



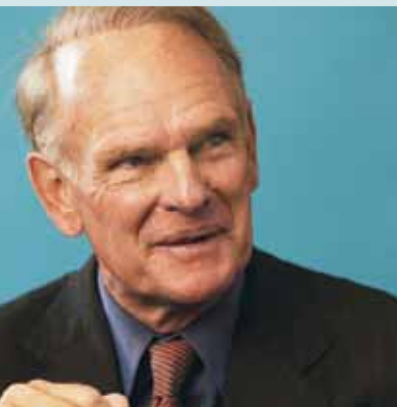
ANNUAL REPORT 2005



MORTGAGE
CHOICE®

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CHAIRMAN'S REPORT

In Mortgage Choice's first year as a listed company we saw an unsettled housing market influenced by uncertainty around interest rates and house prices in some states, a declining residential property investment market in NSW and an increasingly competitive mortgage broking marketplace.

Despite these challenging competitive market conditions nationally, Mortgage Choice has achieved another strong year of growth.

The continued commitment of our Franchise network to high levels of customer satisfaction, plus the support and commitment of the group office and state office teams, were central to our success.

The financial result for the year to 30 June 2005 was a net profit after tax of \$12.7 million, up 28% on the previous period and a more positive result than our Prospectus forecasts for FY2005.

The Board has declared a second half fully franked dividend of 6.0 cents per share, bringing the total dividend for the year to 9.8 cents per share. This represents a payout ratio of 90%, a little higher than the Prospectus forecast of 89%.

Central to our success is the partnership with our Franchise network.

Earnings per share were 10.9 cents per share compared to 9.1 cents per share in FY2004.

Housing loan approvals during the financial year to 30 June 2005 were broadly in line with the Prospectus forecast at \$9.26 billion. Our loan book has grown to \$21.7 billion at year's end, 23% up on the previous year end. The weighted average life of loans has extended to 3.8 years from 3.4 years over that period.

Franchise growth was slower than expected this financial year, with Franchise numbers rising from 399 to 407. The current state of the employment market, the competition for new Franchisees and a conscious decision to target quality over quantity made this a particularly challenging year for recruitment.

This business is built on a series of partnerships. Central to our success is the partnership with our Franchise network, a team of committed, independent businessmen and businesswomen who put enormous energy into meeting their customers' needs and, as a result, grow their own businesses.

Our lender partners are also critical as they provide us with the products and services demanded by customers, and become increasingly attuned to changes in those demands.

To our staff, my heartiest congratulations. Managing Director Paul Lahiff has led the team through a challenging and successful year.

As one of Australia's leading mortgage brokers, we enter a new financial year well positioned to compete and grow. The Directors believe that we can continue to exceed our stakeholders expectations next year and beyond.

I look forward to continuing to work alongside a motivated team of high achieving Franchisees and their staff, successful lending partners and a talented management team and staff.



MANAGING DIRECTOR'S OVERVIEW

Mortgage Choice, and the mortgage industry in which it operates, never stands still. After 25 years in financial services, I remain impressed at the twists and turns the industry encounters and at the same time its resilience and success in addressing them.

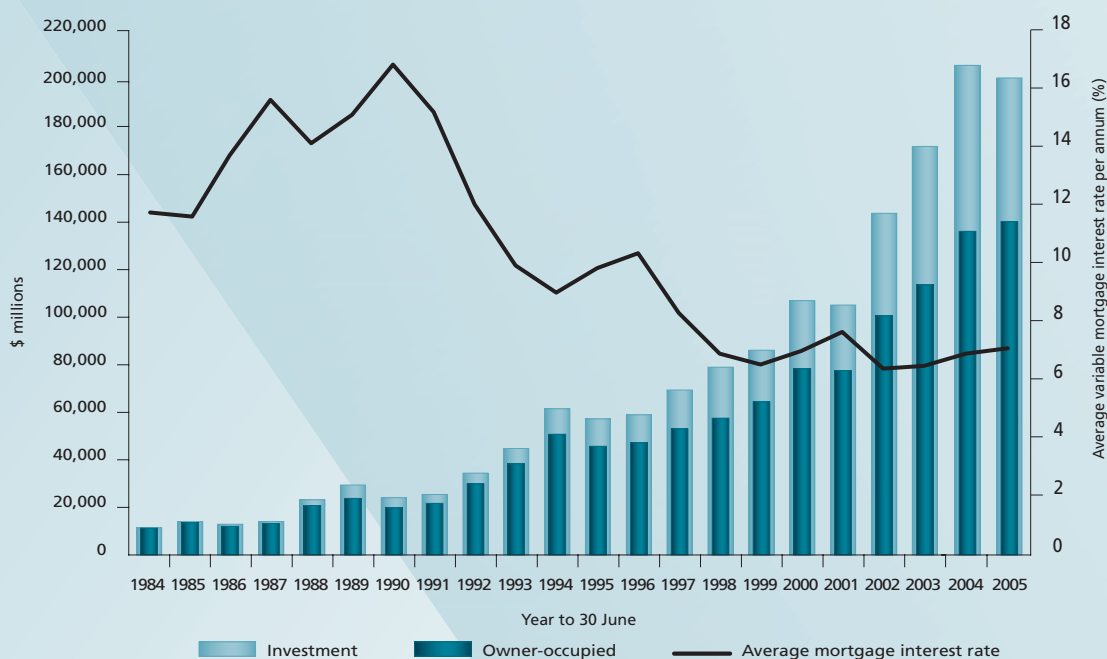
The Housing Finance Market

Throughout the year there was much written and discussed about the housing property market and the direction of housing finance. We took the view in our forecast for the financial year to 30 June 2005, that there would be a downturn in demand but not a crash. Based on current ABS data, the number of new loans written overall remains relatively stable.

However, this did not reflect a more unsettled housing market, particularly in New South Wales (NSW).

The chart below shows the trend in residential housing loan approvals over time, together with interest rates. There is a strong correlation between the lower interest rate band commencing in 1998 and the upward and sustained demand for residential housing finance.

Housing Finance Market and Mortgage Interest Rates 1984 – 2005



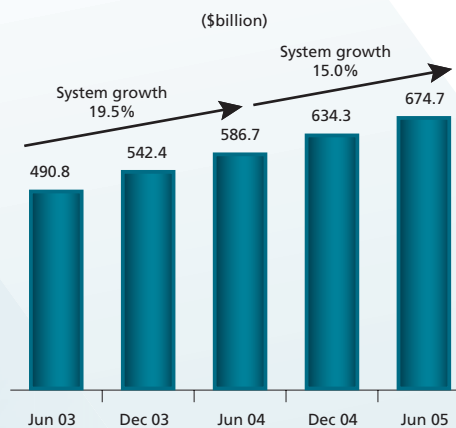
Source: RBA & ABS Data.

In March 2005, the Reserve Bank of Australia increased the cash rate to 5.5%. In the months leading up to this decision, there was a strong shift towards fixed rate loans, reflecting consumer unease with the possible direction of interest rates. Since that time this trend has abated, which suggests consumers are more confident about the stability of interest rates going forward.

While loan approvals have only slightly reduced, system growth – the growth in outstanding “stock” of housing loans – continues to record a steady growth of around 14.7% annualised* although this is down from a peak of 21% in February 2003.

*Source – Revised RBA Data 31 August 2005.

Housing Credit (incl securitisations)



Source – Revised RBA Data 31 August 2005.

Regulation

Regulation of the mortgage broking industry remains a critical part of Mortgage Choice’s agenda. In November 2004, the NSW Department of Fair Trading released a Discussion Paper on a proposal for National Uniform Regulation. We were happy with the overall thrust of the paper and are keen to see it progress to legislation.

One area of disappointment however, was the Discussion Paper recommendations allowing States and Territories to “opt out” of a licensing regime. If “positive licensing” is viewed as the most desirable approach to adopt (which we believe it is), such an initiative must be implemented across all areas uniformly so as to ensure all brokers follow the same standards, irrespective of their location. This is surely in the best interests of all consumers.

As part of our continued push for greater consumer protection, Mortgage Choice lodged a comprehensive response. A regulatory impact statement is expected later this year.

Performance

The year under review for Mortgage Choice has been very pleasing. The strength and reputation of our business model and the Franchise network have been recognised through a number of industry accolades.

These include:

- Australian Banking & Finance Magazine – *Best Mortgage Broker* (an award also won in 2004);
- Mortgage Industry Association of Australia – *Originator of the Year* (30+ staff);
- Australian Mortgage Awards – *Best Branding and Most Effective Internet Presence*; and
- Australian Mortgage Awards – *Franchise Operation of the Year 2004*.

The work undertaken to enhance our Franchise induction training module, which now includes Certificate IV in Financial Services (Finance & Mortgage Broking) – a minimum entry-level education requirement for loans consultants with less than two years mortgage broking experience – is testimony to our commitment to the professional development of our Franchise network, both new and existing. It is pleasing to note that, at year end, over 200 existing loan consultants have commenced the course and already in excess of 50 have completed it.

Partnerships

The relationship with our Franchise partners is of paramount importance. The principal vehicle through which high-level discussion takes place is through our Franchise Advisory Council (FAC). The FAC continues to be highly effective and provides a valuable bridge between Franchisor and Franchisee.

A pleasing validation of the success of the team is the continued high ratings customers give to our Franchise owners and their staff. A survey is conducted each month of 200 recent customers and in two very important areas of potential for repeat and referral business, Mortgage Choice consistently scores in the high 80 percentile and over. Indeed, for July 2005 in these two areas we achieved a rating of 94%.

Naturally, the results we detail in the following pages require two further effective partnerships: the constant innovation and flexibility of our lender panel and the enthusiasm and dedication of our staff. Finally, I want to acknowledge the support of the Board throughout the past year. Their wise counsel and commitment to the vision and ideals of the Company have made a profound contribution.

I look forward with confidence to the year ahead.

- Record net profit after tax \$12.7 million, up 28% on FY2004 \$9.96 million.
- Total operating revenue \$110.5 million, up 7.4% on previous period and 3.3% above Prospectus forecasts.
- Earnings per share 10.9 cents per share compared to 9.1 cents per share in FY2004.
- Dividend 6.0 cents per share brings FY2005 total to 9.8 cents per share – above Prospectus forecasts.
- Trailing commission up as % of total income to \$53.5 million – FY2005 48.4% compared with FY2004 40.5%.
- Mortgage Choice handled \$9.26 billion in housing loan approvals during FY2005.
- Loan book now stands at \$21.7 billion, 23% up on FY2004, this compares to system growth of 14.7% year on year.
- Franchise network growth slower than anticipated but consistent with Franchise industry trends.
- 94%* of customers indicate a desire to conduct repeat business with Mortgage Choice.

*Source – Mortgage Choice Customer Satisfaction Survey – July 2005.

FINANCIAL HIGHLIGHTS



Mortgage Choice Limited achieved a record net profit after tax for the year ended 30 June 2005 of \$12.7 million, up 28% on the previous corresponding period.

Total operating revenue for the year to 30 June 2005 was \$110.5 million, including total commission income of \$106.9 million. This included \$53.4 million derived from new mortgage origination, marginally down on the previous year. This was due in part to origination income being influenced by prevailing market conditions in 2004, interest rate increases in late 2003 and a slightly more unsettled housing market (particularly in NSW). This was offset by increased trailing commission income of \$53.5 million, now marginally more than 50% of total commission income.

The number of new loans written in the market overall has remained relatively stable. The average size of loans written by Mortgage Choice brokers has continued to increase, and now stands at \$224,100, 6.8% higher than the ABS average of \$209,800.

This reflects the strength of the Mortgage Choice broker network in the eastern states of Australia where property prices are higher.

Included in the result is non-recurring other income of \$600,000 arising from settlement of an outstanding legal matter.

Net assets at 30 June 2005 were \$9.8 million compared to \$6.9 million at 30 June 2004. The balance sheet is underpinned by \$11.5 million in cash on hand (2004 – \$11.2 million).

Cash flow from operating activities during the year was \$14.4 million compared to \$11.7 million in the previous year. Net cash flow was \$0.3 million after capital expenditure of \$1.9 million and net cash out flows for financing activities of \$12.2 million, being dividends, capital distributions and net of proceeds from the issue of shares under the Prospectus and options exercised.

REVIEW OF OPERATIONS

Competitive advantage

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

- **high quality service:** Mortgage Choice continually aims to provide a high level of support to its Franchisees;
- **Franchise business model:** Mortgage Choice operates through a national network of Franchisees. The relationship between the Franchisees and the Company is underpinned by the Franchisees being incentivised to grow their business whilst valuing the services and policies provided by the Company;

‘The Franchise Advisory Council continues to be highly effective and provides a valuable bridge between Franchisee and Franchisor’



- **brand:** Mortgage Choice is recognised as a leading consumer brand and has been built upon a proposition of being the advocate of the customer;
- **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;
- **strength of lender relationships:** Mortgage Choice generates significant loan volumes for lenders and this places it in a strong position to shape key operational relationships with lenders; and
- **economies of scale:** Mortgage Choice’s loan book is 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.

A complex marketplace

Mortgage Choice assists customers in the selection of a mortgage from a complex range of products available via its lender panel by identifying the most suitable loan, based on an individual’s particular needs. Customers are provided a choice across a broad range of over 300 housing loan products offered by a panel of 28 of Australia’s leading lenders, representing each major category of lender.

Mortgage Choice brokers use the Company’s proprietary software system to compare 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 according to details given. Based upon the customer’s circumstances, the broker then uses the system to analyse features of loan products to identify those most suitable to the customer.

Completed loan application forms are submitted and followed up 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

Electronic lodgement allows faster turnaround time for loan applications by taking data input direct from the broker to the lender's underwriting system.

Mortgage Choice submitted its first loans electronically in May 2004. In FY2005, almost \$1 billion in new loans was lodged electronically. To date, eight lenders are participating. With an expected increase in participating lenders over the next twelve months, we anticipate there will be an appreciable increase in the volumes submitted through this platform.

Drastically reduced approval times are already being experienced, and the end beneficiary of this service is the consumer.

Lender partners

Mortgage Choice recognises the importance of developing and nurturing the relationships between broker and lender. Dedicated staff oversee the operational relationship the Company and its 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.

The addition of the Newcastle Permanent Building Society during the year increased the number of Mortgage Choice lender panel members to 28. Mortgage Choice is currently the only mortgage broker with access to Newcastle Permanent's range of highly competitive products.

The panel includes Australia's leading lenders, providing a cross-section of products that Mortgage Choice considers to be a representative and wide ranging spread of available, quality housing loans.

Mortgage Choice believes the benefits enjoyed by lenders include:

- **volume:** Brokers provide incremental mortgage business that would not necessarily be generated through the lender's branch or other networks;
- **cost flexibility:** By outsourcing an element of their origination business, lenders attract new business on a variable cost basis;
- **education:** Aided by specialist skills and product knowledge, brokers educate 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 as or more profitable than business sourced through the branch or other networks; and

- **efficiency:** A broker's familiarity and experience with each lender's process can increase the efficiency of the lodgement and settlement process.

A review of Mortgage Choice's Commercial Lending program was instigated in March 2005, with the revised program being launched in July 2005.

The new Commercial Property Lending program provides a number of positive changes for Franchisees, including an expanded lender panel and availability to the entire Franchise network.

Franchise operations

Mortgage Choice licenses the use of the Mortgage Choice name and business systems to its Franchise network. Accredited loan writers (mortgage brokers) comprise Franchisees and their loans consultants.

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 Owners (MFOs).

Mortgage Choice restricts the number of Franchisees it recruits in 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.

Mortgage Choice Franchisees come from a variety of backgrounds and the Company believes that sales ability, inter-personal skills, commitment, energy and ambition are usually more important than previous industry experience.

Learning and development

Mortgage Choice is committed to deliver the most knowledgeable, competent and ethical mortgage brokers in the industry, by providing a continuous and powerful learning and development program that is respected by lenders, competitors and professional associations. The learning program involves the delivery of skills, knowledge and tools to enable our network to be the best they can be at what they do.

On joining Mortgage Choice, all Franchisees undertake comprehensive training (which is accredited by the MIAA), lender accreditation and an in-the-field mentoring program that is formally conducted on a Franchise to Franchise basis. Once the initial training is completed, brokers receive regular updates and support from the state office infrastructure and at conferences.

Franchisee support services

Mortgage Choice works closely with its Franchisees in growing their businesses through assistance in lead generation, training, brand and marketing support, field support, regulatory compliance, information systems and other ongoing support services. These services are provided by group office staff located in Sydney (e.g. lender panel negotiations and payment reconciliations) and state offices that also provide a number of administrative support 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.

Franchise consultation

Mortgage Choice realises that without Franchise support for its initiatives, they will not be as effective as planned. To this end, the Company continues to ensure there is adequate consultation on key national projects. In FY2005, key projects such as the new payments system, the strategy review process, and marketing and brand differentiation initiatives involved extensive consultation and review by Franchisees.

The Franchise Advisory Council, a democratically elected group of representative Franchise owners, formally meets bi-monthly with senior management to discuss matters of strategic and operational interest.

Branding, marketing and promotion

Over a number of years, Mortgage Choice has created a trusted and recognisable brand through its marketing activities and a long-term brand strategy built upon Mortgage Choice's consumer advocacy.

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 full marketing support is provided to all Franchisees. This is complemented by a well planned, proactive public relations strategy designed to build and maintain a positive profile for Mortgage Choice by articulating company and industry understanding to consumers through media coverage on every level from local to national outlets.

Group office engages in national and statewide marketing that generates leads through the Mortgage Choice Customer Service Centre, and aims to build a trustworthy brand that may be leveraged by Franchisees in their local area marketing. Customer Service Centre leads are distributed by Group office to the Franchise network on an equitable basis by marketing area.

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

In addition, the Company recently launched an enhanced website with a re-engineered platform designed to provide customers with easier access to information and support its lead generation activities. Franchisees are also provided with their own 'mini-site' within the Mortgage Choice website so that they can profile their business and its people, with the purpose of attracting customers.

Brand differentiation workshops were held with the Franchise network in each state. The outcome was the further development and implementation of a differentiation strategy built around trust and transparency, to create a solid marketing foundation for the Company in FY2006.



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.

During the past year, the first two modules of the Company's new Enterprise Information System were implemented. The Franchise Management module was implemented in November 2004, followed by the Supplier Management module in May 2005. Another four modules will be implemented during calendar year 2005, followed by the final module during the first half of calendar year 2006.

STRATEGY AT A GLANCE

During the year Mortgage Choice embarked on a wide-ranging and highly consultative strategic planning process. As a sales organisation, the acronym "S.A.L.E.S." was an appropriate outcome from a joint review by Franchisees and staff.

Strong Marketing means:

- effort and substantial incremental investment in differentiated branding; and
- maintaining current activity to maintain business leads – even in unsettled market conditions.

Add-ons means:

- complementary diversification.

Lender Partnership means:

- recognition of quality and professionalism.

Efficiency means:

- boosting current network productivity, not just network size;
- deploying our staff where we get best value from them;
- seamless project implementation and execution; and
- a listening partnership.

Shop Growth means:

- create a supportive infrastructure;
- 'best practice' development;
- access quality information; and
- facilitate Franchisee growth where appropriate.

Over the last twelve months, the strong growth in the number of retail premises has continued. Franchisees are choosing, where appropriate, to relocate their offices or opening new shop-fronts, kiosks or heavily branded offices in high street retail strips and shopping centres. The retail network grew by 39 to 163 permanent outlets as at 30 June 2005.

The ongoing growth in the retail footprint is being driven by Franchisees, supported by Mortgage Choice, who see the move into



retail as a profitable growth strategy for their business. Locating Mortgage Choice outlets close to other complementary businesses and increasing the presence in local communities continues to bring new and repeat customers to Mortgage Choice.

The benefits to customers from a larger retail footprint, of greater channel choice and strengthening the Mortgage Choice brand, will ensure the growth in the number of retail premises continues.

OUTLOOK

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



Mortgage Choice intends to remain focused on the residential mortgage broking market for 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 sector.

Mortgage Choice intends to remain focused on the residential mortgage broking market for the foreseeable future.

Mortgage Choice believes this focus on its core competency represents a low risk, high potential growth strategy.

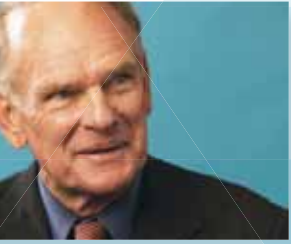
Incremental revenues from 'add on' products such as Insurance and Commercial Property Lending should allow Mortgage Choice to benefit from economies of scale, as revenue growth will not be proportionately matched by growth in the cost base.

Mortgage Choice expects some 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, high quality broker organisations.

Summary

Mortgage Choice is confident that it is well placed to achieve profitable growth in the coming year, albeit at a more modest level. Tight expense control, improved broker recruitment and the ability to scale up the business with minimal additional cost will continue to be important going forward.

BOARD OF DIRECTORS



Peter Ritchie, AO
Non-executive Chairman
Chairman of Nomination and Remuneration Committees
BCom, FCPA

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 and Solution 6 Holdings from 2000 to 2002. Age 63.



Paul Lahiff
Managing Director
BSc Agr, FAIM

Paul has over 25 years experience in the financial services industry. This includes roles as Managing Director of Permanent Trustee Limited from 1999 to 2002 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 53.



Peter Higgins
Non-executive Director
Member of Audit Committee

Peter is co-founder of Mortgage Choice. He is also a Director of a technology company – Power & Data Corporation Pty Ltd. 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 45.



Rodney Higgins
Non-executive Director
Member of Nomination and Remuneration Committees

Rodney is co-founder of Mortgage Choice. He 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 51.



Deborah Ralston
Non-executive Director
Member of Audit Committee
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 52.



Steve Jermyn
Non-executive Director
Chairman of Audit Committee
FCPA

Steve joined McDonald's Australia Ltd in 1984 and was appointed Vice President in 1986. He joined the Board of Directors in 1986, was appointed Executive Vice President in 1993 and in June 1999 was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of McDonald's in Australia and brings with him significant experience in the development of new business and franchising. Age 56.

SENIOR MANAGEMENT

Profiles of senior management other than Paul Lahiff follow:

Tony Crossley **Chief Operating Officer**

Tony has over 15 years experience in senior financial roles within the financial services industry, including from early 2000, three years as CFO and then CEO of Mortgage Choice. After a period as CFO of Macquarie Bank's Securitised Lending Division, where he had responsibility for the funding and risk management activities of its mortgage operations, Tony returned to Mortgage Choice in early 2005. Tony is responsible for effective working relationships between Mortgage Choice and its Franchisees as well as operations, sales and lender relationships.

Adam Fraser **Chief Financial Officer**

Adam holds an Economics degree from the University of Nottingham and is a qualified accountant, with over 12 years experience in accounting, corporate finance and private equity roles in the UK and Australia. His role involves directing and controlling the organisation's financial activities plus providing financial assessments and information to ensure planning and budgeting activities meets corporate goals. Adam joined Mortgage Choice in March 2003.

Mark Newton **Chief Information Officer**

Mark has over 18 years experience in information technology, including 12 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.

David Hoskins **Company Secretary**

David commenced with Mortgage Choice in June 2000. He has a Bachelor of Commerce from the University of NSW, is a CPA and a member of Chartered Secretaries Australia, from which he received a Graduate Diploma in Corporate Management. David has over 20 years experience in accounting and company secretarial functions, primarily in the finance and insurance industries. As Company Secretary, he implements and monitors corporate governance practices, compliance and corporate standards, administers Board and Shareholder matters, and co-ordinates legal counsel.

Brent McDonald **Group Franchise Operations Manager**

Brent has over 20 years experience in franchising and small business management. He joined Mortgage Choice in November 1998 and is responsible for Franchise Operations.

This area has major responsibilities in the management, development and support of the Mortgage Choice Franchise system. Brent has extensive involvement with the Franchise Council of Australia (FCA), and is the current NSW FCA State Chapter President and a member of the FCA Board. Brent has a Bachelor of Applied Science from the University of Western Sydney.

Warren O'Rourke **National Corporate Affairs Manager**

Warren holds a Marketing degree from the University of Technology, Sydney. He has over 20 years experience in financial services 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, communications 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 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. As National Lending Manager, she is responsible for the development and communication of lender strategy, co-ordination of lender interaction with the Franchise network and monitoring of industry trends. Debra joined Mortgage Choice in July 2004. She holds a Graduate Diploma in Finance and Bank Management, is a Fellow of the Australian Institute of Banking and Finance and Fellow and Councillor for the Institute of Financial Services.

Michael Writer **National Human Resources Manager**

Formerly National Manager Leadership and Talent Development with Deloitte and having worked previously at AMP Bank, Aussie Home Loans and Westpac, Michael's experience covers line management positions as well as organisational development activity. Michael is responsible for the planning, development and implementation of Group Office HR practices, ensuring policies and procedures are effective and met by staff.

CORPORATE GOVERNANCE NOTE

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.

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

- compliance with the requirement that the Board comprise a majority of independent non-executive Directors.

THE BOARD

The Board comprises Mortgage Choice's Managing Director, two non-executive Directors and three independent non-executive Directors including the Chairman. Peter Ritchie, Steve Jermyn and Deborah Ralston were appointed as non-executive Directors in the period to the Company's listing on the ASX. These individuals bring a long history of public company, operational and franchising experience with them and assist in overseeing the corporate governance of Mortgage Choice. Details of the Directors' experience, expertise, qualification, term of office and independent status are set out in the section headed 'Board of Directors' on page 10.

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;
 - 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.

The Board is not presently comprised of a majority of independent non-executive Directors. At this time the view of the Board is that the present skills and experience of the Directors has provided an operationally effective board without the expense of an additional Director. However, the Board will continue to give consideration to increasing the number of Directors to seven by the appointment of an additional non-executive Director if it is considered that the skills and experience brought by the individual supplement those of the existing Board.

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.

Directors' independence

The Board Charter sets out specific principles in relation to Directors' 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 which 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 which 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 relatively short tenure of the present Board, a performance assessment has not been conducted at this stage. A review of the Board is planned for the first half of the financial year ended 30 June 2006.

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, www.mortgagechoice.com.au, in compliance with the continuous disclosure requirements of the Corporations Act 2001 (Cth) 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, 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 has developed and implemented a compliance program. The aim of the program is to promote a culture of compliance through a number of measures including staff and Franchise network training, compliance procedures, support systems and the appointment of staff responsible for compliance.

The centrepiece of the program is a web based compliance education and evaluation tool. A self paced system, it covers the key legislative and regulatory obligations applicable to the business. Each major regulatory area (Trade Practices, Privacy, Equal Opportunity, Occupational Health and Safety, Technology, Franchising, Credit Code) is covered. All current staff have completed all modules and must do so a minimum of once per annum. New staff must complete the program within two months of commencing employment. The Board is presently completing all modules. Plans are well advanced for rolling out the program to the Franchise network from late October 2005, with all network staff being expected to complete those modules relevant to their roles within six months.

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 2005

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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 2005, referred to hereafter as 'Mortgage Choice', 'the Mortgage Choice group' or 'the group'.

1. 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:

PD Ritchie
PA Lahiff
PG Higgins
RG Higgins
SC Jermyn
DE Ralston

2. PRINCIPAL ACTIVITIES

During the year the principal continuing 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.

3. OPERATING RESULTS

The net profit of the group after providing for income tax amounted to \$12,743,000 (2004 – \$9,962,000). Further details of the results for the year are set out in the Review of Operations (Page 5).

4. DIVIDENDS

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

An 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.

An interim ordinary 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.

An interim ordinary dividend of \$4,469,000 (3.8 cents per fully paid share) was declared out of the general reserve of the Company, and to the extent that it may be required, out of profits of the Company for the half-year ended 31 December 2004 and paid on 29 April 2005.

A final ordinary dividend of \$7,056,000 (6.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2005 on 24 August 2005 and paid on 19 September 2005.

5. EARNINGS PER SHARE

| | 2005 Cents | 2004 Cents |
|----------------------------|---------------|---------------|
| Basic earnings per share | 10.9 | 9.1 |
| Diluted earnings per share | 10.9 | 9.1 |

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except for the matters disclosed in the Operating Results and Review of Operations section of this Report there have been no significant changes in the state of affairs of the consolidated entity.

7. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Except for the matters disclosed in the Review of Operations section of this Report or set out below, no other matter or circumstance has arisen since 30 June 2005 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.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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.

9. ENVIRONMENTAL REGULATION

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

10. INFORMATION ON DIRECTORS

Details of the Directors of the Company in office during or since the end of the financial year, and each Director's qualifications, age, experience and special responsibilities are included on page 10 of this Annual Report.

| Director | Particulars of Directors' interests in shares and options |
|-----------------|--|
| | Ordinary shares |
| Peter Ritchie | 297,297 shares. |
| Paul Lahiff | 100,000 shares. Conditional entitlement to 97,000 shares under PSP *. 323,200 options granted under EPOP **. |
| Peter Higgins | 18,436,534 shares |
| Rodney Higgins | 19,991,583 shares |
| Deborah Ralston | 50,000 shares. |
| Steve Jermyn | 4,000,000 shares |

*PSP – Performance Share Plan as detailed in the remuneration report.

** EPOP – Executive Performance Option Plan as detailed in the remuneration report.

11. COMPANY SECRETARY

Details of the secretary of the Company in office during or since the end of the financial year, and the secretary's qualifications, experience and special responsibilities are included on page 11 of this Annual Report.

12. 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 2005, and the numbers of meetings attended by each Director were:

| | Full meetings of Directors | |
|-----------------|----------------------------|-----------------------------|
| | Number of meetings held | Number of meetings attended |
| Peter Ritchie | 11 | 10 |
| Peter Higgins | 11 | 9 |
| Rodney Higgins | 11 | 10 |
| Paul Lahiff | 11 | 11 |
| Steve Jermyn | 11 | 10 |
| Deborah Ralston | 11 | 10 |

| | Committee Meetings | | | |
|-----------------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| | Audit Committee | | Remuneration Committee | |
| | Number of meetings held | Number of meetings attended | Number of meetings held | Number of meetings attended |
| Peter Ritchie | n/a | n/a | 3 | 3 |
| Peter Higgins | 3 | 1 | n/a | n/a |
| Rodney Higgins | n/a | n/a | 3 | 3 |
| Steve Jermyn | 3 | 3 | n/a | n/a |
| Deborah Ralston | 3 | 3 | n/a | n/a |

No Nomination Committee meetings were held during the year ended 30 June 2005.

13. RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution, Peter Higgins retires by rotation and, being eligible, offers himself for re-election.

14. REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service Agreements
- D Share-based compensation.

A 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 governance practices:

- competitiveness and reasonableness
- acceptability to Shareholders
- performance linkage / alignment of executive compensation
- transparency
- 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
- 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
- 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.

The overall level of executive reward takes into account the performance of the consolidated entity over a number of years, with greater emphasis given to the current and prior year. As the Company listed on 10 August 2004 the past 5 years comparatives are not available. Compared to 2004, however, the consolidated entity's profit from ordinary activities after income tax has grown 28%, and Shareholder wealth has grown since the date of listing by 15%. Compared to the year ended 30 June 2004, average executive remuneration has grown by approximately 5%.

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 also 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 base remuneration for the year ended 30 June 2005 was determined 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 2005 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 in executive and employee share plans, and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration. The company 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 Australian Stock Exchange.

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 executives' 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 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 following the signing of the Financial Report 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 2005, 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.

B Details of remuneration

Amounts of remuneration

Details of the remuneration of each Director of Mortgage Choice Limited and each of the five executives who received the highest remuneration for the year ended 30 June 2005, together with the continuing Chief Financial Officer and Chief Operating Officer, are set out in the following tables. The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term incentives above. The options and shares do not vest unless performance hurdles are achieved, based on share price and profit, over a three-year period as set out in the section headed Share-based compensation below. No other elements of remuneration are directly related to performance.

Directors of Mortgage Choice Limited

| 2005 | Primary | | | Post-employment | | Equity | |
|---------------------------------|-------------------------|---------------|--------------------------|--------------------|------------------------|---------------------|------------------|
| Name | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Rights & Options \$ | Total \$ |
| <i>Executive Directors</i> | | | | | | | |
| P A Lahiff Managing Director | 443,029 | 88,767 | 2,398 | 48,737 | – | 48,206 | 631,137 |
| <i>Non-executive Directors</i> | | | | | | | |
| P D Ritchie Chairman | – | – | 110,430 | 9,939 | – | – | 120,369 |
| P G Higgins | 63,144 | – | 11,807 | 5,683 | – | – | 80,634 |
| R G Higgins | 70,602 | – | 4,398 | 6,354 | – | – | 81,354 |
| S C Jermyn | 50,213 | – | – | 4,519 | – | – | 54,732 |
| D E Ralston | 50,213 | – | – | 4,519 | – | – | 54,732 |
| Total | 677,201 | 88,767 | 129,033 | 79,751 | – | 48,206 | 1,022,958 |

| 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 superannuation of \$4,597.

Other executives of Mortgage Choice Limited

| 2005 | Primary | | | Post-employment | | Equity | Total |
|--|-------------------------|----------------|--------------------------|--------------------|------------------------|---------------------|------------------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Rights & Options \$ | |
| Name | | | | | | | |
| M C Newton Chief Information Officer | 198,384 | 50,322 | – | 22,384 | – | 13,738 | 284,828 |
| C P Canty* Chief Operating Officer (From 1/7/2004 to 31/12/2004) | 125,409 | 116,666 | 10,509 | 20,858 | – | – | 273,442 |
| D M Hoskins Company Secretary | 182,360 | 40,000 | – | 20,012 | – | 6,846 | 249,218 |
| A F Fraser Corporate Finance & Strategy | 155,000 | 53,667 | – | 18,780 | – | 2,362 | 229,809 |
| I C Pepper National Marketing Manager | 164,091 | 32,049 | – | 17,653 | – | 6,159 | 219,952 |
| D S Bayes Chief Operating Officer (From 4/1/2005) | 89,523 | – | – | 8,057 | – | 8,839 | 106,419 |
| A D Crossley Chief Financial Officer (From 14/2/2005) | 79,636 | – | – | 7,167 | – | 4,840 | 91,643 |
| Total | 994,403 | 292,704 | 10,509 | 114,911 | – | 42,784 | 1,455,311 |

*C P Canty resigned on 31 December 2004.

| 2004 | Primary | | | Post-employment | | Equity | Total |
|--|-------------------------|----------------|--------------------------|--------------------|------------------------|------------|------------------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Options \$ | |
| Name | | | | | | | |
| 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.

Cash bonuses, options and performance shares

For each cash bonus, grant of options and offer of performance shares included in the above tables, the percentage of available bonus, grant or offer that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses or grants of options are payable in future years.

| Name | Cash bonus | | Options | | Performance shares | |
|--------------|------------|-------------|----------|-------------|--------------------|-------------|
| | Paid % | Forfeited % | Vested % | Forfeited % | Vested % | Forfeited % |
| P A Lahiff | 100 | – | 0 | – | 0 | – |
| M C Newton | 100 | – | 0 | – | 0 | – |
| C P Canty * | n/a | n/a | – | 100 | – | 100 |
| D M Hoskins | 100 | – | 0 | – | 0 | – |
| A F Fraser | 100 | – | 0 | – | 0 | – |
| I C Pepper | 100 | – | 0 | – | 0 | – |
| D S Bayes | n/a | n/a | 0 | – | 0 | – |
| A D Crossley | n/a | n/a | 0 | – | 0 | – |

* Shares and options have been forfeited as part of termination of employment.

C Service Agreements

Remuneration and other terms of employment for the Managing Director and the specified executives are set out in their respective letters of employment. The employment letters do not prescribe the duration of employment for executives. The periods of notice required to terminate employment are set out below:

- The employment of Messrs Lahiff, Bayes and Crossley is terminable by either the Company or the executive giving three month's notice.
- The employment of Messrs Hoskins, Pepper and Fraser is terminable by either the Company or the executive giving four week's notice.
- The employment of Mr Newton is terminable by either the Company or Mr Newton giving one month's notice.

Except as noted below, no provision is made for termination payments other than amounts paid in respect of notice of termination.

Mr Lahiff's employment terms provide that in the event of the sale of the Company's business or corporate restructure, subject to certain conditions relating to length of service, Mr Lahiff will become entitled to a severance payment equivalent to 12 months salary, less any amounts paid in respect of notice of termination under the terms of his employment.

D Share-based Compensation

Executive Performance Option Plan (EPOP)

The Executive Performance Option Plan may be offered on an annual basis to a limited number of the most senior executives within the Company. The issue of Options has been confined to the Managing Director and the Company's three most senior executives, being the Chief Financial Officer, Chief Operating Officer and Chief Information Officer. Participation in the EPOP provides one component of the market-based long-term incentive available to the selected executives within their aggregate remuneration package.

Under the terms of the EPOP, Options (each over one Share) are granted to senior executives identified by the Board. Any Options offered and granted to the executives have an exercise price based on the market value of the Company's Shares at the time of offer. Market value will be the trade-weighted average price of the Company's Shares over the one-week period immediately preceding the date of offer.

The Options offered to executives under the EPOP are subject to performance conditions set by the Board. Offers have a three-year performance period. In relation to Options offered during the year ended 30 June 2005, the performance requirement will be based on the total Shareholder return (TSR) of the Company compared to the TSRs of a comparator group of companies. TSR is the percentage increase in the Company's Share price plus reinvested dividends, expressed as a percentage of the initial investment, and reflects the increase in value delivered to Shareholders over the period.

The Company's TSR will be compared to the TSRs of companies in a comparator group comprised of selected S & P ASX Top 300 companies, being entities of broadly similar size to that of Mortgage Choice, but excluding mining and resource companies, property trust companies or trusts and investment companies or trusts, over the performance period. The comparator companies have been drawn from a group within an approximate range of 40% to 200% of the market capitalisation of Mortgage Choice at the time of listing.

The companies comprising the comparator group are iiNET Limited, Invocare Limited, Clough Limited, Programmed Maintenance Services Limited, Rebel Sport Limited, Sunland Group Limited, Globe International Limited, Psivida Limited, Village Life Limited, Capral Aluminium Limited, Brazin Limited, Peptech Limited, AAV Limited, Hpal Limited, SDI Limited, Gribbles Group Limited (The), ERG Limited, Schaffer Corporation Limited, Nylex Limited, Silex Systems Limited, Volante Group Limited, Technology One Limited, SAI Global Limited, Henry Walker Eltin Group Limited, Cellestis Limited, Villa World Limited, Boom Logistics Limited, Sirtex Medical Limited, Vision Systems Limited, Collection House Limited, Maxitrans Industries Limited, Keycorp Limited, Symex Holdings Limited, Virotec International Limited, SMS Management & Technology Limited, UXC Limited, Norwood Abbey Limited, Institute Of Drug Technology Australia Limited, Macmahon Holdings Limited, Tempo Services Limited, Agenix Limited, Unitract Limited, Genetic Technologies Limited, Atlas Group Holdings Limited, Circadian Technologies Limited, Peppercorn Investment Fund, Primelife Corporation Limited, Kresta Holdings Limited, Coffey International Limited, Orbital Engine Corporation Limited, Citect Corporation Limited and Multimedia Limited.

If any of the companies in the comparator group ceases to exist in its current form for any reason other than its liquidation, or if the Board determines in its discretion that a company should no longer be in the comparator group because of an anomaly, distortion or other event that is not directly related to the financial performance of that company, that company will cease to form part of the comparator group.

Options will not become exercisable unless Mortgage Choice's TSR is above the 50th percentile of the comparator group at the end of the performance period. Above the 50th percentile, Options will vest and become exercisable in accordance with a vesting scale.

For example:

| Company Performance (TSR Percentile Ranking) | Percentage of offered Options allocated |
|--|---|
| At or below the 50th percentile | 0% |
| At the 51st percentile | 52% |
| 75th percentile or above | 100% |

Between the 51st percentile and 75th percentiles, an additional 2% of Options will vest for every percentile increase in TSR ranking.

The rules of the EPOP permit the Company to issue new Shares or to purchase Shares on-market for the purposes of satisfying the exercise of Options. The terms of the offers during the financial year require that the Company issue new Shares rather than acquire the Shares on-market.

Any Options which do not become exercisable following the application of the performance condition and vesting scale will lapse. An Option that has become exercisable but is not exercised will lapse on the earlier of:

- 10 years after the date of offer;
- three months, or such other period determined by the Board, after the participant ceases employment for a reason other than a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, and any other reason determined by the Board); and
- 12 months, or such other period determined by the Board, after the participant ceases employment for a 'qualifying reason'.

Where a participant ceases to be employed by the Company other than because of a 'qualifying reason', any Options that have not become exercisable will lapse. However, in the event of a change of control of the Company or if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the Options may vest.

If the Board determines that a participant has acted fraudulently or dishonestly, has committed an act of harassment or discrimination, is in serious breach of any duty to Mortgage Choice, or, in the Board's reasonable opinion, has brought Mortgage Choice into serious disrepute, any Options held by the participant will lapse.

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

| Grant Date | Expiry Date | Exercise Price | Value per option at grant date | Date exercisable |
|------------------|------------------|----------------|--------------------------------|---|
| 10 August 2004 | 10 August 2007 | \$1.05 | \$0.315 | From 11 August 2007 to 10 August 2014 |
| 4 January 2005 | 4 January 2008 | \$0.91 | \$0.270 | From 5 January 2008 to 4 January 2015 |
| 24 February 2005 | 24 February 2008 | \$1.08 | \$0.320 | From 25 February 2008 to 24 February 2015 |

Further details relating to options are set out below.

| Name | A Remuneration consisting of options | B Value at grant date \$ | C Value at exercise date \$ | D Value at lapse date \$ | E Total of columns B-D \$ |
|--------------|---|-----------------------------------|--------------------------------------|-----------------------------------|------------------------------------|
| P A Lahiff | 22.6% | 101,808 | – | – | 101,808 |
| M C Newton | 15.0% | 29,043 | – | – | 29,043 |
| C P Canty * | 15.0% | 32,130 | – | – | 32,130 |
| D S Bayes | 15.0% | 34,020 | – | – | 34,020 |
| A D Crossley | 15.0% | 26,176 | – | – | 26,176 |

* Options have been forfeited as part of termination of employment.

Performance Share Plan (PSP)

The PSP permits eligible senior managers identified by the Board to be offered conditional entitlements to Shares. The Shares allocated to those employees are subject to the achievement of performance requirements specified by the Board. The PSP is designed to provide the long-term incentive component of remuneration for senior managers, in line with the Company's overall reward strategy, which aims to attract, motivate and retain high-performing managers.

Participation in the PSP is offered on an annual basis. Eligible senior managers are offered Shares to a value determined by reference to the Company's reward policy and market practice with regard to long-term incentive arrangements provided by peer organisations. The actual number of Shares allocated to participants depends on Mortgage Choice's performance against the performance criteria. Any conditional entitlements that participants do not become entitled to at the end of the performance period (i.e. as the performance condition has not been met in full), will lapse.

The performance requirements and vesting scale applicable to the offers under the PSP during the year ended 30 June 2005 are identical to those specified for the initial offer under the Executive Performance Option Plan.

The rules of the PSP permit the Company to issue new Shares or to purchase Shares on-market if the performance requirements are satisfied at the end of the three-year performance period. The terms of the offers during the year ended 30 June 2005 require that the Company issue new Shares rather than acquire the Shares on-market. Participants will not be required to pay for any Shares that may be allocated to them under the PSP. Until the Shares are released from the PSP, they will remain subject to the PSP rules and to the 'holding lock' applied pursuant to those rules, and the participant will be restricted in his or her ability to deal in those Shares.

Shares will not be released from the PSP and will remain subject to a holding lock until a Notice of Withdrawal, that has been approved by the Board, is lodged with the Plan Administrator in respect of them. Once a Notice of Withdrawal is accepted, the Plan Administrator will release the holding lock in respect of the Shares which are the subject of that Notice.

A Notice of Withdrawal may be lodged by a participant following the earlier of:

- 1 July in the year (being a period commencing 1 July and ending 30 June) that is 10 years after the year in which the offer is made and is accepted by the participant;
- the participant ceasing to be an employee of the Company;
- a 'capital event' (generally, a successful takeover offer or scheme of arrangement relating to the Company) occurring; and
- the date upon which the Board gives its written consent to the lodgement of a Notice of Withdrawal by the participant.

While Shares remain subject to the PSP rules, participants will, in general, enjoy the rights attaching to those Shares (such as voting or dividend rights etc). These rights are not available to participants prior to the performance requirements being met.

Where a participant ceases to be employed by Mortgage Choice prior to the end of the performance period, other than because of a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, and any other reason determined by the Board), any conditional entitlements to receive Shares will lapse. However, in the event of a change in control of the Company or if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the Shares may be allocated to the participant.

If the Board determines that a participant has acted fraudulently or dishonestly, has committed an act of harassment or discrimination, is in serious breach of any duty to Mortgage Choice, or, in the Board's reasonable opinion, has brought Mortgage Choice into serious disrepute, any Shares to which the participant may have become entitled at the end of the performance period, and any Shares held by the participant under the PSP are forfeited by the participant.

Directors' report continued

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

| Offer Date | Value per performance share at offer date | Vesting Date |
|------------------|---|------------------|
| 10 August 2004 | \$1.05 | 10 August 2007 |
| 4 January 2005 | \$0.91 | 4 January 2008 |
| 24 February 2005 | \$1.08 | 24 February 2008 |

Further details relating to performance shares are set out below:

| Name | A Remuneration consisting of performance shares | B Value at offer date \$ | C Value at entitlement date \$ | D Value at lapse date \$ | E Total of columns B-D \$ |
|--------------|---|-----------------------------------|--|-----------------------------------|------------------------------------|
| P A Lahiff | 22.6% | 101,850 | – | – | 101,850 |
| M C Newton | 15.0% | 28,980 | – | – | 28,980 |
| C P Canty * | 15.0% | 32,130 | – | – | 32,130 |
| D M Hoskins | 20.0% | 35,595 | – | – | 35,595 |
| A F Fraser | 20.0% | 22,477 | – | – | 22,477 |
| I C Pepper | 20.0% | 32,025 | – | – | 32,025 |
| D S Bayes | 15.0% | 34,404 | – | – | 34,404 |
| A D Crossley | 15.0% | 26,460 | – | – | 26,460 |

* Shares have been forfeited as part of termination of employment.

Share options granted and performance shares offered to Directors and the most highly remunerated officers

Options over unissued ordinary shares of Mortgage Choice Limited granted and performance shares offered during or since the end of the financial year to any of the Directors or the 5 most highly remunerated officers of the Company as part of their remuneration were as follows:

| | Options | | Performance Shares | |
|--------------------------------|---------|------------------|--------------------|------------------|
| | Number | Date Granted | Number | Date Offered |
| Director | | | | |
| P A Lahiff – Managing Director | 323,200 | 10 August 2004 | 97,000 | 10 August 2004 |
| Other Executives | | | | |
| M C Newton | 92,200 | 10 August 2004 | 27,600 | 10 August 2004 |
| C P Canty * | 102,000 | 10 August 2004 | 30,600 | 10 August 2004 |
| D M Hoskins | n/a | n/a | 33,900 | 10 August 2004 |
| A F Fraser | n/a | n/a | 24,700 | 4 January 2005 |
| I C Pepper | n/a | n/a | 30,500 | 10 August 2004 |
| D S Bayes | 126,000 | 4 January 2005 | 37,807 | 4 January 2005 |
| A D Crossley | 81,000 | 24 February 2005 | 24,500 | 24 February 2005 |

* Shares and options have been forfeited as part of termination of employment.

The options were granted under the Executive Performance Option Plan and the performance shares were offered under the Performance Share Plan.

Shares issued on the exercise of options

The following ordinary shares of Mortgage Choice Limited were issued in the year ended 30 June 2005. No amounts are unpaid on any of the shares.

| Date options granted | Date Options Exercised | Issue price of shares | Number of shares issued |
|----------------------|------------------------|-----------------------|-------------------------|
| 10 December 2001 | 20 July 2004 | \$0.988 | 1,098,300 |
| 10 December 2001 | 27 July 2004 | \$0.988 | 1,098,300 |
| | | | 2,196,600 |

15. INSURANCE OF OFFICERS

Insurance premiums were paid for the year ended 30 June 2005 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.

16. 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.

17. NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 as none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 31.

| | Consolidated | |
|--|--------------|------------|
| | 2005 \$ | 2004 \$ |

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Assurance services

1. Audit services

PricewaterhouseCoopers Australian firm:

| | | |
|--|----------------|--------|
| Audit and review of financial reports and other audit work under the Corporations Act 2001 | 122,000 | 89,500 |
| Total remuneration for audit services | 122,000 | 89,500 |

2. Other assurance services

PricewaterhouseCoopers Australian firm:

| | | |
|--|----------------|---------|
| Due diligence services | 40,401 | 60,000 |
| Other assurance services | 16,000 | 48,155 |
| Total remuneration for other assurance services | 56,401 | 108,155 |
| Total remuneration for assurance services | 178,401 | 197,655 |

| | Consolidated | |
|---|----------------|---------------|
| | 2005 \$ | 2004 \$ |
| <i>Taxation services</i> | | |
| PricewaterhouseCoopers Australian firm: | | |
| Tax compliance services, including review of company income tax returns | 110,330 | 92,609 |
| Other tax services | 10,475 | – |
| Total remuneration for taxation services | 120,805 | 92,609 |

Advisory services

| | | |
|---|----------------|----------------|
| PricewaterhouseCoopers Australian firm: | | |
| Initial Public Offering Services | 115,380 | 391,510 |
| Total remuneration for advisory services | 115,380 | 391,510 |

18. 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.

19. 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
Director

Sydney
20 September 2005

Auditors' Independence Declaration

As lead auditor for the audit of Mortgage Choice Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mortgage Choice Limited during the period.



Wayne Andrews
Partner
PricewaterhouseCoopers

Sydney
20 September 2005

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2005

| | Notes | Consolidated | | Parent entity | |
|--|-------|-----------------|----------------|-----------------|----------------|
| | | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Revenue from ordinary activities | 2 | 110,513 | 102,889 | 110,513 | 103,087 |
| Expenses from ordinary activities | | | | | |
| Sales | | (73,831) | (69,255) | (73,831) | (69,255) |
| Technology | | (3,824) | (3,492) | (3,824) | (3,492) |
| Marketing | | (7,648) | (7,231) | (7,648) | (7,231) |
| Finance | | (1,836) | (1,930) | (1,836) | (1,930) |
| Corporate | | (5,141) | (6,575) | (5,141) | (6,772) |
| Borrowing costs | | (2) | (5) | (2) | (5) |
| Profit from ordinary activities before income tax expense | 3 | 18,231 | 14,401 | 18,231 | 14,402 |
| Income tax expense | 4 | (5,488) | (4,439) | (5,488) | (4,439) |
| Net profit attributable to the members of Mortgage Choice Limited | | 12,743 | 9,962 | 12,743 | 9,963 |
| | | Cents | Cents | | |
| Basic earnings per share | | 10.9 | 9.1 | | |
| Diluted earnings per share | | 10.9 | 9.1 | | |

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

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2005

| | Notes | Consolidated | | Parent entity | |
|--|-------|----------------|----------------|----------------|----------------|
| | | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Current assets | | | | | |
| Cash | 5 | 11,462 | 11,199 | 11,462 | 11,199 |
| Receivables | 6 | 9,571 | 8,289 | 9,571 | 8,289 |
| Other | 7 | 222 | 1,223 | 222 | 1,223 |
| Total current assets | | 21,255 | 20,711 | 21,255 | 20,711 |
| Non-current assets | | | | | |
| Investments | 25 | – | – | – | – |
| Property, plant and equipment | 8 | 2,934 | 1,862 | 2,934 | 1,862 |
| Deferred tax assets | 9 | 1,206 | 1,158 | 1,206 | 1,158 |
| Total non-current assets | | 4,140 | 3,020 | 4,140 | 3,020 |
| Total assets | | 25,395 | 23,731 | 25,395 | 23,731 |
| Current liabilities | | | | | |
| Payables | 10 | 11,743 | 11,964 | 11,743 | 11,964 |
| Current tax liabilities | 11 | 3,121 | 1,329 | 3,121 | 1,329 |
| Other | 12 | 372 | 3,193 | 372 | 3,193 |
| Total current liabilities | | 15,236 | 16,486 | 15,236 | 16,486 |
| Non-current liabilities | | | | | |
| Provisions | 13 | 144 | 113 | 144 | 113 |
| Other | 14 | 232 | 270 | 232 | 270 |
| Total non-current liabilities | | 376 | 383 | 376 | 383 |
| Total liabilities | | 15,612 | 16,869 | 15,612 | 16,869 |
| Net assets | | 9,783 | 6,862 | 9,783 | 6,862 |
| Equity | | | | | |
| Contributed equity | 15 | 81 | 8,293 | 81 | 8,293 |
| Retained earnings/(Accumulated losses) | 16 | 9,702 | (6,780) | 9,702 | (6,780) |
| General reserve | 16 | – | 5,349 | – | 5,349 |
| Total equity | | 9,783 | 6,862 | 9,783 | 6,862 |

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 2005

| | Notes | Consolidated | | Parent entity | |
|--|-------|-----------------|----------------|-----------------|----------------|
| | | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Cash flows from operating activities | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 119,621 | 111,699 | 119,621 | 111,917 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (102,080) | (95,618) | (102,080) | (96,086) |
| | | 17,541 | 16,081 | 17,541 | 15,831 |
| Interest received | | 588 | 533 | 588 | 533 |
| Borrowing costs | | (2) | – | (2) | – |
| Income taxes paid | | (3,744) | (4,897) | (3,744) | (4,897) |
| Net cash inflow from operating activities | 27 | 14,383 | 11,717 | 14,383 | 11,467 |
| Cash flows from investing activities | | | | | |
| Payments for plant and equipment | | (1,895) | (1,134) | (1,895) | (1,134) |
| Proceeds from sale of plant and equipment | | 12 | 2 | 12 | 2 |
| Proceeds from redemption of FAC units | | – | – | – | 250 |
| Net cash outflow from investing activities | | (1,883) | (1,132) | (1,883) | (882) |
| Cash flows from financing activities | | | | | |
| Proceeds from sale of shares | | 7,531 | – | 7,531 | – |
| Payment for capital reduction | | (8,962) | (1,318) | (8,962) | (1,318) |
| Dividends paid | | (10,806) | (6,645) | (10,806) | (6,645) |
| Net cash outflow from financing activities | | (12,237) | (7,963) | (12,237) | (7,963) |
| Net increase in cash held | | 263 | 2,622 | 263 | 2,622 |
| Cash at the beginning of the financial year | | 11,199 | 8,577 | 11,199 | 8,577 |
| Cash at the end of the financial year | 5 | 11,462 | 11,199 | 11,462 | 11,199 |

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2005

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.

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS (AIFRS), and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of AIFRS will be first reflected in the Company's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to AIFRS is being managed, and the key differences in accounting policies that are expected to arise, are set out in note 30.

(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 2005 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 4 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) *Other income*

Other income includes contributions from lenders towards conferences and workshops together with other non-operating revenues. These are recognised as income in the year the conference or workshop is held.

Note 1 Summary of significant accounting policies (continued)

(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 cashflows included in determining the recoverable amounts of non-current assets are not discounted.

(g) Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows.

| | |
|------------------------|-------------|
| Office equipment | 5-10 years |
| Computer equipment | 3-4 years |
| Furniture and fittings | 10-15 years |
| 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 straight line 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.

(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.

(v) *Equity-based compensation benefits*

Equity-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan, Performance Share Plan and an employee share scheme. Information relating to these schemes is set out in the Remuneration report and note 23.

No accounting entries are made in relation to the Mortgage Choice Executive Performance Option Plan until options are exercised, at which time the amounts receivable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of Directors and executives in the Remuneration report and note 19 include the assessed fair values of options at the date they were granted.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as a liability and as part of employee benefit costs when the employees become entitled to the shares. When the shares are issued, their market value is recognised in the statement of financial position as share capital.

(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.

Note 1 Summary of significant accounting policies (continued)

(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) 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 | |
|--|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Revenue from operating activities | | | | |
| Services | 108,200 | 101,727 | 108,200 | 101,707 |
| Revenue from outside the operating activities | | | | |
| Interest | 588 | 533 | 588 | 533 |
| Revenue from sale of non-current assets | 12 | 2 | 12 | 2 |
| Trust distribution income | – | – | – | 218 |
| Other | 1,713 | 627 | 1,713 | 627 |
| | 2,313 | 1,162 | 2,313 | 1,380 |
| Revenue from ordinary activities | 110,513 | 102,889 | 110,513 | 103,087 |

NOTE 3 PROFIT FROM ORDINARY ACTIVITIES

| | Consolidated | | Parent entity | |
|---|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'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 | 2 | 5 | 2 | 5 |
| Net loss on disposal of non-current assets: | | | | |
| Plant and equipment | 12 | 4 | 12 | 4 |
| Depreciation | | | | |
| Plant and equipment | 271 | 456 | 271 | 456 |
| Amortisation | | | | |
| Leasehold improvements | 163 | 69 | 163 | 69 |
| Computer software | 366 | 369 | 366 | 369 |
| Other provisions | | | | |
| Employee entitlements | 31 | 47 | 31 | 47 |
| Doubtful debts | | – | | – |
| Rental expense relating to operating leases | 767 | 816 | 767 | 816 |

NOTE 4 INCOME TAX

| | Consolidated | | Parent entity | |
|---|---------------|--------------|----------------|----------------|
| | 2005 '000 | 2004 '000 | 2005 \$'000 | 2004 \$'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 | 18,231 | 14,401 | 18,231 | 14,402 |
| Income tax calculated @ 30% | 5,469 | 4,320 | 5,469 | 4,320 |
| Tax effect of permanent differences: | | | | |
| Sundry items | 15 | 125 | 15 | 114 |
| Income tax adjusted for permanent differences | 5,484 | 4,445 | 5,484 | 4,434 |
| Under/(over) provision from prior years | 4 | (6) | 4 | 5 |
| Income tax attributable to operating profit | 5,488 | 4,439 | 5,488 | 4,439 |

No part of the future income tax benefit shown in Note 9 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 | |
|--------------------------|---------------|--------------|----------------|----------------|
| | 2005 '000 | 2004 '000 | 2005 \$'000 | 2004 \$'000 |
| Cash at bank and on hand | 302 | 216 | 302 | 216 |
| Deposits at call | 11,160 | 10,983 | 11,160 | 10,983 |
| | 11,462 | 11,199 | 11,462 | 11,199 |

Deposits at call

The deposits are bearing interest rates between 5.38% and 5.56% (2004 – 4.48% and 5.35%).

NOTE 6 CURRENT ASSETS – RECEIVABLES

| | Consolidated | | Parent entity | |
|------------------------------|--------------|--------------|----------------|----------------|
| | 2005 '000 | 2004 '000 | 2005 \$'000 | 2004 \$'000 |
| Trade debtors ⁽¹⁾ | 9,377 | 8,076 | 9,377 | 8,076 |
| Franchisee receivables | 106 | 116 | 106 | 116 |
| Other debtors | 88 | 97 | 88 | 97 |
| | 9,571 | 8,289 | 9,571 | 8,289 |

(1) Subject to a limited charge in favour of The Loan Book Security Trust (refer to Note 10).

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 | |
|--------------------------|--------------|--------------|----------------|----------------|
| | 2005 '000 | 2004 '000 | 2005 \$'000 | 2004 \$'000 |
| Prepayments | 222 | 165 | 222 | 165 |
| IPO costs ⁽¹⁾ | – | 1,058 | – | 1,058 |
| | 222 | 1,223 | 222 | 1,223 |

(1) Costs paid in the year ended 30 June 2004 relating to Mortgage Choice Limited's Initial Public Offering were deferred as they were 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 were offset against capital raised from the offer.

NOTE 8 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| | Consolidated | | Parent entity | |
|-------------------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Leasehold improvements | | | | |
| Leasehold improvements – at cost | 1,490 | 927 | 1,490 | 927 |
| Less: Accumulated amortisation | (726) | (563) | (726) | (563) |
| Total leasehold improvements | 764 | 364 | 764 | 364 |
| Plant and equipment | | | | |
| Plant and equipment – at cost | 3,091 | 2,855 | 3,091 | 2,855 |
| Less: Accumulated depreciation | (2,393) | (2,131) | (2,393) | (2,131) |
| | 698 | 724 | 698 | 724 |
| Computer software | | | | |
| Computer software – at cost | 2,893 | 1,827 | 2,893 | 1,827 |
| Less: Accumulated amortisation | (1,421) | (1,053) | (1,421) | (1,053) |
| | 1,472 | 774 | 1,472 | 774 |
| Total Property, plant and equipment | 2,934 | 1,862 | 2,934 | 1,862 |

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 \$'000 | Plant and equipment \$'000 | Computer software \$'000 | Total \$'000 |
|---------------------------------------|----------------------------------|-------------------------------|-----------------------------|-----------------|
| Consolidated and parent entity | | | | |
| Carrying amount at 1 July 2004 | 364 | 724 | 774 | 1,862 |
| Additions | 563 | 267 | 1,065 | 1,895 |
| Disposals | – | (22) | (1) | (23) |
| Depreciation/amortisation expense | (163) | (271) | (366) | (800) |
| Carrying amount at 30 June 2005 | 764 | 698 | 1,472 | 2,934 |

NOTE 9 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | Consolidated | | Parent entity | |
|---------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Future income tax benefit | 1,206 | 1,158 | 1,206 | 1,158 |

NOTE 10 CURRENT LIABILITIES – PAYABLES

| | Consolidated | | Parent entity | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Trade creditors ⁽¹⁾ | 8,478 | 8,025 | 8,478 | 8,025 |
| Other creditors | 3,265 | 3,939 | 3,265 | 3,939 |
| | 11,743 | 11,964 | 11,743 | 11,964 |

(1) 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 2005, the amount subject to charge resulting from applying the specified percentage to the trailing commission income due to Mortgage Choice Limited is \$2,040,674 (2004 - \$1,763,297). This is included as part of the balance of trade creditors at 30 June 2005 and is subject to charge until disbursed to the eligible Franchisees. The amount subject to the charge will vary dependant 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 11 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

| | Consolidated | | Parent entity | |
|------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Income tax | 3,121 | 1,329 | 3,121 | 1,329 |

NOTE 12 CURRENT LIABILITIES – OTHER

| | Consolidated | | Parent entity | |
|----------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Licence fees repayable | 372 | 777 | 372 | 777 |
| Dividend payable (Note 17) | – | 2,416 | – | 2,416 |
| | 372 | 3,193 | 372 | 3,193 |

NOTE 13 NON-CURRENT LIABILITIES – PROVISIONS

| | Consolidated | | Parent entity | |
|---------------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Employee entitlements (Note 23) | 144 | 113 | 144 | 113 |

NOTE 14 NON-CURRENT LIABILITIES – OTHER

| | Consolidated | | Parent entity | |
|------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Licence fees repayable | 232 | 270 | 232 | 270 |
| | 232 | 270 | 232 | 270 |

NOTE 15 CONTRIBUTED EQUITY

(a) Contributed Equity

| | Consolidated | | Parent entity | |
|------------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Ordinary shares – fully paid | 117,593 | 109,830 | 81 | 8,293 |

(b) Movements in ordinary share capital

| Date | Details | Number of shares | Transaction price | \$'000 |
|----------------|---|------------------|-------------------|---------|
| 1 July 2004 | Opening balance | 109,830,000 | | 8,293 |
| 20 July 2004 | Issue of shares upon exercise of options | 1,098,300 | \$0.988 | 1,085 |
| 27 July 2004 | Issue of shares upon exercise of options | 1,098,300 | \$0.988 | 1,085 |
| 4 August 2004 | Share issue for no consideration | 74,667 | – | – |
| 6 August 2004 | Capital reduction | – | \$0.08 | (8,962) |
| 9 August 2004 | Offset, by share capital reduction, of accumulated losses | – | – | (6,780) |
| 10 August 2004 | Initial Public Offering | 5,491,500 | \$1.05 | 5,766 |
| 10 August 2004 | Initial Public Offering – costs associated | – | – | (406) |
| 30 June 2005 | Balance | 117,592,767 | | 81 |

- 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.
- 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 9 August 2004, an offset by share capital reduction, of accumulated losses of \$6.780m against contributed equity, occurred three business days after the transfer and allotment of Shares under the Offer.
- On 10 August 2004, issue of 5.5m ordinary shares to Franchises, employees and other persons raising \$5.36m (net of issue costs of \$406,000) and listing of the Company on the ASX.

(c) Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, are set out in note 23.

(d) Options

On 10 December 2001, 2,196,600 share options were issued to former non-executive Directors in accordance with Shareholder approval. These share options were exercised on 20 July 2004 and 27 July 2004 at 98.8 cents per share.

Information relating to the Mortgage Choice Executive Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in the Remuneration report.

NOTE 16 RESERVES AND RETAINED PROFITS/ (ACCUMULATED LOSSES)

(a) General reserve

| | Consolidated entity | | Parent entity | |
|---|---------------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| General reserve at beginning of the financial year | 5,349 | – | 5,349 | – |
| Transfer from retained profits/(accumulated losses) * | – | 7,765 | – | 7,765 |
| Dividends provided for out of general reserve | (5,349) | (2,416) | (5,349) | (2,416) |
| General reserve at end of the financial period | – | 5,349 | – | 5,349 |

* The general reserve contained amounts of retained profits that have been set aside by the Directors so as not to be tainted by prior period losses.

(b) Retained profits/(accumulated losses)

| | Consolidated entity | | Parent entity | |
|--|---------------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Accumulated losses at the beginning of the financial period | (6,780) | (2,332) | (6,780) | (2,333) |
| Offset, by share capital reduction, of accumulated losses | 6,780 | – | 6,780 | – |
| Net profit for period | 12,743 | 9,962 | 12,743 | 9,963 |
| Dividends paid out of profit (note 17) | (3,041) | (6,645) | (3,041) | (6,645) |
| Transfer of residual profits for the year ended 30 June 2004 to general reserve | | (7,765) | | (7,765) |
| Retained profits/(accumulated losses) at the end of the financial period | 9,702 | (6,780) | 9,702 | (6,780) |

NOTE 17 DIVIDENDS

Ordinary shares

| | Parent entity | |
|--|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 |
| 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 the general reserve of the of 3.5 cents per fully paid share paid on 5 August 2004: | | |
| Fully franked based on tax paid @ 30% | | |
| 3.5 cents per share | 3,921 | |
| Interim dividend declared out of the general reserve and out of profits of the Company for the half-year ended 31 December 2004 of 3.8 cents per fully paid share paid on 29 April 2005: | | |
| Fully franked based on tax paid @ 30% | | |
| 3.8 cents per share | | |
| From general reserve | 1,428 | – |
| From profit | 3,041 | – |
| | 8,390 | 9,061 |

Franked dividend

The franked portions of the final dividends recommended after 30 June 2005 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 2006.

| | Parent entity | | Parent entity | |
|--|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Franking credits available for subsequent financial years based on a tax rate of 30% | 4,539 | 2,599 | 4,539 | 2,599 |

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

- franking credits that will arise from the payment of the current tax liability
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- franking credits that may be prevented from being distributed in subsequent financial years.

NOTE 18 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.

| 2005 | Notes | Fixed interest maturing in: | | | | | Total \$'000 |
|------------------------------------|-------|--|-----------------------------|--------------------------------|--------------------------------|---------------------------------------|-----------------|
| | | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 5 years \$'000 | More than 5 years \$'000 | Non- interest bearing \$'000 | |
| Financial assets | | | | | | | |
| Cash and deposits | 5 | 302 | 11,160 | – | – | – | 11,462 |
| Receivables | 6 | – | – | – | – | 9,571 | 9,571 |
| | | 302 | 11,160 | – | – | 9,571 | 21,033 |
| Weighted average interest rate | | 3.90% | 5.50% | | | n/a | |
| Financial liabilities | | | | | | | |
| Trade and other creditors | 10 | – | – | – | – | 11,743 | 11,743 |
| | | – | – | – | – | 11,743 | 11,743 |
| Weighted average interest rate | | | | | | n/a | |
| Net financial assets (liabilities) | | 302 | 11,160 | – | – | (2,172) | 9,290 |

| 2004 | Notes | Fixed interest maturing in: | | | | | Total \$'000 |
|------------------------------------|-------|--|-----------------------------|--------------------------------|--------------------------------|---------------------------------------|-----------------|
| | | Floating interest rate \$'000 | 1 year or less \$'000 | Over 1 to 5 years \$'000 | More than 5 years \$'000 | Non- interest bearing \$'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 | 10 | – | – | – | – | 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 |

Note 18 Financial instruments (continued)

Reconciliation of net financial assets to net assets

| | Notes | 2005 \$'000 | 2004 \$'000 |
|---------------------------------------|--------|----------------|----------------|
| Net financial assets as above | | 9,290 | 7,524 |
| Non-financial assets and liabilities: | | | |
| Property, plant and equipment | 8 | 2,934 | 1,862 |
| Deferred tax assets | 9 | 1,206 | 1,158 |
| Other assets | 7 | 222 | 1,223 |
| Provision for employee benefits | 13 | (144) | (113) |
| Current tax liabilities | 11 | (3,121) | (1,329) |
| Other liabilities | 12, 14 | (604) | (3,463) |
| Net asset per balance sheet | | 9,783 | 6,862 |

NOTE 19 DIRECTOR AND EXECUTIVE DISCLOSURES

Directors

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

Chairman – non-executive

P D Ritchie

Executive Directors

P A Lahiff, Managing Director

Non-executive Directors

P G Higgins

R G Higgins

S C Jermyn

D E Ralston

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

The following persons were the eight 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 (from 1 July 2004 – 31 December 2004) |
| D S Bayes | Chief Operating Officer (from 4 January 2005) |
| E G Macgregor | Chief Financial Officer (from 1 July 2004 – 24 September 2004) |
| P V Borg | Chief Financial Officer (from 6 September 2004 – 18 February 2005) |
| A D Crossley | Chief Financial Officer (from 14 February 2005) |
| 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 2004, except for D S Bayes who commenced employment with the group on 4 January 2005, P V Borg who commenced employment with the group on 6 September 2004 and ceased employment on 18 February 2005 and A D Crossley who commenced employment with the group on 14 February 2005.

Remuneration of Directors and executives

Principles used to determine the nature and amount of remuneration

Information relating to the principles used to determine the nature and amount of remuneration is set out in the Remuneration report.

Details of remuneration

Details of the remuneration of each Director of Mortgage Choice Limited and each of the five executives who received the highest remuneration for the year ended 30 June 2005, together with the continuing Chief Financial Officer and Chief Operating Officer, are set out in the Remuneration report. In addition to these, the former executives set out in the table below are considered to be specified executives as defined in AASB 1046 Director and Executive Disclosures by Disclosing Entities.

Remuneration for Directors and specified executives includes, where relevant, remuneration paid to personally-related entities.

Specified executives of the consolidated entity

| 2005 Name | Primary | | | Post-employment | | Equity | |
|--|----------------------------|------------------|-----------------------------|-----------------------|---------------------------|------------------------|----------------|
| | Cash salary and fees \$ | Cash bonus \$ | Non-monetary benefits \$ | Super-annuation \$ | Retirement benefits \$ | Rights & Options \$ | Total \$ |
| E G Macgregor (Chief Financial Officer) (From 1/7/2004 to 24/9/2004) | 66,080 | 54,212 | – | 11,762 | – | – | 132,054 |
| P V Borg (Chief Financial Officer) (From 6/9/2004 to 18/2/2005) | 99,006 | – | – | 8,285 | – | – | 107,291 |
| Total | 165,086 | 54,212 | – | 20,047 | – | – | 239,345 |

Service Agreements

Information relating to service agreements is set out in the Remuneration report.

Share-based Compensation

Information relating to share-based compensation is set out in the Remuneration report.

Option holdings

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

| Name | Balance at the start of the year | Granted during the year as remuneration | Exercised during the year | Other changes during the year | Balance at the end of the year | Vested and exercisable at the end of the year |
|---------------------------------|----------------------------------|---|---------------------------|-------------------------------|--------------------------------|---|
| Executive Directors | | | | | | |
| P A Lahiff Managing Director | – | 323,300 | – | – | 323,300 | – |
| Non-executive Directors | | | | | | |
| P D Ritchie Chairman | – | – | – | – | – | – |
| P G Higgins | – | – | – | – | – | – |
| R G Higgins | – | – | – | – | – | – |
| S C Jermyn | – | – | – | – | – | – |
| D E Ralston | – | – | – | – | – | – |
| Specified executives | | | | | | |
| M C Newton | – | 92,200 | – | – | 92,200 | – |
| D M Hoskins | – | – | – | – | – | – |
| C P Canty* | – | 102,000 | – | (102,000) | – | – |
| A F Fraser | – | – | – | – | – | – |
| I C Pepper | – | – | – | – | – | – |
| D S Bayes | – | 126,000 | – | – | 126,000 | – |
| A D Crossley | – | 81,000 | – | – | 81,000 | – |

* Options have been forfeited as part of termination of employment.

Note 19 Director and executive disclosures (continued)

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 specified executives of the consolidated entity, including their personally-related entities, are set out below.

| Name Ordinary Shares | 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 |
|---------------------------------|--|---|----------------------------------|--------------------------------------|
| <i>Executive Directors</i> | | | | |
| P A Lahiff Managing Director | – | – | 100,000 | 100,000 |
| <i>Non-executive Directors</i> | | | | |
| P D Ritchie Chairman | – | – | 297,297 | 297,297 |
| P G Higgins | 36,959,950 | – | (11,673,416) | 25,286,534 |
| R G Higgins | 38,515,000 | – | (11,673,417) | 26,841,583 |
| S C Jermyn | – | – | 2,000,000 | 2,000,000 |
| D E Ralston | – | – | 50,000 | 50,000 |
| <i>Specified executives</i> | | | | |
| M C Newton | – | – | – | – |
| D M Hoskins | 50 | – | – | 50 |
| C P Canty | – | – | – | – |
| A F Fraser | – | – | – | – |
| I C Pepper | – | – | 11,000 | 11,000 |
| D S Bayes | – | – | – | – |
| A D Crossley | – | – | – | – |

Shareholdings of Directors and specified executives include those that have been disclosed under representation made to them by the parties within the AASB 1046 Director and Executive Disclosures. The Directors and specified executives have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. Where a personally related entity has declined to provide shareholding details, the shareholding of that personally related entity has been assumed to be nil.

NOTE 20 REMUNERATION OF AUDITORS

During the year the auditor of the parent entity and its related practices earned the following remuneration:

| | Consolidated | | Parent entity | |
|---|----------------|------------|----------------|------------|
| | 2005 \$ | 2004 \$ | 2005 \$ | 2004 \$ |
| PricewaterhouseCoopers Australian firm | | | | |
| Statutory audit of financial reports of the entity or any entity in the consolidated entity | 122,000 | 89,500 | 122,000 | 89,500 |
| Other assurance services | 56,401 | 108,155 | 56,401 | 108,155 |
| Total audit and other assurance services | 178,401 | 197,655 | 178,401 | 197,655 |
| Taxation Services | 120,805 | 92,609 | 120,805 | 92,609 |
| Initial Public Offering Services | 115,380 | 391,510 | 115,380 | 391,510 |
| Total remuneration | 414,586 | 681,774 | 414,586 | 681,774 |

NOTE 21 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2005 in respect of:

Guarantees

Australian and New Zealand (ANZ) bank guarantee of \$630,857 (2004: \$387,000).

Contingent claims

From time to time disputes occur between the Company and its Franchisees in the normal course of operation, a number of which may be unresolved at any point in time. At 30 June 2005 there were no disputes or claims in progress that are expected to have a material financial impact on the Company.

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

NOTE 22 COMMITMENTS FOR EXPENDITURE

| | Consolidated | | Parent entity | |
|---|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Operating leases | | | | |
| Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable: | | | | |
| Within one year | 701 | 706 | 701 | 706 |
| Later than one year but not later than five years | 1,451 | 1,970 | 1,451 | 1,970 |
| | 2,152 | 2,676 | 2,152 | 2,676 |

NOTE 23 EMPLOYEE BENEFITS

| | Consolidated | | Parent entity | |
|--|------------------------|----------------|------------------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Employee benefit and related on-cost liabilities | | | | |
| Included in other creditors (note 10) | 530 | 503 | 530 | 503 |
| Provision for employee entitlements – non- current (note 13) | 144 | 113 | 144 | 113 |
| Aggregate employee benefit and related on-costs liabilities | 674 | 616 | 674 | 616 |
| | 2005 Number | 2004 Number | 2005 Number | 2004 Number |
| Employee numbers | | | | |
| Average number of employees during the financial year | 92 | 91 | 92 | 91 |

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.

Executive performance option plan

The Executive Performance Option Plan may be offered on an annual basis to a limited number of the most senior executives within the Company. The issue of Options has been confined to the Managing Director and the Company's three most senior executives, being the Chief Financial Officer, Chief Operating Officer and Chief Information Officer. Participation in the EPOP provides one component of the market-based long-term incentive available to the selected executives within their aggregate remuneration package. Details relating to this plan are set out in the Remuneration report.

Performance share plan

The PSP permits eligible senior managers identified by the Board to be offered conditional entitlements to Shares. The Shares allocated to those employees are subject to the achievement of performance requirements specified by the Board. The PSP is designed to provide the long-term incentive component of remuneration for senior managers, in line with the Company's overall reward strategy, which aims to attract, motivate and retain high-performing managers. Details relating to this plan are set out in the Remuneration report.

Employee share schemes

Two schemes exist under which shares may be purchased by employees on a salary sacrifice basis.

- The Deferral Plan enables participating employees to defer tax on the value of the shares acquired in accordance with current tax legislation. The Board has imposed maximum of 25% that an employee can salary sacrifice to purchase shares under the Deferral Plan. Shares purchased under this plan must not be sold before the tenth anniversary of the offer unless the participant ceases employment with the Company, the occurrence of a capital event or special dispensation by the Board.
- The Exemption Plan enables participating employees to acquire up to \$1,000 worth of shares in any tax year, free of tax in accordance with current tax legislation. Shares purchased under this plan must be held for three years or earlier cessation of employment.

NOTE 24 RELATED PARTIES

Directors and specified executives

Disclosures relating to Directors and specified executives are set out in note 19.

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 25.

There were no transactions between Mortgage Choice Limited and its wholly-owned controlled entities during the year ended 30 June 2005.

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

- (a) loans repaid by Mortgage Choice Limited
- (b) loans repaid to Mortgage Choice Limited
- (c) application for shares in subsidiary by Mortgage Choice Limited
- (d) distribution to Mortgage Choice Limited from a controlled trust
- (e) redemption of units held in a controlled trust.

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

NOTE 25 INVESTMENTS IN CONTROLLED ENTITIES

| Name of entity | Country of incorporation | Class of Shares | Equity holding | | Cost of parent entity's investment | |
|--|--------------------------|-----------------|----------------|--------|------------------------------------|------------|
| | | | 2005 % | 2004 % | 2005 \$ | 2004 \$ |
| Mortgage Choice (W.A.) Pty Limited | Australia | Ordinary | 100 | 100 | 100 | 100 |
| MC Loan Book Security Pty Limited | Australia | Ordinary | 100 | 100 | 2 | 2 |
| Choice Share Limited * | Australia | Ordinary | 100 | – | 5 | – |
| Finance Australia Pty Ltd * | Australia | Ordinary | 100 | 100 | 2 | 2 |
| MC Franchise System Pty Ltd * | Australia | Ordinary | 100 | 100 | 2 | 2 |
| FAC Pty Ltd * | Australia | Ordinary | 100 | 100 | 2 | 2 |
| Mortgage Choice Insurance Broker Pty Ltd * | Australia | Ordinary | 100 | 100 | 2 | 2 |
| | | | | | 115 | 110 |

* These controlled entities are being deregistered.

NOTE 26 SEGMENT INFORMATION

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

NOTE 27 RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | Consolidated | | Parent entity | |
|---|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2004 \$'000 | 2005 \$'000 | 2004 \$'000 |
| Operating profit after income tax | 12,743 | 9,962 | 12,743 | 9,963 |
| Depreciation and amortisation | 800 | 894 | 800 | 894 |
| Net (gain)/loss on sale of non-current assets | 12 | 4 | 12 | 4 |
| Change in operating assets and liabilities, net of effects from purchase of controlled entity: | | | | |
| (Increase)/decrease in trade and other debtors | (1,282) | (891) | (1,282) | (892) |
| (Increase)/decrease in future income tax benefit | (48) | (204) | (48) | (204) |
| Decrease/(increase) in other assets | 1,001 | (1,085) | 1,001 | (1,085) |
| (Decrease)/increase in payables and other liabilities | (666) | 3,259 | (666) | 2,994 |
| Increase/(decrease) in provision for income taxes payable | 1,792 | (269) | 1,792 | (254) |
| Increase in other provisions | 31 | 47 | 31 | 47 |
| Net cash inflow from operating activities | 14,383 | 11,717 | 14,383 | 11,467 |

NOTE 28 EVENTS OCCURRING AFTER REPORTING DATE

Dividend payment

A final ordinary dividend of \$7,056,000 (6.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2005 on 24 August 2005 and paid on 19 September 2005.

The financial effects of the above transaction have not been brought to account at 30 June 2005.

Director share holdings

Between the reporting date and the date of signing this Annual Report, Peter Higgins sold 6,850,000 shares. Rodney Higgins sold 6,850,000 shares and Steve Jermyn purchased 2,000,000 shares.

NOTE 29 EARNINGS PER SHARE

| | Consolidated | |
|----------------------------|---------------|---------------|
| | 2005 Cents | 2004 Cents |
| Basic earnings per share | 10.9 | 9.1 |
| Diluted earnings per share | 10.9 | 9.1 |

| | Consolidated | |
|--|----------------|----------------|
| | 2005 Number | 2004 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

116,848,597 109,830,000

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

117,272,664 109,966,189

The weighted average number of converted potential ordinary shares included in the calculation of diluted EPS is 2,061,193.

Information concerning the classification of securities

(a) Options

Options granted to employees under the Mortgage Choice Executive Performance Option Plan 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 options are set out in the Remuneration report.

(b) Rights

Rights to shares issued to employees under the Mortgage Choice Performance Share Plan 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 options are set out in the Remuneration report.

NOTE 30 IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS 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 AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity established a project team to manage the transition to AIFRS, chaired by the Chief Financial Officer and reporting to the audit committee. The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimated impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. No material impacts are expected in relation to the statements of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the Company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Income tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amount 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.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005, the following would have resulted:

An increase in current income tax expense and an increase in contributed equity of \$98,000 in both the consolidated and parent entity financial statements to recognise income tax credit in relation to IPO costs directly in equity.

Note 30 Impacts of adopting Australian equivalents to IFRS (continued)

Intangible assets

Under AASB 138 Intangible asset, Computer Software will be classified as a class of intangible asset.

This will result in a change in the current accounting policy, under which Computer Software is classified as a class of Property, Plant and Equipment.

If the policy required by AASB 138 had been applied during the year ended 30 June 2005, consolidated and parent Property, Plant and Equipment at 30 June 2005 would have been \$1,472,000 lower, with a corresponding increase in Intangible assets.

Equity-based compensation benefits

Under AASB2 Share-based Payment, from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees under the Executive Performance Option Plan (EPOP) and Performance Share Plan (PSP) after 7 November 2002 but that had not vested by 1 January 2005.

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

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, consolidated and parent entity retained profits at 30 June 2005, would have been \$141,000 lower, with a corresponding increase in the share based payment reserve. For the year ended 30 June 2005, the consolidated and parent entity employee benefits expense would have been \$141,000 higher, with a corresponding increase in the net movement in the share-based payments reserve.

Revenue disclosure in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the current Australian GAAP treatment under which gross proceeds from the sale are recognised as revenue and the carrying amount of the asset sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidate and parent entity revenue from ordinary activities would have been \$12,000 lower and the consolidated carrying and parent entity amount of non-current assets sold disclosed as an expense in the statement of financial performance would have been \$12,000 lower.

Financial Instruments

The company will be taking advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: recognition and Measurement only from 1 July 2005. This allows the Company to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report.

Under AASB 132, the current classification of the financial instruments issued by the Company would not change.

AASB 139 is likely to have the following impact:

Classification and measurement of financial assets and liabilities

Under AASB 139, financial assets held by the Company will be classified as either at fair value through profit or loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

Under AASB 139, investments in:

- non-traded equity securities and debentures will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised
- loans and receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost, using the effective interest rate method.

This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount, with changes recognised in profit or loss.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005.

Changes in classification and measurement will be recognised from 1 July 2005.

DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 32 to 53 are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; 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; and
- (c) the remuneration disclosures set out on pages 18 to 30 of the Directors' report comply with Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities and the Corporations Regulations 2001 (11) (12).

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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



Peter Ritchie

Director

Sydney

20 September 2005

Independent audit report to the members of Mortgage Choice Limited

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Audit opinion

In our opinion:

1. the financial report of Mortgage Choice Limited:
 - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Mortgage Choice Limited and the Mortgage Choice Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
 - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and
2. the disclosures contained in the remuneration report in section 14 of the directors' report comply with Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities* (AASB 1046) and the *Corporations Regulations 2001*.

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

Scope

The financial report, remuneration disclosures 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 the Mortgage Choice Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 1046, under the heading "remuneration report" in section 14 of the directors' report, as permitted by the *Corporations Regulations 2001*.

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. The directors are also responsible for the remuneration disclosures contained in the directors' 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 and the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*. 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. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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. We also performed procedures to assess whether the remuneration disclosures comply with AASB 1046 and the *Corporations Regulations 2001*.

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

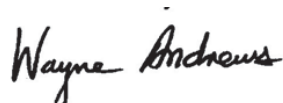
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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



Wayne Andrews
Partner

Sydney
20 September 2005

SHAREHOLDER INFORMATION

The Shareholder information set out below was applicable as at 14 September 2005.

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 | 82 | | |
| 1,001 – 5,000 | 343 | | |
| 5,001 – 10,000 | 222 | | |
| 10,001 – 100,000 | 202 | 2 | 19 |
| 100,001 and over | 55 | 2 | |
| | 904 | 4 | 19 |

There were 6 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 |
| National Nominees Limited | 16,212,502 | 13.79 |
| R G Higgins | 10,366,583 | 8.82 |
| Ochoa Pty Ltd | 9,620,000 | 8.18 |
| Basscave Pty Limited | 9,520,000 | 8.10 |
| P G Higgins | 8,911,534 | 7.58 |
| J P Morgan Nominees Australia Limited | 8,589,174 | 7.30 |
| RBC Global Services Australia Nominees Pty Limited <Pipooled A/c> | 7,302,727 | 6.21 |
| RBC Global Services Australia Nominees Pty Limited <PIIC A/c> | 7,040,009 | 5.99 |
| ANZ Nominees Limited | 5,334,891 | 4.54 |
| Invia Custodian Pty Limited | 2,810,000 | 2.39 |
| Health Super Pty Ltd | 2,067,159 | 1.76 |
| SCJ Pty Ltd <Jermyn Family Account> | 2,000,000 | 1.70 |
| SCJ Pty Ltd atf Jermyn Family Trust | 2,000,000 | 1.70 |
| Westpac Custodian Nominees Limited | 1,572,195 | 1.34 |
| AMP Life Limited | 1,364,464 | 1.16 |
| Bass Equities Fund No 1 Pty Limited | 1,153,960 | 0.98 |
| RBC Global Services Australia Nominees Pty Limited <BKCUST A/c> | 1,034,985 | 0.88 |
| Cogent Nominees Pty Limited <SMP Accounts> | 995,479 | 0.85 |
| Cogent Nominees Pty Limited | 895,161 | 0.74 |
| Credit Union Australia Limited | 800,000 | 0.68 |
| | 99,590,823 | 84.69 |

Unquoted equity securities

| | Number on Issue | Number of holders |
|--|-----------------|-------------------|
| Options issued under the Executive Performance Option Plan | 623,200 | 4 |
| Conditional entitlements over ordinary shares pursuant to the Performance Share Plan | 556,407 | 19 |

C. Substantial holders

Substantial holders in the Company are set out below:

| | Number held | Percentage |
|---------------------------------------|-------------|------------|
| Ordinary shares | | |
| R G Higgins and Ochoa Pty Ltd | 19,991,583 | 17.00 |
| P G Higgins and Basscave Pty Limited | 18,436,534 | 15.68 |
| Perpetual Trustees Australia Limited | 14,794,221 | 12.58 |
| Renaissance Smaller Companies Pty Ltd | 9,027,367 | 7.68 |

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.

DIRECTORY

| | |
|--------------------------|---|
| Directors | Peter Ritchie Chairman |
| | Paul Lahiff Managing Director |
| | Peter Higgins |
| | Rodney Higgins |
| | Deborah Ralston |
| | Steve Jermyn |
| Secretary | David Hoskins |
| Senior Management | Tony Crossley Chief Operating Officer |
| | Adam Fraser Chief Financial Officer |
| | Mark Newton Chief Information Officer |
| | Brent McDonald Group Franchise Operations Manager |
| | Warren O'Rourke National Corporate Affairs Manager |
| | Ian Pepper National Marketing Manager |
| | Debra Player National Lending Manager |
| | Michael Writer National Human Resources Manager |

| | |
|---|--|
| Notice of annual general meeting | The annual general meeting of Mortgage Choice Limited will be held at: The Pavilion Gallery Level Star Court – Darling Park 201 Sussex Street Sydney NSW |
| | time: 11:00 am |
| | date: 15 November 2005 |
| | A formal notice of meeting is enclosed. |

| | |
|---|---|
| Principal registered office in Australia | Mortgage Choice Limited Level 7 182 – 186 Blues Point Road North Sydney NSW 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 |

