MORTGAGE CHOICE

Mortgage Choice Annual Report 2004

Annual Report 2004

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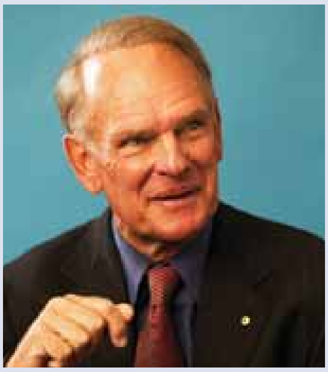


Chairman's report

In a reporting period that saw record levels of home lending, two interest rate increases, concern for future affordability for first homebuyers and a very competitive marketplace, Mortgage Choice has achieved another strong year of growth.

Central to this success was the continued commitment of our franchise network to high levels of customer satisfaction plus the support and commitment of the group office team.

The financial result for the year to 30 June 2004 was a net profit after tax of $9.962 million, an increase of 58.5% per cent on the previous period and a slightly more positive result than our prospectus forecasts for FY2004.

Mortgage Choice initiated $9.8 billion in housing loan approvals during FY2004, representing almost 5% of the total loan approvals in Australia (as measured by the Australian Bureau of Statistics in their analysis of the Housing Market) during the period. Our loan book now exceeds $17.5 billion, 34.3% up on FY2003.

We believe that our franchisees can continue to make good profits.

We grew the system by adding 64 new franchisees during the year, giving us 399 franchises nationally at year-end.

This result underlines the strength of the Mortgage Choice business model and the capability of our independent franchisees across Australia. I am sure with the support of the corporate organisation those independent businessmen and businesswomen will ensure we will deliver on our forecasts in the current year.

You will all be aware that after the conclusion of this reporting period the company successfully listed on the ASX. This positioned Mortgage Choice as the first national pure-play mortgage broker to achieve such status.

Congratulations to Managing Director Paul Lahiff and his team for this outstanding achievement.

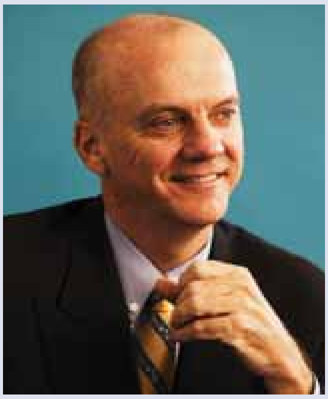
As part of the IPO process we appointed a board to oversee your interests. I was invited to become Chairman and we were fortunate to be able to interest two outstanding individuals in Deborah Ralston and Steve Jermyn (whose brief resumes you will read elsewhere) both of whom bring specific expertise to the team.

The board has formed the required corporate governance committees of audit, remuneration and nomination.

Mortgage Choice is well positioned as one of the leading mortgage brokers in a growing industry. The Directors believe that we can deliver on the promises included in our prospectus, and we believe that our franchisees can continue to make good profits.

I look forward to working with this youthful enthusiastic group of franchisees and management.

Managing Director's overview



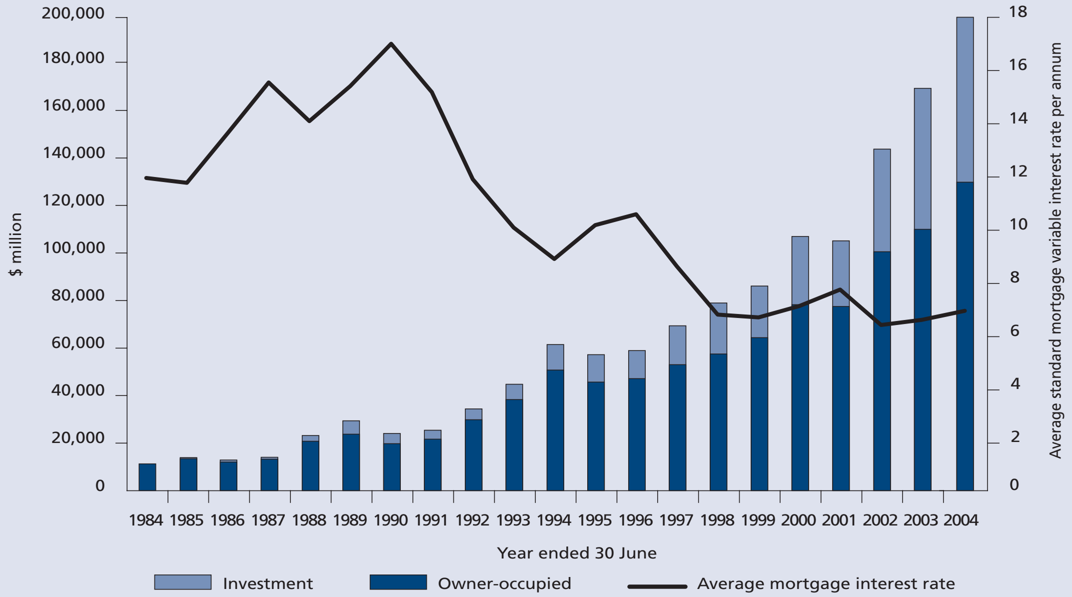
Our mission – Mortgage Choice aspires to be the mortgage broker of choice to a majority of Australians. It will do this by offering consumers the most professional home loan advice and highest standards of service of any broker group.

The Mortgage Choice network is profitable, large, ethical and highly trained because it has the best people, support tools and systems in the industry. It is trusted by consumers, respected by lenders and envied by competitors.

Having completed my first year in August 2004, I have been able to thoroughly analyse the business model from every angle and have come to the conclusion that it is robust, durable and geared for growth. With that in mind there has been no reason to change the model and indeed we can see, through specialising in the housing sector, Mortgage Choice can continue to grow market share at the expense of its competitors.

Much has been written about the state of the housing market. We have formed the view that following the two interest rate increases in November and December 2003 we are seeing a correction and certainly not a crash. Australian Bureau of Statistics data has revealed total housing approvals for the 2004 year was $199.8 billion. We forecast a 13.8% reduction in housing approvals for the 2005 year. At our forecast figure of $172.1 billion it will be broadly consistent with the 2003 financial year and will still be a very robust market indeed.

Housing finance market and standard mortgage variable rate: 1984 – 2004



Source: ABS, RBA and Mortgage Choice estimates

Regulation of the mortgage broking industry has been part of Mortgage Choice's agenda for some years now. Whilst we applaud what the national body the Mortgage Industry Association of Australia (MIAA) is doing in conjunction with ASIC to reform the industry, it is still of concern that those brokers who sit outside the MIAA can set their own ethical standards.

Mortgage Choice welcomed the introduction of new regulations in NSW for finance and mortgage brokers. Central to these regulations was the compulsory introduction of a Finance Broking Contract that provides the consumer with much more consistent disclosure around important matters such as commissions, alternative forms of remuneration and lender panel members.

Whilst Mortgage Choice has had these levels of disclosure in place for some years through its Customer Charter, it decided to adopt a national approach to the introduction of the contract, which became law on 1 August 2004. Regulation in WA, whilst different to that in NSW, also provides for a broker contract.

In the year under review, Mortgage Choice decided to adopt a policy on alternative forms of remuneration ahead of the industry association. The policy is consistent with that adopted by the Financial Planning Association and applies to all levels in the organisation. The policy and the recipients of alternative forms of remuneration can be found in the Customer Charter and on the company's website respectively.

Much has been written about the future of the mortgage broking industry. Whilst Mortgage Choice has declined to speculate on the growth prospects of the industry, what we do know is, the broker market share has grown from a relatively insignificant level to approximately 29% of new loans (by value) in just over 12 years (according to MISC (Market Intelligence Strategy Centre)).

The mortgage broker proposition is appealing to all participants, i.e., the consumers, the lenders and the brokers themselves. There is no doubt the consumer is the winner and has driven the growth of the industry against a backdrop of an ever-increasing and complex array of product offerings.

A pleasing aspect of our business is the continual high ratings our customers give to our franchise owners and staff. A survey is conducted each month of 200 different customers and in two very important areas of potential for repeat and referral business Mortgage Choice constantly scores in the high 80 percentile, or above.

I want to acknowledge the support of the board through the process of floating the company. Their wise counsel was sought and much appreciated in my first 12 months in the role and this will continue to be the case. Our staff continue to amaze me with their dedication and customer care attitude.

This business is built on a series of partnerships. Two groups I have already mentioned. Another two are our valued and inspirational franchise owners and their staff and, the lender panel members who continue to support our model.

I look forward with confidence to the year ahead.

Highlights

- All key financials for FY2004 exceeded prospectus forecast
- Net profit after tax $9.962 million, up 58.5% on FY2003 $6.285 million (0.8% up on prospectus)
- Total operating revenue $102.9 million, up 34.7% on previous period (0.4% up on prospectus)
- Earnings per share were 9.07 cents (diluted 9.06 cps) compared to the full year 2003 of 5.72 cps

Total operating revenue up 34.7% on previous period.

Loan book 34.3% up on FY2003.

- Mortgage Choice handled $9.8 billion in housing loan approvals during FY2004, representing almost 5% of total loan approvals (as a % of Australian Bureau of Statistics Housing Market) during the period
- Loan book now exceeds $17.5 billion, 34.3% up on FY2003
- Strong growth in franchise network, which now stands at 399 franchises nationally (up from 335 in FY2003)
- Increased percentage of revenue earned through trailing commission – now 40.7% of revenue
- Average loan approval size $218k compared with ABS average $191k (ABS excludes investor loans, alterations and additions)

Organic growth strategy at a glance

Growth opportunity	Current strategy
Grow network	Forecast for net increase of 59 franchises for the year ended 30 June 2005
Expand geographically	Focus on WA and VIC, where Mortgage Choice is under-represented
Generate more leads	Ongoing marketing activities including a national radio campaign, referral marketing initiatives, proactive public relations strategy and opening of new retail premises
Convert more leads	Customer relationship marketing initiatives and ongoing training focus
Retain loans for longer	'Client for Life' initiatives
Develop retail concepts	Implement standard shopfront and commercial premises design and further encourage franchisees to move to retail/commercial premises

Review of operations

Mortgage Choice believes the combination of the following fundamental components of its business model provides it with competitive advantages over other brokers in the marketplace:

- *high quality service:* Mortgage Choice aims to provide a higher level of support to its franchisees than its competitors;
- *strength of lender relationships:* Mortgage Choice generates significant loan volumes for lenders and this places it in a strong position to shape key operational issues with lenders and drive initiatives such as electronic loan processing;
- *franchise business model:* Mortgage Choice operates through a network of franchisees. The symbiotic relationship between the franchisees and the company is underpinned by the franchisees being incentivised to grow their business whilst valuing the services provided by the company;
- *brand:* Mortgage Choice's brand is recognised as a leading consumer brand and has been built upon a proposition of being the advocate of the customer and not the lender. This is supported by its industry leadership on issues such as regulation;
- *economies of scale:* Mortgage Choice's loan book is now of such a size that trailing income now covers all fixed costs, with origination revenue (net of commissions paid to franchisees and marketing costs) flowing through to the bottom line; and
- *no product of its own:* Unlike some of its competitors, Mortgage Choice does not distribute its own products, acting only as an originator for banks and other financial institutions.

A complex range of products

Mortgage Choice assists customers in the selection of a mortgage from a complex range of products available via its lender panel by identifying the loan that is most suitable based on an individual's particular needs. Customers are provided a choice across a broad range of over 200 home loan products offered by a panel of 27 lenders, representing each major category of lender.

Mortgage Choice brokers are provided with the company's proprietary software system which allows a comparison of the customer's loan requirements with the products offered by the lender panel. The system generates a list showing which lenders would approve the customer's application and indicates the maximum borrowing amount for each of these lenders. Based on the list, the customer's circumstances and preferences plus the judgment of the broker, a shortlist of possible loans is presented to the customer for their decision. Completed loan application forms are submitted by the broker on the customer's behalf, thereby saving the customer time and the associated administrative burden. These services are provided at no direct cost to the customer.

Electronic lodgement

Mortgage Choice, Aussie Mortgage Market and AFG are working with NextGen.Net to develop a common platform for the electronic flow of information between lenders and brokers. The introduction of electronic loan processing will deliver major efficiencies for our lender partners and improved lender service levels for consumers and franchisees.

In May 2004, Mortgage Choice submitted its first loans electronically to ANZ using the new platform, and the use of the product has grown steadily since. There are also another three lenders currently in various stages of testing and development to be added later in 2004.

Lender panel

The 27 member Mortgage Choice panel currently includes most of Australia's leading lenders, providing a cross section of products that Mortgage Choice considers to be a representative offering of available home loans.

Mortgage Choice believes the benefits enjoyed by lenders include:

- *volume:* Brokers provide incremental mortgage business that would not necessarily be been generated through the lender's branch network;

- *cost flexibility:* By outsourcing an element of their origination business, lenders have been able to lower fixed costs;
- *education:* Aided by specialist skills and product knowledge, brokers have educated consumers on the full range of mortgage products offered by lenders on the company's panel;
- *geographic expansion:* Brokers have facilitated low cost geographic expansion for lenders into areas where branch networks are less extensive or do not exist;
- *profitability:* By originating mortgages of a higher average loan size, broker sourced business can be at least as or more profitable than business sourced through the branch network; and
- *efficiency:* A broker's familiarity and experience with each lender's process can increase the efficiency of the lodgment and settlement process.

Mortgage Choice recognises the importance of developing and nurturing the relationships between broker and lender. Dedicated staff oversee the operational relationship franchisees have with the lender panel. This team provides lenders with structured access to the franchise network and promotes operational effectiveness by working with lender partners to improve service and processing efficiencies.

Franchise operations

Mortgage Choice licenses the use of the Mortgage Choice name and business systems to its franchisee network. Accredited loan writers (mortgage brokers) comprise franchisees and consultants or employees of franchisees. The relationship between Mortgage Choice and its franchisees is governed by a franchise agreement and an operations manual that sets out the company's policies and procedures, including minimum performance standards. Franchisees may grow their businesses by acquiring other franchises. Franchisees who own more than one franchise are called Multiple Franchise Operators (MFOs).

Franchisees operate their businesses from home offices, retail premises and recently, kiosks in shopping centres.

Mortgage Choice restricts the number of franchisees it recruits to each geographic region under its broker resource model, which segments the market into postcode defined marketing areas. This model analyses the number of households and the residential lending market size (based on census data) in each postcode, and allocates franchises based on target market share in each area.

While Mortgage Choice is strongly represented in some areas (e.g., NSW) there are other parts of the country in which the company considers itself to be under-represented based on its existing market share (particularly VIC and WA). These areas represent further organic growth opportunities for the core business.

Franchise network size: 2000-2004

Source: Mortgage Choice

Over the four years to 30 June 2004, the number of franchises and brokers within the franchise network has grown 84% and 129% respectively. Franchise terminations have declined over the past fours years, reflecting tighter selection standards, more effective training and improved performance management processes. Mortgage Choice is in the process of developing a compliance framework to improve its monitoring of franchisees against operational standards.

The ongoing recruitment of quality new franchisees is an important element of Mortgage Choice's growth strategy. Mortgage Choice recruits new franchisees from a number of sources, including national advertising, editorials, expos and referrals from existing franchisees.

Mortgage Choice franchisees come from a variety of backgrounds and the company believes that sales skills, inter-personal skills, commitment, energy and ambition are usually more important than previous industry experience. Recruitment is selective, with an average of only one in 29 applicants being selected to be franchisees in FY2004. Vetting is performed in each state by a franchise development manager.

Mortgage Choice believes the training and support it provides to its franchisees represent a competitive advantage in its recruitment of franchisees. On joining Mortgage Choice, all franchisees undertake comprehensive training (which is accredited by the MIAA), lender accreditation and an in-the-field mentoring program. Once the initial training is completed, brokers receive regular updates and support from the state office infrastructure and at professional development functions.

Franchisee support services

With a growing retail/commercial presence (149 as at 30 June 2004), the establishment of the franchise network management team aims to ensure commercial premises are strategically located, meet operating standards and, have adequate staff and capital backing. It aims to ensure business cases for loan consultants are viable and sustainable as well as ensuring national consistency in the interpretation and application of the operations manual, strategic management, project review board and marketing advisory board. There is an objective and transparent decision making process that is subject to peer review and questioning.

The training and support we provide to our franchisees represents a competitive advantage.

Mortgage Choice works closely with its franchisees in growing their business through assistance in lead generation, training, brand and marketing support, public relations support, field support, regulatory compliance, information systems and other ongoing support services (e.g., lender panel negotiations and payment reconciliations). These services are provided by a dedicated group office located in Sydney and state offices that also provide a number of administrative processes. Mortgage Choice aims to continually improve the support, resources and training offered to the franchise network to make their businesses as efficient as possible.

Branding, marketing and promotion

Mortgage Choice has created a trusted and recognisable brand through its marketing and public relations activities over a number of years plus, a long term brand strategy built upon Mortgage Choice's customer advocacy.

Following consumer research, a new tagline was implemented and launched with a national TV, radio and print campaign. The tagline "There's only one choice, Mortgage Choice" leverages the popular and memorable jingle implemented in 2003.

Consumer focus groups conducted half yearly over the past 12 months have consistently rated Mortgage Choice as one of the most trusted brands in the broker market.

In a growing mortgage broking market, it is a core priority of the business to actively and effectively promote Mortgage Choice's image, positioning and points of difference. Such marketing aims to build the Mortgage Choice brand, clearly distinguish the company from its competitors and encourage customers to select Mortgage Choice as their broker of choice.

Mortgage Choice's marketing activities incorporate two elements:

- national and state-wide marketing managed by group office; and
- local marketing activities, managed by franchisees.

National campaigns are developed regularly and kits are distributed to all franchisees. Each campaign has a different theme relevant to mortgage finance that is reflected across all types of marketing material. Different channels and media used by Mortgage Choice include radio, referral marketing, print advertising, television and sponsorships.

Group office engages in national and statewide marketing that generates leads through the Mortgage Choice call centre and aims to build a trustworthy brand that can be leveraged by franchisees in their local marketing area. This is supported by a strategically planned, proactive public relations strategy. Call centre leads are distributed by head office to the franchise network on an equitable basis according to marketing area.

Mortgage Choice also has referral marketing activities designed to assist franchisees in generating referrals from their local, existing network of customers and contacts.

In addition, the company's website is used to provide customers with information and support the company's lead generation activities. Franchisees are also provided their own 'mini-site' within the Mortgage Choice website.

Information technology

Mortgage Choice currently utilises proprietary software as its core business application. Mortgage Choice Software (MCS) is used by franchisees to record customer information and preferences, pre-qualify potential loan applicants and confirm loan approval details.

MCS is a distributed system that allows a franchisee to work offline (e.g., in a customer's home), and then 'replicate' back at the office – synchronising customer information and receiving product updates from the central system. Through this system, a franchisee has daily access to the latest products and features offered by the lender panel.

In November 2003, Mortgage Choice commenced development of a new IT enterprise information system that is expected to provide a sound platform for future growth of the business for the next three to five years and result in operating efficiencies. This system will be developed and implemented incrementally and is expected to be operational around mid 2005.

Outlook

Mortgage Choice operates as a residential mortgage specialist and this has facilitated strong growth via a focused approach and a refinement of expertise.

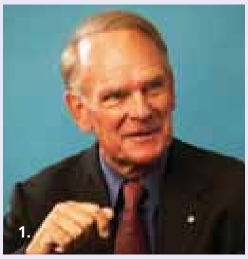
Mortgage Choice intends to remain focused on the residential mortgage broking market in the foreseeable future. The company believes that, given the relative immaturity of the broking sector, the overall size of the housing finance market and the attraction of the broking proposition to consumers, there remains strong potential for brokers as a whole to increase their share of mortgage origination and for Mortgage Choice to increase its market share within the broking market.

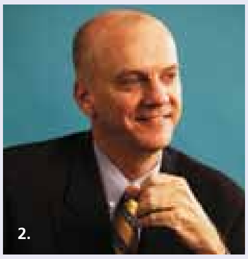
Growth opportunities in two major areas: acquisitions and product diversification.

Over the longer term, Mortgage Choice will also consider other growth opportunities in two major areas: acquisitions and product diversification.

Mortgage Choice expects consolidation to occur in the mortgage broking industry. A number of factors could potentially act as catalysts, including a stricter regulatory environment, economies of scale in marketing, support and administration, and a preference by lenders to deal with a smaller number of larger broker organisations. As an industry leader, Mortgage Choice believes it is in a strong position to benefit from potential acquisitions with compatible business models. In this regard, the listing of Mortgage Choice may facilitate future acquisitions.

Mortgage Choice's group office represents a largely fixed cost that can potentially be leveraged by expanding the range of products distributed (e.g., to include commercial and personal loans). Incremental revenues from 'add on' products could potentially allow Mortgage Choice to benefit from economies of scale, as revenue growth will not be proportionately matched by growth in the cost base.





Board of Directors

1. Peter Ritchie
Non-executive Chairman,
BCom, FCPA, AO

Peter is a director of Seven Network and University of NSW Foundation, and Chairman of 1800 Reverse. Peter previously served as Managing Director of McDonald's Australia from 1974 to 1995 and as its Chairman from 1995 to 2001. Peter was a director of Westpac Banking Corporation from 1993 to 2002. Age 62.

2. Paul Lahiff
Managing Director,
BSc Agr, FAIM

Paul has over 20 years experience in the financial services industry. This includes roles as Managing Director of Permanent Trustee and Heritage Building Society, as well as senior executive roles with Westpac Banking Corporation (in Sydney and London) and the credit union sector. Paul joined Mortgage Choice as Chief Executive Officer in August 2003 and was appointed Managing Director in May 2004. He is responsible for managing company operations to ensure continued growth and development of the business. Age 52.

3. Peter Higgins
Non-executive Director

Peter is co-founder of Mortgage Choice. He is also a director of a technology company – Power & Data Corporation Pty Ltd. Having been successfully self-employed for over 20 years, Peter has been involved in a number of start-up companies in a diverse range of industries covering manufacturing, technology, leasing, property and finance. Age 44.

4. Rodney Higgins
Non-executive Director

Rodney is co-founder of Mortgage Choice. Rodney has a background in residential and commercial property, sales, leasing and has been a director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 50.

5. Deborah Ralston
Non-executive Director,
BEcon, Dip Fin Mgt, MEc, PhD,
FAIBF, FAIM, FCPA

Deborah is Professor of Finance and Dean, Faculty of Business at the University of the Sunshine Coast. Prior to joining that University in June 2000, Deborah was Associate Professor in Finance and Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Deborah is a former Director of Heritage Building Society. Age 51.

6. Steve Jermyn
Non-executive Director,
FCPA

Steve joined McDonald's Australia Ltd in 1984 and was appointed Vice President in 1986. Steve joined the board of directors in 1986 and was appointed Executive Vice President in 1993. In June 1999, Steve was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. Age 55.

Senior management

Profiles of senior management other than Paul Lahiff (see facing page), are set out below:

Chris Canty, Chief Operating Officer

Chris is an Agricultural Science graduate with a Graduate Diploma in Management and has 14 years sales, marketing and management experience in the agricultural chemical industry. Chris joined Mortgage Choice in October 1997 with a master franchise in South Australia. As Chief Operating Officer, Chris is responsible for the overall management of Mortgage Choice operations, with particular focus on sales, marketing and lender relationships, and the maintenance of harmonious and effective working relationships between Mortgage Choice and its franchisees.

Paul Borg, Chief Financial Officer

Paul Borg developed his financial services expertise during a seven-year term as Chief Financial Officer (CFO) of Credit Union Services Corporation (Australia) Limited (CUSCAL), which provides banking technology and industry-associated services to Australian credit unions.

Paul joined the company in September 2004. Paul will direct, control and administer the financial activities of the organisation as well as providing financial assessments and information to ensure planning and budgeting activities meet corporate goals.

Mark Newton, Chief Information Officer

Mark has over 17 years experience in information technology, including 11 years in senior management positions. Mark joined Mortgage Choice in May 2000. As Chief Information Officer, Mark is responsible for IT strategy, applications development and infrastructure management. Mark holds a Diploma in Computer Programming Technology and a Business Management Certificate from the Australian Institute of Management.

Brent McDonald, Group Franchise Manager

Brent has a Bachelor of Applied Science from University of Western Sydney. Brent has 17 years experience in franchising and small business management, the bulk of this time being spent in the Australian oil industry. Brent joined Mortgage Choice in November 1998 and is now responsible for the management and development of the Mortgage Choice franchise system and the training of new franchisees and loan consultants.

Warren O'Rourke, National Corporate Affairs Manager

Warren holds a Marketing degree from the University of Technology, Sydney. Warren has 20 years experience in marketing and communications covering both corporate and consulting roles. Warren joined Mortgage Choice as Group Manager, Marketing and Communications in March 1999. In August 2002, Warren became National Corporate Affairs Manager and now is responsible for corporate affairs, public relations and media issues.

Ian Pepper, National Marketing Manager

Ian has a Bachelor of Economics from Macquarie University and trained to be a Chartered Accountant with Coopers & Lybrand. Following four years in London where he worked with Coopers & Lybrand and Equitas, Ian returned to Australia to obtain his MBA (specialising in marketing) from Macquarie School of Management. Ian commenced with Mortgage Choice in June 2000. As National Marketing Manager, Ian is responsible for integrated advertising campaigns, franchisee marketing tools, referral marketing and brand integrity.

Debra Player, National Lending Manager

Debra has over 20 years experience in the Finance sector with more than 15 years in various management roles. As National Lending Manager, Debra is responsible for the development and communication of lender strategy and product offering, management of lender performance, co-ordination of lender interaction with the franchise network and monitoring of industry trends and representation on industry bodies. Debra joined Mortgage Choice in July 2004 and holds a Graduate Diploma in Finance and Bank Management and is a Fellow of the Australian Institute of Bankers and Fellow and Councillor for the Institute of Financial Services.

David Hoskins, Company Secretary

David commenced with Mortgage Choice in June 2000. He has a Bachelor of Commerce from the University of NSW and is a CPA and a member of Chartered Secretaries Australia, from which he has a Graduate Diploma in Corporate Management. As Company Secretary, David is responsible for implementing and monitoring corporate governance practices, compliance and corporate standards, administrating board and shareholder matters, and co-ordinating legal counsel.

Corporate governance

Mortgage Choice has in place corporate governance practices to ensure the company is effectively directed and managed, risks are monitored and assessed, and appropriate disclosures are made.

A description of the company's main corporate governance practices is set out below. These practices were adopted during the year in preparation for the company's listing on the Australian Stock Exchange Limited (ASX).

The company considers that it now substantially complies with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, with the following exceptions:

- compliance with the requirement that the board comprise a majority of independent non-executive directors is expected within 24 months of the company's listing on the ASX;
- a formal compliance program is currently being implemented.

The board

The board comprises Mortgage Choice's Managing Director, two non-executive directors and three independent non-executive directors including the Chairman. To prepare for its public listing, Peter Ritchie, Steve Jermyn and Deborah Ralston were appointed as additional non-executive directors. These individuals brought a long history of public company, operational and franchising experience with them and will assist in overseeing the corporate governance of Mortgage Choice. Details of the directors' experience, expertise, qualifications, term of office and independent status are set in the directors' report under the heading 'Information on directors'.

Responsibility for day-to-day management and administration of the company is delegated by the board to the Managing Director and the executive team.

The board operates in accordance with the broad principles set out in its charter, which is available in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

Board size, composition and independence

The Charter states that:

- There must be a minimum of five directors, and a maximum of seven directors.
- The board must comprise:
  - a majority of independent non-executive directors with this to be achieved within 24 months of the company's listing on the ASX;
  - directors with an appropriate range of skills, experience and expertise;
  - directors who can understand and competently deal with current and emerging business issues; and
  - directors who can effectively review and challenge the performance of management and exercise independent judgment.
- The nomination committee is responsible for recommending candidates for appointment to the board.
- Each director is appointed by a formal letter of appointment setting out the key terms and conditions of their appointment to ensure that each director clearly understands the company's expectations of him or her.

Role and responsibilities

The board acts on behalf of shareholders and is accountable to shareholders for the overall direction, management and corporate governance of the company.

The board is responsible for:

- overseeing the company, including its control and accountability systems;
- appointing and removing the Managing Director;
- monitoring the performance of the Managing Director;
- monitoring senior management's implementation of strategy, and ensuring appropriate resources are available;
- reporting to shareholders;

- providing strategic advice to management;
- approving management's corporate strategy and performance objectives;
- determining and financing dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks and controls are in place;
- reviewing and overseeing the implementation of the company's corporate code of conduct and code of conduct for directors and senior executives;
- approving charters of board committees;
- monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies; and
- monitoring and ensuring compliance with best practice corporate governance requirements.

Director independence

The board Charter sets out specific principles in relation to director independence.

These state that an independent non-executive director is one who is independent of management and:

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

All directors are required to complete an independence questionnaire.

Independent professional advice

Board committees and individual directors may seek independent external professional advice for the purposes of proper performance of their duties.

Performance assessment

The performance of the board, the directors and key executives will be reviewed annually.

The nomination committee is responsible for reviewing:

- the board's role;
- the processes of the board and board committees;
- the board's performance; and
- each director's performance before the director stands for re-election.

The process for performance evaluation of the board, its committees and individual directors, and key executives has been adopted by the board and is available in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

Due to the recent changes in the composition of the board, a performance assessment was not conducted during the year.

Board committees

Mortgage Choice has three board committees comprising the remuneration committee, the audit committee and the nomination committee. These committees serve to support the functions of the board and will make recommendations to directors on issues relating to their area of responsibility.

The remuneration committee

The remuneration committee is responsible for determining and reviewing compensation arrangements for the directors and senior management team. The remuneration committee comprises Peter Ritchie and Rodney Higgins.

The objective of the remuneration committee is to help the board achieve its objective of ensuring the company:

- has coherent remuneration policies and practices to attract and retain executives and directors who will create value for shareholders;
- observes those remuneration policies and practices; and
- fairly and responsibly rewards executives and other employees having regard to the performance of the company, the performance of the executive or employee and the general and specific remuneration environment.

Non-executive directors are not entitled to retirement benefits with the exception of statutory superannuation.

The remuneration committee charter is available in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

The audit committee

The audit committee provides advice and assistance to the board in fulfilling the board's responsibilities relating to:

- financial reporting;
- the application of accounting policies;
- business policies and practices;
- legal and regulatory compliance; and
- internal risk control and management systems.

The audit committee comprises Steve Jermyn (Chairman), Peter Higgins and Deborah Ralston. The objective of the audit committee is to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process; and
- provide a forum for communication between the board and senior financial and compliance management.

The audit committee charter is available in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

The nomination committee

The objective of the nomination committee is to help the board achieve its objective of ensuring the company has a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The nomination committee is responsible for evaluating the board's performance. The nomination committee comprises Peter Ritchie and Rodney Higgins.

The nomination committee charter is available in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

Codes of conduct

The company has adopted a corporate code of conduct setting out its legal and other obligations to all legitimate stakeholders including shareholders, franchisees, employees, customers and the community.

The company has also adopted a code of conduct for directors and senior executives setting out required standards of behaviour, for the benefit of all shareholders.

The purpose of this code of conduct is to:

- articulate the high standards of honest integrity, ethical and law-abiding behaviour expected of directors and senior executives;
- encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including franchisees, employees, customers, suppliers and creditors);
- guide directors and senior executives as to the practices thought necessary to maintain confidence in the company's integrity; and
- set out the responsibility and accountability of directors and senior executives to report and investigate any reported violations of this code or unethical or unlawful behaviour.

The company requires that its directors and senior executives adhere to a share trading policy that restricts the purchase and sale of company securities to three six-week periods following the release of the half-yearly and annual financial results to the market, and the Annual General Meeting.

Copies of the Corporate Code of Conduct, the Code of Conduct for Directors and Senior Executives and the Share Trading Policy are available on the website.

Corporate reporting

The Managing Director and Chief Financial Officer have made the following certifications to the board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control, and which implements the policies adopted by the board, and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Continuous disclosure

The company has adopted a market disclosure protocol. The objective of this protocol is to:

- ensure the company immediately discloses all price-sensitive information to ASX in accordance with the ASX Listing Rules and the Corporations Act 2001 (Cth);
- ensure officers and employees are aware of the company's continuous disclosure obligations; and
- establish procedures for:
  - the collection of all potentially price-sensitive information;
  - assessing if information must be disclosed to ASX under the ASX Listing Rules or the Corporations Act 2001 (Cth);
  - releasing to ASX information determined to be price-sensitive information and to require disclosure; and
  - responding to any queries from ASX (particularly queries under Listing Rule 3.1B).

The protocol is carried out through a market disclosure group comprised of management representatives. The market disclosure group is responsible for:

- ensuring compliance with continuous disclosure obligations;
- establishing a system to monitor compliance with continuous disclosure obligations and this protocol;
- monitoring regulatory requirements so that this protocol continues to conform with those requirements;
- monitoring movements in share price and share trading to identify circumstances where a false market may have emerged in company securities; and
- making decisions about trading halts.

All relevant information provided to ASX will be posted immediately on the company's website at www.mortgagechoice.com.au, in compliance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules.

Communication to shareholders

The board aims to ensure that shareholders are informed of all major developments affecting the company's state of affairs. The board will:

- communicate effectively with shareholders;
- give shareholders ready access to balanced and understandable information about the company and its corporate goals; and
- make it easy for shareholders to participate in general meetings.

Information is communicated to shareholders through ASX announcements, the company's annual report, annual general meeting, half and full year results announcements and the company's website at www.mortgagechoice.com.au.

The board has adopted a communications strategy to facilitate and promote effective communication with shareholders and encourage participation at general meetings. Arrangements the company has to promote communication with shareholders are set out in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

External auditor

The company has adopted procedures for the selection and appointment of the external auditor, which are set out in the Shareholder Centre section of the company's website at www.mortgagechoice.com.au.

The audit committee will regularly review the performance of the external auditor and consider any ongoing appointment.

The external auditor should rotate the senior audit partner and the audit review partner every five years with suitable succession planning to ensure consistency.

The external auditor should not place itself in a position where its objectivity may be impaired or where a reasonable person might conclude that its objectivity has been impaired. This requirement also applies to individual members of an audit team. The credibility and integrity of the financial reporting process is paramount. The company has adopted guidelines on external auditor independence. These guidelines help to ensure a consistent approach to the appointment and review of external auditors.

The company will not give work to the external auditor likely to give rise to a 'self review threat' (as defined in Australian Professional Statement F1, Professional Independence, The Institute of Chartered Accountants in Australia and CPA Australia 2002). It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting of the company.

Compliance and risk management

The company has adopted and endorsed a compliance policy. The policy is a commitment to:

- promote a culture of compliance throughout the company and franchise network;
- create an understanding of the relevant laws at all levels;
- minimise the possibility of a contravention of the law and manage any legal risk;
- enhance the company's corporate image and customer service; and
- market, promote and sell the company's services in a way that is competitive, ethical, honest and fair, and in compliance with the law.

The company is developing a compliance program. The aim of this compliance program will be to promote a culture of compliance through a number of measures including staff training, compliance procedures, support systems and the appointment of a team of people responsible for compliance.

The company expects its employees, franchisees and representatives to actively support its compliance program. It is each employee, franchisee and representative's responsibility to make use of the training systems and support offered by Mortgage Choice. Non-compliance with the law or failure to comply with the compliance program will not be tolerated and could result in disciplinary action.

Mortgage Choice Limited and its controlled entities.

Financial report

ACN 009 161 979. Financial report – 30 June 2004

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This financial report covers Mortgage Choice Limited as an individual entity and the consolidated entity consisting of Mortgage Choice Limited and its controlled entities.

Mortgage Choice Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Mortgage Choice Limited
Level 7, 182 – 186 Blues Point Road
North Sydney NSW 2060

A description of the nature of the company's operations and its principal activities is included in the directors' report.

Directors' report

Your directors present their report on the consolidated entity consisting of Mortgage Choice Limited and the entities it controlled at the end of, or during, the year ended 30 June 2004, referred to hereafter as 'Mortgage Choice', 'the Mortgage Choice group' or 'the group'.

Directors

The following persons were directors of Mortgage Choice Limited during the whole of the financial year and up to the date of this report:

P G Higgins

R G Higgins

P D Ritchie was a director from his appointment on 5 April 2004 and continues in office at the date of this report.
P A Lahiff was a director from his appointment on 24 May 2004 and continues in office at the date of this report.
S G Jermyn was a director from his appointment on 24 May 2004 and continues in office at the date of this report.
D E Ralston was a director from her appointment on 24 May 2004 and continues in office at the date of this report.

R Prowse was a director from the beginning of the financial year until his resignation on 5 April 2004. P G Clare was a director from the beginning of the financial year until his resignation on 24 June 2004.

Principal activities

During the year the principal activity of the Mortgage Choice group was mortgage broking. This activity involves:

- the provision of assistance in determining the borrowing capacities of intending residential mortgage borrowers;
- the assessment, at the request of those borrowers, of a wide range of home loan products; and
- the submission and approval of loan applications on behalf of intending borrowers.

Operating results

The net profit of the group after providing for income tax amounted to $9,962,000 (2003 – $6,285,000). Further details of the results for the year are set out in the Review of Operations (page 6).

Dividends

Dividends paid to members during the financial year were as follows:

- interim dividend of $2,526,000 (2.3 cents per fully paid share) was declared out of profit of the company for the year ended 30 June 2003 and paid on 31 July 2003;
- final ordinary dividend of $1,922,000 (1.75 cents per fully paid share) was declared out of profit of the company for the year ended 30 June 2003 and paid on 28 November 2003;
- interim ordinary dividend of $2,197,000 (2 cents per fully paid share) was declared out of profit of the company for the half-year ended 31 December 2003 and paid on 18 December 2003; and
- interim ordinary dividend of $2,416,000 (2.2 cents per fully paid share) was declared out of general reserve and paid on 1 July 2004.

In addition to the above dividends, subsequent to the end of the financial year an interim dividend of $3,921,000 (3.5 cents per fully paid share) was declared out of the general reserve of the company on 2 August 2004 and paid on 5 August 2004.

Earnings per share

	2004 Cents	2003 Cents
Basic earnings per share	**9.1**	5.7
Diluted earnings per share	**9.1**	5.7

Significant changes in the state of affairs

Except for the matters disclosed in the Operating results (see facing page) and Review of operations section (page 6) of this report there have been no significant changes in the state of affairs of the consolidated entity.

Matters subsequent to the end of the financial year

During July 2004, 2,196,600 shares were issued for 98.8 cents each resulting from the exercise of options prior to transfer and allotment of shares under the Initial Public Offering.

An interim dividend of $3,921,000 or 3.5 cents per share was declared out of the general reserve of the company on 2 August 2004 and paid on 5 August 2004.

A capital reduction of $8,962,000 was paid on 6 August 2004 by returning 8 cents per share in cash to the existing shareholders.

On 4 August 2004, issue of 5.5 million ordinary shares to franchisees, employees and other persons raising $5.37 million (net of issue costs of $405,000) and listing of the company on the ASX.

On 9 August 2004, an offset by share capital reduction, of accumulated losses of $6.780 million against contributed equity, occurred 3 business days after the transfer and allotment of Shares under the Offer.

Except for the matters disclosed above and in the Review of operations section (page 6) of this report or set out below, no other matter or circumstance has arisen since 30 June 2004 that has significantly affected, or may significantly affect:

(a) the consolidated entity's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under a law of the Commonwealth or of a State of Territory in respect of its activities.

Information on directors

Director	Experience	Special responsibilities	Particulars of directors' interests in shares ordinary shares
Chairman – non-executive			
Peter Ritchie, BCom, FCPA, AO	Peter is a director of Seven Network and University of NSW Foundation and Chairman of 1800 Reverse. Peter previously served as Managing Director of McDonald's Australia from 1974 to 1995 and as its Chairman from 1995 to 2001. Peter was a director of Westpac Banking Corporation from 1993 to 2002. Age 62.	Chairman. Member of nomination committee. Member of remuneration committee.	–
Executive director			
Paul Lahiff, BSc Agr, FAIM	Paul has over 20 years experience in the financial services industry. This has included roles as Managing Director of Permanent Trustee and Heritage Building Society, as well as senior executive roles with Westpac Banking Corporation (in Sydney and London) and the credit union sector. Paul joined Mortgage Choice as Chief Executive Officer in August 2003 and was appointed Managing Director in May 2004. He is responsible for managing the operations of the company to ensure the continued growth and development of the business. Age 52.	Managing Director.	–
Non-executive directors			
Peter Higgins	Peter is co-founder of Mortgage Choice. He is also a director of a technology company – Power & Data Corporation Pty Ltd. Having been successfully self-employed for over 20 years, Peter has been involved in a number of start-up companies in a diverse range of industries covering manufacturing, technology, leasing, property and finance. Age 44.	Member of audit committee.	36,959,950
Rodney Higgins	Rodney is co-founder of Mortgage Choice. Rodney has a background in residential and commercial property, sales, and leasing and has been a director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 50.	Member of remuneration committee. Member of nomination committee.	38,515,000

Director	Experience	Special responsibilities	Particulars of directors' interests in shares ordinary shares
Deborah Ralston, BEcon, Dip Fin Mgt, MEc, PhD, FAIBF, FAIM, FCPA	Deborah is Professor of Finance and Dean, Faculty of Business at the University of the Sunshine Coast. Prior to joining that University in June 2000, Deborah was Associate Professor in Finance and Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Deborah is a former Director of Heritage Building Society. Age 51.	Member of audit committee.	–
Steve Jermyn, FCPA	Steve joined McDonald's Australia Ltd in 1984 and was appointed Vice President in 1986. Steve joined the board of directors in 1986 and was appointed Executive Vice President in 1993. In June 1999, Steve was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. Age 55.	Chairman of audit committee.	–

Meetings of directors

The numbers of meetings of the company's board of directors and of each board committee held during the year ended 30 June 2004, and the numbers of meetings attended by each director were:

	Meetings of directors held whilst a director	Meetings attended by directors
Peter Ritchie	4	4
Peter Clare	14	10
Peter Higgins	15	15
Rodney Higgins	15	14
Paul Lahiff	2	2
Steve Jermyn	2	1
Robert Prowse	11	10
Deborah Ralston	2	2

A meeting of the remuneration committee was held on 10 March 2004, the meeting was attended by Peter Higgins and Rodney Higgins.

Retirement, election and continuation in office of directors

In accordance with the Constitution, Peter Ritchie ceases to hold office at the Annual General Meeting of the company and, being eligible, offers himself for re-election; Steve Jermyn ceases to hold office at the Annual General Meeting of the company and, being eligible, offers himself for re-election; Deborah Ralston ceases to hold office at the Annual General Meeting of the company and, being eligible, offers herself for re-election; and Rodney Higgins retires by rotation and, being eligible, offers himself for re-election.

Remuneration report

Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of 'at risk' rewards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The remuneration committee reviews non-executive directors' fees and payments annually. The board has also obtained the advice of independent remuneration consultants to ensure non-executive directors' fees and payments, including those of the Chairman, are appropriate and in line with the market. Non-executive directors do not receive share options. Non-executive directors may opt each year to receive a percentage of their remuneration in Mortgage Choice Limited shares pursuant to the Employee Share Purchase Plan.

Directors' fees

The current base remuneration was last reviewed on 19 February 2004 and is based on the recommendations of independent remuneration consultants. Directors do not receive additional remuneration for representation on board committees. Peter Higgins and Rodney Higgins each received an additional amount of $25,000 in the year ended 30 June 2004 by way of a representation allowance.

Shareholders in General Meeting on 5 April 2004 agreed to initially set the maximum aggregate remuneration of the board (excluding the Managing Director and any executive director) at $750,000.

Retirement allowances for directors

Non-executive directors do not receive retirement allowances. Superannuation contributions in accordance with relevant superannuation guarantee legislation is paid on non-executive directors' remuneration.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits;
- short-term performance incentives;
- long-term incentives through participation executive and employee share plans; and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration. The company has introduced long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2005 at the time of the listing of the company on the ASX.

Base pay

Structured as a total employment cost package which may be delivered as a mix of cash and prescribed non-financial benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases fixed in any senior executives' contracts.

Benefits

Executives do not receive any benefits in addition to the remuneration identified in this note 20.

Retirement benefits

Retirement benefits are delivered under the Mortgage Choice Employees' Superannuation Fund. This Fund is an accumulation fund and provides benefits based on contributions made to the fund during the period of service. Other retirement benefits may be provided directly by the company if approved by shareholders.

Short-term incentives

Should the company achieve a pre-determined profit target set by the remuneration committee then a pool of Short-Term Incentive (STI) is available for executives for allocation during the annual review by the remuneration committee. Cash incentives (bonuses) are payable in cash on or around 30 September each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive outperformance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on organisation or business unit performance. For senior executives the normal maximum STI target bonus opportunity is 30% of total base salary. However, from time to time for special projects and circumstances, bonuses outside of this structure are provided.

Each year, the remuneration committee considers the appropriate targets and Key Performance Indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2004, the KPIs linked to short-term incentive plans were based on group, individual business and personal objectives. The KPIs required performance in achieving specific profit objectives as well as other key, non-financial measures linked to drivers of performance in the current and future reporting periods.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target annual payment is reviewed annually.

Details of remuneration

Details of the remuneration of each director of Mortgage Choice Limited and each of the five executives with greatest authority for the strategic direction and management of the entity (specified executives) of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Mortgage Choice Limited

2004	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
P D Ritchie *(from 5 April 2004 – 30 June 2004)*	23,611	–	–	2,125	–	–	25,736
P A Lahiff*	438,294	–	7,330	39,446	–	–	485,070
P G Higgins	102,500	–	24,231	9,225	–	–	135,956
R G Higgins	102,500	–	8,487	9,225	–	–	120,212
R Prowse *(from 1 July 2003 – 5 April 2004)*	41,253	–	–	–	–	–	41,253
P G Clare *(from 1 July 2003 – 24 June 2004)*	50,000	–	–	4,500	–	–	54,500
S C Jermyn *(from 24 May 2004 – 30 June 2004)*	5,108	–	–	460	–	–	5,568
D E Ralston *(from 24 May 2004 – 30 June 2004)*	5,108	–	–	460	–	–	5,568
Total	768,374	–	40,048	65,441	–	–	873,863

* P A Lahiff was appointed a director on 24 May 2004. Before this appointment he was the company's Chief Executive Officer. Amounts shown above include all Mr Lahiff's remuneration during the reporting period, whether as a director or as Chief Executive Officer. Amounts received in his position as a director amounted to $56,652, made up of cash salary and fees of $51,075, non-monetary benefits of $980 and superannuation of $4,597.

Other executives of Mortgage Choice Limited

2004	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
C P Canty (Chief Operating Officer)	221,196	236,667*	19,993	36,647	–	–	514,503
E G Macgregor (Chief Financial Officer)	218,526	66,435	–	35,646	–	–	320,607
M C Newton (Chief Information Officer)	191,025	22,306	–	19,200	–	–	232,531
D M Hoskins (Company Secretary)	174,956	25,000	–	15,746	–	–	215,702
I C Pepper (National Marketing Manager)	158,623	35,379	–	17,460	–	–	211,462
Total	964,326	385,787	19,993	124,699	–	–	1,494,805

* C P Canty's bonus included $95,000 higher duties allowances as acting CEO and other one-off payments relating to his terms and conditions at that particular time.

Shares under option

Unissued ordinary shares of Mortgage Choice Limited under option at 30 June 2004 are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
10 December 2001	10 December 2004	$0.988	2,196,600

No option holder has any right under the options to participate in any other share issue of the company or of any other entity.

Shares issued on the exercise of options

The following ordinary shares of Mortgage Choice Limited have been issued since 30 June 2004. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number under option
20 July 2004	$0.988	1,098,300
27 July 2004	$0.988	1,098,300
		2,196,600

Insurance of officers

Insurance premiums were paid for the year ended 30 June 2004 in respect of directors' and officers' liability and legal expenses for directors and officers of the company and all controlled entities. The insurance contract prohibits disclosure of the premium paid. The insurance premiums relate to:

- costs and expenses incurred by relevant directors and officers in defending any proceedings; and
- other liabilities that may arise from their position, with the exception of conduct, involving dishonesty, wrongful acts, or improper use of information or position to gain personal advantage.

Since the end of the previous financial year, the company has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer or auditor of the company.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Rounding of amounts

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.

Peter Ritchie

Peter Ritchie — Sydney

Director — 21 September 2004

Statements of financial performance

As at 30 June 2004

		Consolidated		Parent entity	
	Notes	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
Revenue from ordinary activities	2	**102,889**	76,394	**103,087**	76,387
Expenses from ordinary activities					
Sales		**(69,255)**	(50,674)	**(69,255)**	(50,555)
Technology		**(3,492)**	(5,016)	**(3,492)**	(5,016)
Marketing		**(7,231)**	(4,645)	**(7,231)**	(4,645)
Finance		**(1,930)**	(1,796)	**(1,930)**	(1,875)
Corporate		**(6,575)**	(5,100)	**(6,772)**	(5,100)
Borrowing costs		**(5)**	–	**(5)**	–
Profit from ordinary activities before income tax expense	3	**14,401**	9,163	**14,402**	9,196
Income tax expense	4	**(4,439)**	(2,878)	**(4,439)**	(2,912)
Net profit attributable to the members of Mortgage Choice Limited		**9,962**	6,285	**9,963**	6,284
		Cents	**Cents**		
Basic earnings per share		**9.1**	5.7		
Diluted earnings per share		**9.1**	5.7		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2004

		Consolidated		Parent entity	
	Notes	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
Current assets					
Cash	5	**11,199**	8,577	**11,199**	8,577
Receivables	6	**8,289**	7,398	**8,289**	7,398
Other	7	**1,223**	138	**1,223**	138
Total current assets		**20,711**	16,113	**20,711**	16,113
Non-current assets					
Investments	8	**–**	–	**–**	250
Property, plant and equipment	9	**1,862**	1,628	**1,862**	1,628
Deferred tax assets	10	**1,158**	954	**1,158**	954
Total non-current assets		**3,020**	2,582	**3,020**	2,832
Total assets		**23,731**	18,695	**23,731**	18,945
Current liabilities					
Payables	11	**11,964**	8,706	**11,964**	8,524
Current tax liabilities	12	**1,329**	1,598	**1,329**	1,583
Other	13	**3,193**	497	**3,193**	1,218
Total current liabilities		**16,486**	10,801	**16,486**	11,325
Non-current liabilities					
Provisions	14	**113**	66	**113**	66
Other	15	**270**	549	**270**	276
Total non-current liabilities		**383**	615	**383**	342
Total liabilities		**16,869**	11,416	**16,869**	11,667
Net assets		**6,862**	7,279	**6,862**	7,278
Equity					
Contributed equity	16	**8,293**	9,611	**8,293**	9,611
Accumulated losses	17	**(6,780)**	(2,332)	**(6,780)**	(2,333)
General reserve	17	**5,349**	–	**5,349**	–
Total equity		**6,862**	7,279	**6,862**	7,278

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of cash flows

For the year ended 30 June 2004

		Consolidated		Parent entity	
	Notes	**2004 $'000**	2003 $'000	**2004 $'000**	2003 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**111,699**	75,668	**111,917**	75,435
Payments to suppliers and employees (inclusive of goods and services tax)		**(95,618)**	(65,898)	**(96,086)**	(65,974)
		16,081	9,770	**15,831**	9,461
Interest received		**533**	342	**533**	340
Borrowing costs		**–**	(50)	**–**	(50)
Income taxes paid		**(4,897)**	(2,687)	**(4,897)**	(2,221)
Net cash inflow (outflow) from operating activities	28	**11,717**	7,375	**11,467**	7,530
Cash flows from investing activities					
Payments for plant and equipment		**(1,134)**	(360)	**(1,134)**	(360)
Proceeds from sale of plant and equipment		**2**	11	**2**	11
Proceeds from redemption of FAC units		**–**	–	**250**	–
Net cash outflow from investing activities		**(1,132)**	(349)	**(882)**	(349)
Cash flows from financing activities					
Payment for capital reduction		**(1,318)**	–	**(1,318)**	–
Dividends paid		**(6,645)**	(4,942)	**(6,645)**	(4,942)
Net cash inflow (outflow) from financing activities		**(7,963)**	(4,942)	**(7,963)**	(4,942)
Net increase (decrease) in cash held		**2,622**	2,084	**2,622**	2,239
Cash at the beginning of the financial year		**8,577**	6,493	**8,577**	6,338
Cash at the end of the financial year	5	**11,199**	8,577	**11,199**	8,577

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

Note 1 Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Information about how the transition to Australian equivalents to International Financial Reporting Standards (IFRS) is being managed, and the key differences in accounting policies that are expected to arise, is set out in note 1(q).

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Mortgage Choice Limited ('parent entity') as at 30 June 2004 and the results of all controlled entities for the year then ended. Mortgage Choice Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

(b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax liability or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Revenue recognition

The consolidated entity provides loan origination services and receives origination commission on the settlement of a home loan. Revenue is recognised on the settlement of the loans. Additionally the lender will normally pay a trailing commission over the life of the loan. The consolidated entity also earns income from the sale of franchises and franchise services.

Revenue from sale of services is recognised as follows:

(i) Origination commissions

Origination commissions are recognised as revenue on loan settlement.

(ii) Trailing commissions

Trailing commissions are recognised as they become due and payable by lenders over the life of a loan.

(iii) Franchise fee income

Franchise fee income is derived from the sale of franchises by the consolidated entity and comprises licence fees and contributions for training and franchise consumables. Licence fees are partially repayable should franchisees terminate their franchise agreement in accordance with a repayment schedule as defined in the agreement. Licence fee income is recognised over a four year period in accordance with this schedule. Contributions for training and consumables are recognised as revenue on receipt. Licence fees which remain repayable to franchisees at balance sheet date are included in liabilities.

(iv) Redeemable units in Franchise Advisory Council Trust.

Contributions from franchisees for redeemable units in the Franchise Advisory Council Trust, a controlled entity, are partially repayable should franchisees terminate their agreement in accordance with a repayment schedule as defined in the franchise agreement. Redeemable units which are forfeited by franchisees in accordance with the franchise agreement repayment schedule are recognised as revenue over a three year period in accordance with this schedule. Redeemable units which remain redeemable by franchisees at balance date are included in liabilities in the consolidated entity. The Franchise Advisory Council Trust ceased issuing such redeemable units to franchisees recruited after 31 March 2002, all units were redeemed in December 2003 and the Franchise Advisory Council Trust ceased to exist as at 24 December 2003.

From 30 June 2002, all contributions received from franchisees are received by the parent entity and recognised as revenue in accordance with (iii) above.

(d) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(e) Receivables

Trade debtors are recognised in accordance with the revenue recognition policy outlined in note 1(c). Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(f) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. The expected net cash flows included in determining the recoverable amounts of non-current assets are not discounted.

(g) Change in depreciation policy for the depreciation of plant and equipment

The depreciation method for plant and equipment was changed to calculate depreciation on a straight line basis to write off the net cost amount of each item of plant and equipment over its expected useful life to the consolidated entity as the directors considered this a more appropriate methodology to reflect the pattern of useful life of the assets. The change was adopted with effect from 1 July 2003. The previous policy was to calculate depreciation on a reducing balance basis. This change in accounting policy does not have a material financial effect in the current or previous financial period.

Office equipment	5-10 years
Computer equipment	3-4 years
Furniture and fittings	5 years
Purchased software	3 years

(h) Software development

Costs incurred on software development are expensed except to the extent that they are expected beyond any reasonable doubt to be recoverable, in which case they are capitalised and amortised on a reducing balance basis over the period during which the related benefits are expected to be realised.

(i) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over four years.

(j) Leased non-current assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(k) Trade and other creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(l) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the financial year but not distributed at balance date.

(m) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits and is measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(iv) Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(n) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.
Borrowing costs include:

- interest on bank overdrafts and borrowings;
- finance lease charges; and
- interest accrued on other amounts payable.

(o) Cash

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(p) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(q) International Financial Reporting Standards (IFRS)

The Australian Accounting Standards board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB will issue Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has conducted a high level scoping exercise to identify key IFRS impacts on the financial statements as part of the management of transition to Australian equivalents to IFRS for the financial year ended 30 June 2005. To date the consolidated entity has analysed most of the Australian equivalents to IFRS and has identified a number of accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Pending Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. Some of these choices are still being analysed to determine the most appropriate accounting policy for the consolidated entity.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) Income tax

Under the Australian equivalent to IAS 12 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

(ii) Equity-based compensation benefits

Under the Australian equivalent to IFRS 2 Share-based Payment, equity-based compensation to employees will be recognised as an expense in respect of the services received.

This will result in a change to the current accounting policy, under which no expense is recognised for equity-based compensation.

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

(r) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Note 2 Revenue

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Revenue from operating activities				
Services	**101,727**	75,727	**101,707**	75,545
Revenue from outside the operating activities				
Interest	**533**	342	**533**	340
Revenue from sale of non-current assets	**2**	11	**2**	11
Trust distribution income	**–**	–	**218**	177
Other	**627**	314	**627**	314
	1,162	667	**1,380**	842
Revenue from ordinary activities	**102,889**	76,394	**103,087**	76,387

Note 3 Profit from ordinary activities

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Net gains and expenses				
Profit from ordinary activities before income tax expense includes the following specific net (gains) and expenses:				
Expenses:				
Borrowing costs				
Interest charges	**5**	–	**5**	–
Net loss on disposal of non-current assets				
Plant and equipment	**4**	2	**4**	2
Depreciation				
Plant and equipment	**825**	802	**825**	802
Amortisation				
Leasehold improvements	**69**	166	**69**	166
Other provisions				
Employee entitlements	**47**	104	**47**	104
Doubtful debts	**–**	–	**–**	78
Rental expense relating to operating leases	**816**	739	**816**	739

Note 4 Income tax

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
The income tax expense for the financial year differs from the amount calculated on the profit before tax. The differences are reconciled as follows:				
Operating profit before income tax	**14,401**	9,163	**14,402**	9,196
Income tax calculated @ 30%	**4,320**	2,749	**4,320**	2,759
Tax effect of permanent differences:				
Sundry items	**125**	169	**114**	169
Income tax adjusted for permanent differences	**4,445**	2,918	**4,434**	2,928
Under/(over) provision from prior years	**(6)**	(40)	**5**	(16)
Income tax attributable to operating profit	**4,439**	2,878	**4,439**	2,912

No part of the future income tax benefit shown in note 10 is attributable to tax losses.

Tax consolidation legislation

Mortgage Choice Limited and its wholly-owned Australian subsidiaries implemented the tax consolidation legislation as of 1 July 2002. As a consequence, Mortgage Choice Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances.

Note 5 Current assets – cash

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Cash at bank and on hand	**216**	255	**216**	255
Deposits at call	**10,983**	8,322	**10,983**	8,322
	11,199	8,577	**11,199**	8,577

Deposits at call

The deposits are bearing interest rates between 4.48% and 5.35% (2003 – 4.48% and 4.58%).

Note 6 Current assets – receivables

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Trade debtors[1]	**8,076**	7,053	**8,076**	7,053
Receivable from controlled entities	**–**	–	**–**	1,518
Less: Provision for doubtful debts	**–**	–	**–**	(1,518)
	–	–	**–**	–
Franchisee receivables	**116**	107	**116**	107
Other debtors	**97**	238	**97**	238
	8,289	7,398	**8,289**	7,398

1. Subject to a limited charge in favour of The Loan Book Security Trust (refer to note 11).

Other debtors

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity.

Note 7 Current assets – other

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Prepayments	**165**	138	**165**	138
IPO costs[1]	**1,058**	–	**1,058**	–
	1,223	138	**1,223**	138

1. Costs paid in the year relating to Mortgage Choice Limited's Initial Public Offering have been deferred as they are expected to be fully recovered from the company's selling shareholders, net of new share issue costs of $405,000, following completion of the offer. New share issue costs will be offset against capital raised from the offer.

Note 8 Non-current assets – investments

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Other (non-traded) investments				
Shares in controlled entities – at cost	**–**	–	**–**	250
	–	–	**–**	250

Further information relating to shares in controlled entities is set out in note 26.

Note 9 Non-current assets – property, plant and equipment

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Leasehold improvements				
Leasehold improvements – at cost	**927**	720	**927**	720
Less: Accumulated amortisation	**(563)**	(494)	**(563)**	(494)
Total leasehold improvements	**364**	226	**364**	226
Plant and equipment				
Plant and equipment – at cost	**4,682**	3,795	**4,682**	3,795
Less: Accumulated depreciation	**(3,184)**	(2,393)	**(3,184)**	(2,393)
	1,498	1,402	**1,498**	1,402
Total property, plant and equipment	**1,862**	1,628	**1,862**	1,628

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

	Leasehold improvements	Plant and equipment	Total
Consolidated entity	**$'000**	**$'000**	**$'000**
Carrying amount at 1 July 2003	226	1,402	1,628
Additions	207	927	1,134
Disposals	–	(6)	(6)
Depreciation/amortisation expense	(69)	(825)	(894)
Carrying amount at 30 June 2004	364	1,498	1,862

	Leasehold improvements	Plant and equipment	Total
Parent entity	**$'000**	**$'000**	**$'000**
Carrying amount at 1 July 2003	226	1,402	1,628
Additions	207	927	1,134
Disposals	–	(6)	(6)
Depreciation/amortisation expense	(69)	(825)	(894)
Carrying amount at 30 June 2004	364	1,498	1,862

Note 10 Non-current assets – deferred tax assets

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Future income tax benefit	**1,158**	954	**1,158**	954

Note 11 Current liabilities – payables

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Trade creditors	**8,025**	6,055	**8,025**	6,055
Other creditors	**3,939**	2,651	**3,939**	2,469
	11,964	8,706	**11,964**	8,524

Loan Book Security Trust

The loan book bonus is a commission payable based on the outstanding balances of loans introduced by Mortgage Choice franchisees. The Loan Book Security Scheme provides security for the loan book bonus payable to certain eligible franchisees based on certain performance criteria. Mortgage Choice Limited has granted two charges in favour of a trustee company on behalf of the eligible franchisees. At this time the trustee is a controlled entity of Mortgage Choice Limited.

The first charge is over a specified percentage of the company's trailing commission income. The purpose of this charge is to be the first source of funds available to eligible franchisees for the payment of loan book bonus payments in the event that administration or liquidation occurs. The charge will crystallise and can be enforced by eligible franchisees in the event of liquidation or administration of Mortgage Choice Limited.

As at 30 June 2004, the amount subject to charge resulting from applying the specified percentage to the trailing commission income due to Mortgage Choice Limited is $1,763,297 (2003 – $1,062,253). This is included as part of the balance of trade creditors at 30 June 2003 and is subject to charge until disbursed to the eligible franchisees. The amount subject to the charge will vary dependent on trailing commission receipts held by Mortgage Choice Limited from time to time.

The second charge is a floating charge over all of the assets of Mortgage Choice Limited. It is limited in the powers it allows the security trustee company to exercise prior to liquidation. Its primary purpose is to ensure that the loan book security structure need not be subject to the moratorium arising if an administrator were to be appointed to Mortgage Choice Limited. Only after liquidation does this charge confer comprehensive mortgagee powers on the security trustee.

Note 12 Current liabilities – current tax liabilities

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Income tax	**1,329**	1,598	**1,329**	1,583

Note 13 Current liabilities – other

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Redeemable units in controlled trust	**–**	42	**–**	–
Licence fees repayable	**777**	455	**777**	455
Unsecured loans from controlled entities[1]	**–**	–	**–**	763
Dividend payable (note 18)	**2,416**	–	**2,416**	–
	3,193	497	**3,193**	1,218

1. The unsecured loans bear no interest.

Note 14 Non-current liabilities – provisions

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Employee entitlements (note 24)	**113**	66	**113**	66

Note 15 Non-current liabilities – other

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Redeemable units in controlled trust	**–**	273	**–**	–
Licence fees repayable	**270**	276	**270**	276
	270	549	**270**	276

Note 16 Contributed equity

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
(a) Contributed equity				
Ordinary shares – fully paid	**109,830**	109,830	**8,293**	9,611

(b) Movements in ordinary share capital

Date	Details	Number of shares	Transaction price	$'000
1 July 2003	Opening balance	109,830,000		9,611
1 December 2003	Capital reduction	–	$ 0.012*	(1,318)
30 June 2004	Balance	109,830,000		8,293

* On 1 December 2003, the company reduced the value of the ordinary shares by returning 1.2 cents per share to each shareholder of the company.

(c) Options

On 10 December 2001, 2,196,600 share options were issued to former non-executive directors in accordance with shareholder approval. The options were granted free of charge and carry no dividend or voting rights. These options may be exercised at any time prior to 10 December 2004. The subscription price for a share the subject of these options is 98.8 cents per share.

These share options were exercised after the balance date and prior to the Initial Public Offering. Details are set out in note 30.

Note 17 Reserves and retained profits/(accumulated losses)

(a) General reserve

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
General reserve at beginning of the financial year	**–**	–	**–**	–
Transfer from retained profits/(accumulated losses)*	**7,765**	–	**7,765**	–
Dividend provided for out of general reserve	**(2,416)**	–	**(2,416)**	–
General reserve at end of the financial period	**5,349**	–	**5,349**	–

* The general reserve contains amounts of retained profits that have been set aside by the directors so as not to be tainted by prior period losses. This reserve may be used to pay dividends.

(b) Retained profits/(accumulated losses)

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Accumulated losses at the beginning of the financial period	**(2,332)**	(3,675)	**(2,333)**	(3,675)
Net profit for period	**9,962**	6,285	**9,963**	6,284
Dividends paid out of profit (note 18)	**(6,645)**	(4,942)	**(6,645)**	(4,942)
Transfer of residual profits for the year ended 30 June 2004 to general reserve	**(7,765)**	–	**(7,765)**	–
Accumulated losses at the end of the financial period	**(6,780)**	(2,332)	**(6,780)**	(2,333)

Note 18 Dividends

	Parent entity	
	2004 $'000	2003 $'000
Ordinary shares		
Interim dividend declared out of profits of the company for the year ended 30 June 2003 of 2.3 cents per fully paid share paid on 31 July 2003 and final dividend of 1.75 cents per fully paid share paid on 28 November 2003		
Fully franked based on tax paid @ 30%		
2.3 cents per share	**2,526**	
1.75 cents per share	**1,922**	
Interim dividend declared out of profits of the company for the half-year ended 31 December 2003 of 2 cents per fully paid share paid 18 December 2003		
Fully franked based on tax paid @ 30%		
2 cents per share	**2,197**	–
Interim dividend declared out of general reserve of 2.2 cents per fully paid share paid 1 July 2004		
Fully franked based on tax paid @ 30%		
2.2 cents per share	**2,416**	–
Interim dividend declared out of profits of the company for the year ended 30 June 2003 of 1.5 cents per fully paid share paid on 10 April 2003		
Fully franked based on tax paid @ 30%		
1.5 cents per share	**–**	1,647
Interim dividend declared out of profits of the company for the year ended 30 June 2002 of 1.5 cents per fully paid share paid on 15 July 2002		
Fully franked based on tax paid @ 30%		3,295
3 cents per share	**–**	–
	9,061	4,942

Dividends not recognised at year end		
In addition to the above dividends, since year end the directors have recommended the payment of an interim dividend of 3.5 cents (2003 – 2.3 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. Aggregate amount of the proposed dividend paid on 5 August 2004 (2003 – 15 July 2003) out of the general reserve of the company, but not recognised as a liability at year end, is	**3,921**	2,526

Franked dividend

The franked portions of the final dividends recommended after 30 June 2004 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2004.

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**2,599**	1,853	**2,599**	1,853

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and

(d) franking credits that may be prevented from being distributed in subsequent financial years.

Note 19 Financial instruments

(a) Credit risk exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

(b) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

			Fixed interest maturing in:				
2004	**Notes**	**Floating interest rate $'000**	**1 year or less $'000**	**over 1 to 5 years $'000**	**more than 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Financial assets							
Cash and deposits	5	**216**	**10,983**	**–**	**–**	**–**	**11,199**
Receivables	6	**–**	**–**	**–**	**–**	**8,289**	**8,289**
		216	**10,983**	**–**	**–**	**8,289**	**19,488**
Weighted average interest rate		**3.55%**	**5.13%**			**n/a**	
Financial liabilities							
Trade and other creditors	11	**–**	**–**	**–**	**–**	**11,964**	**11,964**
		–	**–**	**–**	**–**	**11,964**	**11,964**
Weighted average interest rate						**n/a**	
Net financial assets (liabilities)		**216**	**10,983**	**–**	**–**	**(3,675)**	**7,524**

2003	Notes	Floating interest rate $'000	Fixed interest maturing in: 1 year or less $'000	over 1 to 5 years $'000	more than 5 years $'000	Non-interest bearing $'000	Total $'000
Financial assets							
Cash and deposits	5	255	8,322	–	–	–	8,577
Receivables	6	–	–	–	–	7,398	7,398
		255	8,322	–	–	7,398	15,975
Weighted average interest rate		3.50%	4.34%			n/a	
Financial liabilities							
Trade and other creditors	11	–	–	–	–	8,706	8,706
		–	–	–	–	8,706	8,706
Weighted average interest rate						n/a	
Net financial assets (liabilities)		255	8,322	–	–	(1,308)	7,269

Reconciliation of net financial assets to net assets

	Notes	**2004 $'000**	2003 $'000
		$'000	$'000
Net financial assets as above		**7,524**	7,269
Non-financial assets and liabilities			
Property, plant and equipment	9	**1,862**	1,628
Deferred tax assets	10	**1,158**	954
Other assets	7	**1,223**	138
Provision for employee benefits	15	**(113)**	(66)
Current tax liabilities	14	**(1,329)**	(1,598)
Other liabilities	13, 15	**(3,463)**	(1,046)
Net assets per balance sheet		**6,862**	7,279

Note 20 Director and executive disclosures

Directors

The following persons were directors of Mortgage Choice Limited during the financial year:

Chairman – non-executive

P D Ritchie (appointed 5 April 2004)

Executive directors

P A Lahiff, Managing Director (appointed 24 May 2004)

Non-executive directors

P G Higgins

R G Higgins

R Prowse (appointed 1 July 2003; resigned 5 April 2004)

P G Clare (appointed 1 July 2003; resigned 24 June 2004)

S C Jermyn (appointed 24 May 2004)

D E Ralston (appointed 24 May 2004)

Executives (other than directors) with the greatest authority for strategic direction and management

The following persons were the five executives with the greatest authority for the strategic direction and management of the consolidated entity ('specified executives') during the financial year:

Name	*Position*
C P Canty	Chief Operating Officer
E G Macgregor	Chief Financial Officer
M C Newton	Chief Information Officer
D M Hoskins	Company Secretary
I C Pepper	National Marketing Manager

All of the above persons were also specified executives during the year ended 30 June 2003. E G Macgregor resigned from the position of Chief Financial Officer on 23 July 2004.

Remuneration of directors and executives

Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- capital management.

In consultation with external remuneration consultants, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in share price and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of 'at risk' rewards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The remuneration committee reviews non-executive directors' fees and payments annually. The board has also obtained the advice of independent remuneration consultants to ensure non-executive directors' fees and payments, including those of the Chairman, are appropriate and in line with the market. Non-executive directors do not receive share options. Non-executive directors may opt each year to receive a percentage of their remuneration in Mortgage Choice Limited shares pursuant to the Employee Share Purchase Plan.

Directors' fees

The current base remuneration was last reviewed on 19 February 2004 and is based on the recommendations of independent remuneration consultants. Directors do not receive additional remuneration for representation on board committees. Peter Higgins and Rod Higgins each received an additional amount of $25,000 in the year ended 30 June 2004 by way of a representation allowance.

Shareholders in General Meeting on 5 April 2004 agreed to initially set the maximum aggregate remuneration of the board (excluding the Managing Director and any executive director) at $750,000.

Retirement allowances for directors

Non-executive directors do not receive retirement allowances. Superannuation contributions in accordance with relevant superannuation guarantee legislation is paid on non-executive directors' remuneration.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits;
- short-term performance incentives;
- long-term incentives through participation executive and employee share plans; and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration. The company has introduced long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2005 at the time of the listing of the company on the ASX.

Base pay

Structured as a total employment cost package which may be delivered as a mix of cash and prescribed non-financial benefits at the executive's discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration consultants provide analysis and advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases fixed in any senior executives' contracts.

Benefits

Executives do not receive any benefits in addition to the remuneration identified in this note.

Retirement benefits

Retirement benefits are delivered under the Mortgage Choice Employees' Superannuation Fund. This Fund is an accumulation fund and provides benefits based on contributions made to the fund during the period of service. Other retirement benefits may be provided directly by the company if approved by shareholders.

Short-term incentives

Should the company achieve a pre-determined profit target set by the remuneration committee then a pool of Short-Term Incentive (STI) is available for executives for allocation during the annual review by the remuneration committee. Cash incentives (bonuses) are payable in cash on or around 30 September each year. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. The incentive pool is leveraged for performance above the threshold to provide an incentive for executive out performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on organisation or business unit performance. For senior executives the normal maximum STI target bonus opportunity is 30% of total base salary. However, from time to time for special projects and circumstances, bonuses outside of this structure are provided.

Each year, the remuneration committee considers the appropriate targets and Key Performance Indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2004, the KPIs linked to short-term incentive plans were based on group, individual business and personal objectives. The KPIs required performance in achieving specific profit objectives as well as other key, non-financial measures linked to drivers of performance in the current and future reporting periods.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target annual payment is reviewed annually.

Details of remuneration

Details of the remuneration of each director of Mortgage Choice Limited and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out in the following tables.

Directors of Mortgage Choice Limited

2004	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
P D Ritchie *(from 5 April 2004 – 30 June 2004)*	23,611	–	–	2,125	–	–	25,736
P A Lahiff*	438,294	–	7,330	39,446	–	–	485,070
P G Higgins	102,500	–	24,231	9,225	–	–	135,956
R G Higgins	102,500	–	8,487	9,225	–	–	120,212
R Prowse *(from 1 July 2003 – 5 April 2004)*	41,253	–	–	–	–	–	41,253
P G Clare *(from 1 July 2003 – 24 June 2004)*	50,000	–	–	4,500	–	–	54,500
S C Jermyn *(from 24 May 2004 – 30 June 2004)*	5,108	–	–	460	–	–	5,568
D E Ralston *(from 24 May 2004 – 30 June 2004)*	5,108	–	–	460	–	–	5,568
Total	768,374	–	40,048	65,441	–	–	873,863

* P A Lahiff was appointed a director on 24 May 2004. Before this appointment he was the company's Chief Executive Officer. Amounts shown above include all Mr Lahiff's remuneration during the reporting period, whether as a director or as Chief Executive Officer. Amounts received in his position as a director amounted to $56,652, made up of cash salary and fees of $51,075, non-monetary benefits of $980 and superannuation of $4,597.

Total remuneration of directors of Mortgage Choice Limited for the year ended 30 June 2003 is set out below. Information for individual directors is not shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities.

2003	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Total	322,051	–	23,154	22,834	100,000	–	468,039

Specified executives of the consolidated entity

2004	Primary			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
C P Canty (Chief Operating Officer)	221,196	236,667*	19,993	36,647	–	–	514,503
E G Macgregor (Chief Financial Officer)	218,526	66,435	–	35,646	–	–	320,607
M C Newton (Chief Information Officer)	191,025	22,306	–	19,200	–	–	232,531
D M Hoskins (Company Secretary)	174,956	25,000	–	15,746	–	–	215,702
I C Pepper (National Marketing Manager)	158,623	35,379	–	17,460	–	–	211,462
Total	964,326	385,787	19,993	124,699	–	–	1,494,805

* C P Canty's bonus included $95,000 higher duties allowances as acting CEO and other one-off payments relating to his terms and conditions at that particular time.

Total remuneration of specified executives for the year ended 30 June 2003 is set out below. Information for individual specified executives is not shown as this is the first financial report prepared since the issue of AASB 1046 Director and Executive Disclosures by Disclosing Entities.

2003	Primary			Post-employment		Equity	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Total	866,747	182,803	17,084	101,246	–	–	1,167,880

Share holdings

The numbers of shares in the company held directly, indirectly or beneficially during the financial year by each director of Mortgage Choice Limited and each of the five specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited Ordinary shares				
P G Higgins	36,959,900	–	50	36,959,950
R G Higgins	38,415,000	–	100,000	38,515,000

Note 21 Remuneration of auditor

	Consolidated		Parent entity	
	2004 $	2003 $	2004 $	2003 $
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers Australian firm				
Statutory audit of financial reports of the				
entity or any entity in the consolidated entity	**89,500**	90,000	**89,500**	90,000
Other assurance services	**108,155**	45,000	**108,155**	45,000
Total audit and other assurance services	**197,655**	135,000	**197,655**	135,000
Taxation services	**92,609**	179,540	**92,609**	179,540
Initial Public Offering services	**391,510**	–	**391,510**	–
Total remuneration	**681,774**	314,540	**681,774**	314,540

Note 22 Contingent liabilities and contingent assets

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2004 in respect of:

Guarantees

Australian and New Zealand (ANZ) bank guarantee of $387,000 (2003 – $387,000).

Contingent claims

During the year, the company became aware of a possible liability in relation to claims from customers as a result of advertising and promotional statements made by the company over the period from October 2002 to February 2004 in which the company claimed its advice was unbiased. After taking into account the risks and uncertainties that surround the circumstances of each possible claim, the directors consider that it is not possible to reliably estimate the potential financial impact of any such claims.

The directors consider that the financial impact on the company of any such claims is unlikely to be material and will be dependent on the number, amount and validity of any such claims which might be made against the company.

No material losses are anticipated in respect of any of the above contingent liabilities.

Contingent asset

At 30 June 2004, the company was aware of a possible settlement in relation to legal actions taken by the company against a supplier for non-performance of contractual obligations. The contingent asset has not been recognised as a receivable at 30 June 2004 as the amount of the settlement is dependent on final negotiations of a settlement and cannot be reliably measured at this stage.

Note 23 Commitments for expenditure

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Operating leases				
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:				
Within one year	**706**	723	**706**	723
Later than one year but not later than five years	**1,970**	2,437	**1,970**	2,437
	2,676	3,160	**2,676**	3,160

Note 24 Employee benefits

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Employee benefit and related on-cost liabilities				
Included in other liabilities – current (note 11)	**503**	454	**503**	454
Provision for employee entitlements – non-current (note 14)	**113**	66	**113**	66
Aggregate employee benefit and related on-costs liabilities	**616**	520	**616**	520
Employee Numbers	**2004 Number**	2003 Number	**2004 Number**	2003 Number
Average number of employees during the financial year	**91**	88	**91**	87

Mortgage Choice Limited Employees' Superannuation Fund

Most of the employees of the company are entitled to benefits on retirement, disability or death from the Mortgage Choice Limited Employees' Superannuation Fund. This Fund provides benefits based on defined contributions during an employee's years of service. Some employees have arrangements with other superannuation providers.

Note 25 Related parties

Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 20.

Wholly-owned group

The wholly-owned group consists of Mortgage Choice Limited and its wholly-owned controlled entities. Ownership interests in these controlled entities are set out in note 26.

Transactions between Mortgage Choice Limited and other entities in the wholly-owned group during the years ended 30 June 2004 and 2003 consisted of:

(a) loans advanced to Mortgage Choice Limited;

(b) loans repaid by Mortgage Choice Limited;

(c) loans repaid to Mortgage Choice Limited;

(d) application for shares in subsidiary by Mortgage Choice Limited; and

(e) distribution to Mortgage Choice Limited from a controlled trust.

All transactions between Mortgage Choice Limited and other controlled entities were made on normal commercial terms and conditions, unless otherwise stated.

Note 26 Investments in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding		Cost of parent entity's investment	
			2004 **%**	2003 %	**2004** **$**	2003 $
Finance Australia Pty Ltd (trustee for MC Operations Trust)	Australia	Ordinary	–	100	–	2
MC Franchise System Pty Ltd (trustee for MC Franchise Systems Trust)	Australia	Ordinary	–	100	–	2
FAC Pty Ltd (trustee for Franchise Advisory Council Trust)	Australia	Ordinary	–	100	–	2
MC Operations Trust	Australia	Ordinary units	–	100	–	10
MC Franchise Systems Trust	Australia	Ordinary units	–	100	–	10
Franchise Advisory Council Trust	Australia	Ordinary units	–	100	–	10
		Redeemable 'B' units	–	100	–	250,000
MC Loan Book Security Pty Limited (established 27 March 2002)	Australia	Ordinary	–	100	–	2
Mortgage Choice Insurance Broker Pty Ltd	Australia	Ordinary	–	100	–	2
Mortgage Choice (W.A.) Pty Limited	Australia	Ordinary	**100**	100	**100**	100
					100	250,140

Note 27 Segment information

The Mortgage Choice group of companies operates predominantly in Australia and in one segment, the mortgage broking industry.

Note 28 Reconciliation of operating profit after income tax to net cash Inflow from operating activities

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Operating profit after income tax	**9,962**	6,285	**9,963**	6,284
Depreciation and amortisation	**894**	968	**894**	968
Net (gain)/loss on sale of non-current assets	**4**	(2)	**4**	(2)
Change in operating assets and liabilities, net of effects from purchase of controlled entity:				
(Increase)/decrease in trade and other debtors	**(891)**	(1,022)	**(892)**	(933)
(Increase)/decrease in future income tax benefit	**(204)**	536	**(204)**	536
Decrease/(increase) in other assets	**(1,085)**	64	**(1,085)**	(138)
(Decrease)/increase in payables and other liabilities	**3,259**	788	**2,994**	640
Increase in provision for income taxes payable	**(269)**	(347)	**(254)**	6
Increase in other provisions	**47**	105	**47**	520
Non-cash transfer of fixed assets	**–**	–	**–**	(351)
Net cash inflow from operating activities	**11,717**	7,375	**11,467**	7,530

Note 29 Non-cash financing and investing activities

	Consolidated		Parent entity	
	2004 $'000	2003 $'000	**2004 $'000**	2003 $'000
Transfer of plant and equipment from related parties to parent entity	**–**	–	**–**	351
	–	–	**–**	351

Note 30 Events occurring after reporting date

Matters subsequent to the end of the financial year:

(a) Share issue

During July 2004, 2,196,600 shares were issued for 98.8 cents each resulting from the exercise of options prior to transfer and allotment of shares under the Initial Public Offering.

(b) Dividend payment

An interim dividend of $3,921,000 or 3.5 cents per share was declared out of the general reserve of the company on 2 August 2004 and paid on 5 August 2004.

(c) Reduction in capital

A capital reduction of $8,962,000 was paid on 6 August 2004 by returning 8 cents per share in cash to the existing shareholders.

(d) Initial Public Offering

On 10 August 2004, issue of 5.5 million ordinary shares to franchisees, employees and other persons raising $5.37 million (net of issue costs of $405,000) and listing of the company on the ASX.

(e) Accumulated losses offset by share capital reduction

On 9 August 2004, an offset by share capital reduction, of accumulated losses of $6.780 million against contributed equity, occurred three business days after the transfer and allotment of Shares under the Offer.

The financial effect of the above transactions has not been reflected in the financial results or balances for the year ending on 30 June 2004.

Note 31 Earnings per share

	Consolidated	
	2004 Cents	2003 Cents
Basic earnings per share	**9.1**	5.7
Diluted earnings per share	**9.1**	5.7

	Consolidated	
	2004 Number	2003 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and alternative basic earnings per share	**109,830,000**	109,830,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share and alternative diluted earnings per share	**109,966,189**	109,830,000

Options

Options which are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the outstanding options at 30 June 2004 are set out in note 16.

Directors' declaration

The directors declare that the financial statements and notes set out on pages 26 to 50:

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

(b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

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

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

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

Peter Ritchie — Sydney

Director — 21 September 2004

PRICEWATERHOUSECOOPERS

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Independent audit report to members of Mortgage Choice Limited

Audit opinion

In our opinion, the financial report of Mortgage Choice Limited:

- gives a true and fair view of the financial position of Mortgage Choice Limited and Mortgage Choice Group at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia.

This opinion must be read in conjunction with the rest of our audit report.

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 both Mortgage Choice Limited (the company) and Mortgage Choice Group (the consolidated entity), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards 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.

PRICEWATERHOUSECOOPERS

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.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Wayne Andrews

Wayne Andrews 21 September 2004
Partner Sydney

Liability is limited by the Accountant's Scheme under the Professional Standards Act 1994 (NSW)

Shareholder information

The shareholder information set out below was applicable as at 13 September 2004.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security		
	Ordinary Shares		
	Shares	Options	Conditional entitlements
1 – 1,000	30		
1,001 – 5,000	214		
5,001 – 10,000	162		
10,001 – 100,000	257	1	13
100,001 and over	52	2	
	715	3	13

There were 10 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number held	Percentage of issued shares
R G Higgins	17,216,583	14.64
P G Higgins	15,761,534	13.40
Ochoa Pty Ltd	9,620,000	8.18
Basscave Pty Limited	9,520,000	8.10
National Nominees Limited	8,962,380	7.62
Perpetual Trustee Company Limited	4.768,118	4.05
AMP Life Limited	3,457,500	2.94
Thorney Holdings Pty Limited	3,038,095	2.58
Australian National Credit Union Limited	3,000,000	2.55
Credit Union Australia Limited	3,000,000	2.55
UBS Private Clients Australia Nominees Pty Ltd	2,794,619	2.38
ANZ Nominees Limited	2,246,944	1.91
Cogent Nominees Pty Limited	2,044,500	1.74
Citicorp Nominees Pty Limited	2,036,766	1.73
Australian Central Credit Union Limited	2,000,000	1.70
J P Morgan Nominees Australia Limited	1,902,088	1.62
SCJ Pty Ltd atf Jermyn Family Trust	1,500,000	1.28
Caledonia Investments Limited	1,417,915	1.21
Madasar Pty Limited	1,391,949	1.18
HSBC Custody Nominees (Australia) Limited	1,326,557	1.13
	97,005,598	82.49

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Executive Performance Option Plan	517,400	3
Conditional entitlements over ordinary shares pursuant to the Performance Share Plan	422,300	13

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
R G Higgins and Ochoa Pty Ltd	26,841,583	22.83
P G Higgins and Basscave Pty Limited	25,286,534	21.50
AMP Limited	7,370,000	6.27

D. Voting rights

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights

(c) Conditional entitlements

No voting rights

E. Voluntary escrow arrangements

52,128,117 ordinary shares in the capital of the company are subject to voluntary escrow. These restrictions will end on the date on which ASX receives the company's preliminary final report under the ASX Listing Rules for the financial year ending 30 June 2005.

Directory

Directors	P D Ritchie Chairman
	P A Lahiff Managing Director
	P G Higgins
	R G Higgins
	S C Jermyn
	D E Ralston
Secretary	D M Hoskins
Senior management	Chief Operating Officer C P Canty
	Chief Financial Officer P V Borg
	Chief Information Officer M C Newton
	National Marketing Manager I C Pepper
	Group Franchise Manager M B McDonald
	National Corporate Affairs Manager W J O'Rourke
	National Lending Manager D A Player

Notice of annual general meeting	The annual general meeting of Mortgage Choice Limited will be held at:	PricewaterhouseCoopers Level 10 Darling Park Tower 2 201 Sussex Street Sydney NSW
	time:	11:00 am
	date:	18 November 2004
	A formal notice of meeting is enclosed.	

Principal registered office in Australia	Level 7 182 – 186 Blues Point Road North Sydney 2060 (02) 8907 0444
Share and debenture register	ASX Perpetual Registrars Limited Level 8, 580 George Street Sydney 2000 1800 054 388
Auditor	PricewaterhouseCoopers Chartered Accountants Darling Park Tower 2 201 Sussex Street Sydney 1171
Solicitors	Minter Ellison Aurora Place, 88 Phillip Street Sydney 2000
Bankers	ANZ Banking Group Limited 116 Miller Street North Sydney 2000
Stock exchange listings	Mortgage Choice Limited shares are listed on the Australian Stock Exchange. Website address www.mortgagechoice.com.au

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