MORTGAGE CHOICE®

ANNUAL REPORT 2006

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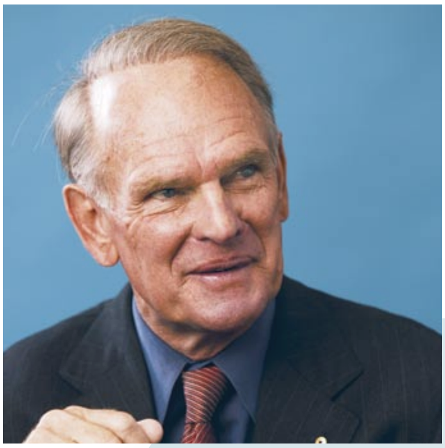


CHAIRMAN'S REPORT

Despite challenging competitive market conditions nationally, I am delighted to report Mortgage Choice has achieved another strong year of growth. Our Franchise network and their commitment to satisfying customers' needs, combined with our terrific staff, has been central to our success.

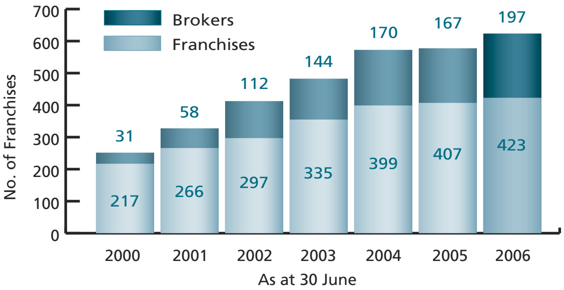
The financial result for the year to 30 June 2006 was a net profit after tax (AGAAP) of $14.8 million, up 16% on the previous period. The Board has declared a second half fully franked dividend of 7.5 cents per share, bringing the total ordinary dividend for the year to 12.5 cents per share. This represents a payout ratio of almost 100% for the year to 30 June 2006. In addition, at the interim results we were delighted to reward shareholders with a special dividend of 2.0 cents, bringing the total payout for the year to 14.5 cents fully franked. Since listing in August 2004, 24.3 cents in dividends has been paid. I am sure shareholders are pleased with this outcome.

Earnings per share was 12.6 cents per share compared to 10.9 cents per share in FY2005.

Our housing loan approvals during the financial year to 30 June 2006 showed strong growth, totalling $10.6 billion up 15% on the previous year of $9.3 billion.

Our loan book has grown to $25.7 billion at year's end, 18% up on the previous year. The expected average life of loans has remained at 3.8 years. This is an outstanding result in a very competitive market.

Broker / Franchise Growth



Our growth in broker numbers has been pleasing with the total broker network increasing to 620 as at 30 June 2006, up from 574 in the previous year. At the same time our shop front numbers grew by 22 to 185 permanent outlets.

This combined growth demonstrates that our existing Franchise owners are confident about the future and willing to invest in their businesses to accommodate further expansion.

Franchise growth improved on the prior year, with net Franchise numbers increasing by 16 to 423 as at 30 June 2006 up from 407 in the previous year. The current state of the employment market, the competition for new Franchisees and a continuing and deliberate focus on quality candidates over quantity, continues to create a challenging environment for recruitment.

This business is built on a series of partnerships. A critical partnership is our Franchise network, a team of committed, entrepreneurial, independent businessmen and businesswomen who put enormous energy and time into meeting their customers' needs and, as a result, grow their own businesses. I have had the opportunity to meet many Franchisees over the past year and I am always blown away by their drive, energy and passion for their customers and their businesses.

Our lender partners are also critical as they provide us with the products and services demanded by customers. Our overriding objective is to work in an empathetic and mutually beneficial relationship with our lenders.

To our staff, my heartiest congratulations. Their commitment to supporting the Franchise network is unparalleled. Managing Director Paul Lahiff has led the team brilliantly through another challenging and successful year.

As Australia's leading mortgage broker, 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, and achieving even greater success for Mortgage Choice in future years.

MANAGING DIRECTOR'S OVERVIEW

The Australian appetite for housing continued unabated in the year under review. Notwithstanding the impact on the household budget of interest rate rises and rising fuel prices, Australians continue to aspire to own their own home.

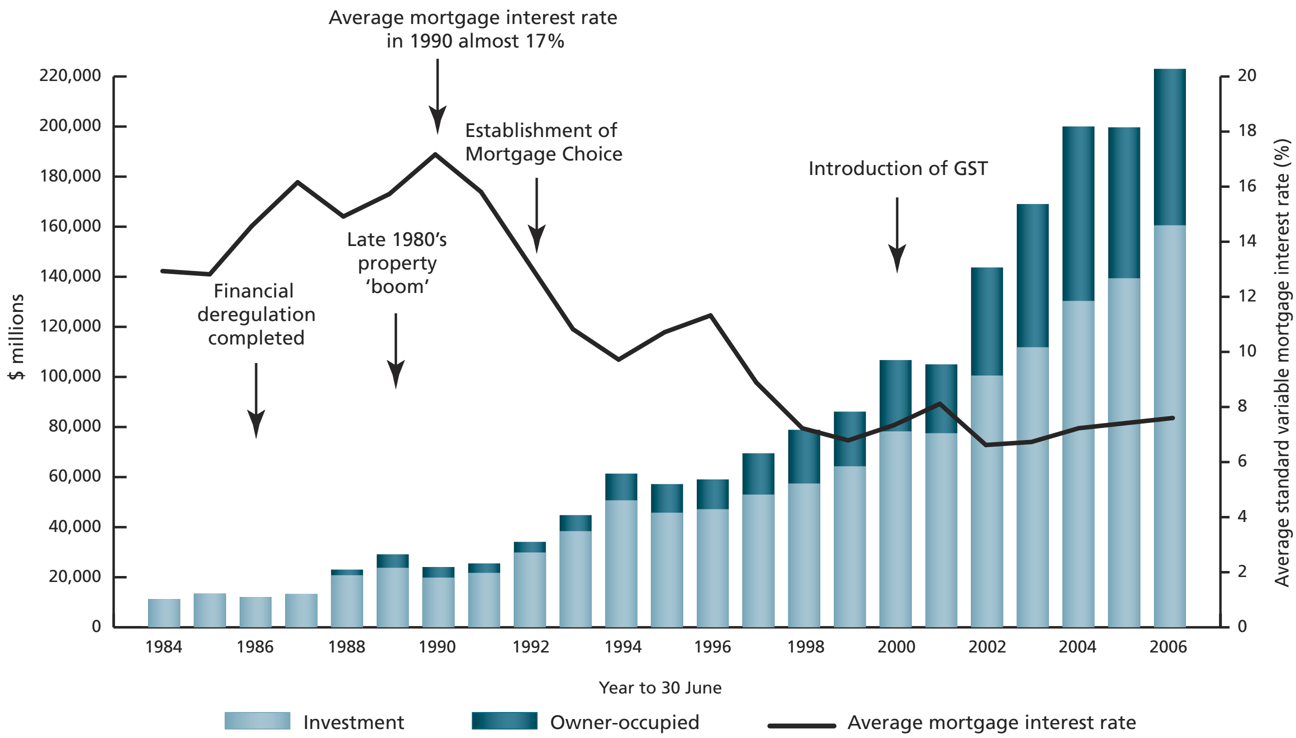
THE HOUSING FINANCE MARKET

Throughout the year there was much written and discussed about the property market and the direction of housing finance. We took the view in our forecast for the financial year to 30 June 2006, 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 consistent with past years. This is in spite of a flat housing market in New South Wales. By contrast, Western Australia and to a lesser extent Queensland have continued their robust growth off the back of the resources boom, while Victoria and South Australia have been steady performers.

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 – 2006



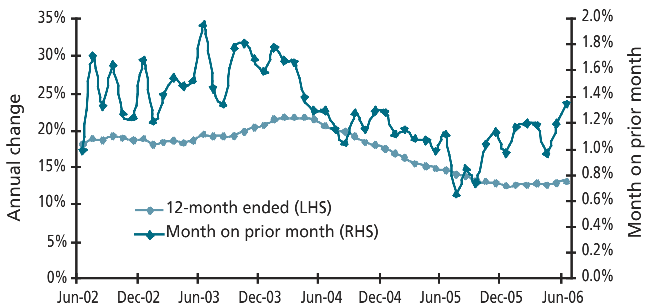
SOURCE: RBA & ABS DATA.

In May 2006, the Reserve Bank of Australia (RBA) increased the cash rate to 5.75%. In the months leading up to this decision, there was a strong shift towards fixed rate loans, which represented around 30% of Mortgage Choice's approvals. Consumers took the opportunity to lock in a rate in advance of the anticipated interest rate rise. Since that time the percentage slowly declined (but is still at historically high levels), which suggests consumers are either more confident about interest rates going forward or, have become more attuned to the realities of the market.

A pleasing aspect of the current housing market is the increasing participation of First Home Buyers, which averaged around 18% of all dwellings financed for the year to 30 June 2006. This compares with a level of 12.6% in March 2004.

While housing finance commitments have continued to be robust, system growth – the growth in outstanding "stock" of housing loans – continues to record steady growth of around 13% annualised. Although this is down from a peak of 21% in 2003, it still represents very healthy growth in the mortgage market.

Growth in Housing Credit (incl securitisations) June 2002 – June 2006.



REGULATION

Mortgage Choice has a strong interest in any regulatory developments that protect consumers and increase consumer confidence in dealing with the mortgage broking sector.

Accordingly, regulation of the mortgage broking industry remains a critical part of Mortgage Choice's strategic agenda.

In November 2004, the NSW Department of Fair Trading released a Discussion Paper on a proposal for National Uniform Regulation. As part of our continued push for greater consumer protection, Mortgage Choice lodged a comprehensive response. A regulatory impact statement was expected later in 2005.

It is disappointing therefore, to find that the industry still awaits further developments.

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:

- Mortgage Industry Association of Australia (MIAA) Awards *Retail Mortgage Broker of the Year* – 2006;
- Australian Mortgage Awards *Best Branding* – 2005;
- Australian Mortgage Awards *Most Effective Internet Presence* – 2005; and
- Australian Banking & Finance Magazine – *Best Mortgage Broker* – 2005.

The above recognition was also complemented by one of our Franchise owners, Susan Mason from Mandurah, WA, being the recipient of the MIAA Operator of Year 2006.

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 – is testimony to our commitment to the professional development of our Franchise network, both new and existing.

It is pleasing to note that, Victorian Franchise owner, James Glenwright on completing the Certificate IV course was recognised for achieving the top honour nationwide.

PARTNERSHIPS

The relationship with our Franchise partners is of paramount importance. The principal vehicle through which high-level discussion takes place is through our democratically elected Franchise Advisory Council (FAC). The FAC continues to be highly effective and provides a valuable bridge between Franchisor and Franchisee. This important body meets throughout the year and also meets with the Board twice a year. Discussions also take place at our quarterly State Conferences, our National Conference and a range of other state based and regional meetings.

A pleasing validation of the success of the Franchise 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 over the past 12 months, in these two key areas, we achieved an average rating of 92.8% for the potential for repeat business while 93.6% indicated they would refer family and friends.

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 commitment to the vision and ideals of the Company have made a profound contribution to the success of the Company. In particular, Peter Ritchie, our Chairman, contributed his talent and experience at a range of functions for Franchisees and other business partners throughout the year.

I look forward to driving the business to another successful year for its stakeholders in FY2007.

FINANCIAL HIGHLIGHTS

All figures quoted are based on AGAAP unless otherwise stated.

- Record net profit after tax $14.8 million, up 16% on FY2005 $12.7 million. (AIFRS $17.9 million).
- Total revenue $126.2 million, up 14% on previous period (AIFRS $142.1 million).
- Earnings per share 12.6 cents per share compared to 10.9 cents per share in FY2004. (AIFRS 15.2 cents per share).
- Dividend 7.5 cents per share brings FY2006 total to 14.5 cents per share including a special dividend of 2.0 cents.
- Trailing commission of $63 million up as % of total commission income to 51.2% for FY2006 compared with 50.17% in FY2005.
- Mortgage Choice handled $10.6 billion in housing loan approvals during FY2006 and continues to achieve industry high productivity levels per broker.
- Loan book now stands at $25.7 billion, 18% up on FY2005, this compares to system growth of 13% year on year.
- Total broker growth strong, increasing to 620 as at 30 June 2006, up from 574 in the previous corresponding period.
- Franchise growth was higher than the previous corresponding period with Franchise numbers increasing to 423 as at 30 June 2006, up from 407 in the previous year.
- A total of 64.5% of commission revenues was paid to Franchise owners compared to 62.0% for the previous period.
- Over the past 12 months, an average of 92.8% of customers indicated a willingness to conduct repeat business while an average of 93.6% indicated they would refer family and friends to Mortgage Choice.*

*Source – Mortgage Choice 2006 Customer Satisfaction Survey.

Mortgage Choice Limited achieved a record net profit after tax for the year ended 30 June 2006 of $14.8 million, up 16% on the previous corresponding period.

Total revenue for the year to 30 June 2006 was $126.2 million, including total commission income of $123.1 million. This included $60.1 million derived from new mortgage origination, up 13.0% on the previous year. Trailing commission income increased to $63.0 million, now 51.2% of total commission income.

The average size of loans written by Mortgage Choice brokers has continued to increase, and now stands at $248,800 higher than the ABS average of $221,100 (June 2006). This reflects the strength of the Mortgage Choice broker network especially in the eastern states of Australia where property prices are higher.

Net assets at 30 June 2006 were $9.3 million (AGAAP) compared to $9.8 million at 30 June 2005. The balance sheet is underpinned by $8.4 million in cash on hand (2005 – $11.5 million).

Cash flow from operating activities during the year was $12.8 million compared to $13.8 million in the previous year.

REVIEW OF OPERATIONS



COMPETITIVE ADVANTAGE

Mortgage Choice believes that the combination of the fundamental components of its business model provide it with significant 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, in marketing, technology, training/professional development, legal and compliance;
- *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;
- *brand:* Mortgage Choice is recognised as a leading consumer brand and has been built upon a proposition of being transparent in its dealings with, and an advocate for, the customer;
- *no product of its own:* Unlike some of its competitors, Mortgage Choice does not distribute its own products, instead choosing to treat all lenders and products equally;
- *strength of lender relationships:* Mortgage Choice generates significant volume and quality of loans for lenders and this places it in a strong position to shape key operational relationships with lenders; and
- *economies of scale:* Mortgage Choice's business model is scaleable, allowing it to grow its originations and loan book without growing its cost base at the same rate, thus giving Mortgage Choice financial strength and stability.

A COMPLEX MARKETPLACE MADE EASY

Mortgage Choice assists customers in the selection of a mortgage from a complex range of products from 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 330 housing loan products offered by a panel of 27 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 financial situation and 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, together with their own experience and expertise, to analyse features of loan products in order to identify those most suitable for 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.

'THE FRANCHISE ADVISORY COUNCIL CONTINUES TO BE HIGHLY EFFECTIVE AND PROVIDES A VALUABLE BRIDGE BETWEEN FRANCHISEE AND FRANCHISOR'

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 FY2006, $3.8 billion in new loans were lodged electronically. This represents a significant increase on the previous year when $1.0 billion in new loans were lodged. To date, 13 lenders are participating. With an expected increase in participating lenders over the next 12 months, it is anticipated there will again be an appreciable increase in the volumes submitted through this platform.

Significantly reduced approval times are already being experienced, and the end beneficiary of this improved service is the consumer. In addition, our lender partners benefit from cost savings and increased efficiency while our Franchisees benefit from improved productivity.

LENDER PARTNERS

Mortgage Choice recognises the importance of developing and nurturing the relationships between broker and lender. Dedicated specialist staff oversee the operational relationship between the Company and its Franchisees and 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 panel includes Australia's leading lenders, providing a cross-section of products and lender types that Mortgage Choice considers to be a representative spread of available, quality housing loans.

Mortgage Choice believes the benefits enjoyed by lenders from dealing with credible brokers such as Mortgage Choice 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 and potentially of a longer loan life, 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.

FRANCHISE OPERATIONS

Mortgage Choice licenses the use of the Mortgage Choice brand and business systems to its Franchise network. Accredited loan consultants (mortgage brokers) comprise Franchisees and their loan 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. We abide by the Franchising Code of Conduct.

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 aspiration are often more important than previous industry experience.

LEARNING AND DEVELOPMENT

Mortgage Choice is committed to delivering 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 the network to be the best they can be at what they do.

On joining Mortgage Choice, all Franchisees undertake comprehensive training (accredited by the MIAA) which now includes Certificate IV in Financial Services (Finance & Mortgage Broking), 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.

A new e-Learning platform was introduced during the year for the provision of ongoing mortgage origination, sales and office productivity training for Franchisees and their staff.

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 local 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.

Mortgage Choice is committed to creating a strong culture of compliance within the entire business. Legal and regulatory compliance is a key operational issue and is an essential part of sound corporate governance. The primary source of compliance training for Mortgage Choice is e-comply, which is a web based, self-paced question and answer modular program.

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, state, and regional 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 struck an alliance with the Real Estate Institute of Australia (REIA), with their quarterly report being rebadged as Mortgage Choice Real Estate Market Facts Report. Given the positioning of the REIA as a highly respected source of real estate expertise and analysis, the alignment with the Mortgage Choice brand is strong. It is envisaged that the alliance will be further leveraged over the coming years through public relations and specific lead generation activities.

Creating tools that assist Franchisees to build a healthy referral network remains a key area, with more additions for the referral marketing handbook planned for the coming year as well as extensions to the program, such as referral rewards.

INFORMATION TECHNOLOGY

Mortgage Choice has leveraged 14 years experience in the Australian market to develop proprietary software to assist in matching our customer's needs to the most suitable product from our panel of lenders. This software allows our Franchisees to market to their prospects, capture customer information and preferences, qualify potential loan applicants, submit home loan applications to panel lenders and reconcile payment of commissions.

Mortgage Choice recently implemented its third-generation Mortgage Discovery™ system to accommodate changes to our Franchisee's evolved business structures, deliver improved customer relationship management capability and provide a platform for continued business growth.

'MORTGAGE CHOICE RECOGNISES THE IMPORTANCE OF DEVELOPING AND NURTURING THE RELATIONSHIPS BETWEEN BROKER AND LENDER'

STRATEGY AT A GLANCE

During the year Mortgage Choice conducted a review of strategy. The business subsequently reaffirmed its focus on organic growth. The strategic platform for the business going forward will therefore be the following:

STRONG MARKETING MEANS:

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

RECRUITMENT MEANS:

- increase the total number of Franchisees and loan consultants; and
- continuously strive to improve the quality of new recruits.

LENDER PARTNERSHIP MEANS:

- maintaining high quality loan submissions and professionalism in all aspects of the relationship and, being recognised for it.

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 to facilitate franchise retail growth where appropriate;
- 'best practice' development; and
- access to quality information.

Over the last 12 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 22 to 185 permanent outlets in the year to 30 June 2006.

The ongoing growth in the retail footprint is being driven by Franchisees 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. 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 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 growth in these product areas can be largely managed with the existing Mortgage Choice infrastructure and resources.

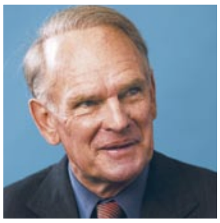
Mortgage Choice expects some consolidation to occur in the mortgage broking industry. A number of factors could potentially act as catalysts, including a stricter regulatory environment, economies of scale in marketing, support and administration, and a preference by lenders to deal with a smaller number of larger, high quality broker organisations. The Company will be alert to acquisition opportunities given this environment, but will review any opportunity cautiously and prudently.

Clearly however, the major focus of the business is on organic growth.

SUMMARY

Mortgage Choice is confident that it is well placed to achieve profitable growth in the coming year. 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

NON-EXECUTIVE CHAIRMAN
Chairman of Nomination and Remuneration Committees
BCom, FCPA, AO

Peter is Deputy Chairman of Seven Network and University of NSW Foundation, and Chairman of Reverse Corp Limited. 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 64.

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. Having been successfully self-employed for over 20 years, Peter has been involved in a number of companies in a diverse range of industries covering manufacturing, technology, leasing, property and finance. Age 46.

RODNEY HIGGINS

NON-EXECUTIVE DIRECTOR
Member of Nomination and Remuneration Committees

Rodney is co-founder of Mortgage Choice. Rodney has a background in residential and commercial property, sales, leasing and has been a Director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 51.

DEBORAH RALSTON

NON-EXECUTIVE DIRECTOR
Member of Audit Committee
PhD, FFin, FAIM, FCPA

Deborah is Professor and Pro Vice Chancellor of the Division of Business Law and Information Sciences at the University of Canberra. Deborah was formerly Director of the Centre for Australian Financial Institutions at the University of Southern Queensland and a former Director of Heritage Building Society. Age 53.

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. Steve joined the Board of Directors in 1986 and was appointed Executive Vice President in 1993. In June 1999, Steve was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. He retired from McDonald's Australia in 2005 but remains a Director. Steve is also a Director of Reverse Corp Limited. Age 57.

SENIOR MANAGEMENT

Profiles of senior management other than Paul Lahiff are set out below:

TONY CROSSLEY
CHIEF OPERATING OFFICER

Tony has over 15 years experience in senior financial roles within the financial services industry, including 10 years in the international insurance and reinsurance industries, and, 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 management of funding, financial and risk management activities of its Australian and US 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 14 years experience in various accounting, corporate finance and private equity roles in the UK and Australia. His role involves directing and controlling the financial activities of the organisation as well as 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 19 years experience in information technology, including 13 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. He is also Chairman of the Franchise Advisory Council. 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 and is a CPA and a member of Chartered Secretaries Australia, from which he has a Graduate Diploma in Corporate Management. David has had over 20 years experience in a variety of accounting and company secretarial functions primarily in the finance and insurance industries. As Company Secretary, David is responsible for implementing and monitoring corporate governance practices, compliance and corporate standards, administrating Board and Shareholder matters, and co-ordinating legal counsel.

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 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. Warren has over 20 years experience in financial services and corporate social responsibility 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 was appointed National Corporate Affairs Manager and is responsible for corporate affairs, public relations, communications and media issues.

LYNNE WYATT
NATIONAL MARKETING MANAGER

Lynne has over 15 years experience in marketing financial services, including experience in providing marketing support services to a franchise network. Lynne joined Mortgage Choice in May 2006 and is responsible for brand, development of advertising messages, media placement and strategic marketing programs, as well as delivering a range of sales support tools.

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 Finsia 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 planning, development and implementation of the Franchisor's HR practices, ensuring policies and procedures are effective and complied with.

MAITLAND BARDWELL
NATIONAL BUSINESS DEVELOPMENT MANAGER

Maitland holds an MBA from the Australian Graduate School of Management and a Bachelor of Economics from the University of Queensland. Following five years in strategic and operations roles in Telstra's Consumer and Marketing division, he joined Mortgage Choice in 2004 with the responsibility of developing a retail strategy and managing the growth of the Mortgage Choice retail footprint. With retail disciplines now embedded in core operations, Maitland now has responsibility for driving a number of key strategic projects.

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, qualifications, term of office and independent status are set out in the Directors' report under the heading '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 is 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.

A review of the Board was conducted by the Chairman of the nomination committee in concert with the Company Secretary during 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 honesty, 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 Mortgage Choice 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 required to complete all modules. The program is also being rolled out to the Franchise network.

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.

In order to comply with the Australian standard for risk management, the Company has initiated a corporate risk management plan.

In fundamental terms, this process involves:

- analysing all aspects of the business to determine what operational risks are faced, either on a continuous or isolated basis;
- having determined these risks, assessing each of them to allocate a rating based upon the likelihood of occurrence and consequence of occurrence;
- determining what control measures are in place to eliminate or reduce the identified risk – this leads to allocating each risk a rating, all of which is recorded in a risk register; and
- executive management then make decisions as to how each risk is to be handled i.e. avoided, managed, transferred or accepted. The Risk Register is a dynamic document that changes as business operations vary, resulting in new risks.

Mortgage Choice Limited.

Financial report

ACN 009 161 979. Financial report – 30 June 2006

Contents

This financial report covers both Mortgage Choice Limited as an individual entity and the consolidated entity consisting of Mortgage Choice Limited and its controlled subsidiaries. The financial report is presented in the Australian currency.

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 which is not part of this financial report.

The financial report was authorised for issue by the directors on 23 August 2006. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All financial reports and other information are available at our Shareholders' Centre on the Mortgage Choice website: www.mortgagechoice.com.au

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 2006, 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:

P D Ritchie
P A Lahiff
P G Higgins
R G Higgins
S C Jermyn
D E 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 of loan applications on behalf of intending borrowers.

3. DIVIDENDS

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

A final ordinary dividend of $7.056 million (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.

An interim ordinary dividend of $5.880 million (5.0 cents per fully paid share) was declared out of profits of the Company for the half-year ended 31 December 2005 and paid on 21 March 2006.

A special dividend of $2.352 million (2.0 cents per fully paid share) was declared out of the retained profits of the Company as at 31 December 2005 and paid on 21 March 2006.

A final ordinary dividend of $8.819 million (7.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2006 on 23 August 2006 to be paid on 18 September 2006.

4. REVIEW OF OPERATIONS

Information on the operations and financial position of the group and its business strategies and prospects is set out in the review of operations and activities on pages 5-7 of this annual report.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Except for the matters disclosed in the Review of Operations section of this annual report or set out below, no other matter or circumstance has arisen since 30 June 2006 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.

7. 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.

8. 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.

9. 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
Peter Ritchie	350,125 ordinary shares
Paul Lahiff	100,000 ordinary shares Conditional entitlement to 180,300 ordinary shares under PSP * 747,300 options over ordinary shares granted under EPOP **
Peter Higgins	8,436,534 ordinary shares
Rodney Higgins	19,991,583 ordinary shares
Steve Jermyn	4,000,000 ordinary shares
Deborah Ralston	50,000 ordinary shares

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

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

10. 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.

11. 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 2006, and the numbers of meetings attended by each Director were:

	Full meetings of Directors	
	Number of meetings held	Number of meetings attended
Peter Ritchie	12	12
Peter Higgins	12	10
Rodney Higgins	12	11
Paul Lahiff	12	12
Steve Jermyn	12	12
Deborah Ralston	12	11

	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	2	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 2006.

12. RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

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

In order to achieve an even spread of retiring Directors at future Annual General Meetings, Steve Jermyn will resign as a director effective at the conclusion of the Annual General Meeting and, in accordance with the Constitution, has been nominated for re-election.

13. 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

E Additional information.

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Act 2001 (Cth) and the Corporations Regulations 2001 which have not been audited.

A Principles used to determine the nature and amount of remuneration (audited)

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; and
- capital management.

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

Alignment to Shareholders' interests means:

- has economic profit as a core component of plan design;
- focuses on sustained growth in share price; and
- attracts and retains high calibre executives.

Alignment to program participants' interests means:

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

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

Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Board has also sought independent research material to ensure non-executive Directors' fees and payments, including those of the Chairman, are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive Directors based on comparative roles in the external 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 2006 was determined on 17 May 2005 and is based on the recommendations of independent remuneration consultants. Directors do not receive additional remuneration for representation on board committees.

Shareholders in a 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

Base pay is 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 remuneration report.

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 Board then a pool of short-term incentive (STI) is available for executives for allocation during the annual review. 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.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance. For senior executives the normal maximum STI target bonus opportunity is 30.0% 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 2006, 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 (audited)

Amounts of remuneration

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) are set out in the following tables.

The key management personnel of Mortgage Choice Limited and of the Group are the Directors of Mortgage Choice Limited (see section 9: Information on directors) and those executives that report directly to the Managing Director. This includes the 5 group executives who received the highest remuneration for the year ended 30 June 2006. The executives are:

- A D Crossley – Chief Operating Officer (3/10/2005 – 30/6/2006)
Chief Financial Officer (1/7/2005 – 3/10/2005)
- A J Fraser – Chief Financial Officer (3/10/2005 – 30/6/2006)
Corporate Finance & Strategy (1/7/2005 – 3/10/2005)
- M C Newton – Chief Information Officer
- D M Hoskins – Company Secretary
- W J O'Rourke – National Manager Corporate Affairs
- M N Writer – Human Resources Manager (19/9/05 – 30/6/06)
- L A Wyatt – National Marketing Manager (15/5/2006 – 30/6/2006)
- D B Bayes – Chief Operating Officer (1/7/2005 – 30/9/2005)
- I C Pepper – National Marketing Manager (1/7/2005 – 19/5/2006)

The cash bonuses detailed on the following page were 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 total Shareholder return, over a three-year period as set out in the section headed Share-based compensation on page 25-28. No other elements of remuneration are directly related to performance.

Key management personnel of Mortgage Choice Limited

2006	Short-term benefits			Post-employment		Equity	
Name	**Cash salary and fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Super-annuation $**	**Retirement benefits $**	**Rights & Options $**	**Total $**
Non-executive Directors							
P D Ritchie Chairman	1,000	–	99,000	9,000	–	–	109,000
P G Higgins	55,000	–	–	4,950	–	–	59,950
R G Higgins	55,000	–	–	4,950	–	–	59,950
S C Jermyn	55,000	–	–	4,950	–	–	59,950
D E Ralston	55,000	–	–	4,950	–	–	59,950
Sub-total non-executive Directors	221,000	–	99,000	28,800	–	–	348,800
Executive Directors							
P A Lahiff Managing Director	475,000	203,625	4,360	61,076	–	80,230	824,291
Other key management personnel					–		
A D Crossley	235,500	23,698	–	23,328	–	24,492	307,018
A J Fraser	194,422	32,000	–	20,378	–	13,326	260,126
M C Newton	216,906	60,967	–	25,009	–	21,538	324,420
D M Hoskins	194,764	45,362	5,853	21,910	–	12,352	280,241
W J O'Rourke	162,867	33,936	10,611	18,686	–	11,222	237,322
M N Writer *(From 19/9/05 to 30/6/06)*	94,977	–	4,102	18,704	–	3,443	121,226
L A Wyatt *(From 15/5/06 to 30/6/06)*	22,000	–	–	1,980	–	–	23,980
D S Bayes *(From 1/7/05 to 30/9/05)*	50,914	33,367	1,080	4,095	–	(8,839)*	80,617
I C Pepper *(From 1/7/05 to 19/5/06)*	163,223	20,992	3,094	15,638	–	–	202,947
Total	2,031,573	453,947	128,100	239,604	–	157,764	3,010,988

* In accordance with AASB 124, the amount relates to the reversal of share based payment expense due to the forfeiture of share rights and options.

2005	Short-term benefits			Post-employment		Equity	
Name	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Rights & Options $	Total $
Non-executive Directors							
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
Sub-total non-executive Directors	234,172	–	126,635	31,014	–	–	391,821
Executive Directors							
P A Lahiff Managing director	443,029	88,767	6,668	48,737	–	48,206	635,407
Other key management personnel							
A D Crossley	79,636	–	–	7,167	–	4,840	91,643
A J Fraser	155,000	53,667	–	18,780	–	2,362	229,809
M C Newton	198,384	50,322	–	22,384	–	13,738	284,828
D M Hoskins	182,360	40,000	2,115	20,012	–	6,846	251,333
I C Pepper	164,091	32,049	2,959	17,653	–	6,159	222,911
C P Canty *(from 1/7/04 to 31/12/04)*	125,409	116,666	12,099	20,858	–	–	275,032
D S Bayes *(from 4/1/05 to 30/6/05)*	89,523	–	2,063	8,057	–	8,839	108,482
P V Borg *(from 6/9/04 to 18/2/05)*	99,006	–	1,320	8,285	–	–	108,611
E G Macgregor *(from 1/7/04 to 24/9/04)*	66,080	54,212	440	11,762	–	–	132,494
Total	1,836,690	435,683	154,298	214,709	–	90,990	2,732,371

C Service agreements (audited)

Remuneration and other terms of employment for the Managing Director and other key management personnel 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, Crossley, Fraser, Newton and Hoskins is terminable by either the Company or the executive giving three month's notice; and
- the employment of Messrs O'Rourke and Writer and Ms Wyatt is terminable by either the Company or the executive giving four week's notice.

Except as set out below, no provision is made for termination payments other than amounts paid in respect of notice of termination:

- Messrs Crossley, Fraser, Newton and Hoskins will receive a non-competition termination benefit equal to 6 months base salary where departure is for any reason other than misconduct; and
- 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 base salary, less any amounts paid in respect of notice of termination under the terms of his employment.

D Share-based compensation (audited)

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 2006, 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 and property trust companies or trusts, over the performance period. The comparator companies were 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.

The vesting scale is as follows:

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 2.0% 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.

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, or 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, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, all options will 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 are as follows:

Grant Date	Expiry Date	Exercise Price	Value per option at grant date	Date exercisable
10 August 2004	10 August 2014	$1.05	$0.32	From 11 August 2007 to 10 August 2014
24 February 2005	24 February 2015	$1.08	$0.32	From 25 February 2008 to 24 February 2015
2 September 2005	2 September 2015	$1.43	$0.28	From 2 September 2008 to 2 September 2015

Details of options over ordinary shares in the Company provided as remuneration to each Director and key management personnel of Mortgage Choice Limited are set out below. When exercisable, each option is convertible into one ordinary share of Mortgage Choice Limited. Further information on the options is set out in note 32 to the financial statements.

	Number of options granted during the year		Number of options vested during the year	
Name	**2006**	2005	**2006**	2005
Directors of Mortgage Choice Limited				
P A Lahiff	**424,100**	323,200	**-**	-
Other key management personnel				
A D Crossley	**128,600**	81,800	**-**	-
A J Fraser	**71,400**	-	**-**	-
M C Newton	**108,900**	92,200	**-**	-
D S Bayes*	**-**	126,000	**-**	-

* Entitlement to options has been forfeited as part of termination of employment.

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

(a) options are granted for no consideration, each tranche vests and is exercisable after three anniversaries of the date of grant;

(b) exercise price: $1.43;

(c) grant date: 2 September 2005;

(d) expiry date: 2 September 2015;

(e) share price at grant date: $1.43;

(f) expected price volatility of the company's shares: 30.0%;

(g) expected dividend yield: 6.0%; and

(h) risk-free interest rate: 5.0%.

Shares provided on exercise of remuneration options

No shares were issued as a result of the exercise of remuneration options during the year ended 30 June 2006 (2005 – nil).

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 2006 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. 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; or
- 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.

The terms and conditions of each offer of performance shares 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
6 September 2004	$1.05	6 September 2007
4 January 2005	$0.91	4 January 2008
24 February 2005	$1.08	24 February 2008
2 September 2005	$1.43	2 September 2008

Details of performance shares in the Company provided as remuneration to each Director and key management personnel of Mortgage Choice Limited are set out below. Further information on the options is set out in note 32 to the financial statements.

Name	Number of performance shares rights granted during the year		Number of performance shares issued during the year	
	2006	2005	**2006**	2005
Directors of Mortgage Choice Limited				
P A Lahiff	**83,300**	97,000	**-**	-
Other key management personnel				
A D Crossley	**25,300**	24,500	**-**	-
A J Fraser	**14,000**	24,700	**-**	-
M C Newton	**21,400**	27,600	**-**	-
D M Hoskins	**26,200**	33,900	**-**	-
W J O'Rourke	**23,800**	30,800	**-**	-
M N Writer	**14,200**	-	**-**	-
D S Bayes*	**-**	37,807	**-**	-
I C Pepper*	**23,600**	30,500	**-**	-
P V Borg*	**-**	31,200	**-**	-

* Entitlement to shares has been forfeited as part of termination of employment.

The assessed fair value at grant date of share rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the term of the rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the rights, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share rights.

The model inputs for performance shares granted during the year ended 30 June 2006 included:

(a) share rights are granted for no consideration, each tranche vests and is exercisable after three anniversaries of the date of grant;

(b) grant date: 2 September 2005;

(c) expiry date: 2 September 2015;

(d) share price at grant date: $1.43;

(e) expected price volatility of the company's shares: 30%;

(f) expected dividend yield: 6%; and

(g) risk-free interest rate: 5%.

Shares provided on vesting of performance share entitlements

No shares were issued as a result of the vesting of performance share entitlements during the year ended 30 June 2006 (2005 – nil).

E Additional information – unaudited

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current year.

Details of remuneration: cash bonuses, share rights and options

For each cash bonus and grant of share rights and options in the tables on pages 23-24 and 26-28, the percentage of the available grant 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. The share rights and options vest over three years, providing vesting conditions are met. No share rights or options will vest if the conditions are not satisfied, hence the minimum value of the share rights and options yet to vest is nil. The maximum value of the share rights and options yet to vest has been determined assuming the share price on the date the share rights and options are exercised will not exceed $4.06 for the share rights and options issued in 10 August 2004, $4.36 for those issued on 4 January 2005, $4.41 for those issued on 24 February 2005 and $4.73 for those issued on 2 September 2005.

Name	Cash bonus		Share rights and options					
	Paid %	Forfeited %	Year granted	Vested %	Forfeited %	Financial years in which rights and options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
P A Lahiff	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	1,366,652 1,793,539
A D Crossley	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	380,439 544,049
A J Fraser	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	107,692 301,840
M C Newton	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	389,578 460,592
D M Hoskins	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	137,634 123,926
W J O'Rourke	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	125,048 112,574
M N Writer	100	-	2005 2006	- -	- -	2008 2009	Nil Nil	- 67,166
D S Bayes	100	-	2005	-	100	2008	Nil	-
I C Pepper	100	-	2005 2006	- -	100 100	2008 2009	Nil Nil	- -
P V Borg	-	100	2005	-	100	2008	Nil	-
E M Macgregor	100	-	-	-	-	-	-	-

Share based compensation: Options

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	5.2%	118,748	–	–	118,748
A D Crossley	4.2%	36,008	–	–	36,008
A J Fraser	1.7%	19,992	–	–	19,992
M C Newton	3.5%	30,492	–	–	30,492

Share based compensation: Performance shares

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	4.5%	118,761	–	–	118,761
A D Crossley	3.7%	36,070	–	–	36,070
A J Fraser	3.4%	19,960	–	–	19,960
M C Newton	3.1%	30,510	–	–	30,510
D M Hoskins	4.4%	37,353	–	–	37,353
W J O'Rourke	4.7%	33,932	–	–	33,932
M N Writer	2.8%	20,245	–	–	20,245

A = The percentage of the value of remuneration consisting of options or performance shares, based on the value at grant date set out in column B.

B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

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

Options and performance share rights over unissued ordinary shares of Mortgage Choice Limited granted during or since the end of the financial year to the five 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	424,100	2 September 2005	83,300	2 September 2005
Other Executives				
A D Crossley – Chief Operating Officer	128,600	2 September 2005	25,300	2 September 2005
A J Fraser – Chief Financial Officer	71,400	2 September 2005	14,000	2 September 2005
M C Newton – Chief Information Officer	108,900	2 September 2005	21,400	2 September 2005
D M Hoskins – Company Secretary	n/a	n/a	26,200	2 September 2005
W J O'Rourke – National Manager Corporate Affairs	n/a	n/a	23,800	2 September 2005

The options were granted under the Executive Performance Option Plan and the performance shares were offered under the Performance Share Plan. Details of the options and performance shares granted to Directors and the five most highly remunerated officers of the Group can be found in section D of the remuneration report on page 25-28. No options or performance shares have been granted since the end of the year.

Shares under option

Unissued ordinary shares of Mortgage Choice Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
10 August 2004	9 August 2014	$1.05	415,400
24 February 2005	23 February 2015	$1.08	81,800
2 September 2005	1 September 2015	$1.43	733,000
			1,230,200

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

14. INSURANCE OF OFFICERS

Insurance premiums were paid for the year ended 30 June 2006 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.

15. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 (Cth) 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 (Cth).

16. 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 (Cth). 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 (Cth) 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.

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:

	Consolidated	
	2006 $	2005 $
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the Corporations Act 2001 (Cth)	**228,350**	122,000
Total remuneration for audit services	**228,350**	122,000
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Due diligence services	–	40,401
Other assurance services	**7,000**	16,000
Total remuneration for other assurance services	**7,000**	56,401
Total remuneration for assurance services	**235,350**	178,401
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services, including review of company income tax returns	**18,800**	110,330
Other tax services	**15,283**	10,475
Total remuneration for taxation services	**34,083**	120,805
Advisory services		
PricewaterhouseCoopers Australian firm:		
Initial Public Offering Services	–	115,380
Total remuneration for advisory services	–	115,380

17. AUDITORS' INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 (Cth) is set out on page 33.

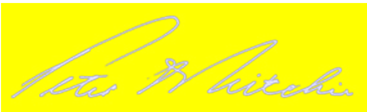
18. ROUNDING OF AMOUNTS

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 (Cth).

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



Peter Ritchie
Director

Sydney
23 August 2006

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Auditor's Independence Declaration

As lead auditor for the audit of Mortgage Choice Limited for the year ended 30 June 2006, 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 and the entities it controlled during the period.

Andrew Sneddon
Partner
PricewaterhouseCoopers

Sydney
23 August 2006

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENTS

For the year ended 30 June 2006

		Consolidated		Parent entity	
	Notes	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
Revenue from continuing operations	5	**141,070**	108,788	**141,070**	108,788
Other income	6	**982**	1,713	**982**	1,713
Expenses from continuing operations	7				
Sales		**(89,445)**	(73,831)	**(89,445)**	(73,831)
Technology		**(3,802)**	(3,824)	**(3,802)**	(3,824)
Marketing		**(6,813)**	(7,648)	**(6,813)**	(7,648)
Finance		**(1,677)**	(1,836)	**(1,677)**	(1,836)
Corporate		**(5,145)**	(5,220)	**(5,145)**	(5,220)
Finance costs		**(9,320)**	(2)	**(9,320)**	(2)
Profit before income tax		**25,850**	18,140	**25,850**	18,140
Income tax expense	8	**(7,990)**	(5,610)	**(7,990)**	(5,610)
Net profit attributable to the members of Mortgage Choice Limited		**17,860**	12,530	**17,860**	12,530
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		**Cents**	Cents		
Basic earnings per share	31	**15.2**	10.7		
Diluted earnings per share	31	**15.0**	10.7		

The above income statements should be read in conjunction with the accompanying notes.

BALANCE SHEETS

As at 30 June 2006

		Consolidated		Parent entity	
	Notes	**2006 $'000**	2005 $'000	**2006 $'000**	2005 $'000
ASSETS					
Current assets					
Cash and cash equivalents	9	**8,393**	11,462	**8,393**	11,462
Trade and other receivables	10	**52,677**	9,793	**52,677**	9,793
Total current assets		**61,070**	21,255	**61,070**	21,255
Non-current assets					
Receivables	11	**101,823**	–	**101,823**	–
Property, plant and equipment	12	**1,192**	1,462	**1,192**	1,462
Deferred tax assets	13	**1,197**	1,206	**1,197**	1,206
Intangible assets	14	**2,075**	1,472	**2,075**	1,472
Total non-current assets		**106,287**	4,140	**106,287**	4,140
Total assets		**167,357**	25,395	**167,357**	25,395
LIABILITIES					
Current liabilities					
Trade and other payables	15	**36,265**	11,585	**36,265**	11,585
Current tax liabilities		**2,368**	3,121	**2,368**	3,121
Provisions	16	**517**	530	**517**	530
Total current liabilities		**39,150**	15,236	**39,150**	15,236
Non-current liabilities					
Payables	17	**64,210**	232	**64,210**	232
Deferred tax liabilities	18	**16,357**	-	**16,357**	-
Provisions	19	**185**	144	**185**	144
Total non-current liabilities		**80,752**	376	**80,752**	376
Total liabilities		**119,902**	15,612	**119,902**	15,612
Net assets		**47,455**	9,783	**47,455**	9,783
EQUITY					
Contributed equity	20	**203**	203	**203**	203
Reserves	21(a)	**343**	91	**343**	91
Retained profits	21(b)	**46,909**	9,489	**46,909**	9,489
Total equity		**47,455**	9,783	**47,455**	9,783

The above balance sheets should be read in conjunction with the accompanying notes.

STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Total equity at the beginning of the financial year		**9,783**	6,862	**9,783**	6,862
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
Retained profits	33	**34,847**	-	**34,847**	-
Restated total equity at the beginning of the financial year		**44,630**	6,862	**44,630**	6,862
Profit for the year		**17,860**	12,530	**17,860**	12,530
Transactions with equity holders in their capacity as equity holders:					
Increase in share capital – deferred tax on capital raising costs	33	**-**	122	**-**	122
Employee share rights and options	32	**252**	91	**252**	91
Capital reduction	20	**-**	(8,962)	**-**	(8,962)
Contributions of equity, net of transaction costs	20	**-**	7,530	**-**	7,530
Dividends provided for or paid	22	**(15,287)**	(8,390)	**(15,287)**	(8,390)
		(15,035)	(9,609)	**(15,035)**	(9,609)
Total equity at the end of the financial year		**47,455**	9,783	**47,455**	9,783

The above statements of changes in equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENTS

For the year ended 30 June 2006

	Notes	Consolidated 2006 $'000	Consolidated 2005 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**120,894**	119,621	**120,894**	119,621
Payments to suppliers and employees (inclusive of goods and services tax)		**(106,729)**	(102,080)	**(106,729)**	(102,080)
		14,165	17,541	**14,165**	17,541
Interest received from trailing commissions		**15,216**	-	**15,216**	-
Interest paid on trailing commissions		**(9,320)**	-	**(9,320)**	-
Interest paid		**-**	(2)	**-**	(2)
Income taxes paid		**(7,311)**	(3,744)	**(7,311)**	(3,744)
Net cash inflow/(outflow) from operating activities	30	**12,750**	13,795	**12,750**	13,795
Cash flows from investing activities					
Payments for plant and equipment		**(332)**	(830)	**(332)**	(830)
Proceeds from sale of plant and equipment		**2**	12	**2**	12
Payments for software and development costs		**(883)**	(1,065)	**(883)**	(1,065)
Interest received from cash and deposits at call		**681**	588	**681**	588
Net cash inflow/(outflow) from investing activities		**(532)**	(1,295)	**(532)**	(1,295)
Cash flows from financing activities					
Proceeds from sale of shares		**-**	7,531	**-**	7,531
Payment for capital reduction		**-**	(8,962)	**-**	(8,962)
Dividends paid		**(15,287)**	(10,806)	**(15,287)**	(10,806)
Net cash inflow/(outflow) from financing activities		**(15,287)**	(12,237)	**(15,287)**	(12,237)
Net increase/(decrease) in cash and cash equivalents		**(3,069)**	263	**(3,069)**	263
Cash and cash equivalents at the beginning of the financial year		**11,462**	11,199	**11,462**	11,199
Cash and cash equivalents at the end of year	9	**8,393**	11,462	**8,393**	11,462

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Mortgage Choice Limited as an individual entity and the consolidated entity consisting of Mortgage Choice Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001 (Cth).

Compliance with International Financial Reporting Standards (IFRS)

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the financial statements and notes of both the consolidated group and parent entity of Mortgage Choice Limited comply with IFRS except that it has elected to apply the relief provided in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Mortgage Choice Limited financial statements to be prepared in accordance with AIFRS. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Mortgage Choice Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Mortgage Choice Limited's 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 Financial Instruments; Recognition and Measurement from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 33.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mortgage Choice Limited (''company'' or ''parent entity'') as at 30 June 2006 and the results of all subsidiaries for the year then ended. Mortgage Choice Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Mortgage Choice Limited.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Revenue recognition

The consolidated entity provides loan origination services and receives origination commission on the settlement of a home loan. Additionally the lender will normally pay a trailing commission over the life of the loan. Revenue over the estimated life of loans written is recognised on the settlement of the loans. 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

The Company receives trailing commissions from lenders on loans they have settled that were originated by the Group and its Franchisees. The trailing commissions are received over the life of the loans based on loan book balance outstanding. The Company also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Franchisees are also recognised, initially measured at fair value being the future trailing commission payable to Franchisees discounted to their net present value.

Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the profit and loss account.

(iii) Franchise fee income

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

(iv) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, see note 1(k). When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(v) 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.

(e) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Mortgage Choice Limited and its wholly-owned Australian controlled entities are members of a consolidated group for income tax purposes.

The head entity, Mortgage Choice Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

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

(f) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(g) Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(h) Impairment of assets

Assets subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Trade receivables

Trade receivables are recognised in accordance with the revenue recognition policy outlined in note 1(d).

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 10 and 11).

(l) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Office equipment	5-10 years
Computer equipment	3-4 years
Furniture and fittings	10-15 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(m) Intangible assets

Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate future economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).

(n) Trade and other payables

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.

(o) Borrowing costs

Borrowing costs are recognised as expenses.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Employee benefits

(i) *Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables 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.

(ii) *Long service leave*

The liability for long service leave 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 using the projected unit credit method. 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) *Retirement benefit obligations*

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) *Share-based payments*

Share-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan and an employee share scheme. Further details are included in note 32 of the financial report.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options and share rights granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Mortgage Choice Executive Performance Option Plan and share rights granted under the Mortgage Choice Performance Share Plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options and share rights.

The fair value at grant date is independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options and share rights granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options and shares that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options and share that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital. Upon the issue of performance shares, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(v) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense where contractually obliged or where there is a past practice that has created a constructive obligation.

(vi) *Termination benefits*

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(r) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(s) 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.

(t) 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.

(u) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

(v) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(w) 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.

(x) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) AASB 2005-9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005-9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 30 June 2007 financial statements. Implementation of these AASB 2005-9 is not expected to have an impact on the 2007 financial statements

AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

NOTE 2 FINANCIAL RISK MANAGEMENT

The Group has limited exposure to financial risks. The Group does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures. It does not operate internationally and is not exposed to either securities price risk or commodity price risk.

The Group's policies in relation to financial risks to which it has exposure are detailed below.

(a) Credit risk

Credit risk is limited to high credit quality financial institutions who are the members of the lender panel. The Group bears the risk of non-payment of future trailing commissions by lenders should they not maintain solvency (correspondingly, Mortgage Choice would not have to pay out any future trailing commissions to Franchisees in relation to such loans). In light of this, new panel entrants are subject to commercial due diligence by the Group's management prior to their adoption on the lender panel.

(b) Liquidity risk

The Group maintains sufficient cash to pay its debts as and when they fall due.

(c) Cash flow and fair value interest rate risk

The Group invests in short-term commercial bills and has no significant interest bearing assets; therefore the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group does not have borrowings and therefore is not exposed to interest rate risk on borrowings.

NOTE 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Trailing commissions

The Company receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the group is entitled without having to perform further services. The Company also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

The fair value of trailing commissions receivable and the corresponding payable to Franchisees is determined by using the discounted cash flow valuation technique. These calculations require the use of assumptions. The key assumptions underlying the fair value calculations of trailing commissions receivable and the corresponding payable to Franchisees at balance date include the average loan life, discount rate and the percentage paid to Franchisees. These assumptions are determined by management with the assistance of external actuaries and are as follows:

	2006	2005
Average loan life	Between 3.0 and 3.5 years	3.0 years
Discount rate	12%	12%
Percentage paid to Franchisees (10 year average)	61%	61%

Were the actual final loan life outcome to differ by +/- 10% from management's estimates, the impact on the estimates would be:

- an increase in net assets of $4.0 million (made up of increases in current assets of $0.8 million, non current assets of $14.5 million, current liabilities of $0.4 million, non-current liabilities of $9.2 million and deferred tax liabilities of $1.7 million) if favourable; or
- a decrease in net assets of $3.4 million (made of of decreases in current assets of $0.3 million, non current assets of $13.0 million, current liabilities of $0.1 million, non-current liabilities of $8.3 million and deferred tax liabilities of $1.5 million if unfavourable.

Management do not consider changes to the percentage paid to Franchisees to be reasonably possible. Changes to the discount rate are likely to occur as a result of changes to the interest rate. However, management do not consider this to have a material impact on the fair value calculation of trailing commissions receivable and the corresponding payable to Franchisees.

(b) Critical judgements in applying the entity's accounting policies

Judgements that management has made in the process of applying the entity's accounting policies are not expected to have a significant effect on the amounts recognised in the financial report.

NOTE 4 SEGMENT INFORMATION

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

NOTE 5 REVENUE

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Revenue from continuing operations				
Sales revenue				
Services	**125,173**	108,200	**125,173**	108,200
Other revenue				
Interest (note (a))	**15,897**	588	**15,897**	588
	141,070	108,788	**141,070**	108,788

(a) Interest. Interest income includes the unwinding of the discount in relation to receipt of trailing commission as well as interest earned on deposits and loans, see note 11 (b).

NOTE 6 OTHER INCOME

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Conference sponsorships (note (a))	**948**	1,064	**948**	1,064
Settlement of legal claim (note (b))	**-**	500	**-**	500
Amortisation of software licence cost recovery (note (c))	**13**	142	**13**	142
Other	**21**	7	**21**	7
	982	1,713	**982**	1,713

(a) Conference sponsorships. Lenders sponsor Mortgage Choice's National conference, High Flyers' conference, quarterly state conferences, training days and workshops.

(b) Settlement of legal claim. In 2005 a settlement of $500,000 was received in relation to legal action taken by the Company against a supplier for non-performance of contractual obligations.

(c) Amortisation of software licence cost recovery. The cost of software licences purchased for use by Franchisees is recovered from Franchisees. This cost recovery is amortised over three years, consistent with the amortisation of the corresponding intangible asset.

NOTE 7 EXPENSES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Profit from ordinary activities before income tax includes the following specific expenses:				
Finance costs				
Interest and finance charges (note (a))	**9,320**	2	**9,320**	2
Net loss on disposal of property, plant and equipment	**73**	12	**73**	12
Depreciation				
Plant and equipment	**264**	271	**264**	271
Amortisation				
Leasehold improvements	**263**	163	**263**	163
Computer software	**280**	366	**280**	366
Other provisions				
Employee entitlements	**28**	58	**28**	58
Rental expense relating to operating leases	**839**	767	**839**	767
Defined contribution superannuation expense	**895**	843	**895**	843

(a) Interest and finance charges. Interest expense includes the unwinding of the discount in relation to payment of trailing commission to franchisees.

NOTE 8 INCOME TAX

(a) Income tax expense

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Current tax	**6,567**	5,664	**6,567**	5,664
Deferred tax	**1,431**	(58)	**1,431**	(58)
Under (over) provided in prior years	**(8)**	4	**(8)**	4
	7,990	5,610	**7,990**	5,610
Income tax expense is attributable to:				
Profit from continuing operations	**7,990**	5,610	**7,990**	5,610
	7,990	5,610	**7,990**	5,610
Deferred income tax (revenue) expense including income tax expense comprises:				
(Increase)/decrease in deferred tax assets (note 13)	**(3,314)**	(58)	**(3,314)**	(58)
Increase/(decrease) in deferred tax liabilities (note 18)	**4,745**	-	**4,745**	-
	1,431	(58)	**1,431**	(58)

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Profit from continuing operations before income tax expense	**25,850**	18,140	**25,850**	18,140
Income tax calculated @ 30% (2005 – 30%)	**7,755**	5,442	**7,755**	5,442
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Entertainment	**167**	127	**167**	127
Share based payments	**76**	27	**76**	27
Sundry items	**–**	10	**–**	10
	7,998	5,606	**7,998**	5,606
Under/(over) provision from prior years	**(8)**	4	**(8)**	4
Income tax expense	**7,990**	5,610	**7,990**	5,610

No part of the deferred tax asset shown in above and in note 13 is attributable to tax losses.

(c) Tax consolidation legislation

Mortgage Choice and the wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(e).

The wholly owned Australian controlled entities of Mortgage Choice are dormant and have been dormant since the date of implementation of the tax consolidation legislation. Consequently, no tax sharing agreement is in place as it is not considered necessary by the Directors.

NOTE 9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Cash at bank and on hand	**270**	302	**270**	302
Deposits at call	**8,123**	11,160	**8,123**	11,160
	8,393	11,462	**8,393**	11,462

Deposits at call

The deposits are bearing interest rates between 5.63% and 5.88% (2005 – 5.38% and 5.56%). These deposits have an average maturity of 60 days.

NOTE 10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Trade receivables (1)	**11,121**	9,377	**11,121**	9,377
Net present value of future trailing commissions receivable	**40,885**	–	**40,885**	–
Franchisee receivables	**285**	106	**285**	106
Other receivables	**125**	88	**125**	88
Prepayments	**261**	222	**261**	222
	52,677	9,793	**52,677**	9,793

(1) Subject to a limited charge in favour of The Loan Book Security Trust (refer to note 15).

(a) Net present value of future trailing commissions receivable

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards at 1 July 2005, both the Group and the parent entity had a net present value of future trailing commissions receivable not included in current assets under AGAAP of $36,473,000. Refer to note 11 for the non current portion of these receivables.

(b) Other receivables

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

(c) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 11).

(d) Fair values

The carrying amounts of trade and other receivables at year end is a reasonable approximation of their fair values with the exception of the net present value of future trailing commissions receivable which are accounted for at amortised cost.

NOTE 11 NON-CURRENT ASSETS – RECEIVABLES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Net present value of future trailing commissions receivable	**101,823**	-	**101,823**	-

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards at 1 July 2005, both the Group and the parent entity had a net present value of future trailing commissions receivable not included in non-current assets under AGAAP of $90,418,000. Refer to note 10 for the current portion of these receivables.

(a) Interest rate risk

The Group's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following tables.

	Fixed interest maturing in:								
2006	**Floating interest rate $'000**	**1 year or less $'000**	**Over 1 to 2 years $'000**	**Over 2 to 3 years $'000**	**Over 3 to 4 years $'000**	**Over 4 to 5 years $'000**	**Over 5 years $'000**	**Non-interest bearing $'000**	**Total $'000**
Trade receivables*	-	40,885	30,116	21,710	15,624	11,316	23,057	11,121	153,829
Franchisee and other receivables	-	64	-	-	-	-	-	346	410
	-	40,949	30,116	21,710	15,624	11,316	23,057	11,467	154,239
Weighted average interest rate	-	11.99%	12.00%	12.00%	12.00%	12.00%	12.00%	-	

* The fixed interest component of trade receivables is represented by future trailing commission discounted to present value using the risk free interest rate of 12%.

(b) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as the Group's debtors are the major lending institutions in Australia. Refer to note 2 for more information on the risk management policy of the Group.

NOTE 12 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Consolidated			Parent entity		
	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
At 1 July 2004						
Cost	2,855	927	3,782	2,855	927	3,782
Accumulated depreciation	(2,131)	(563)	(2,694)	(2,131)	(563)	(2,694)
Net book amount	724	364	1,088	724	364	1,088
Year ended 30 June 2005						
Opening net book amount	724	364	1,088	724	364	1,088
Additions	267	563	830	267	563	830
Assets included in a disposal group classified as held for sale and other disposals	(22)	-	(22)	(22)	-	(22)
Depreciation charge	(271)	(163)	(434)	(271)	(163)	(434)
Closing net book amount	698	764	1,462	698	764	1,462
At 30 June 2005						
Cost	3,100	1,490	4,590	3,100	1,490	4,590
Accumulated depreciation	(2,402)	(726)	(3,128)	(2,402)	(726)	(3,128)
Net book amount	698	764	1,462	698	764	1,462

	Consolidated			Parent entity		
	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Year ended 30 June 2006						
Opening net book amount	698	764	1,462	698	764	1,462
Additions	197	135	332	197	135	332
Disposals	(57)	(18)	(75)	(57)	(18)	(75)
Depreciation charge	(264)	(263)	(527)	(264)	(263)	(527)
Closing net book amount	574	618	1,192	574	618	1,192
At 30 June 2006						
Cost	3,031	1,504	4,535	3,031	1,504	4,535
Accumulated depreciation	(2,457)	(886)	(3,343)	(2,457)	(886)	(3,343)
Net book amount	574	618	1,192	574	618	1,192

NOTE 13 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**647**	617	**647**	617
Provision for legal costs	**-**	28	**-**	28
Depreciation and amortisation	**325**	286	**325**	286
Accrued expenses	**147**	169	**147**	169
NPV of future trailing commissions payable	**10,815**	-	**10,815**	-
Less amortisation of future trailing commissions payable	**(7,492)**	-	**(7,492)**	-
	4,442	1,100	**4,442**	1,100
Amounts recognised directly in equity				
NPVof future trailing commissions payable at 1 July 2005	**23,132**	-	**23,132**	-
Share issue expenses	**78**	106	**78**	106
	27,652		**27,652**	
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	**(26,455)**	-	**(26,455)**	-
Net deferred tax assets	**1,197**	1,206	**1,197**	1,206
Movements:				
Opening balance at 1 July	**1,206**	1,158	**1,206**	1,158
Change on adoption of AASB 132 and AASB 139 (note 1)	**23,132**	-	**23,132**	-
Credited/(charged) to the income statement (note 8)	**3,314**	(58)	**3,314**	(58)
Credited/(charged) to equity	**-**	106	**-**	106
Closing balance at 30 June	**27,652**	1,206	**27,652**	1,206
Deferred tax assets to be recovered after more than 12 months	**19,604**	403	**19,604**	403
Deferred tax assets to be recovered within 12 months	**8,048**	803	**8,048**	803
	27,652	1,206	**27,652**	1,206

NOTE 14 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	Consolidated	Parent entity
	Computer Software* $'000	Computer Software* $'000
At 1 July 2004		
Cost	1,827	1,827
Accumulated amortisation	(1,053)	(1,053)
Net book amount	774	774
Year ended 30 June 2005		
Opening net book amount	774	774
Additions	1,065	1,065
Assets included in a disposal group classified as held for sale and other disposals	(1)	(1)
Amortisation charge	(366)	(366)
Closing net book amount	1,472	1,472
At 30 June 2005		
Cost	2,893	2,893
Accumulated amortisation	(1,421)	(1,421)
Net book amount	1,472	1,472

	Consolidated	Parent entity
	Computer Software* $'000	Computer Software* $'000
Year ended 30 June 2006		
Opening net book amount	1,472	1,472
Additions	883	883
Amortisation charge	(280)	(280)
Closing net book amount	2,075	2,075
At 30 June 2006		
Cost	3,776	3,776
Accumulated amortisation	(1,701)	(1,701)
Net book amount	2,075	2,075

*Capitalised computer software includes internally generated software development costs.

NOTE 15 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Trade payables(1)	**8,454**	7,948	**8,454**	7,948
Net present value of future trailing commissions payable	**24,174**	-	**24,174**	-
Licence fees repayable	**400**	372	**400**	372
Other payables	**3,237**	3,265	**3,237**	3,265
	36,265	11,585	**36,265**	11,585

Net present value of future trailing commissions payable

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards at 1 July 2005, both the Group and the parent entity had a net present value of future trailing commissions payable not included in current liabilities under AGAAP of $20,991,000.

(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 2006, the amount subject to charge resulting from applying the specified percentage to the trailing commission subsequently received by Mortgage Choice Limited is $2,528,625 (2005 - $2,040,764). This is included as part of the balance of trade creditors at 30 June 2006 and is subject to charge until disbursed to the eligible Franchisees. The amount subject to the charge will vary dependant on trailing commission received by Mortgage Choice Limited from time to time and Franchisee performance.

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.

Fair values

The carrying amounts of trade and other payables at year end is a reasonable approximation of their fair values with the exception of the net present value of future trailing commissions payable which are accounted for at amortised cost.

NOTE 16 CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Employee entitlements –annual leave	**517**	530	**517**	530

NOTE 17 NON-CURRENT LIABILITIES – PAYABLES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Net present value of future trailing commissions payable	**64,010**	-	**64,010**	-
Licence fees repayable	**200**	232	**200**	232
	64,210	232	**64,210**	232

Net present value of future trailing commissions payable

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 July 2005. At the date of transition to these standards at 1 July 2005, both the Group and the parent entity had a net present value of future trailing commissions payable not included in non-current liabilities under AGAAP of $56,119,000.

NOTE 18 NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
NPV of future trailing commissions receivable	**17,767**		**17,767**	
Less amortisation of trailing commissions receivable	**(13,022)**	-	**(13,022)**	-
	4,745	-	**4,745**	-
Amounts recognised directly in equity				
NPV of future trailing commissions receivable at 1 July 2005	**38,067**	-	**38,067**	-
	42,812	-	**42,812**	-
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	**(26,455)**	-	**(26,455)**	-
Net deferred tax liabilities	**16,357**	-	**16,357**	-
Movements:				
Opening balance at 1 July	**-**	-	**-**	-
Change on adoption of AASB 132 and AASB 139 (note 1)	**38,067**	-	**38,067**	-
Charged to the income statement (note 8)	**4,745**	-	**4,745**	-
Closing balance at 30 June	**42,812**	-	**42,812**	-
Deferred tax liabilities to be settled after more than 12 months	**30,547**	-	**30,547**	-
Deferred tax liabilities to be settled within 12 months	**12,265**	-	**12,265**	-
	42,812	-	**42,812**	-

NOTE 19 NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Employee entitlements – long service leave	**185**	144	**185**	144

NOTE 20 CONTRIBUTED EQUITY

(a) Share capital

	Parent entity		Parent entity	
	2006 number '000	2005 number '000	**2006 $'000**	2005 $'000
Ordinary shares – fully paid	**117,593**	117,593	**203**	203

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(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 –associated costs	-	-	(406)
	Deferred tax asset in relation to IPO costs	-	-	122
30 June 2006	Balance	117,592,767		203

- 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 8.0 cents per share in cash to the existing shareholders.
- On 9 August 2004, an offset by share capital reduction, of accumulated losses of $6,780,000 against contributed equity, occurred three business days after the transfer and allotment of shares under the offer.
- On 10 August 2004, issue of 5,491,500 ordinary shares to franchises, employees and other persons raising $5,360,000 (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 32.

(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 Directors report – refer to section D of the Remuneration report on pages 25 to 28.

NOTE 21 RESERVES AND RETAINED PROFITS

(a) Reserves

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Share-based payments reserve	**343**	-	**343**	-
Movements:				
General reserve				
Balance 1 July	**-**	5,349	**-**	5,349
Dividends provided for out of general reserve	**-**	(5,349)	**-**	(5,349)
Balance 30 June	**-**	-	**-**	-
Movements:				
Share-based payments reserve				
Balance 1 July	**91**	-	**91**	-
Options and performance shares expensed	**252**	91	**252**	91
Balance 30 June	**343**	91	**343**	91

(b) Retained profits/(accumulated losses)

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Balance 1 July	**9,489**	(6,780)	**9,489**	(6,780)
Offset, by share capital reduction, of accumulated losses	**-**	6,780	**-**	6,780
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note 33)	**34,847**	-	**34,847**	-
Net profit for period	**17,860**	12,530	**17,860**	12,530
Dividends	**(15,287)**	(3,041)	**(15,287)**	(3,041)
Balance 30 June	**46,909**	9,489	**46,909**	9,489

(c) Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options and performance shares granted but not vested.

NOTE 22 DIVIDENDS

	Parent entity	
	2006 $'000	2005 $'000
(a) Ordinary shares		
Interim dividend declared out of the general reserve of 3.5 cents per fully paid share paid on 5 August 2004:		
Fully franked based on tax paid @ 30.0%		
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 @ 30.0%		
3.8 cents per share		
From general reserve	**-**	1,428
From profit	**-**	3,041
Final dividend declared out of profits of the Company for the year ended 30 June 2005 of 6.0 cents per fully paid share paid on 19 September 2005:		
Fully franked based on tax paid @ 30.0%		
6.0 cents per share	**7,056**	-
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2005 of 5.0 cents per fully paid share paid 21 March 2006:		
Fully franked based on tax paid @ 30.0%		
5.0 cents per share	**5,879**	-
Special dividend declared out of retained profits at 31 December 2005 of 2.0 cents per fully paid share paid 21 March 2006:		
Fully franked based on tax paid @ 30.0%		
2.0 cents per share	**2,352**	-
	15,287	8,390

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 7.5 cents per fully paid ordinary share, (2005 - 6.0 cents) fully franked based on tax paid at 30.0%. The aggregate amount of the proposed dividend expected to be paid on 18 September 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end, is	**8,819**	

(c) Franked dividend

The franked portions of the final dividends recommended after 30 June 2006 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 2007.

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Franking credits available for subsequent financial years based on a tax rate of 30.0%	**4,542**	4,539	**4,542**	4,539

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

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

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

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

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $3,788,000 (2005: $3,024,000).

NOTE 23 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

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

(i) *Chairman – non-executive*

P D Ritchie

(ii) *Executive Directors*

P A Lahiff, Managing Director

(iii) *Non-executive Directors*

P G Higgins

R G Higgins

S C Jermyn

D E Ralston

(b) Other key management personnel

The following persons, all employees of Mortgage Choice Limited, also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

Name	Position
A D Crossley	Chief Operating Officer (3/10/2005 – 30/6/2006) Chief Financial Officer (1/7/2005 – 3/10/2005)
A J Fraser	Chief Financial Officer (3/10/2005 – 30/6/2006) Corporate Finance & Strategy (1/7/2005 – 3/10/2005)
M C Newton	Chief Information Officer
D M Hoskins	Company Secretary
W J O'Rourke	National Manager Corporate Affairs
M N Writer	Human Resources Manager (19/9/05 – 30/6/06)
L A Wyatt	National Marketing Manager (15/5/2006 - 30/6/2006)
D B Bayes	Chief Operating Officer 1/7/2005 – 30/9/2005)
I C Pepper	National Marketing Manager (1/7/2005 - 19/5/2006)

All of the above persons were also specified executives during the year ended 30 June 2005, except for M N Writer who commenced employment with the group on 19 September 2005 and L A Wyatt who commenced employment with the Group on 15 May 2006.

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2006 $	2005 $	**2006 $**	2005 $
Short-term employee benefits	**2,613,620**	2,426,671	**2,613,620**	2,426,671
Post-employment benefits	**239,604**	214,709	**239,604**	214,709
Share-based payments	**157,764**	90,990	**157,764**	90,990
	3,010,988	2,732,371	**3,010,988**	2,732,371

The Company has taken advantage of the relief provided by Corporations Regulations CR2M.6.04 and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 20-24.

(d) Equity instrument disclosures relating to key management personnel

(i) Options and performance shares provided as remuneration and shares issued on exercise of such options

Details of options and performance shares provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 25-28.

(ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006 Name	Balance at the start of the year	Granted during the year as compensation	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
Directors of Mortgage Choice Limited						
P A Lahiff	323,200	424,100	-	-	747,300	-
Other key management personnel of the Group						
A D Crossley	81,800	128,600	-	-	210,400	-
A J Fraser	-	71,400	-	-	71,400	-
M C Newton	92,200	108,900	-	-	201,100	-
D S Bayes	126,000	-	-	(126,000)	-	-

2005 Name	Balance at the start of the year	Granted during the year as compensation	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
Directors of Mortgage Choice Limited						
P A Lahiff	-	323,200	-	-	323,200	-
Other key management personnel of the Group						
A D Crossley	-	81,800	-	-	81,800	-
M C Newton	-	92,200	-	-	92,200	-
D S Bayes	-	126,000	-	-	126,000	-

(iii) Performance share rights

The number of performance share rights held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006 **Name**	**Balance at the start of the year**	**Granted during the year as compensation**	**Exercised during the year**	**Other changes during the year**	**Balance at the end of the year**	**Vested at the end of the year**
Directors of Mortgage Choice Limited						
P A Lahiff	97,000	83,300	-	-	180,300	-
Other key management personnel of the Group						
A D Crossley	24,500	25,300	-	-	49,800	-
A J Fraser	24,700	14,000	-	-	38,700	-
M C Newton	27,600	21,400	-	-	49,000	-
D M Hoskins	33,900	26,200	-	-	60,100	-
W J O'Rourke	30,800	23,800	-	-	54,600	-
M N Writer	-	14,200	-	-	14,200	-
D S Bayes*	37,807	-	-	(37,807)	-	-
I C Pepper*	30,500	-	-	(30,500)	-	-

* Entitlement to shares has been forfeited as part of termination of employment.

2005 Name	**Balance at the start of the year**	**Granted during the year as compensation**	**Exercised during the year**	**Other changes during the year**	**Balance at the end of the year**	**Vested at the end of the year**
Directors of Mortgage Choice Limited						
P A Lahiff	-	97,000	-	-	97,000	-
Other key management personnel of the Group						
A D Crossley	-	24,500	-	-	24,500	-
A J Fraser	-	24,700	-	-	24,700	-
M C Newton	-	27,600	-	-	27,600	-
D M Hoskins	-	33,900	-	-	33,900	-
W J O'Rourke	-	30,800	-	-	30,800	-
D S Bayes	-	37,807	-	-	37,807	-
I C Pepper	-	30,500	-	-	30,500	-
P V Borg*	-	31,200	-	(31,200)	-	-

* Entitlement to shares has been forfeited as part of termination of employment.

(vi) *Share holdings*

The number of shares in the Company held during the financial year by each Director of Mortgage Choice Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

2006 **Name**	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Mortgage Choice Limited				
P D Ritchie	297,297	-	52,828	350,125
P A Lahiff	100,000	-	-	100,000
P G Higgins	25,286,534	-	(16,850,000)	8,436,534
R G Higgins	26,841,583	-	(6,850,000)	19,991,583
S C Jermyn	2,000,000	-	2,000,000	4,000,000
D E Ralston	50,000	-	50,000	50,000
Other key management personnel of the Group				
A D Crossley	-	-	-	-
A Fraser	-	-	-	-
M C Newton	-	-	-	-
D M Hoskins	50	-	-	50
W J O'Rourke	1,500	-	-	1,500
M N Writer	-	-	-	-
L A Wyatt	-	-	-	-
D Bayes*	-	-	N/a	N/a
I C Pepper*	11,000	-	N/a	N/a

*I C Pepper and D Bayes were not employees of the Group at 30 June 2006.

2005 Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes during the year**	**Balance at the end of the year**
Directors of Mortgage Choice Limited				
P D Ritchie	-	-	297,297	297,297
P A Lahiff	-	-	100,000	100,000
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
Other key management personnel of the Group				
A D Crossley	-	-	-	-
A Fraser	-	-	-	-
M C Newton	-	-	-	-
D M Hoskins	50	-	-	50
D Bayes	-	-	-	-
I C Pepper	-	-	11,000	11,000
C P Canty	-	-	-	-

Shareholdings of Directors and other key management personnel of the Group include those that have been disclosed under representation made to them by the parties within the AASB 124 Related Party Disclosures. The Directors and other key management personnel 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 24 REMUNERATION OF AUDITORS

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:

	Consolidated		Parent	
	2006 $	2005 $	**2006 $**	2005 $
Assurance services				
1. Audit services				
PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work under the Corporations Act 2001 (Cth)	**228,350**	122,000	**228,350**	122,000
Total remuneration for audit services	**228,350**	122,000	**228,350**	122,000
2. Other assurance services				
PricewaterhouseCoopers Australian firm:				
Due diligence services	**-**	40,401	**-**	40,401
Other assurance services	**7,000**	16,000	**7,000**	16,000
Total remuneration for other assurance services	**7,000**	56,401	**7,000**	56,401
Total remuneration for assurance services	**235,350**	178,401	**235,350**	178,401
Taxation services				
PricewaterhouseCoopers Australian firm:				
Tax compliance services, including review of company income tax returns	**18,800**	110,330	**18,800**	110,330
Other tax services	**15,283**	10,475	**15,283**	10,475
Total remuneration for taxation services	**34,083**	120,805	**34,083**	120,805
Advisory services				
PricewaterhouseCoopers Australian firm:				
Initial Public Offering Services	**-**	115,380	**-**	115,380
Total remuneration for advisory services	**-**	115,380	**-**	115,380

NOTE 25 CONTINGENCIES

Contingent liabilities

The parent entity and consolidated entity had contingent liabilities at 30 June 2006 in respect of:

Guarantees

Guarantees given in respect of:

- premises leases $244,666 (2005: $330,857); and
- Western Australia broker licences $50,000 (2005: $300,000).

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 2006 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 26 COMMITMENTS

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Operating leases				
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:				
Within one year	**623**	701	**623**	701
Later than one year but not later than five years	**807**	1,451	**807**	1,451
	1,430	2,152	**1,430**	2,152

Operating leases

The Company leases various offices under non-cancellable operating leases expiring within one to eight years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. The Company also leases various office equipment under non-cancellable operating leases.

NOTE 27 RELATED PARTY TRANSACTIONS

(a) Parent entities

The parent entity within the Group is Mortgage Choice Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 28.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 23.

There were no transactions between Mortgage Choice Limited and its subsidiaries during the years ended 30 June 2006 and 30 June 2005.

NOTE 28 SUBSIDIARIES

Name of entity	Country of incorporation	Class of Shares	Equity holding		Cost of parent entity's investment	
			2006 %	2005 %	**2006 $**	2005 $
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 (deregistered 9/10/05)	Australia	Ordinary	-	100	-	5
Finance Australia Pty Ltd (deregistered 14/8/05)	Australia	Ordinary	-	100	-	2
MC Franchise System Pty Ltd (deregistered 14/8/05)	Australia	Ordinary	-	100	-	2
FAC Pty Ltd (deregistered 21/8/05)	Australia	Ordinary	-	100	-	2
Mortgage Choice Insurance Broker Pty Ltd (deregistered 21/8/05)	Australia	Ordinary	-	100	-	2
					102	115

NOTE 29 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Dividend payment

A final ordinary dividend of $8,819,000 (7.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2006 on 23 August 2006 and paid on 18 September 2006.

The financial effects of the above transaction have not been brought to account at 30 June 2006.

NOTE 30 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Profit for the year	**17,860**	12,530	**17,860**	12,530
Depreciation and amortisation	**806**	800	**806**	800
Non-cash employee expense benefits – share-based payments	**252**	91	**252**	91
Interest received from the trailing commissions	**(15,216)**	-	**(15,216)**	-
Interest paid on the trailing commissions	**9,320**	-	**9,320**	-
Interest received on cash and deposits at call	**(681)**	(588)	**(681)**	(588)
Net loss on sale of non-current assets	**74**	12	**74**	12
Change in operating assets and liabilities:				
(Increase)/decrease in trade and other debtors	**(2,345)**	(1,282)	**(2,345)**	(1,282)
Decrease/(increase) in deferred tax asset	**9**	74	**9**	74
(Increase)/decrease in other operating assets	**(255)**	1,001	**(255)**	1,001
Increase/(decrease) in trade creditors	**2,248**	(453)	**2,248**	(453)
(Decrease)/increase in other operating liabilities	**(32)**	(213)	**(32)**	(213)
(Decrease)/increase in provision for income taxes payable	**(753)**	1,792	**(753)**	1,792
Increase/(decrease) in provision for deferred income tax	**1,422**	-	**1,422**	-
Increase/(decrease) in other provisions	**41**	31	**41**	31
Net cash inflow from operating activities	**12,750**	13,795	**12,750**	13,795

NOTE 31 EARNINGS PER SHARE

	Consolidated	
	2006 Cents	2005 Cents
Basic earnings per share	**15.2**	10.7
Diluted earnings per share	**15.0**	10.7
	$'000	$'000
Earnings used in calculating earnings per share – profit from continuing operations	**17,860**	12,530

	2006 Number	2005 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	**117,592,767**	116,848,597
Adjustments for calculation of diluted earnings per share:		
Rights and options	**1,179,070**	424,067
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**118,771,837**	117,272,664

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 rights 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 32 SHARE-BASED PAYMENTS

(a) 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 2006, 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 and property trust 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 50^{th} percentile of the comparator group at the end of the performance period. Above the 50^{th} percentile, options will vest and become exercisable in accordance with a vesting scale.

The vesting scale is as follows:

Company Performance (TSR Percentile Ranking)	Percentage of offered options allocated
At or below the 50^{th} percentile	0%
At the 51^{st} percentile	52%
75^{th} percentile or above	100%

Between the 51^{st} percentile and 75^{th} percentiles, an additional 2.0% 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.

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, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, all options will 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.

Details of options over ordinary shares in the Company provided as remuneration to each Director and key management personnel of Mortgage Choice Limited are set out below. When exercisable, each option is convertible into one ordinary share of Mortgage Choice Limited. Further information on the options is set out in the remuneration report.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006									
10 August 2004	10 August 2014	$1.05	415,400	-	-	-	-	415,400	-
4 January 2005	4 January 2015	$0.91	126,000	-	-	-	(126,000)	-	-
24 February 2005	24 February 2015	$1.08	81,800	-	-	-	-	81,800	-
2 September 2005	2 September 2015	$1.43	-	733,000	-	-	-	733,000	-
Total			623,200	733,000			(126,000)	1,230,200	-
Weighted average exercise price			$1.03	$1.43	-	-	$0.91	$1.28	-

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2005									
10 August 2004	10 August 2014	$1.05	-	621,500	-	-	(206,100)	415,400	-
4 January 2005	4 January 2015	$0.91	-	126,000	-	-	-	126,000	-
24 February 2005	24 February 2015	$1.08	-	81,800	-	-	-	81,800	-
Total			-	829,300	-	-	(206,100)	623,200	-
Weighted average exercise price			-	$1.03	-	-	$1.05	$1.03	-

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.78 years (2005 - 2.26 years).

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables on the previous page. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

(a) options are granted for no consideration, each tranche vests and is exercisable after three anniversaries of the date of grant;

(b) exercise price: $1.43;

(c) grant date: 2 September 2005;

(d) expiry date: 2 September 2015;

(e) share price at grant date: $1.43;

(f) expected price volatility of the company's shares: 30.0%;

(g) expected dividend yield: 6.0%; and

(h) risk-free interest rate: 5.0%.

(b) 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 2006 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. 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; or
- 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.

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.

Details of performance shares in the Company provided as remuneration to each Director and key management personnel of Mortgage Choice Limited are set out below. Further information on the options is set out in the remuneration report.

Set out below are summaries of performance shares conditionally issued under the plan:

Offer Date	Vesting date	Value	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006									
10 August 2004	10 August 2007	$1.05	372,500	-	-	-	(75,100)	297,400	-
6 September 2004	6 September 2007	$1.05	24,800	-	-	-	-	24,800	-
4 January 2005	4 January 2008	$0.91	155,707	-	-	-	(37,807)	117,900	-
24 February 2005	24 February 2008	$1.08	24,500	-	-	-	-	24,500	-
2 September 2005	2 September 2008	$1.43	-	479,200	-	-	(41,600)	437,600	-
Total			577,507	479,200			(154,507)	902,200	-
Weighted average exercise price			$1.01	$1.43	-	-	$1.12	$1.21	-

Offer Date	Vesting date	Value	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2005									
10 August 2004	10 August 2007	$1.05	-	422,300	-	-	(49,800)	372,500	-
6 September 2004	6 September 2007	$1.05	-	56,000	-	-	(31,200)	24,800	-
4 January 2005	4 January 2008	$0.91	-	155,707	-	-	-	155,707	-
24 February 2005	24 February 2008	$1.08	-	24,500	-	-	-	24,500	-
Total			-	658,507			(81,000)	577,507	-
Weighted average exercise price			-	$1.02	-	-	$1.05	$1.01	-

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 1.70 years (2005 - 2.25 years).

The assessed fair value at grant date of share rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a Black-Scholes option pricing model framework that takes into account the term of the rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the rights, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the share rights.

The model inputs for performance shares granted during the year ended 30 June 2006 included:

(a) share rights are granted for no consideration, each tranche vests and is exercisable after three anniversaries of the date of grant;

(b) grant date: 2 September 2005;

(c) expiry date: 2 September 2015;

(d) share price at grant date: $1.43;

(e) expected price volatility of the company's shares: 30.0%;

(f) expected dividend yield: 6.0%; and

(g) risk-free interest rate: 5.0%.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent entity	
	2006 $'000	2005 $'000	**2006 $'000**	2005 $'000
Options issued under EPOP	**72**	20	**72**	20
Shares issues under PSP	**180**	71	**180**	71
	252	91	**252**	91

NOTE 33 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

		Consolidated			Parent entity		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS							
Current assets							
Cash and cash equivalents		11,199	-	11,199	11,199	-	11,199
Trade and other receivables		8,289	-	8,289	8,289	-	8,289
Other		1,223	-	1,223	1,223	-	1,223
Total current assets		20,711	-	20,711	20,711	-	20,711
Non-current assets							
Property, plant and equipment	(a)	1,862	(774)	1,088	1,862	(774)	1,088
Deferred tax assets		1,158	-	1,158	1,158	-	1,158
Intangible assets	(a)	-	774	774	-	774	774
Total non-current assets		3,020	-	3,020	3,020	-	3,020
Total assets		23,731	-	23,731	23,731	-	23,731
LIABILITIES							
Current liabilities							
Trade and other payables		11,461	-	11,461	11,461	-	11,461
Current tax liabilities		1,329	-	1,329	1,329	-	1,329
Provisions		503	-	503	503	-	503
Other		3,193	-	3,193	3,193	-	3,193
Total current liabilities		16,486	-	16,486	16,486	-	16,486
Non-current liabilities							
Provisions		113	-	113	113	-	113
Other		270	-	270	270	-	270
Total non-current liabilities		383	-	383	383	-	383
Total liabilities		16,869	-	16,869	16,869	-	16,869
Net assets		6,862	-	6,862	6,862	-	6,862
EQUITY							
Contributed equity		8,293	-	8,293	8,293	-	8,293
Reserves		5,349	-	5,349	5,349	-	5,349
Retained earnings/ (accumulated losses)		(6,780)	-	(6,780)	(6,780)	-	(6,780)
Total equity		6,862	-	6,862	6,862	-	6,862

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS							
Current assets							
Cash and cash equivalents		11,462	-	11,462	11,462	-	11,462
Trade and other receivables		9,571	-	9,571	9,571	-	9,571
Other		222	-	222	222	-	222
Total current assets		21,255	-	21,255	21,255	-	21,255
Non-current assets							
Property, plant and equipment	(a)	2,934	(1,472)	1,462	2,934	(1,472)	1,462
Deferred tax assets		1,206	-	1,206	1,206	-	1,206
Intangible assets	(a)	-	1,472	1,472	-	1,472	1,472
Total non-current assets		4,140	-	4,140	4,140	-	4,140
Total assets		25,395	-	25,395	25,395	-	25,395
LIABILITIES							
Current liabilities							
Trade and other payables		11,585	-	11,585	11,585	-	11,585
Current tax liabilities		3,121	-	3,121	3,121	-	3,121
Provisions		530	-	530	530	-	530
Total current liabilities		15,236	-	15,236	15,236	-	15,236
Non-current liabilities							
Payables		232	-	232	232	-	232
Provisions		144	-	144	144	-	144
Total non-current liabilities		376	-	376	376	-	376
Total liabilities		15,612	-	15,612	15,612	-	15,612
Net assets		9,783	-	9,783	9,783	-	9,783
EQUITY							
Contributed equity	(d)	81	122	203	81	122	203
Reserves	(c)	-	91	91	-	91	91
Retained earnings	(c),(d)	9,702	(213)	9,489	9,702	(213)	9,489
Total equity		9,783	-	9,783	9,783	-	9,783

(2) Reconciliation of profit for the year ended 30 June 2005

		Consolidated			Parent entity		
	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue		108,788	-	108,788	108,788	-	108,788
Other income	(b)	1,725	(12)	1,713	1,725	(12)	1,713
Expenses from continuing operations			-			-	
Sales		(73,831)	-	(73,831)	(73,831)	-	(73,831)
Technology		(3,824)	-	(3,824)	(3,824)	-	(3,824)
Marketing		(7,648)	-	(7,648)	(7,648)	-	(7,648)
Finance		(1,836)	-	(1,836)	(1,836)	-	(1,836)
Corporate	(b),(c)	(5,141)	(79)	(5,220)	(5,141)	(79)	(5,220)
Finance costs		(2)	-	(2)	(2)	-	(2)
Profit before income tax		18,231	(91)	18,140	18,231	(91)	18,140
Income tax expense	(d)	(5,488)	(122)	(5,610)	(5,488)	(122)	(5,610)
Profit for the year		12,743	(213)	12,530	12,743	(213)	12,530
Net profit attributable to the members of Mortgage Choice Limited		12,743	(213)	12,530	12,743	(213)	12,530

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Intangible assets

Under AASB 138 Intangible Assets, computer software is classified as a class of intangible asset. Under previous AGAAP computer software was classified as a class of property, plant and equipment. The effect of this is:

(i) At 1 July 2004

For the consolidated and parent entity there has been a decrease in property, plant and equipment of $774,000. Intangible assets has increased by $774,000.

(ii) At 30 June 2005

For the consolidated and parent entity there has been a decrease in property, plant and equipment of $1,472,000. Intangible assets has increased by $1,472,000.

(iii) For the year ended 30 June 2005

There is no effect on the consolidated and parent entity.

(b) 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. Under previous AGAAP the gross proceeds from the sale are recognised as revenue and the carrying amount of the asset sold is recognised as an expense. The effect of this is:

(i) At 1 July 2004

There is no effect on the consolidated and parent entity.

(ii) At 30 June 2005

There is no effect on the consolidated and parent entity.

(iii) For the year ended 30 June 2005

For the consolidated and parent entity there has been a reduction in other income of $12,000 and a reduction in Corporate expenses of $12,000.

c) *Share-based payments*

Under AASB 2 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 Mortgage Choice Executive Performance Option Plan (EPOP) and rights issued under the Mortgage Choice Performance Share Plan (PSP) after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) *At 1 July 2004*
There is no effect on the consolidated and parent entity.

(ii) *At 30 June 2005*
For the consolidated and parent entity there has been a decrease in retained earnings of $91,000 and a corresponding increase in reserves.

(iii) *For the year ended 30 June 2005*
For the consolidated and parent entity there has been an increase in employee benefits expense of $91,000.

(d) *Deferred tax liability*

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 Income Taxes has resulted in the recognition of future income tax benefits in relation to IPO costs directly in equity. The effects are as follows:

(i) *At 1 July 2004*
There is no effect on the consolidated and parent entity.

(ii) *At 30 June 2005*
For the consolidated and parent entity there has been an increase in contributed equity of $122,000 and a corresponding decrease in retained earnings.

(iii) *For the year ended 30 June 2005*
For the consolidated and parent entity there has been an increase in income tax expense of $122,000.

(e) *Retained earnings*

The effect on retained earnings of the changes set out above are as follows:

		1 July 2004		30 June 2005	
	Notes	Consolidated $'000	Parent entity $'000	Consolidated $'000	Parent entity $'000
Share-based payments	(c)	-	-	(91)	(91)
Deferred tax liability	(d)	-	-	(122)	(122)
Total adjustment		-	-	(213)	(213)
Attributable to:					
Equity holders of the parent		-	-	(213)	(213)

(5) Adjustments on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 July 2005

	Consolidated			Parent entity		
	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000
ASSETS						
Current assets						
Cash and cash equivalents	11,462	-	11,462	11,462	-	11,462
Trade and other receivables	9,571	36,473	46,044	9,571	36,473	46,044
Other	222	-	222	222	-	222
Total current assets	21,255	36,473	57,728	21,255	36,473	57,728
Non-current assets						
Receivables	-	90,418	90,418	-	90,418	90,418
Property, plant and equipment	1,462	-	1,462	1,462	-	1,462
Deferred tax assets	1,206	-	1,206	1,206	-	1,206
Intangible assets	1,472	-	1,472	1,472	-	1,472
Total non-current assets	4,140	90,418	94,558	4,140	90,418	94,558
Total assets	25,395	126,891	152,286	25,395	126,891	152,286
LIABILITIES						
Current liabilities						
Trade and other payables	11,585	20,991	32,576	11,585	20,991	32,576
Current tax liabilities	3,121	-	3,121	3,121	-	3,121
Provisions	530	-	530	530	-	530
Total current liabilities	15,236	20,991	36,227	15,236	20,991	36,227
Non-current liabilities						
Payables	-	56,119	56,119	-	56,119	56,119
Deferred tax liabilities	-	14,934	14,934	-	14,934	14,934
Provisions	144	-	144	144	-	144
Other	232	-	232	232	-	232
Total non-current liabilities	376	71,053	71,429	376	71,053	71,429
Total liabilities	15,612	92,044	107,656	15,612	92,044	107,656
Net assets	9,783	34,847	44,630	9,783	34,847	44,630
EQUITY						
Contributed equity	203	-	203	203	-	203
Reserves	91	-	91	91	-	91
Retained earnings	9,489	34,847	44,336	9,489	34,847	44,336
Total equity	9,783	34,847	44,630	9,783	34,847	44,630

Refer to notes 10, 11 and 15 for further information on the transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement on 1 July 2005.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 34 to 78 are in accordance with the Corporations Act 2001 (Cth), including:

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

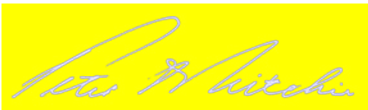
  (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of its performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(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 audited remuneration disclosures set out on pages 25 to 28 of the Directors' report comply with Accounting Standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

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 (Cth).

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



Peter Ritchie
Director

Sydney
23 August 2006

PRICEWATERHOUSECOOPERS

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Independent audit report to the members of Mortgage Choice Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report and remuneration disclosures of Mortgage Choice Limited (the Company) and the Mortgage Choice Group (defined below) for the financial year ended 30 June 2006 included on Mortgage Choice Limited's web site. The Company's directors are responsible for the integrity of the Mortgage Choice Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

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 2006, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*, and
2. the remunerations disclosures that are contained in section 13 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and the *Corporations Regulations 2001.*

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

Scope

The financial report, remunerations disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Mortgage Choice Limited (the company) and the Mortgage Choice Group (the

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consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" in section 13 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 124 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, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 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.

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Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Sneddon

Andrew Sneddon
Partner

Sydney
23 August 2006

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 11 September 2006.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security		
	Ordinary Shares	Options	Conditional entitlements
1 – 1,000	123		
1,001 – 5,000	483		
5,001 – 10,000	224		1
10,001 – 100,000	184	1	20
100,001 and over	47	3	1
	1,061	4	22

There were 8 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
J P Morgan Nominees Australia Limited	21,498,764	18.28
National Nominees Limited	16,801,884	14.29
R G Higgins	10,366,583	8.82
Ochoa Pty Ltd	9,620,000	8.18
Basscave Pty Limited	8,431,534	7.17
ANZ Nominees Limited	5,423,727	4.61
Westpac Custodian Nominees Limited	5,386,530	4.58
SCJ Pty Ltd atf Jermyn Family Trust	4,000,000	3.40
RBC Dexia Investor Services Australia Nominees Pty Limited <PIIC A/c>	3,628,288	3.09
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/c>	3,337,407	2.84
Cogent Nominees Pty Limited <SMP Accounts>	2,476,669	2.11
Citicorp Nominees Pty Limited <CFSIL CFS WS Small Comp A/c>	2,023,929	1.72
Citicorp Nominees Pty Limited <CFS Future Leaders Fund A/c>	1,900,100	1.62
Citicorp Nominees Pty Limited <CFSIL Cwlth BOFF Super A/c>	1,368,645	1.16
HSBC Custody Nominees (Australia) Limited	1,324,727	1.13
Queensland Investment Corporation	1,112,252	0.95
Cogent Nominees Pty Limited	1,036,420	0.88
Mr Ian Edwards & Mrs Josephine Edwards	675,000	0.57
RBC Dexia Investor Services Australia Nominees Pty Limited <BKCUST A/c>	627,688	0.53
Victorian Workcover Authority	560,423	0.48
	101,600,570	86.40

Unquoted equity securities

	Number on Issue	Number of holders
Options issued under the Executive Performance Option Plan	1,230,200	4
Conditional entitlements over ordinary shares pursuant to the Performance Share Plan	892,900	22

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
FMR Corp. & Fidelity International Limited	15,004,105	12.76
P G Higgins and Basscave Pty Limited	8,436,534	7.17
Renaissance Smaller Companies Pty Ltd	7,850,601	6.68
Hyperion Asset Management Limited	7,642,600	6.50
Perpetual Limited	7,248,883	6.16
INVESCO Australia Limited	5,933,230	5.04

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	P D Ritchie Chairman
	P A Lahiff Managing Director
	P G Higgins
	R G Higgins
	D E Ralston
	S C Jermyn
Secretary	D M Hoskins
Senior Management	A D Crossley Chief Operating Officer
	A J Fraser Chief Financial Officer
	M C Newton Chief Information Officer
	M B McDonald Group Franchise Operations Manager
	W J O'Rourke National Corporate Affairs Manager
	L A Wyatt National Marketing Manager
	D A Player National Lending Manager
	M N Writer National Human Resources Manager
	M Bardwell National Business Development 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: Tuesday 21 November 2006
	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	Link Market Services Limited Level 8, 580 George Street Sydney NSW 2000
Auditor	PricewaterhouseCoopers Chartered Accountants Darling Park Tower 2 201 Sussex Street Sydney 1171
Solicitors	Minter Ellison Aurora Place, 88 Phillip Street Sydney NSW 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

Mortgage Choice Annual Report 2006