our results

MORTGAGE CHOICE

ANNUAL FINANCIAL REPORT **2011**

contents

Corporate Directory

Directors	P D Ritchie *Chairman* S J Clancy P G Higgins R G Higgins S C Jermyn D E Ralston
Chief Executive Officer	M I Russell
Secretary	D M Hoskins
Executives	**Chief Financial Officer** S R Mitchell **General Manager, Operations** N C Rose-Innes **General Manager, Product and Distribution** A J Russell **CEO of LoanKit** S C Dehne **CEO of Help Me Choose** J A Hanka
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 10am Date 15 November 2011
Principal registered office in Australia	Level 10, 100 Pacific Highway North Sydney NSW 2060 (02) 8907 0444
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 (02) 8280 7111
Auditor	PricewaterhouseCoopers Chartered Accountants Darling Park Tower 2 201 Sussex Street Sydney NSW 2000
Solicitors	Minter Ellison Aurora Place, 88 Phillip Street Sydney NSW 2000
Bankers	ANZ Banking Group Limited 116 Miller Street North Sydney NSW 2060
Stock exchange listing	Mortgage Choice Limited shares are listed on the Australian Securities Exchange.
Website address	www.MortgageChoice.com.au

Directors' Report

for the year ended 30 June 2011

Your Directors present their report on the consolidated entity consisting of Mortgage Choice Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2011, hereafter referred to as "Mortgage Choice", "the Mortgage Choice Group" or "the Group".

Directors

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

P D Ritchie
S J Clancy
P G Higgins
R G Higgins
S C Jermyn
D E Ralston

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 prospective borrowers;
- the assessment, at the request of those borrowers, of a wide range of home loan or other products; and
- the submission of loan applications on behalf of prospective borrowers.

Dividends

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

A final ordinary dividend of $7.775 million (6.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2010 on 25 August 2010 and paid on 20 September 2010.

An interim ordinary dividend of $7.197 million (6.0 cents per fully paid share) was declared out of profits of the Company for the half-year ended 31 December 2010 on 23 February 2011 and paid on 21 March 2011.

A final ordinary dividend of $8.398 million (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2011 on 24 August 2011 to be paid on 19 September 2011.

Review of operations

Operational results for the year

The financial year opened with subdued but consistent credit volumes following the previous financial year's six interest rate rises and First Home Owners Grant (FHOG) boost cessation. A further cash rate rise in November resulting in out of cycle rate rises by most lenders kept volumes down, however, there was an increase in refinancing brought about by borrowers looking to save money by switching lenders or to a secure fixed rate loan.

Volumes at the end of the financial year remained subdued in line with market credit volumes.

FY2011 approvals and settlements were down 4.5% and 6.4% respectively on FY2010, which was inflated by the impact of the FHOG boost.

Mortgage Choice – residential only, excluding LoanKit	2011	2010
Loans approved – $m	**9,527**	9,973
Change	**(4.5%)**	(0.9%)
Loans settled – #	**30,473**	34,083
Change	**(10.6%)**	1.3%
Loans settled – $m	**8,319**	8,891
Change	**(6.4%)**	3.1%

Despite the lower level of settlements for the year, the Company's residential loan book grew by 5.4% to $41.2bn. The Group's loan book including the residential loan book, LoanKit and diversified lending grew by 6% to $42.4bn.

During the year the Group continued to expand adding LoanKit brokers and increasing the number of its software users. The Group also added a business line by acquiring Help Me Choose, a comparison website for mortgages as well as health and life insurance. The mortgage and life insurance leads generated through the website are sold to third party brokers. Health leads are contacted by the Help Me Choose staff, who help customers determine the best health policy for them and then forward their application to the selected health fund. The Group expects to step up its investment in both of LoanKit and Help Me Choose in the coming year.

Financial results for the year

Underlying profit before tax and before the adjustment to the loan book valuation is $21.7m which represents a 5.3% increase over FY2010. This is due to an increase in operational revenue while controlling operating expenses.

The annual review of the historical trail book found that the run-off over the past year was overstated and an adjustment to the profit and loss for the year was required to recognise the actual experience in the portfolio. In addition the run-off assumptions used to value the future trailing commissions on the balance sheet were changed to reflect an extension of the current economic environment. These changes resulted in a $35.4m adjustment to revenue and a $17.6 million adjustment before tax to the Group's profit for FY2011. Approximately 70% of the $35.4m adjustment to revenue arises from the change in forward assumptions.

The effect of the adjustment is summarised below.

Financial summary	2011 $'000	2010 $'000
Revenue		
Underlying revenue	**134,125**	130,464
Adjustment to loan book valuation	**35,381**	40,864
Total revenue	**169,506**	171,328
Profit before tax		
Underlying result before tax	**21,722**	20,623
Adjustment to loan book valuation	**17,607**	12,845
Total profit before tax	**39,329**	33,468

The Group will continue to review the assumptions used in estimating the future trailing commissions, as required in the Group's accounting policies, and recognise any change in net assets in the period in which it arises.

Strategy and plans for next year

Mortgage Choice continues to drive forward its DREAM strategy. DREAM was developed to address negative trends in the business caused by the GFC and lender commission cuts:

- Diversification – introduce new products, business lines
- Recruitment – re-ignite franchise recruitment initiatives
- Existing franchises – help franchisees grow their businesses
- Acquisitions – identify acquisition opportunities that meet our benchmarks
- Manage costs – continue diligent management of our cost base

The Group has seen improvement in its diversified revenues including an increase in revenue from the additional business lines of LoanKit and Help Me Choose, having reinvested in each during FY2011 to develop the proposition. It has also seen an improvement in its franchise numbers and has kept tight control over its costs in spite of expanding business lines. FY2012 is the beginning of the final year of the initial three year focus on these initiatives, which Mortgage Choice recognises are not a quick solution. The Group will step up its investment in LoanKit and Help Me Choose while continuing to drive its DREAM strategy.

Directors' Report (continued)

Significant changes in the state of affairs

Except for the matters disclosed in the Review of Operations section of this annual report, there have been no significant changes in the state of affairs of the Group.

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2011 that have significantly affected, or may significantly affect:

(a) the Group's operations in future financial years,

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

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

Likely developments and expected results of operations

Information on likely developments in the operations of the Group 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 Group.

Environmental regulation

The Group 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.

Information on Directors

Peter Ritchie AO, BCom, FCPA **Independent Non-Executive Chairman** Chairman of nomination and remuneration committees	Peter is Deputy Chairman of Seven Network and Chairman of Reverse Corp Limited. He 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 69.
Sean Clancy Dip Mkt **Independent Non-Executive Director** Member of audit and remuneration committees	With a sales and marketing background across many industries including banking, fast moving consumer goods, liquor, pharmacy, consumer electronics, telecommunications and hardware, Sean brings a diverse range of knowledge and expertise to the Mortgage Choice Board. He is also a Director of the Sydney Swans Foundation, Chairman of Metropolis Inc. and Ambassador to Business Events Sydney. Age 51.
Peter Higgins **Non-Executive Director** Member of audit committee	Peter is co-founder of Mortgage Choice. He also is a Director of Technology Company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com. Having been successfully self-employed for over 25 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 51.
Rodney Higgins **Non-Executive Director** Member of nomination and remuneration committees	Rodney is co-founder of Mortgage Choice. With a background in residential and commercial property, sales and leasing, he has been a Director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 56.
Steve Jermyn FCPA **Independent Non-Executive Director** Chairman of audit committee	Steve joined McDonald's Australia in 1984 and joined the Board of Directors in 1986. In June 1999, he 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. Steve is also a Director of Reverse Corp Limited. Age 62.
Deborah Ralston PhD, FAICD, FFin, FCPA **Independent Non-Executive Director** Member of audit committee	Deborah is Director of the Australian Centre for Financial Studies and Professor of Finance at Monash University. She was formerly Pro Vice Chancellor at the University of Canberra and has also been Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Deborah is a former Director of Heritage Building Society. Age 58.

The table below sets out the Directors' interests at 30 June 2011:

Director	Particulars of Directors' interests in shares and options
P D Ritchie	350,125 ordinary shares
S J Clancy	50,000 ordinary shares
P G Higgins	822,939 ordinary shares
R G Higgins	15,226,215 ordinary shares
S C Jermyn	2,000,000 ordinary shares
D E Ralston	100,000 ordinary shares

Company Secretary

The Company Secretary is Mr D M Hoskins BCom, CPA, CSA. Mr Hoskins was appointed to the position of Company Secretary in 2000. Before joining Mortgage Choice he had experience in a variety of accounting and company secretarial functions, primarily in the finance and insurance industries.

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 2011, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
P D Ritchie	8	8	*	*	–	–	1	1
S J Clancy	8	8	3	3	*	*	1	1
P G Higgins	7	8	3	3	*	*	*	*
R G Higgins	7	8	*	*	–	–	1	1
S C Jermyn	7	8	3	3	*	*	*	*
D E Ralston	8	8	3	3	*	*	*	*

A = Number of meetings attended

B = Number of meetings held

* = Not a member of the relevant committee

Retirement, election and continuation in the office of Directors

In accordance with the Constitution, Peter Ritchie and Peter Higgins retire by rotation and, being eligible, offer themselves for re-election.

Remuneration report

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Structured in conjunction with external remuneration consultants, the framework aligns executive rewards with the achievement of strategic objectives and the creation of value for shareholders. The Board ensures that executive rewards satisfy the following key criteria for good governance practices:

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

Alignment to shareholders' interests means the remuneration framework:

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

Alignment to program participants' interests means the remuneration framework:

- 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 within 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 made on, and the responsibilities of, those Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. Initially the Board sought independent research material to ensure Non-Executive Directors fees and payments, including those of the Chairman, were appropriate and in line with market. The Chairman's fees are determined independently to the fees of Non-Executive Directors. Non-Executive Directors do not receive any short term cash incentives or share-based payments as part of their remuneration.

Directors' fees

The base remuneration for Directors was increased effective 1 October 2010. The Directors' fees were last increased on 1 July 2006. Directors do not receive additional remuneration for representation on Board committees. Shareholders at the General Meeting on 5 April 2004 set the maximum aggregate remuneration of the Board (excluding the Managing Director and any executive Director) at $750,000.

The following annual fees apply:

	From 1 October 2010	From 1 July 2006 to 30 September 2010
Chairman	$136,250	$119,900
Other Non-Executive Directors	$81,750	$65,400

Retirement allowances for Directors

Non-Executive Directors do not receive retirement allowances. Superannuation contributions, as required under the Australian superannuation guarantee legislation, are paid on Non-Executive Directors' remuneration and are included in the fees above.

Executive pay

The executive pay and reward framework has three components:

- base pay and non-cash benefits;
- short-term incentives; and
- long-term incentives through participation in executive and employee share-based plans.

The combination of these comprises an executive's total remuneration.

Base pay and non-cash benefits

An executive's base pay comprises a fixed cash salary plus superannuation. Executives have an opportunity to salary sacrifice amounts from their fixed salary towards a series of prescribed benefits and any associated fringe benefits tax.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay is reviewed annually in conjunction with external benchmarks to ensure it 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.

Executives do not receive non-cash benefits in addition to base pay except in isolated circumstances as approved by the Board or the remuneration committee.

Short-term incentives

Should the Group achieve the profit target set by the Board each year, a pool of short-term incentive funds ("STI") is made available for allocation during the annual review. Any amounts awarded as STI are payable in cash following the signing of the annual report each year. Using a profit target ensures variable reward is available only when value has been created for shareholders and when this value has been achieved in a manner consistent with the business plan. In addition, some executives have a target STI opportunity based solely on achieving a key performance indicator ("KPI") related to the accountabilities of the role and its impact on the organisation's or business unit's performance. These KPIs are set annually by the executive and the Chief Executive Officer.

For senior executives, the maximum STI opportunity ranges from 20% to 52% of their cash salary. However, from time to time, bonuses are paid outside this structure in relation to special projects or in special circumstances.

Each year, the remuneration committee reviews the appropriate profit target with which the STI plan will be linked and the level of payout if targets are met. This includes setting any maximum payout under the STI plan and the minimum levels of profit performance to trigger payment of STI. The STI payments may be adjusted up or down in line with under or over achievement against the target performance levels at the discretion of the remuneration committee.

Long-term incentives

Long-term incentives are provided in the form of share-based payments through the Executive Performance Option Plan (EPOP) and the Performance Share Plan (PSP); see pages 10 – 13 for further information.

Performance of Mortgage Choice Limited

Payments made under the STI plan are conditional upon the Company achieving a pre-determined profit target. The following table lists Mortgage Choice Limited's earnings per share (EPS):

Year	EPS (cents per share)
2007	16.6
2008	16.4
2009	22.6
2010	19.7
2011	22.9

Grants made under the EPOP in May 2009 vest based on service requirements.

Grants under the PSP, prior to 1 July 2009, vest based on the total shareholder return (TSR) of the Company over a three year period as compared to the TSRs of comparator groups of companies. TSR is the percentage increase in the Company's share price plus reinvested dividends and reflects the increase in value delivered to shareholders over the period. The following table lists Mortgage Choice Limited's TSR expressed as a percentage of the opening value of the investment for each period:

Year	TSR
2007	34%
2008	-61%
2009	-20%
2010	55%
2011	44%

Grants made under the PSP after 30 June 2009 vest based on service requirements.

Details of remuneration

Amounts of remuneration

Details of the remuneration of the Directors and 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 the Group are the Chief Executive Officer, M I Russell, the Company Secretary, D M Hoskins, and those executives serving on the executive committee during the year:

- S R Mitchell – *Chief Financial Officer*
- N C Rose-Innes – *General Manager, Operations*
- A J Russell – *General Manager, Product and Distribution (from 2 December 2010)*
- S C Dehne – *National Manager, Non-Core (to 30 June 2011), CEO of LoanKit (from 1 July 2011)*
- K Rampal – *CEO of LoanKit (to 30 June 2011)*
- J A Hanka – *CEO of Help Me Choose (from 1 October 2010)*

In addition, J M Stevenson, *Financial Controller*, must be disclosed under the *Corporations Act 2001* as he is among the 5 highest remunerated Group executives.

Key management personnel

2011	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	**Cash salary and fees $**	**STI $**	**Non-monetary benefits $**	**Super-annuation $**	**Long service leave $**	**Termination benefits $**	**Performance shares & options $**	**Total $**
Non-Executive Directors								
P D Ritchie *Chairman*	121,250	–	–	10,913	–	–	–	132,163
S J Clancy	71,250	–	–	6,413	–	–	–	77,663
P G Higgins	71,250	–	–	6,413	–	–	–	77,663
R G Higgins	71,250	–	–	6,413	–	–	–	77,663
S C Jermyn	71,250	–	–	6,413	–	–	–	77,663
D E Ralston	71,250	–	–	6,413	–	–	–	77,663
M I Russell [1] *Chief Executive Officer*	563,597	286,915	14,643	15,199	2,944	–	210,425	1,093,723
Other key management personnel:								
S R Mitchell [1]	270,662	89,600	–	15,199	1,671	–	55,557	432,689
N C Rose-Innes [1]	244,583	76,299	–	15,199	2,406	–	62,623	401,110
A J Russell [1] (from 2/12/10 to 30/6/11)	138,659	41,819	–	8,866	–	–	14,963	204,307
S C Dehne	162,183	32,000	–	15,199	507	–	22,798	232,687
K Rampal	210,953	–	–	–	–	–	–	210,953
J A Hanka (from 1/10/10 to 30/6/11)	144,987	40,447	–	10,133	414	–	–	195,981
D M Hoskins	166,876	24,000	–	14,031	–	–	6,925	211,832
Other Company and Group executives								
J M Stevenson [1]	175,071	30,600	–	15,199	4,177	–	24,269	249,316

1 Denotes one of the 5 highest paid executives of the company as required to be disclosed under the *Corporations Act 2001.*

Key management personnel

2010	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments	
Name	Cash salary and fees $	STI $	Non-monetary benefits $	Super-annuation $	Long service leave $	Termination benefits $	Performance shares & options[1] $	Total $
Non-Executive Directors								
P D Ritchie *Chairman*	110,000	–	–	9,900	–	–	–	119,900
S J Clancy	60,000	–	–	5,400	–	–	–	65,400
P G Higgins	60,000	–	–	5,400	–	–	–	65,400
R G Higgins	60,000	–	–	5,400	–	–	–	65,400
S C Jermyn	60,000	–	–	5,400	–	–	–	65,400
D E Ralston	60,000	–	–	5,400	–	–	–	65,400
M I Russell [3] *Chief Executive Officer*	532,173	275,880	28,102	18,651	1,043	–	99,587	955,436
Other key management personnel:								
S R Mitchell [3]	236,132	73,852	–	15,426	524	–	17,493	343,427
N C Rose-Innes [3]	249,626	73,364	–	15,405	1,521	–	42,410	382,326
D L Ennis [2,3]	249,200	77,340	–	15,576	(15,281)	–	(33,772)	293,063
D M Hoskins	111,615	–	–	–	–	–	–	111,615
M N Writer (from 1/7/09 to 28/4/10)	138,312	–	–	13,147	(2,978)	–	(21,166)	127,315
S C Dehne (from 28/7/09 to 30/6/10)	145,298	27,699	–	12,583	–	–	7,577	193,157
K Rampal (from 1/12/09 to 30/6/10)	109,490	–	–	–	–	–	–	109,490
Other Company and Group executives								
J M Stevenson [3]	181,595	29,970	–	14,676	7,155	–	15,339	248,735

1 Remuneration in the form of performance shares and options includes negative amounts for performance shares and options forfeited during the year.
2 D L Ennis' employment terminated effective 2 July 2010, whereby her unvested performance shares lapsed.
3 Denotes one of the 5 highest paid executives of the company as required to be disclosed under the *Corporations Act 2001.*

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2011	2010	2011	2010	2011	2010
Key management personnel of Group						
M I Russell	55%	61%	26%	29%	19%	10%
S R Mitchell	66%	73%	21%	22%	13%	5%
N C Rose-Innes	65%	70%	19%	19%	16%	11%
A J Russell	72%	–	21%	–	7%	-
S C Dehne	76%	82%	14%	14%	10%	4%
K Rampal	100%	100%	–	–	–	-
J A Hanka	79%	–	21%	–	–	-
D M Hoskins	86%	100%	11%	–	3%	-
D L Ennis	–	74%	–	26%	–	-
M N Writer	–	100%	–	–	–	-
Other Company and Group executives						
J M Stevenson	78%	82%	12%	12%	10%	6%

Service agreements

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the Director.

Remuneration and other terms of employment for the Chief Executive Officer, M I Russell, and other key management personnel, excluding K Rampal, are set out in their respective letters of employment. The employment terms do not prescribe the duration of employment for executives except for the Chief Executive Officer who has a set term of employment of two years. The periods of notice required to terminate employment are set out below:

- The employment contracts of Messrs M I Russell, Rose-Innes, A J Russell, Hanka and Ms Mitchell are terminable by either the Company or the executive with three months notice.
- The employment contracts of Messrs Dehne, Hoskins and Stevenson are terminable by either the Company or the executive with four weeks notice.

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

- Mr M I Russell's employment terms provide that in the event of the sale of the Company's business or a corporate restructure, subject to certain conditions relating to length of service, Mr M I Russell will become entitled to a severance payment equivalent to 6 months base salary, less any amounts paid in respect of notice of termination under the terms of his employment.

K Rampal provides services to the Group pursuant to contracts for the purchase of the assets constituting the LoanKit business from Freeol Pty Ltd of which he is a Director. These contracts require services to be provided for a set term ending 2 November 2011.

Share-based compensation

Executive Performance Option Plan ("EPOP")

The Executive Performance Option Plan may be offered on an annual basis to eligible executives as determined by the Board. The details of each offer may differ as to the particulars, especially with regard to performance criteria and performance period. Participation in the EPOP provides one component of the long-term incentive available to the selected executives within their aggregate remuneration package.

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and 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. In the year ending 30 June 2011, no options were offered.

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:

- ten 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
- twelve months, or such other period determined by the Board, after the participant ceases employment for a 'qualifying reason'.

When a participant ceases to be employed by the Company prior to the end of the performance period, 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, options will vest on a pro-rata basis or in their entirety for certain senior executives.

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

The terms and conditions of each grant of options affecting remuneration in the current year are as follows:

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	Vested
1 May 2009	From 22 April 2011	1 May 2019	$0.76	$0.03	100%

The above grant vested based on service requirements.

Offers made under the plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

Details of options provided as remuneration to key management personnel of the Company and the Group are set out below. Further information on the options is set out in note 31 to the financial statements.

Name	Number of options granted during the year	Value of options at grant date	Number of options vested during the year	Number of options lapsed during the year	Value at lapse date
M I Russell	–	–	800,000	–	–

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 pages 12 and 13 of this report. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes 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 nontradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the riskfree interest rate for the term of the option.

No options have been offered since the end of the year to the date of this report.

Performance Share Plan ("PSP")

The PSP permits eligible employees as identified by the Board to be offered allocated unvested shares from the outset of the applicable performance period, with the shares to be held on trust for the participants by a share plan trustee. 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 managers and any other designated employees.

Participation in the PSP is offered on an annual basis. Eligible employees 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 performance requirements and vesting scale applicable to offers under the PSP, for years up to and including 30 June 2009, use TSR as the basis of their performance criteria. The right to receive vested shares will lapse if the performance criteria have not been met at the end of the performance period. Offers made under the PSP subsequent to the year ended 30 June 2009 are based on service requirements.

Shares will be acquired for participants following their acceptance of an offer made under the Plan. The shares will be acquired by the plan trustee and held on trust for participants until they are withdrawn from the Plan (after they have vested or are deemed to be vested) or are forfeited, in circumstances outlined below. Shares will be acquired only at times permitted under the Company's share trading policy. Shares may be acquired by on-market or off-market purchases, by subscribing for new shares to be issued by the Company, or through the reallocation of forfeited shares. The method of acquisition for each share allocation will be determined by the Board. The costs of all share acquisitions under the Plan will be funded by the Group. Participants will not be required to make any payment for the acquisition of shares under the Plan.

Shares will not be released from the PSP and will remain subject to a holding lock until a Notice of Withdrawal 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 ten 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). If a participant resigns from his or her employment with the Company, or otherwise ceases employment in circumstances not involving "special circumstances", the participant will be required to forfeit any unvested shares held under the Plan on the participant's behalf, unless the Board otherwise determines. Vested shares will be eligible for withdrawal in accordance with the usual procedure.

If a participant ceases to be employed by the Company or retires from office as a result of special circumstances (including death, disability, retirement, redundancy, corporate restructure, or any other circumstances determined by the Board), the Board may in its discretion determine that all or a portion of the participant's unvested shares are to be treated as vested shares, notwithstanding the fact that the vesting conditions applicable to the shares have not been met because the applicable performance period has not expired.

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
31 August 2008	$1.00	31 August 2011
9 December 2009	$1.24	31 August 2011
9 December 2009	$1.24	31 August 2012
9 December 2009	$1.24	31 August 2013
20 September 2010	$1.16	3 September 2012
20 September 2010	$1.17	3 September 2013
20 September 2010	$1.19	3 September 2014
24 December 2010	$1.37	1 December 2011

Details of performance shares in the Company provided as remuneration to each Director and key management personnel are set out below. Further information on the performance shares is set out in note 31 to the financial statements.

Name	Number of performance shares granted during the year	Value of performance shares at grant date*	Number of performance shares vested during the year	Number of performance shares lapsed during the year	Value at lapse date**
Key management personnel					
M I Russell	239,300	280,699	–	–	–
S R Mitchell	72,850	85,453	–	–	–
N C Rose-Innes	62,050	72,785	–	29,300	33,695
A J Russell	20,000	27,300	–	–	–
S C Dehne	27,750	32,551	–	–	–
D M Hoskins	20,800	24,398	–	–	–
Other Company and Group executives					
J M Stevenson	23,400	27,448	–	6,950	7,993

* The value at grant date calculated in accordance with AASB 2 *Share-based Payments* of shares granted during the year as part of remuneration.

** The value at lapse date of performance shares that lapsed during the year because a vesting condition was not satisfied is calculated assuming the performance conditions were satisfied.

The assessed fair value at grant date of performance shares 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 BlackScholes option pricing model framework that takes into account the term of the performance shares, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield (acknowledging that dividends will be paid to participants from the date of grant) and the risk free interest rate for the term of the performance shares. There are no performance hurdles associated with the 2011 grant.

Two tranches of performance shares were issued in the year to 30 June 2011. The model inputs for performance shares granted on 20 September 2010 included:

(a) shares are granted for no consideration and vest over a period of four years;

(b) grant date: 20 September 2010 (2010 – 9 December 2009);

(c) share price at grant date: $1.16 (2010 – $1.25);

(d) expected price volatility of the company's shares: 30% (2010 – 40%);

(e) expected dividend yield: 9.4% (2010 – 9.2%); and

(f) risk-free interest rate: 2 years 4.20%, 3 years 4.15% and 4 years 4.16% (2010 – 5.25%).

The shares granted on 24 December 2010 were valued at the closing price on the day due to the short term nature of the grant.

Shares provided on vesting of performance share entitlements

No shares were issued in the company in the year ended 30 June 2011 as a result of the vesting of performance share entitlements.

Details of remuneration: cash bonuses, performance shares and options

For each cash bonus and grant of performance shares and options in the tables on pages 8–9 and 10–14, 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 or performance criteria is set out below. The performance shares and options vest at the end of a set period of up to four years, providing vesting conditions are met. No performance shares or options will vest if the conditions are not satisfied, hence the minimum value of the performance shares and options yet to vest is nil. The maximum value of the performance shares and options yet to vest has been determined as the amount of the grant date fair value of the performance shares and options that is yet to be expensed.

Name	STI Paid %	STI Forfeited %	Performance shares and options Financial year granted	Vested %	Forfeited %	Financial years in which shares and options may vest	Minimum total value of grant yet to vest $	Maximum total value of grant yet to vest $
			2011	–	–	30/6/2015	Nil	76,072
			2011	–	–	30/6/2014	Nil	68,991
			2011	–	–	30/6/2013	Nil	55,954
			2010	–	–	30/6/2014	Nil	57,577
			2010	–	–	30/6/2013	Nil	42,452
			2010	–	–	30/6/2012	Nil	9,717
M I Russell	100	–	2009	100	–	–	–	–
			2011	–	–	30/6/2015	Nil	23,160
			2011	–	–	30/6/2014	Nil	21,000
			2011	–	–	30/6/2013	Nil	17,036
			2010	–	–	30/6/2014	Nil	15,029
			2010	–	–	30/6/2013	Nil	11,081
S R Mitchell	100	–	2010	–	–	30/6/2012	Nil	2,536
			2011	–	–	30/6/2015	Nil	19,729
			2011	–	–	30/6/2014	Nil	17,889
			2011	–	–	30/6/2013	Nil	14,508
			2010	–	–	30/6/2014	Nil	14,933
			2010	–	–	30/6/2013	Nil	11,010
			2010	–	–	30/6/2012	Nil	2,520
			2009	–	–	30/6/2012	Nil	1,354
N C Rose-Innes	100	–	2008	–	100	–	–	–
A J Russell	–	–	2011	–	–	30/6/2012	Nil	12,337
			2011	–	–	30/6/2015	Nil	8,823
			2011	–	–	30/6/2014	Nil	8,002
			2011	–	–	30/6/2013	Nil	6,485
			2010	–	–	30/6/2014	Nil	6,510
			2010	–	–	30/6/2013	Nil	4,800
S C Dehne	100	–	2010	–	–	30/6/2012	Nil	1,099
			2011	–	–	30/6/2015	Nil	6,615
			2011	–	–	30/6/2014	Nil	5,996
D M Hoskins	–	–	2011	–	–	30/6/2013	Nil	4,862
			2011	–	–	30/6/2015	Nil	7,442
			2011	–	–	30/6/2014	Nil	6,748
			2011	–	–	30/6/2013	Nil	5,469
			2010	–	–	30/6/2014	Nil	5,704
			2010	–	–	30/6/2013	Nil	4,205
			2010	–	–	30/6/2012	Nil	963
			2009	–	–	30/6/2012	Nil	665
J M Stevenson	100	–	2008	–	100	–	–	–

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	Exercise price	Number under option
1 May 2009	1 May 2019	$0.76	2,500,000

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

Shares provided on exercise of remuneration options

No options issued to key management personnel were exercised during the year.

Insurance of Directors and Officers

Insurance premiums were paid for the year ended 30 June 2011 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.

Directors' Report (continued)

The Company has entered into deeds of access, insurance and indemnity with the Directors, the Chief Executive Officer, the Chief Financial Officer and Company Secretary. The indemnity is subject to the restrictions prescribed in the *Corporations Act 2001.* Subject to the terms of the deed, it also gives each executive a right of access to certain documents and requires the Company to maintain insurance cover for the executives.

No indemnities were paid to current or former officers or auditors during or since the end of the year.

Proceedings on behalf of the Company

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

Non-audit services

The Company may decide to employ the auditor on assignments in addition to their statutory audit duties where the auditor's expertise and experience with the Company or Group are important.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* as none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

	Consolidated	
	2011 $	**2010 $**
Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Other assurance services	**9,000**	8,000
Total remuneration for audit-related services	**9,000**	8,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	**23,900**	23,700
Other tax services	**10,645**	30,610
Total remuneration for taxation services	**34,545**	54,310
Total remuneration for non-audit services	**43,545**	62,310

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 20.

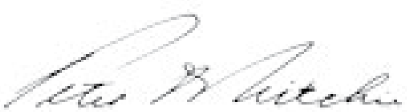
Rounding

The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor

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

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



Peter Ritchie
Director

Sydney
24 August 2011

Corporate Governance Statement

for the year ended 30 June 2011

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

A statement of the Company's full corporate governance practices is set out below. The Company considers that it complies with the August 2007 ASX Corporate Governance Principles and Recommendations (including 2010 Amendments to the extent that they apply to the Company's financial year ended 30 June 2011).

Principle 1: Lay solid foundations for management and oversight

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 Chief Executive Officer;
- monitoring the performance of the Chief Executive Officer;
- 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.

Responsibility for day-to-day management and administration of the Company is delegated by the Board to the Chief Executive Officer and the executive team.

Principle 2: Structure the Board to add value

The Board comprises two Non-Executive Directors and four independent Non-Executive Directors including the Chairman, Peter Ritchie, Steve Jermyn and Deborah Ralston, who were appointed as Non-Executive Directors in the period prior to the Company's listing on the ASX, and Sean Clancy, who was appointed in May 2009. These individuals bring a long history of public company, operational and franchising experience with them and assist in overseeing the corporate governance of the Company.

The Board operates in accordance with the broad principles set out in its Charter which is available in the Shareholders 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 judgement;
- the nomination committee is responsible for recommending candidates for appointment to the Board; and
- 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.

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 that has been adopted by the Board is available in the Shareholders 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 2011.

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 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 Shareholders section of the Company's website at www.MortgageChoice.com.au.

Principle 3: Promote ethical and responsible decision making

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 in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Diversity policy
The Company believes that embracing diversity in its workforce contributes to the achievement of its corporate objectives and enhances its reputation. As a result the Company has developed a diversity policy. It enables the Company to:

- recruit the right people from a diverse pool of talented candidates;
- make more informed and innovative decisions, drawing on the wide range of ideas, experiences, approaches and perspectives that employees from diverse backgrounds, and with differing skill sets, bring to their roles; and
- better represent the diversity of all our stakeholders.

The Company is committed to achieving the goals of:

(a) providing access to equal opportunities at work based on merit; and

(b) fostering a corporate culture that embraces and values diversity.

We are an equal opportunity employer and welcome people from a diverse set of backgrounds.

The diversity policy includes requirements for the Board to establish measurable objectives for achieving gender diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

A copy of the Diversity Policy is available in the Shareholders section of the Company's website at www.MortgageChoice.com.au.

Principle 4: Safeguard integrity in financial reporting

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), Sean Clancy, 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 Shareholders 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 available in the Shareholders 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 and Ethical Standards APES110, The Institute of Chartered Accountants in Australia and CPA Australia). 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.

Principle 5: Make timely and balanced disclosure

Continuous disclosure

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

- ensure the Company immediately discloses information that a reasonable person would expect to have a material effect on the price of the Company's securities 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 committee comprised of management representatives. The market disclosure committee 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.

Principle 6: Respect the rights of shareholders

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, the 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 Shareholders section of the Company's website at www.MortgageChoice.com.au.

Principle 7: Recognise and manage risk

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, National Consumer Credit Protection Act) is covered. All staff and the Board are required to complete all modules and must repeat the program at prescribed intervals. The program has also been 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 the Company. 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.

Management has reported to the Board that risk management and internal control systems effectively manage the Company's material business risks.

Corporate reporting

The Chief Executive Officer and Chief Financial Officer have certified 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.

Principle 8: Remunerate fairly and responsibly

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, Rodney Higgins and Sean Clancy.

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 Shareholders section of the Company's website at www.MortgageChoice.com.au.

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Auditor's Independence Declaration

As lead auditor for the audit of Mortgage Choice Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Mortgage Choice Limited and the entities it controlled during the period.

Maria Martin
Partner
PricewaterhouseCoopers

Sydney
24 August 2011

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Financial Report

for the year ended 30 June 2011

These financial statements are the consolidated financial statements of the consolidated entity consisting of Mortgage Choice Limited and its subsidiaries. The financial statements are 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 10, 100 Pacific Highway
North Sydney NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' report which is not part of these financial statements.

The financial statements were authorised for issue by the Directors on 24 August 2011. The Company has the power to amend and reissue the financial statements.

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 statements and other information are available in the Shareholders section of company's website: **www.MortgageChoice.com.au**

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Consolidated Income Statement

for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Revenue from continuing operations	5	**169,002**	170,513
Other income	6	**504**	815
Expenses from continuing operations	7		
Sales		**(95,099)**	(103,417)
Technology		**(5,005)**	(4,677)
Marketing		**(7,629)**	(8,378)
Finance		**(1,955)**	(1,800)
Corporate		**(4,808)**	(4,709)
Finance costs		**(15,681)**	(14,879)
Profit before income tax		**39,329**	33,468
Income tax expense	8	**(11,870)**	(9,989)
Net profit attributable to the owners of Mortgage Choice Limited		**27,459**	23,479
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share	30	**22.9**	19.7
Diluted earnings per share	30	**22.7**	19.5

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

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2011

	Notes	**2011 $'000**	2010 $'000
Profit for the year		**27,459**	23,479
Other comprehensive income		**–**	–
Total comprehensive income attributable to the owners of Mortgage Choice Limited		**27,459**	23,479

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

as at 30 June 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	**9,027**	10,042
Trade and other receivables	10	**92,082**	83,315
Total current assets		**101,109**	93,357
Non-current assets			
Receivables	11	**208,262**	184,326
Property, plant and equipment	12	**1,534**	1,759
Deferred tax assets	13	**847**	813
Intangible assets	14	**3,159**	3,516
Total non-current assets		**213,802**	190,414
Total assets		**314,911**	283,771
LIABILITIES			
Current liabilities			
Trade and other payables	15	**60,673**	58,372
Current tax liabilities		**1,899**	2,664
Provisions	16	**807**	539
Total current liabilities		**63,379**	61,575
Non-current liabilities			
Trade and other payables	17	**126,121**	114,795
Deferred tax liabilities	18	**34,704**	29,615
Provisions	19	**397**	507
Total non-current liabilities		**161,222**	144,917
Total liabilities		**224,601**	206,492
Net assets		**90,310**	77,279
EQUITY			
Contributed equity	20	**1,207**	1,207
Reserves	21(a)	**1,141**	597
Retained profits	21(b)	**87,962**	75,475
Total equity		**90,310**	77,279

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2011

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000
Balance at 1 July 2009		808	471	65,117	66,396
Total comprehensive income for the year as reported in the 2010 financial statements		–	–	23,479	23,479
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	31	399	(59)	–	340
Dividends paid	22	–	–	(13,121)	(13,121)
Employee share options – value of employee services	31	–	185	–	185
		399	126	(13,121)	(12,596)
Balance at 30 June 2010		1,207	597	75,475	77,279
Total comprehensive income for the year as reported in the 2011 financial statements		–	–	27,459	27,459
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	31	–	–	–	–
Dividends paid	22	–	–	(14,972)	(14,972)
Employee share options – value of employee services	31	–	544	–	544
			544	(14,972)	(14,428)
Balance at 30 June 2011		1,207	1,141	87,962	90,310

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**123,653**	129,402
Payments to suppliers and employees (inclusive of goods and services tax)		**(111,377)**	(116,251)
		12,276	13,151
Interest received from trailing commissions		**25,280**	24,068
Interest paid on trailing commissions		**(15,681)**	(14,879)
Income taxes paid		**(7,580)**	(3,543)
Net cash inflow from operating activities	29	**14,295**	18,797
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		**(934)**	(1,180)
Payments for acquisition of LoanKit business		**–**	(500)
Proceeds from sale of property, plant and equipment		**5**	–
Interest received		**591**	373
Net cash (outflow) from investing activities		**(338)**	(1,307)
Cash flows from financing activities			
Proceeds from sale of shares		**–**	339
Dividends paid to company's shareholders		**(14,972)**	(13,121)
Net cash (outflow) from financing activities		**(14,972)**	(12,782)
Net increase/(decrease) in cash and cash equivalents		**(1,015)**	4,708
Cash and cash equivalents at the beginning of the financial year		**10,042**	5,334
Cash and cash equivalents at the end of year	9	**9,027**	10,042

The above consolidated statement cash flows should be read in conjunction with the accompanying notes.

Notes to Consolidated Financial Statements

for the year ended 30 June 2011

Note 1

Summary of significant accounting policies

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

A. Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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 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

(i) 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 2011 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 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 deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1G).

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.

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

(ii) Employee Share Trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares held by the employee share scheme are disclosed as treasury shares and deducted from contributed equity.

C. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

D. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

The Parent entity provides loan origination services through its franchise network and receives origination commission on the settlement of loans. 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 as no additional services are required to receive the entitled funds. Additionally, the Parent entity earns income from the sale of franchises and franchisee services. Other companies in the Group earn service fees by processing commissions for contracted brokers and provide software services. Revenue is recognised as the service is performed.

Revenue from sale of services is recognised as follows:

(i) Origination commissions

Origination commissions received by the Company are recognised as revenue on settlement of the loan. Commissions may be "clawed back" by lenders at a later date as per their individual policies. These clawbacks are netted against revenue at the time incurred.

(ii) Trailing commissions

The Company receives trailing commissions from lenders over the life of the settled loans in its loan book based on outstanding balance. The Company also makes trailing commission payments to franchisees based on the outstanding loan book balance of the individual franchisees.

On initial recognition at settlement, trailing commission revenue and the related receivable are recognised at fair value being the net present value of the expected future trailing commissions to be received. An associated expense and payable to the franchisees are also recognised initially measured at fair value being the net present value of the expected future trailing commission payable to franchisees.

Subsequent to initial recognition and measurement, both the trailing commission receivable and payable are measured at amortised cost. The carrying amounts of the receivable and payable are adjusted to reflect actual and revised estimated cash flows by recalculating the net present value of estimated future cash flows at the original effective interest rate. Any resulting adjustment to the carrying value is recognised as income or expense in the income statement.

(iii) Franchise fee income

Franchise fee income is derived from the sale of franchises by the Company 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 may be repayable to franchisees at the balance sheet date are included in liabilities.

(iv) Service fee income

Other companies in the Group also provide services to mortgage brokers by collecting origination and trailing commissions and processing them for the broker in exchange for a fee, as well as providing software and other services. Fees for these services are recognised at the time the service is provided.

(v) Interest income

Interest income is recognised using the effective interest method. 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.

(vi) Other income

Other income includes contributions from lenders towards conferences and workshops which are recognised as income in the period the conference or workshop is held. Also included in this category are other non-operating revenues recognised in the period to which the income relates.

E. Income tax

The income tax expense for the period is the tax payable on the current period's taxable income, based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

The current income tax charge is calculated on the basis of the tax laws substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

Mortgage Choice Limited and its wholly-owned controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive or directly in equity, respectively.

(i) Investment allowances

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that may be carried forward.

(ii) 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 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 standalone taxpayer in its own right.

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

F. Leases

Leases of property, plant and equipment, where the Group as lessee 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 not transferred to the Group as lessee 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 acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for an acquisition comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

H. Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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). Nonfinancial assets that have suffered impairment are reviewed for possible reversal of that 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. Overdrafts are shown in borrowings in current liabilities on the balance sheet.

J. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due in 30 days.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade 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 original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

K. Trailing commissions receivable

Receivables related to trailing commissions are recognised in accordance with the revenue recognition policy outlined in note 1D.

L. Investments and other financial assets

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, reevaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than twelve months after the balance sheet date which are classified as noncurrent assets. Loans and receivables are included in trade and other receivables in the balance sheet (notes 10 and 11).

M. 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. The carrying amount of the replaced part is derecognised. 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 or, in the case of leasehold improvements, the shorter lease term 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 1H).

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

N. 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 five years).

O. 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.

P. Trailing commissions payable

Payables related to trailing commissions are recognised in accordance with the revenue recognition policy outlined in note 1D.

Q. Borrowing costs

Borrowing costs are recognised as expenses.

R. Provisions

Provisions for legal claims and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable 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.

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.

S. Employee benefits

Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service, are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid. The liability for annual leave is included in provisions. The liability for all other short-term employee benefits are included in trade and other payables.

Other long-term employee benefit obligations

The liability for long service leave and annual leave, which is not expected to be settled within 12 months after the end of the period in which the employees render the related service, is recognised in the provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period 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.

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.

Note 1. Summary of significant accounting policies (continued)

Share-based payments

Share-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan and the Mortgage Choice Performance Share Plan. Information relating to these schemes is set out in note 31.

The fair value of options granted under the Mortgage Choice Executive Performance Option Plan and performance shares granted under the Mortgage Choice Performance Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options and performance shares granted, which includes any market performance conditions but excludes the impact of any service and non-market performance vesting conditions and the impact of any non-vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The Mortgage Choice Executive Performance Option Plan and performance shares granted under the Mortgage Choice Performance Share Plan are administered by the Mortgage Choice Performance Share Plan Trust; see note 1B (ii).

Short term incentive plans

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

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.

T. 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 option for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

Where any group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Mortgage Choice Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Mortgage Choice Limited.

U. Dividends

Provision is made for the amount of any dividend declared, that is appropriately by the Directors on or before the end of the financial year but not yet at the reporting date.

V. 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.

W. 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.

X. Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Y. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 *Financial Instruments,* AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures.* It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities and clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the group's disclosures. The group intends to apply the amendment from 1 July 2011.

AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective from 1 July 2013)

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Mortgage Choice Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

Z. Parent entity financial information

The financial information for the parent entity, Mortgage Choice Limited, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Mortgage Choice Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Mortgage Choice Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Mortgage Choice Limited, and the controlled entities in the tax consolidated group 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 standalone 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.

The entities intend to also enter into a tax funding agreement under which the wholly-owned entities fully compensate Mortgage Choice Limited for any current tax payable assumed and are compensated by Mortgage Choice Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Mortgage Choice

Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the 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.

(iii) Financial guarantees
Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

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, interest rate swaps or other derivative instruments to hedge risk exposures. It does not operate internationally, does not have any debt or significant interest rate exposure and is not exposed to either securities price risk or commodity price risk.

Risk management is carried out by the Group's finance department under policies approved by the Board of Directors.

The Group holds the following financial instruments:

	2011 $'000	2010 $'000
Financial assets		
Current		
Cash and cash equivalents	**9,027**	10,042
Trade and other receivables	**92,082**	83,315
Non-current		
Receivables	**208,262**	184,326
	309,371	277,683

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

A. Market risk

Interest rate risk
The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2011 the weighted average interest rate on its cash balances was 4.6% (2010 4.5%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by $97,000 (2010 $68,000). A decrease of 100 basis points would reduce the Group's after tax result by $97,000 (2010 $68,000).

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

B. Credit risk

Credit risk is assessed on a Group basis. It arises from cash and cash equivalents placed with banks as well as credit exposure to financial institutions on the Group's lender panel from which future trailing commissions are due. The majority of these financial institutions are Authorised Deposit-taking Institutions (ADIs) and therefore regulated by the Australian Prudential Regulation Authority (APRA) and are independently rated. This forms the basis of the Group's assessment of credit risk. If the lender has not been independently rated, credit risk is assessed taking into account its financial position, past experience and other factors. The table below indicates the Group's exposure to each ratings category.

The Group bears the risk of non-payment of future trailing commissions by lenders should they become insolvent but correspondingly, there is no legal requirement to pay out any trailing commissions due to brokers or franchisees that have not been received. The risk profile of the Group is set out in the table below.

2011		Current assets		Non-current assets
	Standard & Poor's credit rating	Trade receivables	NPV future trailing commissions receivable	NPV future trailing commissions receivable
		$'000	$'000	$'000
ADIs	AA	7,862	56,230	150,063
	A+	1,452	12,843	34,274
	A	227	909	2,426
	BBB+	703	4,846	12,933
	BBB	193	1,322	3,529
	BBB-	77	304	811
	Not rated	40	357	953
		10,554	76,811	204,989
Non ADIs	A+	13	–	–
	Not rated	220	1,226	3,273
		233	1,226	3,273
Total receivable		10,787	78,037	208,262

2010		Current assets		Non-current assets
	Standard & Poor's credit rating	Trade receivables	NPV future trailing commissions receivable	NPV future trailing commissions receivable
		$'000	$'000	$'000
ADIs	AA	8,294	52,221	134,656
	A+	1,025	6,915	17,830
	A	643	4,388	11,314
	BBB+	440	2,114	5,452
	BBB	232	1,335	3,441
	Not rated	398	2,843	7,332
		11,032	69,816	180,026
Non ADIs	A+	8	–	–
	Not rated	315	1,648	4,250
		323	1,648	4,250
Total receivable		11,355	71,464	184,276

Note 2. Financial Risk Management (continued)

The tables below analyse the Group's financial assets into relevant maturity groupings based on the expected future cashflows. No financial assets are past due or impaired.

At 30 June 2011	**Less than 6 months**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total cash flows**	**Carrying amount**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives							
Interest bearing							
Cash and cash equivalents	9,024	–	–	–	–	9,024	9,024
Other receivables	88	85	166	466	603	1,408	944
Non-interest bearing							
Cash and cash equivalents	3	–	–	–	–	3	3
Trade receivables	11,078	–	–	–	–	11,078	11,078
Other receivables	1,979	5	39	–	–	2,023	2,023
Future trailing commissions receivable	42,082	39,942	69,937	136,694	103,485	392,140	286,299
	64,254	40,032	70,142	137,160	104,088	415,676	309,371

At 30 June 2010	**Less than 6 months**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total cash flows**	**Carrying amount**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives							
Interest bearing							
Cash and cash equivalents	10,039	–	–	–	–	10,039	10,039
Non-interest bearing							
Cash and cash equivalents	3	–	–	–	–	3	3
Trade receivables	11,355	–	–	–	–	11,355	11,355
Other receivables	479	17	33	17	–	546	546
Future trailing commissions receivable	40,409	38,666	65,494	121,341	90,596	356,506	255,740
	62,285	38,683	65,527	121,358	90,596	378,449	277,683

C. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the expected future cashflows.

Contractual maturities of financial liabilities At 30 June 2011	**Less than 6 months**	**6 – 12 months**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total cash flows**	**Carrying amount**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives							
Non-interest bearing							
Trade payables	9,675	–	–	–	–	9,675	9,675
Other payables	3,987	108	82	46	–	4,223	4,223
Future trailing commissions payable	25,292	24,023	42,222	61,804	83,744	237,085	172,896
	38,954	24,131	42,304	61,850	83,744	250,983	186,794

Contractual maturities of financial liabilities At 30 June 2010	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Non-derivatives							
Non-interest bearing							
Trade payables	10,754	–	–	–	–	10,754	10,754
Other payables	2,976	54	32	28	–	3,090	3,090
Future trailing commissions payable	25,175	23,391	40,142	75,347	56,273	220,328	159,323
	38,905	23,445	40,174	75,375	56,273	234,172	173,167

D. Fair value estimation

Refer note 3 Critical Accounting Estimates and Judgements

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 Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding. The Group also makes trailing commission payments to franchisees based on their individual 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, which requires the use of assumptions. The key assumptions to determine the fair value at balance sheet date are the future run-off rate of the underlying loan portfolio, the discount rate and the percentage paid to franchisees. The future run-off rate used is actually a series of rates applied to the underlying loans based primarily on their age at the date of valuation. The weighted average life shown below is the result of the series of future run-off rates applied to the specific loan data at the balance sheet date.

The determination of the assumptions to be used in the valuation is made by Management based primarily on two factors: an annual assessment, with external actuaries, of the underlying loan portfolio including historical run-off rate analysis and consideration of current and future economic factors. These factors are complex and the determination of assumptions requires a high degree of judgement.

The significant assumptions used in the valuation are listed below:

	2011	2010
Weighted average loan life	**4.1 years**	3.9 years
Average discount rate	**10.2%**	10.9%
Percentage paid to franchisees (10 year average)	**60%**	62%

If the series of run-off rates used in the valuation of trailing commissions receivable and payable were to differ by +/- 10% from Management's estimates, the impact on the balance sheet would be:

– an increase in net assets of $5.2 million (made up of increases in current assets of $0.7 million, non-current assets of $18.2 million, current liabilities of $0.5 million, non-current liabilities of $11.0 million and deferred tax liabilities of $2.2 million) if favourable; or

– a decrease in net assets of $4.6 million (made up of decreases in current assets of $0.7 million, non-current assets of $16.1 million, current liabilities of $0.4 million, non-current liabilities of $9.8 million and deferred tax liabilities of $2.0 million) if unfavourable.

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

In the current period, the annual review of the underlying loan book found that the run-off rate experienced in 2011 was slower than that assumed in the valuation model and an adjustment to the profit and loss for the year was required to recognise the actual experience in the portfolio. In addition assumptions used in the valuation of future trailing commissions were changed to reflect an extension of the current economic environment for the short to medium term. These refinements to the trailing commission model resulted in a $12.3 million adjustment after tax to the Group's profit and loss for FY2011 (2010 - $9.0 million).

B. Critical judgements in applying the entity's accounting policies

Judgements that Management have 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 financials.

Note 4
Segment information

A. Description of segments

Management has determined the operating segments based on the reports reviewed by the Chief Executive Officer that are used to make strategic decisions.

The Chief Executive Officer considers the business from both a product and a geographic perspective. The Group operates only in Australia and predominantly in one industry segment, mortgage broking.

B. Information provided to the Chief Executive Officer

Information provided to the Chief Executive Officer for the year ended 30 June 2011 is as follows:

	2011	2010	% change	2011	2010	% change
		Cash*			Reported	
	$'000	$'000		$'000	$'000	
Origination commission income	49,093	52,150	(6%)	49,093	52,150	(6%)
Trailing commission income	83,777	82,931	1%	114,336	115,150	(1%)
	132,870	135,081	(2%)	163,429	167,300	(2%)
Origination commission paid	34,752	37,237	(7%)	34,752	37,237	(7%)
Trailing commission paid	50,540	51,329	(2%)	63,832	70,920	(10%)
	85,292	88,566	(4%)	98,584	108,157	(9%)
Net core commissions	**47,578**	**46,515**	**2%**	**64,845**	**59,143**	**10%**
Non-core products net revenue	525	460	14%	525	460	14%
Help Me Choose and LoanKit net revenue	881	144	512%	881	144	512%
Other income	1,906	1,804	6%	1,906	1,804	6%
Gross profit	**50,890**	**48,923**	**4%**	**68,157**	**61,551**	**11%**
Operating expenses	28,284	27,900	1%	28,284	27,900	1%
Share based remuneration	–	–		544	185	194%
Net profit before tax	22,606	21,023	8%	39,329	33,466	18%
Net profit after tax	**15,915**	**14,825**	**7%**	**27,459**	**23,479**	**17%**

* Cash is based on accruals accounting and excludes share based remuneration and the net present value of future trailing commissions' receivable and payable on loans settled during the year.

C. Other information

(i) Revenue

Revenue from the origination of a residential mortgage is comprised of commission paid at the time the loan is originated and a trailing commission which is paid over the life of the loan. Prior to the introduction of IFRS in 2006, trailing commission was recognised as income as it became due over the life of a loan. Under IFRS, the future trailing cash flows to be received over the life of a loan are estimated, discounted to present value and recognised at the time a loan settles. The Chief Executive Officer considers both methods in measuring the Group's performance.

Revenue reconciles to total revenue from continuing operations as follows:

		2011 $'000		2010 $'000
Origination commission income		49,093		52,150
Trailing commission income		114,336		115,150
		163,429		167,300
Non-core gross revenue	2,421	2,421	2,080	2,080
Non-core cost	(1,896)		(1,620)	
Non-core net revenue	525		460	
Help Me Choose and LoanKit revenue	1,750	1,750	144	144
Help Me Choose and LoanKit costs	(869)		–	
Help Me Choose and LoanKit net revenue	881		144	
Franchise income	811	811	616	616
Interest	591	591	373	373
Other income	504		815	
Total other income	1,906		1,948	
Total revenue from continuing operations		**169,002**		**170,513**

(ii) Net profit after tax

The cash net profit after tax reconciles to the reported profit after tax as follows:

	2011 $'000	2010 $'000
Cash net profit after tax	15,915	14,825
NPV future trails on new loans originated, net of payout	14,007	13,042
Less modelled expectation of cash to be received in the year	(14,776)	(13,810)
Plus adjustments to loan book assumptions	12,325	8,991
Plus gain on prepayment of trail liability	188	252
Plus reversal of amortisation of trail liability*	344	364
Less share based payments expense	(544)	(185)
Profit for the year	27,459	23,479

* Under cash profit, the prepayment of trail liability is spread over the estimated life of the trail book portfolio.

Note 5
Revenue

	2011 $'000	2010 $'000
Revenue from continuing operations		
Sales revenue		
Services	**143,132**	146,069
Other revenue		
Interest (note A)	**25,870**	24,444
	169,002	170,513

A. Interest

Interest income comprises the unwinding of discount in relation to the receipt of trailing commission and interest earned on deposits and loans.

Note 6
Other income

	2011 $'000	2010 $'000
Conference sponsorships (note A)	**485**	813
Other	**19**	2
	504	815

A. Conference sponsorships

Lenders sponsor Mortgage Choice's National Conference, High Flyers' Conference, quarterly state conferences, and periodic training days and workshops.

Note 7
Expenses

	2011 $'000	2010 $'000
Profit from ordinary activities before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges (note A)	**15,681**	14,879
Net loss on disposal of property, plant and equipment	**–**	–
Depreciation		
Plant and equipment	**339**	323
Amortisation		
Leasehold improvements	**222**	222
Computer software	**953**	560
Other provisions		
Employee entitlements	**158**	13
Rental expense relating to operating leases		
Defined contribution superannuation expense	**953**	914
Termination benefits	**33**	105

A. Interest and finance charges

Interest expense comprises the unwinding of the discount in relation to payment of trailing commission to franchisees.

Note 8
Income tax

	2011 $'000	2010 $'000
A. Income tax expense		
Current tax	6,865	5,886
Deferred tax	5,055	4,161
Under (over) provided in prior years	(50)	(58)
	11,870	9,989
Income tax expense is attributable to:		
Profit from continuing operations	11,870	9,989
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 13)	(4,106)	(5,769)
Increase/(decrease) in deferred tax liabilities (note 18)	9,161	9,930
	5,055	4,161
B. Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	39,329	33,468
Income tax calculated @ 30% (2010 – 30%)	11,799	10,040
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:	121	7
	11,920	10,047
Under/(over) provision from prior years	(50)	(58)
Income tax expense	11,870	9,989

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

Note 9
Current assets – Cash and cash equivalents

	2011 $'000	2010 $'000
Cash at bank and on hand	9,027	10,042

A. Risk exposure

The Group's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Note 10
Current assets – Trade and other receivables

	2011 $'000	2010 $'000
Trade receivables [(1)]	**11,078**	11,355
Net present value of future trailing commissions receivable	**78,037**	71,464
Franchisee receivables	**1,151**	124
Other receivables	**571**	147
Prepayments	**1,245**	225
	92,082	83,315

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

A. Other receivables

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

B. Effective interest rates and credit risk

Information about the Group's exposure to credit risk and interest rate risk is provided in note 2.

C. 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

	2011 $'000	2010 $'000
Net present value of future trailing commissions receivable	**208,262**	184,276
Other receivables	**–**	50
	208,262	184,326

A. Impaired receivables and receivables past due

None of the non-current receivables are impaired.

B. Risk exposure

Information about the Group's exposure to credit risk and interest rate risk is provided in note 2.

Note 12
Non-current assets – Property, plant and equipment

	Plant and equipment $'000	Leasehold improvements $'000	Total $'000
Year ended 30 June 2010			
Opening net book amount	1,191	855	2,046
Additions	255	4	259
Disposals	(1)	–	(1)
Depreciation charge	(323)	(222)	(545)
Closing net book amount	1,122	637	1,759
At 30 June 2010			
Cost	2,029	1,406	3,435
Accumulated depreciation	(907)	(769)	(1,676)
Net book amount	1,122	637	1,759
Year ended 30 June 2011			
Opening net book amount	1,122	637	1,759
Additions	334	4	338
Disposals	–	(2)	(2)
Depreciation charge	(339)	(222)	(561)
Closing net book amount	1,117	417	1,534
At 30 June 2011			
Cost	2,362	1,397	3,759
Accumulated depreciation	(1,245)	(980)	(2,225)
Net book amount	1,117	417	1,534

Note 13
Non-current assets – Deferred tax assets

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	**51,869**	47,797
Employee benefits	**639**	580
Depreciation and amortisation	**99**	108
Accrued expenses	**109**	125
Total deferred tax assets	**52,716**	48,610
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	**(51,869)**	(47,797)
Net deferred tax assets	**847**	813
Deferred tax assets to be recovered within 12 months	**14,326**	14,046
Deferred tax assets to be recovered after more than 12 months	**38,390**	34,564
	52,716	48,610

Note 13. Non-current assets – Deferred tax assets (continued)

Movements

	NPV of future trailing commissions payable	Employee benefits	Depreciation and amortisation	Accrued expenses	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2009	42,166	224	62	389	–	42,841
Charged/(credited) to the income statement	5,631	356	46	(264)	–	5,769
At 30 June 2010	47,797	580	108	125	–	48,610
Charged/(credited) to the income statement	4,072	59	(9)	(16)	–	4,106
At 30 June 2011	51,869	639	99	109	–	52,716

Note 14
Non-current assets – intangible assets

	Computer software* $'000
At 30 June 2009	
Cost	5,531
Accumulated amortisation	(2,806)
Net book amount	2,725
Year ended 30 June 2010	
Opening net book amount	2,725
Additions	1,351
Amortisation charge	(560)
Closing net book amount	3,516
At 30 June 2010	
Cost	6,849
Accumulated amortisation	(3,333)
Net book amount	3,516
Year ended 30 June 2011	
Opening net book amount	3,516
Additions	596
Amortisation charge	(953)
Closing net book amount	3,159
At 30 June 2011	
Cost	7,445
Accumulated amortisation	(4,286)
Net book amount	3,159

* Capitalised computer software includes internally generated software development costs. A significant component of these costs was installed in December 2010 at which time amortisation commenced.

Note 15

Current liabilities – Trade and other payables

	2011 $'000	2010 $'000
Trade payables(1)	9,675	10,754
Net present value of future trailing commissions payable	46,905	44,588
Licence fees repayable	154	98
Other payables	3,939	2,932
	60,673	58,372

(1) Loan Book Security Trust

The Loan Book Security Scheme provides security for the trailing commissions payable to certain eligible franchisees based on performance criteria. Mortgage Choice Limited has granted two charges in favour of a trustee on behalf of the eligible franchisees. The independent trustee is AET Structured Finance Services Pty 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 trailing commissions in the event that administration or liquidation occurs. The charge will crystallise and can be enforced by eligible franchisees only in the event of liquidation or administration of Mortgage Choice Limited.

As at 30 June 2011, the amount that would be subject to charge resulting from applying the specified percentage to the trailing commission immediately due to be received by Mortgage Choice Limited is $3,550,057 (2010 - $3,416,867). This is included as part of the balance of trade payables at 30 June 2011 and would be subject to charge until disbursed to the eligible franchisees. The amount subject to the charge would vary dependent on trailing commission due to be received by Mortgage Choice Limited from month to month.

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 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

	2011 $'000	2010 $'000
Make good provision A	130	–
Employee entitlements – annual leave	558	428
Employee entitlements – long service leave	119	111
	807	539

A. Make good provision

Mortgage Choice is required to restore the leased premises of its offices to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets. Make good costs that are not expected to be settled within 12 months have been included in non-current liabilities – provisions as detailed in note 19.

Note 17
Non-current liabilities – Trade and other payables

	2011 $'000	2010 $'000
Net present value of future trailing commissions payable	**125,991**	114,735
Licence fees repayable	**130**	60
	126,121	114,795

Note 18
Non-current liabilities – Deferred tax liabilities

	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
NPV of future trailing commissions receivable	**85,890**	76,722
Intangibles	**635**	655
Prepayments and other receivables	**48**	35
	86,573	77,412
Set-off of deferred tax assets pursuant to set-off provisions (note 13)	**(51,869)**	(47,797)
Net deferred tax liabilities	**34,704**	29,615
Deferred tax liabilities to be settled within 12 months	**23,454**	24,351
Deferred tax liabilities to be settled after more than 12 months	**63,119**	53,061
	86,573	77,412

Movements – Consolidated

	NPV of future trailing commissions payable $'000	Intangibles $'000	Prepayments and other receivables $'000	Total $'000
At 30 June 2009	67,056	426	–	67,482
Charged to the income statement	9,666	229	35	9,930
At 30 June 2010	76,722	655	35	77,412
Charged to the income statement	9,168	(20)	13	9,161
At 30 June 2011	85,890	635	48	86,573

Note 19
Non-current liabilities – Provisions

	2011 $'000	2010 $'000
Make good provision (refer note 16)	**278**	408
Employee entitlements – long service leave	**119**	99
	397	507

Note 20

Contributed equity

	2011 shares $'000	2010 shares $'000	2011 $'000	2010 $'000
A. Share capital				
Ordinary shares – fully paid	**118,438**	118,438	**1,207**	1,207

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.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Total contributed equity as at 30 June 2011:

Details	Number of shares
Total ordinary shares on issue	119,948,255
Treasury shares (note (i))	(1,510,350)
Total ordinary shares held as contributed equity	118,437,905

(i) Treasury shares

Treasury shares are shares in Mortgage Choice Limited that are held by the Mortgage Choice Performance Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) (see note 31 for further information).

Date	Details	Number of shares
30 June 2009	Balance	833,162
23 July 2009	Treasury shares issues under the Performance Share Plan to employees	(8,900)
23 December 2009	Shares issued to the Mortgage Choice Performance Share Plan Trust	355,538
30 June 2010	Balance	1,179,800
7 October 2010	Shares issued to the Mortgage Choice Performance Share Plan Trust	330,550
30 June 2011	Balance	1,510,350

Movements in ordinary share capital:

Date	Details	Number of shares	$'000
30 June 2009	Balance	118,105,805	808
6 October 2009	Shares issued on exercise of options	323,200	387
15 July 2009	Shares vested to employees under the Performance Share Plan	8,900	12
23 December 2009	Shares issued to the Mortgage Choice Performance Share Plan Trust	355,538	–
23 December 2009	Held as treasury shares	(355,538)	–
30 June 2010	Balance	118,437,905	1,207
8 October 2010	Shares issued to the Mortgage Choice Performance Share Plan Trust	330,550	–
8 October 2010	Held as treasury shares	(330,550)	–
30 June 2011	Balance	118,437,905	1,207

B. Employee share scheme

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 31.

C. Options

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 on pages 10 – 13 of the remuneration report.

Note 21
Reserves and retained profits

A. Reserves

	2011 $'000	2010 $'000
Share-based payments reserve	**597**	597
Movements:		
Share-based payments reserve		
Balance 1 July	**597**	471
Options and performance shares expensed/(reversed)	**544**	185
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	**–**	(12)
Options exercised	**–**	(47)
Balance 30 June	**1,141**	597

B. Retained profits

	2011 $'000	2010 $'000
Balance 1 July	**75,475**	65,117
Net profit for the year	**27,459**	23,479
Dividends	**(14,972)**	(13,121)
Balance 30 June	**87,962**	75,475

C. Nature and purpose of reserves

(i) **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

	2011 $'000	2010 $'000
A. Ordinary shares		
Final dividend declared out of profits of the Company for the year ended 30 June 2009 of 5.5 cents per fully paid share paid on 16 September 2009:		
Fully franked based on tax paid @ 30%		
5.5 cents per share	–	6,542
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2009 of 5.5 cents per fully paid share paid 22 March 2010:		
Fully franked based on tax paid @ 30%		
5.5 cents per share	–	6,579
Final dividend declared out of profits of the Company for the year ended 30 June 2010 of 6.5 cents per fully paid share paid on 20 September 2010:		
Fully franked based on tax paid @ 30%		
6.5 cents per share	7,775	–
Interim dividend declared out of profits of the Company for the half-year ended 31 December 2010 of 6.0 cents per fully paid share paid 21 March 2011:		
Fully franked based on tax paid @ 30%		
6.0 cents per share	7,197	–
	14,972	13,121
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 7.0 cents per fully paid ordinary share, (2010 – 6.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 19 September 2011 out of retained profits at 30 June 2011, but not recognised as a liability at year end, is	8,398	7,775

C. Franked dividend

The franked portions of the final dividends recommended after 30 June 2010 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 2010.

	2011 $'000	2010 $'000
Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2010 – 30%)	3,560	3,161

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 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 $3,599,000 (2010: $3,332,000).

Note 23
Key management personnel disclosures

A. Key management personnel compensation

	2011 $	2010 $
Short term employee benefits	**2,291,425**	2,106,978
Post employment benefits	**93,827**	90,788
Long-term benefits	**7,942**	(15,171)
Share-based payments	**373,290**	112,129
Payments to KMP whose services are provided through external companies	**216,798**	221,105
Balance 30 June	**2,983,282**	2,515,829

Detailed remuneration disclosures are provided in the Directors' report on pages 5 – 9 of the remuneration report.

B. 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 Directors' report on pages 10 – 13 of the remuneration report.

(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.

2011

Name	Balance at the start of the year	Granted as compensation	Exercised	Forfeited/ lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Key management personnel of the Group							
M I Russell	2,500,000	–	–	–	2,500,000	2,500,000	–

2010

Name	Balance at the start of the year	Granted as compensation	Exercised	Forfeited/ lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Key management personnel of the Group							
M I Russell	2,500,000	–	–	–	2,500,000	1,700,000	800,000

Performance shares

The number of performance shares 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.

2011

Name	Balance at the start of the year	Granted as compensation	Vested	Forfeited	Balance at the end of the year	Unvested
Key management personnel of the Group						
M I Russell	239,250	239,300	–	–	478,550	478,550
S R Mitchell	62,450	72,850	–	–	135,300	135,300
N C Rose-Innes	125,050	62,050	–	(29,300)	157,800	157,800
A J Russell	–	20,000	–	–	20,000	20,000
S C Dehne	27,050	27,750	–	–	54,800	54,800
K Rampal	–	–	–	–	–	–
J A Hanka	–	–	–	–	–	–
D M Hoskins	–	20,800	–	–	20,800	20,800

2010

Name	Balance at the start of the year	Granted as compensation	Vested	Forfeited	Balance at the end of the year	Unvested
Key management personnel of the Group						
M I Russell	–	239,250	–	–	239,250	239,250
D L Ennis	89,450	54,500	–	(143,950)	–	–
N C Rose-Innes	63,000	62,050	–	–	125,050	125,050
M N Writer	51,850	36,350	–	(88,200)	–	–
S R Mitchell	–	62,450	–	–	62,450	62,450
D M Hoskins	–	–	–	–	–	–
S C Dehne	–	27,050	–	–	27,050	27,050
K Rampal	–	–	–	–	–	–

Note 23. Key management personnel disclosures (continued)

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.

2011 Name	Balance at the start of the year	Received during the year on the vesting of shares	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited				
P D Ritchie	350,125	–	–	350,125
S J Clancy	50,000	–	–	50,000
P G Higgins	822,939	–	–	822,939
R G Higgins	15,226,215	–	–	15,226,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	50,000	–	50,000	100,000
Key management personnel of the Group				
M I Russell	–	–	–	–
S R Mitchell	–	–	20,000	20,000
N C Rose-Innes	–	–	–	–
A J Russell	–	–	–	–
S C Dehne	–	–	–	–
K Rampal	–	–	–	–
J A Hanka	–	–	–	–
D M Hoskins	67,730	–	–	67,730

2010 Name	Balance at the start of the year	Received during the year on the vesting of shares	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited				
P D Ritchie	350,125	–	–	350,125
S J Clancy	–	–	50,000	50,000
P G Higgins	5,822,939	–	(5,000,000)	822,939
R G Higgins	15,226,215	–	–	15,226,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	50,000	–	–	50,000
Key management personnel of the Group				
M I Russell	–	–	–	–
D L Ennis	10,098	–	–	10,098
S R Mitchell	–	–	–	–
N C Rose-Innes	–	–	–	–
M N Writer	7,668	–	(7,668)	–
D M Hoskins	67,730	–	–	67,730
S C Dehne	–	–	–	–
K Rampal	–	–	–	–

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 nonrelated audit firms:

	2011 $	2010 $
A. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	**189,600**	193,214
Total remuneration for audit services	**189,600**	193,214
B. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Other assurance services	**9,000**	8,000
Total remuneration for audit-related services	**9,000**	8,000
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	**23,900**	23,700
Other tax services	**10,645**	30,610
Total remuneration for taxation services	**34,545**	54,310
Total remuneration for non-audit services	**43,545**	62,310

Note 25
Contingencies

Contingent liabilities

The Group had contingent liabilities at 30 June 2010 in respect of:

Guarantees

Guarantees given in respect of premises leases $975,322 (2010: $963,405).

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 2011 and 30 June 2010, 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

A. Lease commitments

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

	2011 $'000	2010 $'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	1,131	1,090
Later than one year but not later than five years	1,310	2,068
Later than five years	–	–
	2,441	3,158

B. Other commitments

	2011 $'000	2010 $'000
Commitments in relation to non-cancellable obligation for the supply of media production services as at the reporting date but not recognised as liabilities payable:		
Within one year	112	–
Later than one year but not later than five years	–	–
	112	–

Note 27
Related party transactions

A. Parent entity
The ultimate parent entity within the Group is Mortgage Choice Limited.

B. Subsidiaries
The LoanKit business is operated through Beagle Finance Pty Limited, a wholly owned subsidiary of Mortgage Choice Limited.

C. Key management personnel
Disclosures relating to key management personnel are set out in note 23. Additional disclosures are set out in the Directors' Report in the remuneration report.

D Loans to/from related parties
The Group has formed a trust to administer the Group's employee share scheme. This is funded by the parent entity. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

Note 28
Events occurring after the balance sheet date

A. Dividend payment

A final ordinary dividend of $8,398,000 (7.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2011 on 24 August 2011 to be paid on 19 September 2011.

The financial effects of the above transaction have not been brought to account at 30 June 2011.

Note 29
Reconciliation of profit after income tax to net cash inflow from operating activities

	2011 $'000	2010 $'000
Profit for the year	**27,459**	23,479
Depreciation and amortisation	**1, 514**	1, 105
Non-cash net present value of future trailing inflows	**(30,559)**	(32,219)
Non-cash net present value of future trailing outflows	**13,573**	18,771
Non-cash employee expense benefits – share-based payments	**544**	185
Interest received	**(591)**	(373)
Net (gain)/loss on sale of non-current assets	**(3)**	1
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	**(1,124)**	920
(Increase)/decrease in deferred tax asset	**(34)**	(138)
(Increase)/decrease in other operating assets	**(1,020)**	35
(Decrease)/increase in trade payables	**(1,009)**	479
Increase/(decrease) in other operating liabilities	**1,063**	(44)
(Decrease)/increase in provision for income taxes payable	**(765)**	2,315
Increase/(decrease) in provision for deferred income tax	**5,089**	4,269
Increase/(decrease) in other provisions	**158**	12
Net cash inflow from operating activities	**14,295**	18,797

Note 30

Earnings per share

	Consolidated 2011 Cents	2010 Cents
Basic earnings per share	**22.9**	19.7
Diluted earnings per share	**22.7**	19.5

	$'000	$'000
Earnings used in calculating earnings per share – profit from continuing operations	**27,459**	23,479

	2011 Number	2010 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	**119,859,505**	119,361,350
Adjustments for calculation of diluted earnings per share:		
Options	**916,629**	1,251,341
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**120,776,134**	120,612,691

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. Performance Share Plan

Share issued to employees under the Mortgage Choice Performance Share Plan are considered to be ordinary shares and have been included in the determination of basic earnings per share. Details relating to the shares are set out in the remuneration report.

Note 31

Share-based payments

A. Executive Performance Option Plan (EPOP)

The Executive Performance Option Plan may be offered on an annual basis to eligible executives as determined by the Board. The details of each offer may differ as to the particulars, especially with regard to performance criteria and performance period. Participation in the EPOP provides one component of the long-term incentive available to the selected executives within their aggregate remuneration package.

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and 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. In the year ending 30 June 2011, no options were offered.

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'.

When a participant ceases to be employed by the Company prior to the end of the performance period, 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, options will vest on a pro-rata basis or in their entirety for certain senior executives.

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.

Offers made under the plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

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 pages 12 and 13 of this report. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes 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 nontradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the riskfree interest rate for the term of the option.

Details of options over ordinary shares in the Company provided as remuneration to each Director and key management personnel of the Company are set out below. Further information on the options is set out in the Directors' report 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
2011									
1 May 2009	1 May 2019	$0.76	2,500,000	–	–	–	–	2,500,000	2,500,000
Total			2,500,000	–	–	–	–	2,500,000	2,500,000
Weighted average exercise price			$0.76	–	–	–	–	$0.76	$0.76
2010									
10 August 2004	10 August 2014	$1.05	415,400	–	(323,200)	–	(92,200)	–	–
2 September 2005	2 September 2015	$1.43	287,820	–	–	–	(287,820)	–	–
1 May 2009	1 May 2019	$0.76	2,500,000	–	–	–	-	2,500,000	1,700,000
Total			3,203,220	–	(323,200)	–	(380,020)	2,500,000	1,700,000
Weighted average exercise price			$0.86	–	$1.05	–	$1.34	$0.76	$0.76

The weighted average remaining contractual life of share options outstanding at the end of the period was 7.82 years (2010 – 8.82 years).

B. Performance Share Plan (PSP)

The PSP permits eligible employees as identified by the Board to be offered allocated unvested shares from the outset of the applicable performance period, with the shares to be held on trust for the participants by a share plan trustee. 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 managers and any other designated employees.

Participation in the PSP is offered on an annual basis. Eligible employees 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 performance requirements and vesting scale applicable to offers under the PSP, for years up to and including 30 June 2009, use TSR as the basis of their performance criteria. The right to receive vested shares will lapse if the performance criteria have not been met at the end of the performance period. Offers made under the PSP subsequent to the year ended 30 June 2009 are based on service requirements.

Shares will be acquired for participants following their acceptance of an offer made under the Plan. The shares will be acquired by the plan trustee and held on trust for participants until they are withdrawn from the Plan (after they have vested or are deemed to be vested) or are forfeited, in circumstances outlined below. Shares will be acquired only at times permitted under the Company's share trading policy. Shares may be acquired by on-market or off-market purchases, by subscribing for new shares to be issued by the Company, or through the reallocation of forfeited shares. The method of acquisition for each share allocation will be determined by the Board. The costs of all share acquisitions under the Plan will be funded by the Group. Participants will not be required to make any payment for the acquisition of shares under the Plan.

Shares will not be released from the PSP and will remain subject to a holding lock until a Notice of Withdrawal 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.

Note 31. Share-based payments (continued)

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). If a participant resigns from his or her employment with the Company, or otherwise ceases employment in circumstances not involving "special circumstances", the participant will be required to forfeit any unvested shares held under the Plan on the participant's behalf, unless the Board otherwise determines. Vested shares will be eligible for withdrawal in accordance with the usual procedure.

If a participant ceases to be employed by the Company or retires from office as a result of special circumstances (including death, disability, retirement, redundancy, corporate restructure, or any other circumstances determined by the Board), the Board may in its discretion determine that all or a portion of the participant's unvested shares are to be treated as vested shares, notwithstanding the fact that the vesting conditions applicable to the shares have not been met because the applicable performance period has not expired.

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 assessed fair value at grant date of performance shares 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 BlackScholes option pricing model framework that takes into account the term of the performance shares, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield (acknowledging that dividends will be paid to participants from the date of grant) and the risk-free interest rate for the term of the performance shares. There are no performance hurdles associated with the 2010 grant.

Details of performance shares in the Company provided as remuneration to each Director and key management personnel are set out below. Further information on the performance shares 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	Vested during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
			Number	Number	Number	Number	Number	Number	Number
2011									
31 August 2007	31 August 2010	$2.20	73,700	–	–	–	(73,700)	–	–
31 August 2008	31 August 2011	$1.00	167,900	–	–	–	–	167,900	–
9 December 2009	31 August 2011	$1.24	194,133	–	–	–	(11,433)	182,700	–
9 December 2009	31 August 2012	$1.24	194,133	–	–	–	(11,433)	182,700	–
9 December 2009	31 August 2013	$1.24	194,133	–	–	–	(11,433)	182,700	–
20 September 2010	3 September 2012	$1.16	–	210,999	–	–	(7,283)	203,716	–
20 September 2010	3 September 2013	$1.17	–	210,999	–	–	(7,283)	203,716	–
20 September 2010	3 September 2014	$1.19	–	211,002	–	–	(7,284)	203,718	–
24 December 2010	1 December 2011	$1.37	–	20,000	–	–	–	20,000	–
Total			823,999	653,000	–	–	(129,849)	1,347,150	–
Weighted average price			$1.28	$1.18	–	–	$1.77	$1.18	

Offer date	Vesting date	Value	Balance at start of the year	Granted during the year	Vested during the year	Expired during the year	Forfeited during the year	Balance at end of the year	Vested at end of the year
			Number	Number	Number	Number	Number	Number	Number
2010									
12 December 2006	31 August 2009	$2.21	62,100	–	(4,550)	–	(57,550)	–	–
31 August 2007	31 August 2010	$2.20	142,550	–	–	–	(68,850)	73,700	–
31 August 2008	31 August 2011	$1.00	319,350	–	(4,350)	–	(147,100)	167,900	–
9 December 2009	31 August 2011	$1.24	–	236,483	–	–	(42,350)	194,133	–
9 December 2009	31 August 2012	$1.24	–	236,483	–	–	(42,350)	194,133	–
9 December 2009	31 August 2013	$1.24	–	236,483	–	–	(42,350)	194,133	–
Total			524,000	709,449	(8,900)	–	(400,550)	823,999	–
Weighted average price			$1.47	$1.24	$1.62	–	$1.46	$1.28	

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 0.68 years (2010 – 1.79 years).

Two tranches of performance shares were issued in the year to 30 June 2011. The model inputs for performance shares granted on 20 September 2010 included:

(a) performance shares are granted for no consideration and vest over a period of four years;

(b) grant date: 20 September 2010 (2010 – 9 December 2009);

(c) share price at grant date: $1.16 (2010 – $1.25);

(d) expected price volatility of the company's shares: 30% (2010 – 40%);

(e) expected dividend yield: 9.4% (2010 – 9.2%); and

(f) risk-free interest rate: 2 years 4.20%, 3 years 4.15% and 4 years 4.16% (2010 – 5.25%).

The shares granted on 24 December 2010 were valued at the closing price on the day due to the short term nature of the grant.

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	
	2011 $'000	2010 $'000
Options issued under EPOP	**11**	33
Shares issued under PSP	**533**	152
	544	185

Note 32

Parent entity financial information

A. Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $'000	2010 $'000
Balance sheet		
Current assets	**101,921**	93,885
Total assets	**315,455**	283,873
Current liabilities	**63,474**	61,548
Total liabilities	**224,671**	206,486
Shareholders' equity		
Issued capital	**1,207**	1,207
Share-based payments reserve	**1,141**	597
Retained profits	**88,282**	75,583
	90,630	77,387
Profit or loss for the year	**27,779**	23,587
Total comprehensive income	**27,779**	23,587

B. Guarantees entered into by the parent entity

The parent entity has not provided any guarantees on behalf of subsidiaries.

The parent entity has provided guarantees in respect of obligations under premises leases of its head office and state offices totalling $975,322 (2010 $963,405). No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees.

C. Contingent liabilities of the parent entity

Other than the guarantees mentioned above, the parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

Director's Declaration

for the year ended 30 June 2011

In the Directors' opinion:

(a) the financial statements and notes set out on pages 21– 60 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of their performance, for the financial year ended on that date; and

(b) Note 1A confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

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

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

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

Peter Ritchie	Sydney
Director	24 August 2011

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Independent auditor's report to the members of Mortgage Choice Limited

Report on the financial report

We have audited the accompanying financial report of Mortgage Choice Limited (the company), which comprises the balance sheet as at 30 June 2011, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Mortgage Choice Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*

Auditor's responsibility

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

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

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

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

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Independent auditor's report to the members of Mortgage Choice Limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Mortgage Choice Limited is in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 20 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Mortgage Choice Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Maria Martin
Partner

Sydney
24 August 2011

Shareholder Information

as at 23 August 2011

The shareholder information set out below was applicable as at 23 August 2011.

A. Distribution of equity securities

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

	Class of equity security	
	Ordinary shares	Options
1 – 1,000	415	
1,001 – 5,000	1,056	
5,001 – 10,000	629	
10,001 – 100,000	742	
100,001 and over	48	1
	2,890	1

There were 80 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
Finconnect (Australia) Pty Ltd	20,611,785	17.18
Citicorp Nominees Pty Limited	12,481,090	10.41
National Nominees Limited	11,484,652	9.57
Ochoa Pty Ltd	9,620,000	8.02
HSBC Custody Nominees (Australia) Limited	7,893,934	6.58
J P Morgan Nominees Australia Limited	7,349,278	6.13
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	3,506,989	2.92
Cogent Nominees Pty Limited	2,204,465	1.84
R G Higgins	2,094,226	1.75
SCJ Pty Ltd <Jermyn Family A/C>	2,000,000	1.67
UBS Nominees Pty Limited	1,793,967	1.50
Pacific Custodians Pty Ltd <Perf Share Plan Tst A/C>	1,510,350	1.26
Perpetual Trustees Consolidated Limited <Clime Asset Management A/C>	957,205	0.80
UBS Wealth Management Australia Nominees Pty Ltd	956,141	0.80
Basscave Pty Limited	817,939	0.68
Mr Ian Edwards & Mrs Josephine Edwards	675,000	0.56
Marich Nominees No 2 Pty Ltd <R G Marich Family No 2 A/C>	433,215	0.36
Mr David Madden	350,000	0.29
Marich Nominees Pty Ltd <R Marich Superannuation A/C>	343,729	0.29
Allingham Holdings Pty Ltd <Hillgrove Super Fund A/C>	300,000	0.24
	87,383,965	72.85

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the Executive Performance Option Plan	2,500,000	1

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Count Financial Limited	20,611,785	17.33
R G Higgins and Ochoa Pty Ltd	15,231,215	12.80
FMR Corp. & Fidelity International Limited	13,270,161	11.20
Commonwealth Bank of Australia	9,732,721	8.11
INVESCO Australia Limited	9,001,873	7.53

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.

Mortgage Choice's mission is to empower Australians by educating them about the mortgage industry and guiding them through the loan maze. Our 'Client for Life' philosophy means we provide them with credible, professional service from initial appointment to application, settlement and throughout the life of the loan.

MORTGAGE CHOICE®