercised. It is likely that the models used will be one of or a mixture of Black-Scholes and Binomial methods.

Consolidation of Residential Mortgage Trust

AASB 139 - *Financial Instruments*, requires a reporting entity to consolidate all controlled entities including special purpose entities ("SPE") under AASB 127 - Consolidated and Separate Financial Statements and SIC-12 - Consolidation - Special Purpose Entities, before it considers whether it can derecognise financial assets and liabilities from its consolidated balance sheet. AASB 127 requires reporting entities to prepare consolidated financial statements that include the results of all subsidiaries of the parent. A subsidiary is defined as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent).

The Residential Mortgage Trust is a series of trusts established by the group for the purpose of originating and funding loans secured by residential mortgages. Currently there is uncertainty as to the accepted accounting practice within the industry for the treatment of securitised mortgage trusts and therefore the Group has yet to determine the appropriate accounting treatment. It is however expected that the trusts will be consolidated.

At 30 June 2005 the total assets of the Residential Mortgage Trust were \$513.2 million (2004: \$588.2 million) and the total liabilities were \$513.2 million (2004: \$588.2 million).

Deferred Revenue Recognition and Deferred Mortgage Origination Costs

AASB 138 - *Intangible Assets*, states that internally generated costs, identifiable as intangible assets, must be expensed. The group currently has an accounting policy of deferring application fee revenue and capitalising the direct selling expenses incurred in originating a home loan (includes commission and advertising) and then amortising them over the average life of home loans in the Homeloans loan book. Currently there is uncertainty as to the accepted accounting practice within the industry for the treatment of deferred revenue and deferred mortgage origination costs and therefore the Group has yet to determine the appropriate accounting treatment.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

32. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (CONTINUED)

Financial Instruments

Management has decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures*, and AASB 139 *Financial Instruments: Recognition and Measurement*, for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. The Financial Instruments project team is in the process of determining the impact that adopting the standards would have on the financial statements of the Group.

Reset Preference Shares

AASB 132 – *Financial Instruments – Disclosure and Presentation* contains a stricter definition of a financial liability than is determined under current AGAAP. Subject to a valuation of the Reset Preference Shares to calculate the value, if any, of the instrument itself (being capable of conversion to ordinary shares in certain circumstances), it is likely that the majority of the Reset Preference Shares currently classified as equity, will be reclassified as debt under AIFRS. It is not possible to quantify this amount at this stage until the valuation is complete. It is clear however that any payment made to Reset Preference shareholders would be classified as an interest charge under AIFRS and would therefore affect reported profits and Diluted Earnings Per Share. In the year ended 30 June 2005, dividends of \$503,528 were paid to the Reset Preference Shareholders which would, if AASB 132 were applicable, have been classified as interest expense.

Accounting for Derivatives

AASB 139 - *Financial Instruments – Recognition and Measurement*, requires all derivatives, including interest rate swaps, to be recognised at fair value at transition date.

The group does not currently enter into any derivative contracts but if, as expected, the Residential Mortgage Trust is consolidated as part of the Homeloans Group, it will have to account for some derivative products. The group expects to account for derivatives as held for trading with the fair value being recognised in the profit and loss.

Accounting for Income Tax

Under AASB 112—*Income Taxes*—the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Balance Sheet or a tax-based balance sheet. The company is currently completing its tax based balance sheet to determine the financial impact (if any) of this change.

Contingent Assets

AASB 137 - *Provisions, Contingent Liabilities and Contingent Assets* prohibits the recognition of a contingent asset unless it has become virtually certain that an inflow of economic benefit will arise in respect of the asset in the future. In contrast current AGAAP requires that a contingent asset be recognised when it has become probable that an inflow of economic benefits will arise. Where the inflow of economic benefits arising from a contingent asset is probable but not virtually certain, such an asset will no longer be recognised under AIFRS.

In respect of the stamp duty assessment in dispute with the Western Australian Office of State Revenue, such an asset will no longer be recognised under AIFRS. Whilst the directors believe recovery is highly probable at 1 July 2004, because of the likelihood of litigation they have concluded that it is not virtually certain. Therefore the amount of \$1,788,512 will be adjusted against retained earning at 1 July 2004.

Any future recovery will therefore be reflected through the Income Statement.

FINANCIALS

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

33. REVISED FINANCIAL STATEMENTS

For the reasons noted below, the revised financial statements as at 30 June 2005 and for the year then ended replace the original financial statements approved by the directors on 30 September 2005.

In 2003, Homeloans Ltd received a Stamp Duty Assessment from the Western Australian Office of State Revenue ("OSR") for \$1,788,512. The assessment related to the transfer of the assets of IF&I Securities Pty Ltd as trustee for the IF&I Securities Unit Trust to Homeloans Ltd on its inception in December 2000.

Homeloans Ltd appealed the assessment and based upon legal advice were of the view that the assessment was incorrect. In October 2005, Homeloans Ltd settled the dispute with the OSR for an amount of \$918,272. After adjusting for interest through to the date of settlement, Homeloans Ltd will receive a refund of \$951,490.

The directors have concluded that, although the above information was not known to them on or before 30 September 2005, it is information that clarifies the recoverability of a receivable that existed at 30 June 2005. Furthermore, if the directors had known about this new information at the time of preparing the original financial report, the decrease in the receivable would have been recognised. Consequently and in view of the monetary size of the adjustment, the directors have resolved to amend and reissue the financial report for the year ended 30 June 2005.

The following amendments have been processed and incorporated into the revised financial statements:

Decrease in Receivables	\$852,467
Increase in Deferred Tax Liability	\$19,741
Net Decrease in Net Profit After Tax for the year	<u>\$872,208</u>

The effect of this adjustment has been to reduce the previously reported consolidated net assets by \$872,208 to \$36,795,737. Furthermore, the reported basic and diluted earnings per share for the year ended 30 June 2005 have decreased from 1.76 cents and 2.06 cents to 0.02 cents and 0.77 cents respectively.

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 2005 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 section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.
- 3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Group identified in note 8 will be able to meet their debts as and when they become due and payable.

On behalf of the Board



Timothy A. Holmes
Chairman

Perth, 17 October 2005

FINANCIALS



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HOMELOANS LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Homeloans Limited ("the company") and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

Independence

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



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HOMELOANS LIMITED

Audit opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Homeloans Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Revision of financial statements

Without qualification to the opinions expressed above, attention is drawn to Note 33 to the financial statements. For the reasons fully described in that note, the previously issued financial report of Homeloans Ltd for the year ended 30 June 2005 has been revised. Accordingly, this audit report replaces our audit report dated 30 September 2005 in which we originally reported on the financial report for the year ended 30 June 2005.

A handwritten signature in black ink, appearing to read 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink, appearing to read 'RA Kirkby'.

RA Kirkby
Partner

17 October 2005

ASX ADDITIONAL 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 19th September 2005

Size of holdings of holders	Ordinary shares	Reset preference shares
	Number of holders	Number of holders
1 – 1,000	78	102
1,001 – 5,000	391	9
5,001 – 10,000	133	2
10,001 – 100,000	192	6
100,001 and over	35	2
TOTAL	829	121
Unmarketable parcel of shares	109	47

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

ASX ADDITIONAL INFORMATION (CONTINUED)
(b) Top 20 holders of Ordinary Shares as at 19th September 2005

Name	Listed Ordinary shares	
	Number of shares	% of ordinary shares
Tico Pty Ltd (TA Holmes Family Fund A/c)	8,316,406	16.52
Peterlyn Pty Ltd (Salmon Family Account)	8,299,155	16.48
Redbrook Nominees Pty Ltd	7,227,804	14.35
Gemtrick Pty Ltd (Harris Family Fund A/c)	2,651,630	5.27
Westpac Banking Corporation	2,625,528	5.21
Mortgage Asset Services Pty Ltd	2,518,811	5.00
UBS Private Clients Australia Nominees Pty Ltd	2,467,692	4.90
J.P.Morgan Nominees Australia Limited	1,677,115	3.33
National Nominees Limited	1,050,880	2.09
Carpenter Nominees Pty Ltd (Robert Scott Family A/c)	1,050,367	2.09
Ferber Holdings Pty Ltd (Scott Super Fund A/C)	438,455	0.87
Jamac Holdings Pty Ltd	429,955	0.85
Mr Timothy Alastair Holmes	423,211	0.84
Mr Robert Peter Cockburn Salmon	366,211	0.73
Bellwood Limited	325,935	0.65
Pythagoras Investment Corporation Pty Ltd	300,000	0.60
Mr John Benjamin	250,000	0.50
Challenger Group Pty Ltd	250,000	0.50
Beeecraft Pty Ltd	225,000	0.45
Sigma Chemicals (1986) Pty Ltd	200,000	0.40
Cumulative Total after Top 20 Shareholders	41,094,155	81.63

ASX ADDITIONAL INFORMATION (CONTINUED)

(c) Top 20 holders of Reset Preference Shares as at 19th September 2005

Name	Listed Reset Preference shares	
	Number of shares	% of reset preference shares
Tico Pty Ltd (TA Holmes Family Fund A/c)	167,088	33.18
Peterlyn Pty Ltd (Salmon Family Account)	166,779	33.12
UBS Private Clients Australia Nominees Pty Ltd	49,531	9.84
Redbrook Nominees Pty Ltd	42,989	8.54
Ferber Holdings Pty Ltd (Scott Super Fund A/c)	20,970	4.16
J.P.Morgan Nominees Australia Limited	10,145	2.01
Carpenter Nominees Pty Ltd (Robert Scott Family A/c)	8,488	1.69
Beecraft Pty Ltd	4,020	0.80
Mr Timothy Alastair Holmes	3,662	0.73
Mr Robert Peter Cockburn Salmon	3,662	0.73
Pythagoras Investment Corporation Pty Ltd	2,270	0.45
Mrs Jean Ackland	1,426	0.28
Edplas Pty Ltd	1,125	0.22
YSCA Nominees Pty Ltd (YSCA Super Fund A/c)	1,031	0.20
Mrs Dorothy Mary McGee	1,000	0.20
Mr Eric Hewitt Dick	1,000	0.20
Mrs Sandra Kennard	1,000	0.20
Ms Janic Leigh Forbes-Madden & Mr Felix Grant (Forbes Jan Forbes Madden Super a/c)	950	0.19
Mr Neville Clyde Martin Mr Lauren Carol Martin (The Martin Family A/c)	850	0.17
Mr Robert Douglas Lewin	800	0.16
Cumulative Total after Top 20 Shareholders	488,786	97.07

ASX ADDITIONAL INFORMATION (CONTINUED)

(d) Substantial Shareholders details as at 19th September 2005 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.

Holder of Relevant Interest	Number of ordinary shares in which interest held
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	8,869,781
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/C), Peterlyn Pty Ltd (Salmon Superfund A/C)	8,665,366
Redbrook Nominees Pty Ltd	7,227,804
Westpac Banking Corporation	2,625,528
Mortgage Asset Services Pty Ltd	2,518,811

The number of holders of each class of security

There are 829 holders of Ordinary shares

There are 121 holders of Reset Preference shares

There are 3 holders of Non-Executive Directors' Options

There are 36 holders of Employee Options

There are 2 holders of Other Executive Options

There is 1 holder of Other Options

ASX ADDITIONAL INFORMATION (CONTINUED)

(e) Voting rights

The Company has Ordinary Shares and Reset Preference Shares on issue. All of the Ordinary Shares and Reset Preference Shares are fully paid.

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

The holders of the Reset Preference Shares are entitled to attend general meetings. However they are not entitled to vote at general meeting except in any one or more of the following circumstances:

1. if, at the commencement of that meeting a Dividend (or part of a Dividend) payable on the Reset Preference Shares held by that Holder is in arrears;
2. on any proposal to reduce the Company's share capital;
3. on any resolution to approve the terms of a buyback agreement;
4. on the proposal that affects rights attaching to the Reset Preference Shares held by that Holder;
5. on any resolution for the winding up of the Company;
6. on a proposal for the disposal of the whole of the Company's property, business and undertaking;
7. during the winding up of the Company; and
8. any other circumstances in which the ASX Listing Rules require holders of preference shares to be entitled to vote;

in which case the Holder has, on a show of hands, one vote, and on a poll, one vote for every Reset Preference Share held and has the same right to be represented at any meeting as the holders of Ordinary Shares.

(f) 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. Reset Preference shares are traded under the code HOMPA.

