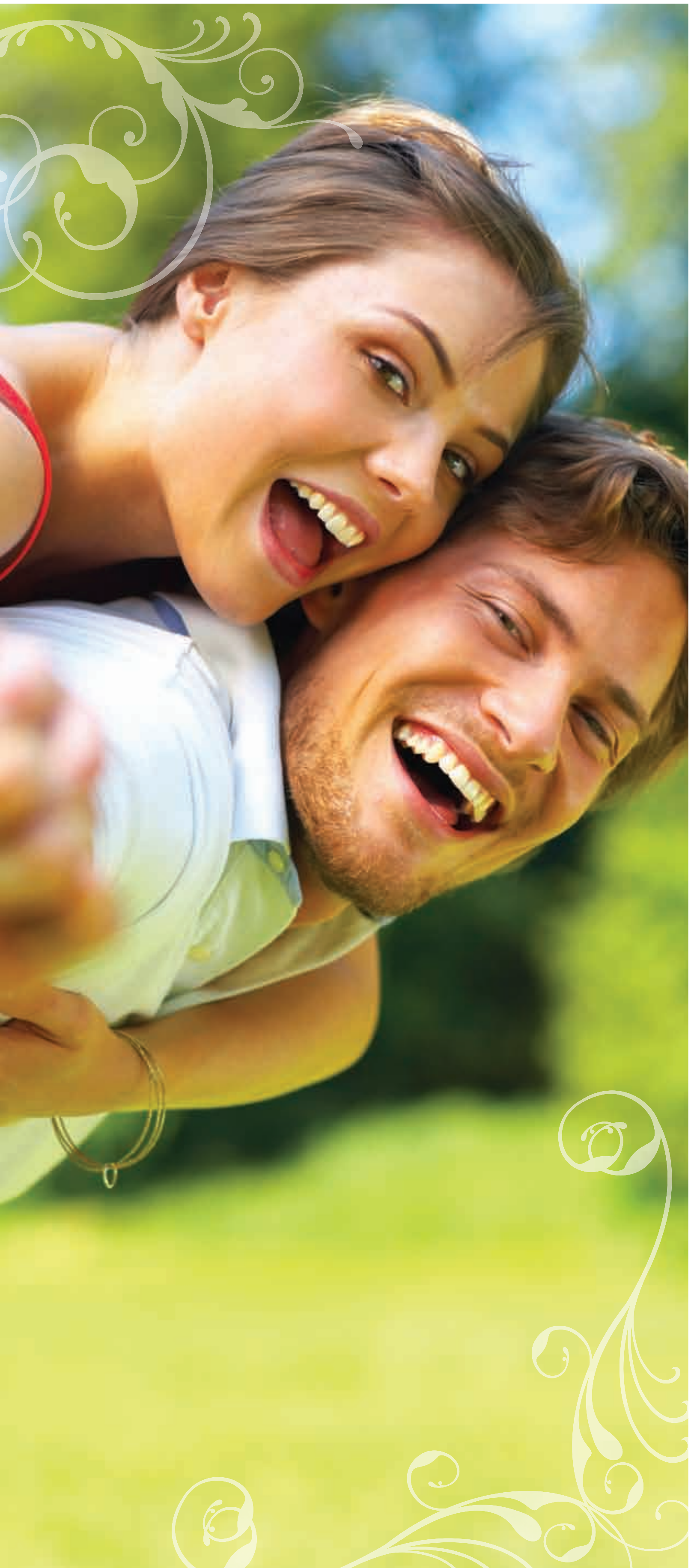
Homeloans LTD



Annual Report 07/08

CORPORATE INFORMATION

This annual report covers both Homeloans Limited as an individual entity and the consolidated entity's financial report incorporating Homeloans Limited and the entities that it controlled during the financial year. The consolidated entity's functional and presentation currency is AUD ($).

A description of the consolidated operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 10 to 25.

DIRECTORS
Timothy Holmes (Non-Executive Chairman)
Brian Jones (Managing Director)
Robert Salmon (Non-Executive Director)
Robert Scott (Non-Executive Director)
Jarrod Smith (Finance Director) – Resigned on 11 April 2008
Brian Benari (Non-Executive Director)
Dominic Stevens (Non-Executive Director)

COMPANY SECRETARY
Jennifer Murray

REGISTERED OFFICE
Level 9, The Quadrant
1 William Street
Perth WA 6000

Phone: (08) 9327 1777
Facsimile: (08) 9327 1778

CORPORATE OFFICE
Level 7, BT Tower
1 Market Street
Sydney NSW 2000

Phone: (02) 8267 2007
Facsimile: (02) 8267 2045

NATIONAL OFFICE
Level 2, The Atrium
168 St George's Terrace
Perth WA 6000

Phone: (08) 9261 7000
Facsimile: (08) 9261 7079
Web site: www.homeloans.com.au

POSTAL ADDRESS
PO Box 7216
Cloisters Square
Perth WA 6850

SHARE REGISTRY
Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

Phone: (08) 9323 2000
Facsimile: (08) 9323 2033

BANKERS
Westpac Institutional Bank
Westpac Place, Kent Tower
275 Kent Street
Sydney NSW 2000

AUDITORS
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000

CONTENTS

Chairman's Report

On behalf of your Board I am pleased to present the 2008 annual report for Homeloans Ltd (Homeloans).

The year in review was a challenging one. In particular, the sub-prime meltdown in the US dramatically affected the Australian mortgage market and Homeloans, like all lenders, have felt the impact.

For the year under review Homeloans Ltd recorded a Net Profit After Tax before significant items of $4.7m, up 113% on the previous financial year result of $2.2m.

As a result of the severe dislocation in credit markets, Homeloans has made write downs of $17.2m after tax, predominantly relating to goodwill and deferred costs associated with its "Securitisation of Mortgages" segment. This non-cash adjustment results in a statutory loss after significant items of $12.5m.

The result reflected an increase in Net Interest Income of 19%, bringing it to $13.8m, whilst Net Fee and Commission income increased by 53% to $13.0m. Total revenue increases of 29% were driven by both the full year impact of the prior year acquisition of Melbourne based Independent Mortgage Corporation ("IMC") and seven months of operating results from Auspak Financial Services Pty Ltd ("Auspak") a Sydney based mortgage distribution business acquired in November 2007.

Operating expenses increased by 19% bringing them to $21.0m with the increases driven by the consolidation of the IMC and Auspak expense bases.

Basic Earnings per Share before significant items increased by 35% to 4.64 cents per share (4.49 cents on a diluted basis).

The 07/08 financial year has been one of the most challenging the non-bank lending industry has faced to date. The malaise that spread from the US in August 2007 has not only impacted the cost of funding but has wrongly dented consumer and broker confidence in the non-bank sector.

The banks pounced on the opportunity to regain market share by perpetuating propaganda that the non-banks could no longer rely on their funding – a strategy in the large part that has been successful.

However the banks' rhetoric changed as they too were forced to state the impact of the sub-prime fall out.

The justification for upping interest rates above official Reserve Bank increases as well as reducing broker commissions stemmed from the banks' own higher funding costs and the admission that mortgage lending had become unprofitable.

The banks actions have drawn criticism from politicians, third-party distributors and consumers and are, to a degree, causing a swing back towards the non-bank offering.

Whilst it is hard to speculate on what may happen to the capital markets in the near term, it is clear that both banks and non-banks face funding challenges. The prospect of a more level playing field brings with it an opportunity for Homeloans to increase its market share based on service, innovation and competitive products – propositions that have represented the business well up to this point.

As well as continued focus on existing operations and driving growth in these current market conditions, the purchase of Auspak Financial Services in November 2007 helped to strengthen our retail presence on the east coast and increased our loan book to $6bn.

In the year ahead Homeloans Ltd will continue to focus on offering market-leading broker support matched with competitive products via our third-party distribution channel. We will also look to reinforce our West Australian retail operation through a focus on offering branded Homeloans products as well as non-managed (bank) products.

Looking ahead, 2009 will see continued focus on funding efficiencies, productivity and cost management.

In terms of some specific initiatives underway to strengthen the business, a systems efficiency project will be delivered in the first half of the financial year that will provide considerable process and productivity gains which will be more leverageable when the market becomes more robust.

The investment from Challenger and the opportunity to access the broader Challenger Group resources also places us in a strong position to further develop the business and continue to better compete in the mainstream mortgage market. We'll continue to nurture our relationship with Challenger across all business areas.

The coming year will be a challenging one for the market as a whole but I see it as an opportunity for further growth for Homeloans Ltd. Recent upgrades to our website have increased our brand presence on the internet and we will continue to focus on reinforcing our retail presence and brand to ensure growth.

As we ride through current market conditions, Homeloans is well placed to capitalise on the opportunities that present themselves in terms of organic growth and growth by acquisition.

In closing, I'd like to thank my fellow Directors and the staff of Homeloans Ltd for their ongoing support throughout the year.

Yours faithfully,

Tim Holmes
Chairman

Brian Jones

Managing Director's Report

The deterioration of the capital markets and subsequent impact on non-bank lenders represents a double edged sword.

While Homeloans along with other non-bank lenders, have been challenged to deliver competitively priced products and services, it has also created an opportunity for us as a listed non-bank lender to build for the future at a time when there is uncertainty.

It has long been my view that the non-bank sector is overdue for a round of consolidation and while it has been a baptism of fire for many groups, tighter funding has seen many of the smaller operations disappear altogether.

What this means for the top tier of the non-bank sector is that it has the opportunity to grow stronger through continued focus on delivering product matched with service.

As market conditions squeeze smaller non-bank lenders, Homeloans is well positioned to capitalise on opportunities and we will continue to assess and explore appropriate acquisition opportunities as they arise.

Homeloans recognised that the non-bank sector would consolidate and we've invested in our infrastructure, management team, products and marketing in preparation for market changes – which have now come to bear.

Considering the current market, we are in a strong position to connect with a market place that is potentially geared for a new round of competition. The aggregator and broker industry has been hit by commission reductions from the banking sector and it recognises the danger of a bank-dominated market.

Homeloans is in a good position to capitalise as there are few non-bank lenders in the market with our history, service proposition and depth of knowledge – we have a market pedigree that very few non-bank lenders can fall back on.

Considering these above points the year in review has been positive for Homeloans.

- Sales compression impact on our sales versus the market

- The year saw capital markets refocus on risk and re-pricing for risk is being established, which flowed through to our business.

- Continued focus on strengthening our national distribution network.

- Independent Mortgage Corporation (IMC) growth - acquired in first half of 2007, and has been progressively integrated into Homeloans to provide us with Victorian based retail distribution.

- Auspak purchase and integration – acquired in November 2007 to boost our East Coast distribution capabilities. Terry Dunne was appointed General Manager of Auspak and has been responsible for the integration of the business into the Homeloans business.

- Management team changes – Jarrod Smith, Troy Phillips and Brett Hartley resigned from Homeloans over the 07/08 financial year and I thank them all for their contributions over the previous years. I'd also like to welcome Tony Carn as our new General Manager of Sales.

The executive team of Homeloans Ltd is confident that the continued strengthening and market recognition of our distribution network and management processes – combined with our multi-lender funding strategy and investment in business retention and productivity enhancement – will lead to continued growth for your company in the years ahead.

I would like to take this opportunity to thank the entire Homeloans Ltd team for their dedication and continued support.

Yours faithfully,

Brian Jones
Managing Director

Year in Review 07/08

Profit

The Company recorded a full year Net Profit After Tax before significant items of $4.7m. After non-cash writedowns of $17.2m after tax, the Company recorded a statutory loss of $12.5m.

The net tangible asset backing was 43.94 cents per share.

Dividend

The half yearly dividend was two cents per share, paid on 4 April 2008. The dividend was franked to 30% and payable to all shareholders as of record date of 28 March 2008. No final dividend will be paid due to the statutory loss recorded of $12.5m.

Earnings per share

Basic earnings per share before significant items were 4.64 cents and 4.49 cents on a diluted basis.

Changes to the Board of Directors

Jarrod Smith resigned on 11 April 2008.

Personnel

Homeloans Ltd has 109 full time equivalent staff and 36 retail consultants nationally. Homeloans Ltd's objective when recruiting staff is to identify and employ staff who fit the corporate culture of the company and facilitate their growth within the business. Skills are developed by a combination of mentoring, training and on the job experience, expanding their knowledge of the industry.

MORTGAGES –DISTRIBUTION AND MARKETING

Over the last 20 years Homeloans Ltd has grown from a small West Australian mortgage manager to a leading national non-bank lender that originates and manages a comprehensive range of loans for home owners and investors.

As Australia's non-bank lending industry has evolved, Homeloans has developed two distinct distribution channels to reach Australian borrowers: third party – whereby our mortgage broker partners distribute loans to the end customer – and direct distribution to customers via our mobile lenders and satellite offices.

Third Party – Broker Channel

The Third-party market in Australia has experienced a year of substantial change and the effects of the US sub-prime crisis have impacted brokers and lenders alike. Higher costs of funding and uncertainty surrounding some non-bank players has seen the percentage of loan applications submitted to banks rise in the last financial year.

Homeloans Ltd has experienced a reduction in loan applications submitted through the broker channel; as such we have reassessed the resources employed to support and operate our sales force.

Brokers have also experienced a major re-structure in regards to how they are paid, with many lenders introducing commission hurdles and decreasing up-front and trailing commissions.

Many of our competitors, both bank and non-bank, have been unable to successfully compete in the current market allowing opportunities for further growth for Homeloans in 2008 and 2009.

Our competitive product range and pricing is backed by a level of service recognised as superior in today's market and as such we are firmly established as a viable alternative to banks.

Future growth in this channel will stem from nurturing our already firm relationships with our key broker partnerships. And as expectations of more stable pricing and business activity become evident we are very well placed to capitalise on a range of opportunities in a revitalised non-bank sector.

Direct Sales – Satellites Offices and Mobile Lending

The past financial year has also presented many challenges to our direct sales channel.

Our retail distribution channel remains a core element of Homeloans Ltd, with predominant representation in Western and South Australia. The acquisitions of IMC and Auspak have seen this expand into New South Wales and Victoria.

The majority of Homeloans retail submissions in Victoria originate through Independent Mortgage Corporation (IMC), acquired by Homeloans in 2007. The current focus of IMC is the implementation of new Customer Relationship Management (CRM) initiatives and the continuing growth of their existing loan book. The growth of new business referral relationships and loan consultants will assist in driving stronger profitability in the year ahead.

Homeloans acquired Auspak Financial Services in November 2007 to further add to our East Coast distribution. Terry Dunne was appointed General Manager of Auspak and has been responsible for the integration of the business into Homeloans.

Completing the operational and data migration to the National Mortgage Brokers (nMB) platform has provided some critical advantages for the Homeloans retail channel. This migration will provide key economic and competitive advantages for our loan writers going forward, particularly as dealing with lenders becomes increasingly complex.

The opportunity for our retail sales consultants to sell non managed (bank) product through the nMB agreement, as well as Homeloans managed products, has been advantageous in the current environment. This has given Homeloans the ability to retain customers who we may not have otherwise been able to service.

Products and funding

Increased funding costs throughout the year in review put considerable pressure on banks and non-banks alike. Having access to multiple funding lines has allowed us to make the conscious decision to scale back our proprietary funding line the Residential Mortgage Trust (RMT) where funding pressure was greatest, and redistribute this volume to other funders where pricing was more attractive.

From a cost recovery point of view, during this period some of the additional funding costs for RMT were passed on to customers at similar levels to that which the banks passed on to their customers.

To ensure there was no gap left in our product range by the scaling back of RMT, Homeloans introduced the Homeloans Premium range in March. Homeloans Premium is a Challenger funded product line which includes full doc, lo doc and non conforming products.

The year ahead

Over the coming year Homeloans Ltd will continue to strengthen its position as a national mortgage lender, focusing on the further development of our distribution channels coupled with ongoing product development. Borrowers are becoming aware again that the non-bank alternative continues to be a viable option as opposed to bank branch originated loans and we are well positioned to capitalise on this trend.

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Homeloans Limited

FINANCIALS 2008

The Directors:
(left to right); Timothy Holmes; Brian Jones; Jarrod Smith; Robert Salmon; Robert Scott; Dominic Stevens; Brian Benari

Director's Report

Your directors submit their report for the year ended 30 June 2008.

DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Timothy Alastair Holmes (Non-Executive Chairman)
Tim was appointed a director on 9 November 2000 and appointed Chairman on 1 July 2003. He has 40 years experience in the finance and banking industry, is a Fellow of the Australian Institute of Company Directors, and Honorary Consul of Austria in WA. He is also the former International President of the Young President's Organisation and a former Vice President of the WA Chamber of Commerce and Industry. Tim is a member of the company's audit committee.

Robert Peter Salmon (Non-Executive Director)
Appointed 9 November 2000. Rob has 38 years experience in the finance and banking industry. In 1985, Rob joined with Tim Holmes to establish International Financing and Investment Pty Ltd, the predecessor to Homeloans Limited. He has a Bachelor of Economics from the University of Western Australia. Rob is a member of the company's audit committee.

Brian Donald Jones (Managing Director)
Brian was appointed to the board in an executive capacity on 28 May 2004. He has 42 years experience in the finance and banking industry. Brian was a senior executive with National Australia Bank from 1993 to 2003. Most recently he was head of the bank's Australian third party mortgage origination arm, HomeSide Lending. Prior to this he held senior positions with the bank's subsidiary, Bank of New Zealand Australia including Head of Consumer Markets and Head of Banking Services. He has a Masters of Business Administration from the AGSM. Brian was appointed Managing director on 1 January 2006.

Robert Norman Scott (Non-Executive Director)
Appointed 9 November 2000. Rob is a Chartered Accountant with over 41 years experience. Rob was an International Partner with Arthur Andersen, retiring from that firm in 1995. Rob now consults on corporate structuring and taxation to Perth based Gooding Pervan Chartered Accountants. Rob is chairman of the company's audit committee.

Rob serves as a director of the following listed companies:

- Amadeus Energy Ltd (Appointed 30 October 1996)
- BioMD Limited (Appointed 23 June 1999) - Chairman
- Australian Renewable Fuels Limited (Appointed 24 December 2002)
- Neptune Marine Services Limited (Appointed 17 May 2007)
- New Guinea Energy Ltd (Appointed 17 July 2006)

Previously served as a director of Evans & Tate Limited (July 2005 to August 2007)

Jarrod Lorne Andrew Smith (Finance Director)
(Resigned 11th April 2008) Appointed 20 February 2006. Jarrod joined Homeloans Limited as Chief Financial Officer in January 2002. Prior to joining Homeloans Limited, Jarrod was a Director of Westpac Institutional Bank. Jarrod has a Bachelor of Commerce (UNSW), a Masters of Business Administration (AGSM) and is a graduate member of the Australian Institute of Company Directors. He resigned as the executive director of the Board on 11th April 2008.

Brian Ronald Benari (Non-Executive Director)
Appointed 3 May 2007. Brian is the Chief Executive of Challenger Mortgage Management. He led the acquisition by Challenger of Interstar Securities, Australia's largest non-bank lender from Zurich Capital Markets. Prior to this Brian was formerly Chief Operating Officer/Chief Financial Officer with Zurich Capital Markets, and also held senior executive roles with Macquarie Bank and Bankers Trust. Brian is a Chartered Accountant and has a Bachelor of Business from Curtin University (WA).

Dominic Stevens (Non-Executive Director)
Appointed 3 May 2007. Dominic is the Chief Executive Officer and Managing Director of Challenger Financial Services Group Limited. Proir to his appointment to this role in August 2008, Dominic was the Deputy Managing Director of Challenger Financial Services Group Limited where he was responsible for overseeing their Capital, Risk and Strategy operation. Prior to this Dominic was Senior Managing Director of Zurich Capital Markets (Asia region). Dominic has a Bachelor of Commerce (Hons) Finance (UNSW) and is a member of the Australian Institute of Company Directors.

Jennifer Murray (Company Secretary)
Jennifer Murray was appointed company secretary to Homeloans Limited on 9 November 2000. She is a Chartered Secretary and has over 25 years experience in providing corporate secretarial services for both public and proprietary companies. She is presently the Senior Manager, Corporate Secretarial Services for Perth based Gooding Pervan Chartered Accountants.

DIRECTOR'S REPORT

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE.

As at the date of this report, the interests of the directors in the shares and options of Homeloans Limited were:

	NUMBER OF ORDINARY SHARES	NUMBER OF OPTIONS OVER ORDINARY SHARES
T A Holmes	12,453,170	-
B D Jones	225,952	2,000,000
R P Salmon	12,114,186	-
R N Scott	2,077,982	-
B R Benari	-	-
D Stevens	-	-

DIVIDENDS

	Cents	$'000
Final dividends recommended:		
- on ordinary shares	-	-
Dividends paid in the year:		
Interim for the year		
- on ordinary shares (30% Franked)	2.0	2,020
Final dividend for 2007 shown as recommended in the 2007 report		
- on ordinary shares (Unfranked)	1.2	831

PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the consolidated entity were:

- mortgage origination and management of home loans; and
- securitisation of mortgages through the Residential Mortgage Trust (RMT), a special purpose vehicle ("SPV") used to issue residential mortgage backed securities.

The principal activities were conducted under the brand names Homeloans Limited, Access Home Loans, Independent Mortgage Corporation Pty Ltd, Auspak Financial Services Pty Limited and FAI Home Loans. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, Challenger Mortgage Management, Origin Mortgage Management Services, ING Bank (Australia) Limited, Residential Mortgage Trust and other institutions.

OPERATING AND FINANCIAL REVIEW

Group Overview

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 9 November 2000 acquiring the assets and liabilities of IF & I Securities Pty Ltd (as trustee for the IF & I Securities Unit Trust) and Anedo Pty Ltd. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

Homeloans Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

Review of operations

A review of operations of the consolidated entity during the financial year, the results of those operations, the changes in the state of affairs and the likely developments in the operations of the consolidated entity are set out in this report.

Performance Indicators

Management and the Board monitor the consolidated entity's overall performance, from its implementation of the strategic plan through to the performance of the company against operating plans and financial budgets. The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Management monitor KPIs on a regular basis. Directors receive the KPIs for review prior to each monthly board meeting allowing all directors to actively monitor the consolidated entity's performance.

Operating Results for the Year

The consolidated entity experienced an increase in loan originations of 8% on the prior corresponding year.

Revenue increased to $121,657,000 (2007:$93,120,000) primarily due to both the full year impact of the prior year acquisition of Melbourne based Independent Mortgage Corporation Pty Ltd and seven months operating results from Auspak Financial Services Pty Limited, a Sydney based mortgage distribution business acquired in November 2007.

Consolidated net profit after tax and before significant items for the year was $4,678,000 (2007:$2,199,000) up 113% on the previous corresponding period, reflecting a positive result from:

- increased loan volumes (up 8% on 2007) including full year of originations from Independent Mortgage Corporation Pty Ltd and seven months of originations from Auspak Financial Services;
- a full year of interest earned on proceeds from the new share capital issued during the prior year; and
- continued cost management focus together with scale benefits achieved via recent acquisitions.

DIRECTOR'S REPORT

In August 2007, global debt markets witnessed severe dislocation and a significant tightening in credit markets. The "US sub-prime crisis", as it's now referred to, has affected all credit markets globally, including the mortgage lending and securitisation markets in Australia, both of which are markets in which Homeloans Limited operates.

The significant tightening in credit markets resulted in a reduction in lending volumes originated by the Group, as it did for many market participants, particularly over the second half of the year as the impacts of the crisis began to flow through the market. In particular, new loan originations via the Groups' securitisation segment (RMT) have reduced significantly following tightening of some of the key parameters around the Group's warehouse facility. In addition to reduced lending volumes, the dislocation in credit markets has also resulted in higher funding costs. This has further impacted the Group's securitisation business with the warehouse facility margin increasing during the second half of the financial year.

As a direct result of these impacts, Homeloans has recognised an adjustment in the current financial year result. The first part of this adjustment is to recognise an impairment write-down of $13,029,000 after tax relating to goodwill for both the "Origination and Management" and "Securitisation of Mortgages" segments. The second part is a loss after tax of $4,160,000 on loans and advances associated with the "Securitisation of Mortgages" segment. This second adjustment represents the write-off of transaction costs included in the carrying amount of loans and advances, which reflects the expectation of lower future cash flows to be generated from the loans within the RMT SPV's. The total non-cash adjustment of $17,189,000 results in a statutory loss for the year of $12,511,000.

The Group remains in discussions with its warehouse provider in relation to the future maturity of the facility, however a high level of uncertainty still remains in the current market. The warehouse facility is structured so that if it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

The Group continues to benefit from its diversified funding base for originating loans via its "Origination of Mortgages" segment. Given Homeloans has agreements with a number of funders, it has been able to continue to originate reasonable levels of lending volumes during the challenging market conditions of the past ten months. In the year ahead the Company will continue to focus on diversifying its funding arrangements and growing its nationwide distribution networks. The Group also has substantial funds on deposit and is well positioned to capitalise on opportunities as the sector moves into an inevitable period of consolidation.

Summarised operating results are as follows:

	2008	
	REVENUES $'000	**RESULTS $'000**
Business segments Origination and Management	48,465	6,278
Securitisation of Mortgages	82,149	2,651
Consolidated entity adjustments	(8,957)	-
Non-segment and unallocated expenses	-	(2,183)
Consolidated entity sales and profit from operating activities before income tax expense and significant item	121,657	6,746

DIRECTOR'S REPORT

Shareholder Returns

As a result of the severe dislocation in credit markets and the resultant write downs made by the Company, the ratios reported in the table below show negative returns on a statutory basis. The Company is pleased to report growth in underlying (i.e. before significant items) basic earnings per share of 35% to 4.64 cents, demonstrating the continued strong performance of the underlying business.

	AIFRS				AGAAP
	2008	2007	2006	2005	2004[1]
Basic earning per share (cents) before significant items	4.64	3.44	1.82	3.95	1.73
Basic earning per share (cents) after significant items	(12.42)	3.44	1.82	3.95	1.73
Return on assets (%)	(1.2%)	0.2%	0.1%	0.4%	1.7%
Return on equity (%)	(20.8%)	2.9%	3.4%	6.9%	2.9%
Dividend payout ratio (%)	(16.1%) [2]	97.9%	274.6%[3]	30.3%	0.0%

Debt to equity measures have not been disclosed due to the impact of the consolidation of RMT. Consolidation of RMT adds significant debt to the consolidated entity's balance sheet without any commensurate impact on equity. RMT, under its trust structure, has assets and liabilities that offset and no equity interests.

1. These ratios were calculated under Australian Accounting Standards applicable before 1 July 2005 ("AGAAP"). The results for 2005, 2006, 2007 and 2008 are calculated under Australian Accounting Standards incorporating Australian equivalents of International Financial Reporting Standards (AIFRS).

   Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy on the recognition of revenue and expenses on the origination and loan management business in the financial year ended 30 June 2007.

   Results for 2007 and 2008 have been further adjusted based upon the Group's new accounting policy on the computation of the effective interest rate method on loan assets (See Note 3 in the financial statements).

   As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit.

2. An interim dividend was paid based on a result prior to impairment losses toward the end of 2008 financial year. No final dividend was paid as a result of the statutory loss recorded of $12,511,000.

3. It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated entity's cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2008 of $40,707,000 (2007: Increase of $6,319,000).

The consolidated entity has sufficient funds to finance its operations. The consolidated entity also has an overdraft facility of $900,000 which was unutilised at 30 June 2008, primarily to allow for timing mismatches. The consolidated entity has a cash advance facility with its bankers at 30 June 2008 of $15,428,000 (2007:$12,867,000). The Residential Mortgage Trust has a net interest margin facility of $7,544,000 (2007: $7,189,000) and a warehouse facility of $750,000,000 drawn to $649,671,000 at 30 June 2008 (2007: $367,699,000).

Operating cash flow includes cash available to the investors in the special purpose vehicles (SPV) of RMT. This cash is not available to the consolidated entity. The RMT SPV's generated negative operating cashflow of $1,700,000 during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been higher by this amount.

DIRECTOR'S REPORT

Asset and capital structure

PROFILE OF DEBTS	2008 $'000	2007 $'000
The profile of the consolidated entity's debt finance is as follows:		
Lease liability – secured	444	762
HP liability – secured	25	63
Bank loans – secured	672,643	387,755
Due to bondholders	295,824	436,948
Other Loans	-	5,010
Loans from funders	2,875	3,657
	971,811	834,195

The amount of the consolidated entity's debts has increased over the last year due to growth in loan originations through RMT, particularly over the first half of the financial year, and a further draw down on the Group's cash advance facility to fund the final payment for the purchase of Independent Mortgage Corporation.

CAPITAL EXPENDITURE

There has been a decrease in cash used to purchase plant and equipment for 30 June 2008 to $214,000 from $295,000 in the year ended 30 June 2007.

RISK MANAGEMENT

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the company's risk management framework.

The fundamental aim of the company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders. The company recognises three main types of risk:

- Market risk – the risk of change in earnings from changes in market factors such as interest rates, housing market and economic conditions;
- Operational risk – the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events; and
- Liquidity risk – the risk of failure to adequately fund cash demand in the short term.

The Managing Director and Financial Controller periodically provide formal statements to the Board that in all material aspects:

- the company's financial statements present a true and fair view of the company's financial condition and operational results; and
- the risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the consolidated entity's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

There has not been any matter or circumstance that has arisen since the balance date that has affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent periods.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of the consolidated entity would, in the opinion of the directors, be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity is not subject to any specific license or agreement to comply with the requirements of environmental protection authorities in Australia.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 6,022,500 (2007: 6,912,500) unissued ordinary shares under options.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

425,000 ordinary shares were issued as a result of the exercise of options during the year under review. 115,000 options were cancelled during the year on resignation of staff. Since the end of the financial year, no options have been exercised, cancelled or forfeited.

DIRECTOR'S REPORT

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the financial year, the company has paid premiums in respect of a contract insuring all the directors of Homeloans Limited against a liability incurred in their role as directors of the company, except where:

(a) The liability arises out of conduct involving a willful breach of duty; or
(b) There has been a contravention of Sections 182 or 183 of the Corporations Act 2001,

as permitted by section 199B of the Corporations Act 2001.

Terms, conditions and rates are commensurate with the market. The policy prohibits disclosure of the nature of the indemnification and insurance cover, and the amount of the premium.

REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, Key Management Personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Parent and Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives and general managers of the Parent and the Group.

DETAILS OF KEY MANAGEMENT PERSONNEL (including the five highest remunerated executives of the Company and the Group)

Directors

T.A.Holmes	Chairman (Non-Executive)
B.D.Jones	Managing Director
R.P.Salmon	Director (Non-Executive)
R.N.Scott	Director (Non-Executive)
J.L.A.Smith	Finance Director – resigned on 11 April 2008
B.R.Benari	Director (Non-Executive)
D.Stevens	Director (Non-Executive)

Executives

L.McDonald	National Head of Underwriting
T.Phillips [1]	General Manager Sales (Director of MAS)
B.Hartley [1]	General Manager Product and Funding (Director of MAS)

[1] T Phillips and B Hartley ceased to act in their respective roles with the Company from 31 December 2007 following non-renewal of the contract between Homeloans and MAS.

REMUNERATION PHILOSOPHY

The performance of the company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives. To this end, the company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks; and,
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

DIRECTOR'S REPORT

COMPENSATION POLICY

The Board of Directors of Homeloans Limited is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

To assist in achieving these objectives, the Board links the nature and amount of executive directors' and officers emoluments to the company's financial and operational performance.

In addition, all executives are entitled to annual bonuses payable upon the achievement of KPIs and annual corporate profitability measures, the most important being return on shareholder's equity. Details of company performance and shareholder returns are discussed on page 23 of this report.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options granted as part of their remuneration package.

NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

REMUNERATION STRUCTURE

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

NON-EXECUTIVE DIRECTOR REMUNERATION

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. At the November 2005 annual general meeting the aggregate maximum sum available for the remuneration of non-executive directors was increased to $250,000 per annum with effect from and including 1 January 2006.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company whose board he or she sits on. The remuneration of non-executive directors for the period ended 30 June 2008 and 30 June 2007 is detailed in Table 1 on page 20.

EXECUTIVE REMUNERATION

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders; and
- link reward with the strategic goals and performance of the company.

Structure

In determining the level and make-up of executive remuneration, the Nomination and Remuneration Committee will, from time to time, engage an external consultant to provide independent advice detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

Fixed Remuneration

Variable Remuneration
- Short Term Incentive ('STI'); and
- Long Term Incentive ('LTI').

The proportion of fixed remuneration and variable remuneration (potential short-term and long-term incentives) is established for each senior manager by the Nomination and Remuneration Committee. Table 1 on page 20 details the variable component of the Key Management Personnel and the five highest paid executives of the Company and the Group.

FIXED REMUNERATION

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Since 2005, the level of individual fixed remuneration to members of the senior management team has been held at a steady level.

Structure

The fixed remuneration component is usually paid in cash.

The fixed remuneration component of the Key Management Personnel and the highest paid executives of the Company and the Group are detailed in Table 1 on page 20.

VARIABLE REMUNERATION — SHORT TERM INCENTIVE (STI)

Objective

The objective of the STI program is to link the achievement of the company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance.

Typically included are measures such as contribution to net profit after tax, loan originations, customer service, risk management, product management, and leadership/team contribution. The company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme. These measures are designed so as to align employee behaviour with long term shareholder wealth creation.

On an annual basis, after consideration of performance against KPI's, an overall performance rating for the company and each individual business unit is approved by the Nomination and Remuneration Committee. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive pool that is allocated to each executive. This process usually occurs within three months after the reporting date.

The aggregate of annual STI payments available for executives across the company is subject to the approval of the Nomination and Remuneration Committee. Payments are made in the following reporting period and are usually delivered as a cash bonus.

There have been no alterations to the STI bonus plans since their grant date.

STI Bonus for 2007 and 2008 financial years

For the 2007 financial year, 100% of the STI cash bonus of $766,000 as previously accrued in that period vested to executives and was paid in the 2008 financial year. There were no forfeitures. The remuneration committee will consider the STI payments for the 2008 financial year in October 2008. The maximum STI cash bonus for the 2008 financial year is $1,000,000. This amount has been accrued on the basis that it is probable that all executives will meet their respective KPI's for the period. Any adjustments between the actual amounts to be paid in October 2008 as determined by the remuneration committee and the amounts accrued will be adjusted in the 2009 financial year. The minimum amount of the STI cash bonus assuming no executives meet their respective KPI's for the 2008 financial year is nil.

DIRECTOR'S REPORT

VARIABLE REMUNERATION — LONG TERM INCENTIVE (LTI)

Objective

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth.

As such LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance.

Structure

LTI grants to executives are delivered in the form of options.

These options vest with the executive over varying periods and are not usually subject to a performance hurdle. These options are issued to executives as a form of retention bonus and incentive to contribute to the creation of shareholder wealth. They usually have a life from date of grant of five years, and are exercisable at specific dates and proportions set at the time of granting the options.

Options issued to Mortgage Asset Services Pty Ltd (MAS) are subject to performance hurdles based on the 3 month rolling average settlement volumes. If the target volumes are not reached by the set date, the options will lapse.

Table 2 on page 21 provides details of options granted, the value of options, vesting periods and lapsed options under the LTI plan.

Employment contracts

Except as outlined below, no executives are employed under a fixed term contract.

Upon termination all vested options remain in place.

MANAGING DIRECTOR

Under his conditions of employment, the employment of the Managing Director may be terminated:

- by the Company giving 3 months notice prior to the expiry of the employment contract; or,
- by the Managing Director giving the Company 3 months notice.

The Managing Directors employment contract expires 31 December 2008. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the Managing Director is also entitled to his statutory entitlements to accrued annual and long service leave.

Upon termination of employment by the Managing Director giving notice, the Managing Director is entitled to any STI and LTI that would otherwise be payable. On expiry of the existing employment contract, the Managing Director is not entitled to any STI and all rights to exercise share options will lapse.

Finance Director

The Finance Director left the Group during the financial year and was not replaced.

Mortgage Asset Services Pty Ltd

During the period up until 31 December 2007, the services of the General Manager Sales and General Manager Product and Funding were provided by way of a contract with Mortgage Asset Services Pty Ltd ("MAS"). This contract expired at 31 December 2007 and was not renewed.

Other senior executives

Under their conditions of employment the employment of the Key Management Personnel may be terminated by either party, by giving 1 months notice. The Company may make a payment in lieu of requiring the service of the notice period.

Upon termination of employment, the senior executives are entitled to their statutory entitlements to accrued annual and long service leave.

Upon termination of employment the Board has discretion to direct the forfeiture, or to pay the benefit of, any award made under either the STI or LTI plan that remain subject to the satisfaction of any performance or other criteria.

DIRECTOR'S REPORT

REMUNERATION OF KEY MANAGEMENT PERSONNEL AND THE FIVE HIGHEST PAID EXECUTIVES OF THE COMPANY AND THE GROUP

TABLE 1: REMUNERATION FOR THE YEAR ENDED 30 JUNE 2008 AND 30 JUNE 2007

		SHORT TERM			POST EMPLOYMENT	TERMINATION BENEFITS	LONG TERM	SHARE -BASED PAYMENT	TOTAL	% PERFOR-MANCE RELATED	% OPTION RELATED
		SALARY & FEES	CASH BONUS [4]	NON MONETARY BENEFITS	SUPERANNUATION		INCENTIVE PLANS	OPTIONS			
Executive Directors											
T.A.Holmes	2008	75,000	-	4,658	-	-	-	-	79,658	0.0%	0.0%
	2007	75,000	-	4,058	-	-	-	-	79,058	0.0%	0.0%
B.D.Jones	2008	350,000	300,000	5,640	31,500	-	-	3,844	690,984	43.42%	0.60%
	2007	275,000	350,000	4,855	24,750	-	-	32,734	687,339	50.92%	4.80%
J.L Smith [2]	2008	216,605	75,000	4,450	40,116	278,762	-	8,913	623,846	12.02%	1.40%
	2007	240,000	166,500	4,855	21,600	-	-	61,059	494,014	33.70%	12.40%
Non- executive directors											
R.P.Salmon	2008	50,000	-	4,658	-	-	-	-	54,658	0.0%	0.0%
	2007	50,000	-	4,058	-	-	-	-	54,058	0.0%	0.0%
R.N.Scott	2008	57,500	-	-	-	-	-	-	57,500	0.0%	0.0%
	2007	57,500	-	-	-	-	-	-	57,500	0.0%	0.0%
B.R.Benari [1]	2008	-	-	-	-	-	-	-	-	0.0%	0.0%
	2007	-	-	-	-	-	-	-	-	0.0%	0.0%
D.Stevens [1]	2008	-	-	-	-	-	-	-	-	0.0%	0.0%
	2007	-	-	-	-	-	-	-	-	0.0%	0.0%
Other Key Management Personnel											
L.McDonald	2008	150,000	46,925	5,640	13,500	-	-	1,756	217,821	21.54%	0.80%
	2007	150,000	64,652	4,855	13,500	-	-	8,986	241,993	26.72%	3.70%
T.Phillips [3]	2008	308,090	-	-	-	-	-	7,647	315,737	2.42%	2.40%
	2007	400,451	71,540	-	-	-	-	50,090	522,081	23.30%	9.60%
B.Hartley [3]	2008	109,000	29,393	-	-	-	-	-	138,393	21.24%	0.0%
	2007	87,200	-	-	-	-	-	-	87,200	0.0%	0.0%

[1] Acting as a director in connection with discharging their duties as an executive of Challenger Financial Services Group ("Challenger") and consequently do not currently take fees for their service.

[2] J Smiths resigned on 11 April 2008.

[3] T. Phillips and B. Hartley are directors of Mortgage Asset Services Pty Ltd (MAS). The contract between Homeloans Limited and MAS expired on 31 December 2007 and was not renewed. T.Phillips' services as General Manager Sales for the consolidated entity were remunerated by way of a commission payment to MAS monthly, based on home loans settled during the previous month. This amounted to $308,090 (2007:$ 400,451) in the current financial year. This performance condition was determined to be appropriate for the General Manager Sales and specifically it addressed the requirements of his role. The terms and conditions of this commission payment were based on an increasing scale of commission as various settlement volume hurdles were exceeded.

B. Hartley's services as General Manager Product and Funding were remunerated by way of a consulting fee of $10,900 per month payable to MAS. MAS also hold 1,500,000 options over unissued shares in Homeloans Limited. The amortised value of these options during the year has been included. None of the remuneration noted above was actually paid directly to T. Phillips or to B. Hartley.

The options on issue to MAS include 250,000 options exercisable any time from grant date subject to performance hurdles which are related to the expected role of MAS on behalf of Homeloans Ltd. These hurdles are as follows:

- 250,000 options exercisable if home loan settlements in any 3 month period prior to 31 Dec 2007 exceed an average $137.5m per month.

[4] Cash bonuses paid in the current financial year were in respect of performance in the financial year ended 30 June 2007. Correspondingly, the cash bonuses paid in the year ended 30 June 2007 were in respect of the financial year ended 30 June 2006.

DIRECTOR'S REPORT

COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR (CONSOLIDATED)

There were no options granted in the current year that affect remuneration for the year ended 30 June 2008 (2007: 100,000 options). The following tables summarise terms and conditions of options vested during the year.

TABLE 2: COMPENSATION OPTIONS: GRANTED AND VESTED DURING THE YEAR

	GRANTED	TERMS & CONDITIONS FOR EACH GRANT ˆ						VESTED
	NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE	NO.
30 June 2008								
Directors								
B.D.Jones	-	23/11/2005	0.1294	0.46	31/08/2010	31/08/2007	31/08/2010	310,000
J.L.A.Smith	-	14/01/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009	100,000
	-	14/10/2005	0.1583	0.46	31/08/2010	31/08/2007	31/08/2010	150,000
	-	20/02/2006	0.1363	0.46	31/08/2010	31/08/2007	31/08/2010	300,000
Executives								
L.McDonald	-	14/01/2005	0.1420	0.35	14/12/2009	14/12/2007	14/12/2009	50,000
	-	14/10/2005	0.1583	0.46	31/08/2010	31/08/2007	31/08/2010	45,000
T.Phillips/B.Hartley	-	07/04/2006	0.1058	0.51	07/12/2009	30/12/2007	07/12/2009	250,000
Total	-							1,205,000

	GRANTED	TERMS & CONDITIONS FOR EACH GRANT ˆ						VESTED
	NO.	GRANT DATE	FAIR VALUE PER OPTION AT GRANT DATE ($)	EXERCISE PRICE PER OPTION ($)	EXPIRY DATE	FIRST EXERCISE DATE	LAST EXERCISE DATE	NO.
30 June 2008								
Directors								
B.D.Jones	-	23/11/2005	0.1459	0.36	31/8/2009	31/8/2006	31/8/2009	315,000
J.L.A.Smith	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009	100,000
	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009	100,000
	-	20/2/2006	0.1535	0.36	31/8/2009	31/8/2006	31/8/2009	200,000
Executives								
L.McDonald	-	14/1/2005	0.1420	0.35	14/12/2009	14/12/2006	14/12/2009	50,000
	-	14/10/2005	0.1859	0.36	31/8/2009	31/8/2006	31/8/2009	30,000
T.Phillips/B.Hartley	-	7/4/2006	0.1456	0.36	7/12/2009	30/9/2006	7/12/2009	250,000
	-	7/4/2006	0.1154	0.46	7/12/2009	31/3/2007	7/12/2009	250,000
Total	-							1,295,000

ˆ For details on the valuation of the options, including models and assumptions used, please refer to note 17.

DIRECTOR'S REPORT

TABLE 3: SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS (CONSOLIDATED)

NAME	SHARE ISSUED NO	EXERCISE DATE	PAID PER SHARE $	UNPAID PER SHARE $	VALUE OF OPTIONS EXERCISED $
30 June 2008					
Directors					
J. Smith	200,000	22/10/2007	0.52	-	56,000
	200,000				56,000
30 June 2007					
Executive					
L. McDonald	50,000	23/3/2007	0.35	-	29,000
L. McDonald	30,000	23/3/2007	0.36	-	17,100
	80,000				46,100

There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no options exercised, forfeited or lapsed during the period.

DIRECTOR'S REPORT

COMPANY PERFORMANCE AND SHAREHOLDER RETURNS

As a result of the severe dislocation in credit markets and the resultant significant items impacting the result, the ratios reported in the table below show negative returns on a statutory basis. The Company reported growth in underlying (i.e. before significant items) basic earnings per share of 35% to 4.64 cents.

	AIFRS				
	2008	2007	2006	2005	2004[1]
Basic (loss) earnings per share (cents) after significant items	(12.42)	3.44	1.82	3.95	1.73
Return on assets (%)	(1.2%)	0.2%	0.1%	0.4 %	1.7 %
Return on equity (%)	(20.8%)	2.9%	3.4%	6.9 %	2.9 %
Dividend payout ratio (%)	(16.1%) [3]	97.9%	274.6% [2]	30.3 %	0.0 %
Total Shareholder Return (TSR)					
Share price (cents)	48.0	56.5	10.5	0.0	(7.5)
Dividends (cents)	2.0	3.7	5.0	1.5	0.0
	50.0	60.2	15.5	1.5	(7.5)

1. These ratios were calculated under accounting standards applicable before 1 July 2005 ("AGAAP").The results for 2005, 2006, 2007 and 2008 are calculated under Australian equivalents International Financial Reporting Standards (AIFRS).

   Results for 2007 and 2006 have been adjusted upon the Group's change in accounting policy in the financial year ended 30 June 2007.

   Results for 2007 and 2008 have been further adjusted based upon the Group's new accounting policy (See Note 3 in the financial statements).

   As a result of the requirement under AASB 127 – Consolidated and Separate Financial Statements to consolidate the special purpose entity, Residential Mortgage Trust (RMT), significant assets have been added to the consolidated balance sheet without any appreciable increase in net profit.

2. It should be noted that dividends were paid based on a result prior to change in accounting policy in the 2007 financial year.

3. It should be noted that interim dividends were paid based on a result prior to impairment losses toward the end of 2008 financial year. No final dividend was paid as a result of the statutory loss recorded of $12,511,000.

DIRECTOR'S REPORT

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

	DIRECTORS' MEETINGS	AUDIT COMMITTEE	NOMINATIONS AND REMUNERATION COMMITTEE
Number of meetings held:	10	3	1
Number of meetings attended:			
T. A. Holmes	10	3	1
R. P. Salmon	10	3	-
R. N. Scott	10	3	1
B. D. Jones	9	-	-
J.L.A.Smith *	9	3	-
B.R. Benari	10	3	1
D. Stevens	9	-	-

* Resigned on 11/04/2008. There were 9 Directors' meetings held during the period in which J.L.A. Smith was in office.

COMMITTEE MEMBERSHIP

As at the date of this report, the company had an Audit Committee and a Nomination and Remuneration Committee.

Members acting on the committees of the Board during the year were:

Audit

R.N Scott (Chairman)
T.A.Holmes
R.P.Salmon
B.R. Benari

Nomination and Remuneration Committee

B.R. Benari (Chairman)
R.N Scott
T.A.Holmes

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class order applies.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the required declaration from the auditor of Homeloans Limited as to their compliance with auditor independence requirements of the Corporations Act. This declaration is shown on the next page and forms part of this report.

Non-Audit Services
The entity's auditor, Ernst & Young have not received any amount for the provision of non-audit services.

Signed in accordance with a resolution of the directors

Timothy A. Holmes
Non-Executive Chairman

Perth, 30 September 2008

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843
Tel: +61 8 9429 2222
Fax: +61 8 9429 2436
www.ey.com/au

Auditor's Independence Declaration to the Directors of Homeloans Limited

In relation to our audit of the financial report of Homeloans Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T G Dachs
Partner
30 September 2008

CORPORATE GOVERNANCE STATEMENT

The Board of Homeloans Limited is committed to maintaining the highest standards of corporate governance. Corporate governance establishes the framework for how the Board oversees the company and performs its functions on behalf of shareholders. The Board believes that good governance should be fully embedded in the company's framework and culture.

The Principles of Good Corporate Governance and Best Practice Recommendations published in August 2007 by the Australian Securities Exchange Corporate Governance Council, the Commonwealth Government's Corporations Act reforms and the Australian Standard AS8000 Good Governance Principles have been examined in developing the company's corporate governance principles.

Due to the size of the company's operations, the Board is of the belief that a number of the ASX's recommendations are not appropriate or in the best interest of shareholders. In these cases, the Board has elected not to follow the recommendations.

Homeloans Limited's corporate governance practices were in place throughout the year ended 30 June 2008 and were fully compliant with the Council's best practice recommendations except where noted.

For further information on corporate governance policies adopted by Homeloans Limited refer to our website www.homeloans.com.au.

STRUCTURE OF THE BOARD

The Board consists of directors with an appropriate mix of skill and experience, from different backgrounds, whom together provide the necessary breadth and depth of experience to meet the Board's roles and responsibilities.

The size of the Board is determined by the company's constitution which specifies a minimum of 3 and a maximum of 7 directors. The Board presently consists of 5 non-executive directors and 1 executive director.

BOARD RESPONSIBILITIES

The Board of Homeloans Limited has identified the key functions which it has reserved for itself. These duties are outlined below and set out in the Board Charter, a copy of which is available on the Company's website:

- oversee the conduct of the company's business to evaluate whether the business is being properly managed and to ensure that it is conducted in an honest and ethical manner;
- ensure that adequate procedures are in place to identify the principal risks of the company's business and delegate the implementation of appropriate systems to manage these risks to Board Committees and management;
- select, appoint, evaluate the performance of, determine the remuneration of, plan for the successor of, and removal of the Managing Director;
- ensure that adequate plans and procedures are in place for succession planning, including appointing, training and monitoring the performance of senior management;
- adopt a strategic planning process and review the company's financial objectives and major corporate plans and actions; and
- perform other functions as prescribed by law, or assigned to the Board to maximise shareholder value.

The Board of Directors may delegate the above responsibilities to its committees, a director or any other person of authority to perform any of its functions and exercise any of its powers.

Ultimate responsibility for the management and control of the company is vested in the directors, who may then delegate their power to management. The Board has a Delegation of Authority schedule in place, which is reviewed regularly.

An independent director is a non-executive director (i.e. is not a member of management) and:

- is not a substantial shareholder of the company or an officer of, or otherwise associated directly with,
- within the last three years has not been employed in an executive capacity by the company or another consolidated member;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another consolidated entity member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the company or other consolidated 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 consolidated member other than as a director of the company; and
- is free from any interest and 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.

It is the Board's view that Mr R.N. Scott is an independent non-executive director. The Board does not consist of a majority of independent directors.

The Board of Directors is of the opinion that the company is actually benefiting from having the company's founders give of their experience in the industry and have a financial interest.

The term in office held by each director in office at the date of this report is as follows:

NAME	TERM IN OFFICE	NAME	TERM IN OFFICE
T.A Holmes	7yrs 11 months	B.R.Benari	1yr 5 months
R.P Salmon	7yrs 11 months	D. Stevens	1yr 5 months
R.N Scott	7yrs 11 months		
B.D Jones	4yrs 4 months		

For additional details regarding Board appointments, please refer to our website.

CHAIRMAN OF THE BOARD

The Chairman of the Board is a non-executive director but is not an independent director. The Board believes that the Company benefits from the Chairman having a significant financial interest in the Company. Mr R N Scott is the lead independent director.

SUCCESSION PLANNING

The Board plans succession of its own members in conjunction with the Board Nomination and Remuneration Committee, taking into account the skill and experience of current board members and the company's future direction and needs.

The Board retains overall responsibility for succession planning of the Managing Director, via the Nomination and Remuneration Committee. The Nomination and Remuneration Committee and the Managing Director are responsible for the succession planning of other senior executives.

REVIEW OF BOARD AND SENIOR EXECUTIVES' PERFORMANCE

The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and applicable budgets.

Senior executives participate in an annual performance review process which involves the establishment of performance objectives and measures, and the review of achievement. The process also involves assessment of remuneration tied to the company achieving its goals.

CONFLICT OF INTEREST

Directors are required to disclose private or other business interests and any other matters which may lead to potential or actual conflict of interest to the Board.

Director's dealings with the company will always be at arm's length to avoid the possibility of actual and perceived conflict of interest.

Any director who has a material personal interest in a matter being considered by the Board must not be present when the matter is being considered and may not vote on the matter. A 'material' interest would depend on the individual matter being considered, and whether it would be deemed to be material.

NOMINATION AND APPOINTMENT OF NEW DIRECTORS

The Board's Nomination and Remuneration Committee has the responsibility for reviewing the membership of the Board on an annual basis to ensure the appropriate skill mix of the board as a whole.

Procedure for the selection and appointment of new directors:

- The Nomination and Remuneration Committee identifies the required skills, experience, and other qualities required of new directors;
- Potential candidates are then interviewed by members of the Nomination and Remuneration Committee and a short list prepared;
- The Board meets to consider the potential candidates, which is followed by Board members having the opportunity to interview any prospective candidate; and
- An appointment is then made by the Board.

ROTATION OF DIRECTORS

The company's constitution specifies that one third of the Board, excluding the Managing Director, must retire from the office and stand for re-election at each Annual General Meeting. Further, each director, excluding the Managing Director, must stand for re-election every 3 years.

CODE OF CONDUCT

The Company has a Code of Conduct which applies to all directors, employees, contractors and consultants working within Homeloans Limited. The Code articulates the standards of honest, ethical and law-abiding behaviour expected by the Company. Employees are actively encouraged to bring any problems to the attention of management. A copy of the Code can be found at the Company's website.

DIRECTORS AND STAFF TRADING POLICY

Directors and staff are subject to restrictions under the law relating to dealing in securities, including the securities issued by the Company, if they are in possession of insider information. The Board has approved the Policy for Dealing in Homeloans Limited Securities which prescribes the manner in which staff can trade in the Company's shares and the procedures to open and close trading windows. A summary of the policy is available on the Company's website.

The policy applies to all directors and staff and places restrictions and reporting requirements on staff, including limited trading in the shares of the Company to specific trading windows and in a specified manner.

CONTINUOUS DISCLOSURE POLICY AND COMMUNICATION WITH SHAREHOLDERS

The Company is committed to ensuring all investors have equal and timely access to material information concerning the Company and that Company announcements are factual and presented in a clear and objective manner.

The Company's "Communication Policy", which is available on the Company's website, is designed to ensure compliance with the Corporations Act and ASX Listing Rules continuous disclosure requirements. The Board has designated "Disclosure Officers" who comprise both directors and senior management. Disclosure Officers are responsible for: making decisions on what should be disclosed publicy; maintaining a watching brief on information; and ensuring disclosure is made in a timely and efficient manner.

The Company recognises the importance of enhancing its relationship with investors by: communicating effectively; providing ready access to clear and balanced information about the Company; and encouraging participation at Annual General Meetings. The Company publishes annual and half yearly reports, announcements, media releases and other relevant information on its website at www.homeloans.com.au. When distributing notices of Annual General Meetings to shareholders, the Company encourages shareholders to send in any questions they may wish to have answered prior to the meeting and are also encouraged to ask questions and make comments at the meeting.

BOARD ACCESS TO INFORMATION AND ADVICE

All directors have access to any employees, company advisers, records and information they may require to carry out their duties. The Board also receives regular financial and operational reports from executive management.

Directors have the right to seek independent professional advice in connection with their duties and responsibilities at the company's expense, to help them carry out their responsibilities. Prior notification to the Chairman, or the Board's approval is required.

BOARD EDUCATION

The Board is committed to ensuring that new directors are familiar with the company's businesses. New directors are provided with an orientation and education program. Directors may undertake continuing education courses at the company's expense, with the prior approval of the Chairman or the Board.

BOARD COMMITTEES

There are currently two Board Committees whose powers and procedures are governed by the company's Constitution and the relevant Committee's charter. Other Committees may be established from time to time to consider matters of special importance.

The Board uses its committees to support it in matters which require more intensive review. Each committee has a written charter, approved by the Board defining its duties, reporting procedures and authority. Minutes from all Committee meetings are tabled at Board meetings.

Copies of the Board Committee charters are available on the company's website.

NOMINATION AND REMUNERATION COMMITTEE

The primary duties of the committee are to:

- review the Board size and composition (mix of skill, experience and other competencies);
- determine and review position descriptions of directors and the Managing Director;
- develop and implement a process for the orientation and education of new directors;
- review and advise the Board on the remuneration of directors and senior management in light of company goals and objectives;
- recommend to the Board the succession plan for key senior management positions; and
- evaluate the effectiveness of the Board, its Committees and individual directors.

For a full discussion of the company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the Directors' Report.

AUDIT COMMITTEE

The primary functions of the Audit Committee are to:

- evaluate the adequacy and effectiveness of the internal control system and implement a risk management framework;
- appoint, monitor and review the activities of the company's external auditors;
- monitor the effectiveness and independence of the auditors;
- review and report to the board on the company's annual and half-year financial statements, and its accounting policies and principles adopted;
- ensure adequate compliance controls; and
- review and recommend any appropriate amendments to corporate governance policies and framework.

The Audit Committee consists of three non-executive directors and an independent chairman. Owing to the size of the board and the fact that there is only one independent director it is not possible for the majority of the committee to comprise of independent directors.

For details of the number of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to page 24 of the Directors' Report.

The members of the Audit Committee during the year were:

Mr R.N. Scott (Chairman), Mr R.P. Salmon, Mr T.A. Holmes, B.R Benari

Qualifications of audit committee members were:
R.N Scott CA
R.P Salmon BA Economics
T.A Holmes
B.R Benari CA, BA Business

PERFORMANCE

The Board reviews its overall performance, the performance of Board Committees and the performance of each individual director annually. The performance of directors is subject to annual peer review.

The Managing Director's performance is reviewed annually by the Board and is assessed on achievement of the targets and budget applicable.

Senior executives participate in an annual performance review process which involves the establishment of performance objectives and measures, and the review of achievement. The process also involves assessment of remuneration tied to the company achieving its goals.

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

Homeloans Limited complies with the second edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations released on 2 August 2007 (except where noted). Homeloans Limited corporate governance practices for the year ended 30 June 2008 and at the date of this report are outlined in the Corporate Governance Statement.

The following summary table lists each of the ASX Principles and the Homeloans Limited assessment of compliance with the principles.

	ASX PRINCIPLE	COMPLIANCE
Principle 1:	**Lay Solid Foundations For Management And Oversight** Companies should establish and disclose the respective roles and responsibilities of board and management.	
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Comply
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	Comply
Principle 2:	**Structure the board to add value** Companies should have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties.	
2.1	A majority of the board should be independent directors.	Not comply
2.2	The chair should be an independent director.	Not comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Comply
2.4	The board should establish a nomination committee.	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Comply
Principle 3:	**Promote ethical and responsible decision-making** Companies should actively promote ethical and responsible decision-making.	
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	 Comply Comply Comply
3.2	Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.	Comply
3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Comply
Principle 4:	**Safeguard integrity in financial reporting** Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.	
4.1	The board should establish an audit committee.	Comply
4.2	The audit committee should be structured so that it: • consist only of non-executive directors • consist of a majority of independent directors • is chaired by an independent chair, who is not chair of the board • has at least three members	 Comply Not Comply Comply Comply

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

	ASX PRINCIPLE	COMPLIANCE
4.3	The audit committee should have a formal charter.	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Comply
Principle 5:	**Make timely and balanced disclosure** Companies should promote timely and balanced disclosure of all material matters concerning the company.	
5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Comply
Principle 6:	**Respect the rights of shareholders** Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.	
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	Comply
Principle 7:	**Recognise and manage risk** Companies should establish a sound system of risk oversight and management and internal control.	
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Comply
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Comply
Principle 8:	**Remunerate fairly and responsibly** Companies should ensure that the level and composition of remuneration is sufficient and responsible and that its relationship to performance is clear.	
8.1	The board should establish a remuneration committee.	Comply
8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Comply
8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Comply

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

		CONSOLIDATED		HOMELOANS LIMITED	
	NOTE	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Interest income	5(a)	87,640	61,065	7,128	4,017
Interest expense	5(d)	(73,795)	(50,844)	(2,548)	(1,857)
Net interest income		13,845	10,221	4,580	2,160
Fees and commission income	5(b)	33,172	31,481	23,821	27,202
Fees and commission expense	5(e)	(20,609)	(21,466)	(15,928)	(18,213)
Other operating income	5(c)	845	574	8,909	7,251
General administrative expenses		(6,868)	(5,571)	(6,754)	(5,314)
Employee benefits	5(g)	(13,473)	(11,786)	(12,773)	(11,600)
Other operating expenses		(253)	(240)	-	(192)
Share of profit of associate		87	-	87	-
Impairment loss	5(h)	(13,029)	-	(14,486)	-
Loss on loans and advances recognised at amortised cost	5(j)	(5,943)	-	-	-
(Loss)/profit before income tax		(12,226)	3,213	(12,544)	1,294
Income tax credit/(expense)	6	(285)	(1,014)	891	(434)
Net (loss)/profit attributable to members of Homeloans Limited		(12,511)	2,199	(11,653)	860
Basic earnings per share (cents per share)	7	(12.42)	3.44		
Diluted earnings per share (cents per share)	7	(12.42)	3.29		
Unfranked dividend (cents per share) - Ordinary shares		-	1.20		
Franked dividend at 30%		2.0	-		

The income statement is to be read in conjunction with the accompanying notes.

BALANCE SHEET AS AT 30 JUNE 2008

		CONSOLIDATED		HOMELOANS LIMITED	
	NOTE	2008 $'000	2007 $'000	2008 $'000	2007 $'000
ASSETS					
Cash and cash equivalents	9	72,600	31,893	44,402	787
Receivables	10	9,506	8,365	19,771	23,068
Investment in associate	11	125	10	71	10
Loans and advances to customers	12	921,151	788,857	-	-
Other financial assets	13	39,638	79,604	25,140	70,153
Plant and equipment	14	1,506	1,711	1,461	1,653
Investments in controlled entities	15	-	-	11,942	19,178
Goodwill	16	15,913	26,907	-	-
TOTAL ASSETS		1,060,439	937,347	102,787	114,849
LIABILITIES					
Payables	18	6,914	9,865	16,833	14,199
Interest-bearing liabilities	19	971,811	834,195	18,722	17,285
Other financial liabilities	20	15,339	11,450	8,112	9,436
Lease incentives	21	421	503	421	503
Deferred income tax liabilities	6	5,052	5,674	1,345	2,163
Provisions	22	887	189	868	179
TOTAL LIABILITIES		1,000,424	861,876	46,301	43,765
NET ASSETS		60,015	75,471	56,486	71,084
EQUITY					
Issued capital	23	97,981	98,194	97,981	98,194
Reserves	23	774	655	774	655
Accumulated losses	23	(38,740)	(23,378)	(42,269)	(27,765)
TOTAL EQUITY		60,015	75,471	56,486	71,084

The balance sheet is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
CONSOLIDATED				
At 1 July 2006	48,624	(21,798)	367	27,193
Change in accounting policy *	-	(1,006)	-	(1,006)
	48,624	(22,804)	367	26,187
Profit for the period	-	2,199	-	2,199
Total income and expense for the period	-	2,199	-	2,199
Reset preference shares converted to ordinary shares	5,035	-	-	5,035
Exercise of options	71	-	-	71
Share placement	44,680	-	-	44,680
Transaction costs on share issues	(216)	-	-	(216)
Share-based payment	-	-	288	288
Equity dividends	-	(2,773)	-	(2,773)
At 1 July 2007	98,194	(23,378)	655	75,471
Loss for the year	-	(12,511)	-	(12,511)
Total recognised income and expense for the year	-	(12,511)	-	(12,511)
Exercise of options	186	-	-	186
Share buyback	(399)	-	-	(399)
Share-based payment	-	-	119	119
Equity dividends	-	(2,851)	-	(2,851)
At 30 June 2008	97,981	(38,740)	774	60,015

* refer to note 3 in the financial statements on the change in accounting policy.

The statement of changes in equity is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008 (cont)

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
	ISSUED CAPITAL $'000	ACCUMULATED LOSSES $'000	OTHER RESERVES $'000	TOTAL $'000
PARENT				
At 1 July 2006	48,624	(25,852)	367	23,139
Profit for the year	-	860	-	860
Total recognised income and expense for the year	-	860	-	860
Share-based payment	-	-	288	288
Shares issued:				
- conversion of reset preference shares	5,035	-	-	5,035
- exercise of options	71	-	-	71
- share placement	44,680	-	-	44,680
Transaction costs on share issues	(216)	-	-	(216)
Equity dividends	-	(2,773)	-	(2,773)
At 1 July 2007	98,194	(27,765)	655	71,084
Profit for the year	-	(11,653)	-	(11,653)
Total recognised income and expense for the year	-	(11,653)	-	(11,653)
Exercise of options	186	-	-	186
Share buyback	(399)	-	-	(399)
Share-based payment	-	-	119	119
Equity dividends	-	(2,851)	-	(2,851)
At 30 June 2008	97,981	(42,269)	774	56,486

The statement of changes in equity is to be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	NOTE	CONSOLIDATED 2008 $'000	CONSOLIDATED 2007 $'000	HOMELOANS LIMITED 2008 $'000	HOMELOANS LIMITED 2007 $'000
Cash flows from operating activities					
Interest received		86,359	60,560	7,128	3,776
Interest paid		(74,995)	(51,080)	(2,548)	(1,899)
Loan fees and other income		35,026	34,355	25,314	23,039
Salaries and other expenses		(41,016)	(38,571)	(33,590)	(30,972)
Proceeds from/(repayments to) warehouse facility (A)		281,972	307,168	-	-
(Repayments to)/proceeds from bondholders (A)		(146,134)	(198,967)	-	-
Net loans (advanced)/repayments from borrowers (A)		(138,637)	(104,005)	-	-
RMT SPV set up costs		-	(304)	-	-
Income taxes paid		(338)	(66)	(338)	(66)
Net cash flows from operating activities	9	2,237	9,090	(4,034)	(6,122)
Cash flows from investing activities					
Acquisition of IMC	24	(2,570)	(12,593)	-	-
Acquisition of Auspak	24	(2,190)	-	(2,190)	-
Purchase of plant and equipment		(214)	(295)	(214)	(295)
Loan to associate		45	-	32	-
Loan to/repayments from related party		44,680	(44,680)	51,647	(44,680)
Net cash flows (used in)/from investing activities		39,751	(57,568)	49,275	(44,975)
Cash flows from financing activities					
Proceeds from issue of shares		186	44,751	186	44,751
Transaction costs on issue of shares		-	(216)	-	(216)
Share buy back program		(399)	-	(399)	-
Proceeds from borrowings		8,150	20,280	2,856	14,869
Repayment of borrowings		(6,367)	(7,245)	(1,418)	(5,047)
Payment of dividends	8	(2,851)	(2,773)	(2,851)	(2,773)
Net cash flows from/(used in) financing activities		(1,281)	54,797	(1,626)	51,584
Net increase/(decrease) in cash and cash equivalents		40,707	6,319	43,615	487
Add: Opening cash and cash equivalents brought forward		31,893	25,574	787	300
Closing cash and cash equivalents carried forward	9	72,600	31,893	44,402	787

(A) – The cash flows of the group include those arising within the RMT special purpose vehicles (SPVs) and have a significant effect on the interpretation of the consolidated entity's operating cash flows. These cash flows are not available for the use of shareholders.

The RMT SPV's generated negative operating cashflow of $1,700,000 during the financial year. Therefore, if RMT had not been consolidated, total Group operating cashflow would have been $3,937,000.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: CORPORATE INFORMATION

The financial report of Homeloans Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of directors on 30 September 2008.

Homeloans Limited is a company limited by shares incorporated and domiciled in Australia. On 19 March 2001, Homeloans Limited shares commenced trading on the Australian Stock Exchange.

The nature of the operations and principal activities of the consolidated entity are described in note 4.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Applicable Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2008 are outlined in the table below.

REFERENCE	TITLE	SUMMARY	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements, although it may indirectly impact the level at which goodwill is tested for impairment. In addition, the amendments may have an impact on the Group's segment disclosures.	1 July 2008
AASB 123 (revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised	These amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact of the Group's financial report	1 July 2009

REFERENCE	TITLE	SUMMARY	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions", introducing the term ' non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied	The Group has share-based arrangements. However, the group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired	The Group may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standards issued as a consequence of revisions to AASB 3 and AASB 127	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

REFERENCE	TITLE	SUMMARY	IMPACT ON GROUP FINANCIAL REPORT	APPLICATION DATE FOR GROUP*
Amendments to International Financial Reporting Standards	Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e. parent company accounts). The distinction between pre- and post- acquisition profits is no longer required. However the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believe will have minimal impact.	The Group has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Adoption of new accounting standard

The Group has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007 and AASB 2008-4 Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities which became applicable for period ending on 30 June 2008. The adoption of these standards has only affected the disclosure in the financial statements. There has been no affect on profit and loss or the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Homeloans Limited and its subsidiaries as at 30 June each year (the consolidated entity).

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-consolidated transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

(d) Business combinations

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

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the 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.

(e) Investment in associate

Investments in associates are accounted for using the equity method of accounting in the consolidated financial statements. An associate is an entity in which the consolidated entity has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the consolidated entity's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the consolidated entity determines whether it is necessary to recognise any additional impairment loss with respect to the consolidated entity's net investment in the associate. The consolidated income statement reflects the consolidated entity's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the consolidated entity recognises its share of any changes and discloses this in the consolidated statement of recognised income and expense.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(f) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Lease incentives are recognised in the income statement as an integral part of the total lease.

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to profit and loss.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or estimated useful lives of the improvements, whichever is the shorter.

(g) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(h) Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis. A summary of the policies applied to the Group's intangible assets is as follows:

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

(i) Share-based payment transactions

The consolidated entity provides benefits to employees (including directors) and to business partners of the consolidated entity in the form of share-based payment transactions, whereby the recipients render services in exchange for shares or rights over shares ('equity-settled transactions').

There is currently an Employee Share Scheme in place which provides benefits to employees.

The cost of these equity-settled transactions with employees and business partners is measured by reference to the fair value at the date at which they are granted. The fair value is determined by the use of a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the share of Homeloans Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects:

(i) the extent to which the vesting period has expired; and
(ii) the number of awards that, in the opinion of the directors of the consolidated, will ultimately vest.

This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

At balance date the consolidated entity did not have on issue any options attaching market based performance conditions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Origination and loan management business - Managed Loans

- Application fee revenue received in respect of loans is recognised when the service has been provided.

- Origination commissions are recognised as revenue once the origination of the loan has been completed.

- The group also receives trailing commissions from lenders on loans originated by Homeloans on behalf of those lenders. The trailing commissions are received over the life of the loans based on the loan book balance outstanding. The group also makes trailing commission payments to brokers and commissioned staff based on the loan book balance outstanding.

- Upon settling loans, the fair value of the future trailing commission revenue is recognised. This represents the expected future trailing commissions receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees, discounted to their net present value. The trailing commission revenue is recognised upon settlement as the services to earn that revenue are principally performed upfront by Homeloans. In addition, the fair value of the trailing commission expense is also recognised. This represents the expected future trailing commissions payable to brokers and commissioned staff discounted to their net present value.

- Homeloans receives additional and separate fees for transactional services performed over the life of the loan. This fee revenue is recognised as the services are being provided.

Origination of Non-managed Loans

- The group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the consolidated entity is entitled to without having to perform further services. The group makes trailing commission payments to brokers and commission staff based on the loan book balance outstanding.

- Upon settling loans (for the reasons noted above), the fair value of the future trailing commission revenue is recognised. This represents the expected future trailing commissions receivable discounted to their net present value. The fair value of the trailing commission expense to brokers and commissioned staff is also recognised, being the future trailing commissions payable discounted to their net present value.

Securitisation of mortgages

- Interest income from loans and advances operated by the Residential Mortgage Trusts is recognised as it accrues using the effective interest method.

(k) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(l) Cash and cash equivalents

Cash on hand and in banks and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Receivables

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that the Group will not be able to collect the receivable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Future trailing commissions receivable represents the net present value of the expected future trailing income receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees.

Subsequent to initial recognition and measurement, the trailing commissions receivable are measured at amortised cost. The carrying amount of the trailing commissions receivable is adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rates. The resulting adjustment is recognised as income or expense in the Income Statement.

(n) De-recognition of financial instruments

The de-recognition of a financial instrument takes place when the consolidated entity no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

The consolidated entity utilise special purpose vehicles (SPV), which issues securities to investors. These SPV meet the criteria of being a 'subsidiary' under AASB 127 – Consolidated and separate financial statements. These transactions do not meet the criteria under AASB 139 - Financial Instruments: Recognition and Measurement in regards to de-recognition of financial instruments. Accordingly, the value of the securitised loans has been recorded in the balance sheet with the related interest earned and interest paid recognised through the consolidated income statement.

(o) Recoverable amount of non-financial assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(p) Costs of establishing a SPV

The initial set up costs of an SPV to issue residential mortgage backed securities ("RMBS") form part of the effective interest rates on the bond issued. These costs comprise legal fees and ratings agency fees.

(q) Recoverable amount of financial assets

The consolidated entity assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current effective rate determined under the contract. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The consolidated entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(r) Loans and advances

All loans and advances are initially recognised at fair value plus directly attributable costs.

Loans and advances are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains and losses are recognised in income when the loans and advances are derecognised or impaired, as well as through the amortisation process.

All RMT loans are covered by Lenders Mortgage Insurance.

(s) Plant and equipment

Cost and valuation

Items of plant and equipment are measured at cost less accumulated depreciation and any impairment in value.

Depreciation

Depreciation is provided on a straight-line basis on all plant and equipment over the estimated useful life of the asset as follows:

Plant and equipment – over 5 to 15 years.

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of a fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the Income Statement in the period the item is derecognised.

(t) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature and are not discounted.

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

Future trailing commission payable represents the net present value of the expected future trailing commission payable.

The trailing commission payable is measured at amortised cost. The carrying amount of the commission payable is adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rates. The resulting adjustment is recognised as income or expense in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(u) Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method other than those which are measured at fair value through the profit and loss. Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transactions costs, and all other premiums or discounts on acquisition, over the period to maturity.

Gains or losses are recognised in the income statement when the liabilities are derecognised and also as well as through the amortisation process.

(v) Provisions
Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events and it is probable that a future sacrifice of economic benefits will be required and reliable estimate can be made of the amount of the obligation.

The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(w) Taxes
Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused assets and unused tax losses can be utilised:

Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affect neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries, and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Tax consolidation legislation

Homeloans Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Homeloans Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, Homeloans 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.

Asset or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details of the tax funding agreement are disclosed in Note 6.

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.

(x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the costs of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

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

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

(y) Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets held for trading, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not held for trading, directly attributable transactions costs. The consolidated entity determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the consolidated entity commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Financial assets held for trading

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the consolidated entity has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

(z) Derivative financial instruments

The consolidated entity uses derivative financial instruments such as interest rate swaps to manage its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. These derivatives are designated as held for trading. Any gains or losses arising from changes in fair value are taken directly to the income statement.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

(aa) Employee benefits

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

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

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

wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and other types of employee benefits are recognised against profits on a net basis in their respective categories.

Employee incentive payments are paid and/or recognised as follows:

Non-executive staff – no contractual entitlement to an incentive payment. Payments decided by the board based on observed achievements and performance. Expense is recognised on payment of the incentive.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Executive staff – contractual entitlement based on a mixture of personal performance in relation to specific KPIs and performance of the company in relation to company wide targets and/or the budget. The Group recognises an expense when either part of the incentive payment can be quantified with some certainty.

(bb) Earnings per share

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

Diluted EPS is calculated as net profit attributable to members, adjusted for the after tax effect of:

- costs of servicing equity (other than dividends) and preference share dividends;
- dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non discretionary changes in revenues and expenses during the period that would result from the dilution of potential ordinary shares, divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) 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.

(dd) Significant accounting judgments, estimates and assumptions

Significant accounting judgments

In the process of applying the group's accounting policies, management has made judgements involving estimations, which have had an impact on the amounts recognised in the financial statements.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Consolidation of SPVs

The Group has decided that the RMT SPVs meet the criteria of being a subsidiary under AASB 127 – Consolidated and separate financial statements. The SPVs do not meet the criteria for de-recognition of financial instruments. Accordingly it has been judged that the value of the securitised loans and corresponding liabilities be recorded in the balance sheet using the effective interest method with the related interest earned and interest paid recognised through the consolidated income statement.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 16.

Impairment losses on loans and advances

The Company reviews its loans and advances at each reporting date to assess whether an allowance should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Share-based payment transactions

The Company measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial valuation model, based on assumptions in note 17.

Future trailing commissions receivable and future trailing commissions payable.

The Group receives trailing commissions from lenders on settled loans over the life of the loan based on the loan book balance outstanding to which the Group is entitled. The Group also makes trailing commission payments to introducers based on the loan book balance outstanding.

The fair value of trailing commissions receivable and the corresponding payable to introducers is determined by using the discounted cash flow valuation technique. These calculations require the use of assumptions. The key assumptions underlying the fair value calculation of trailing commissions receivable and the corresponding payable to introducers during the year include the prepayment rate and the discount rate. These assumptions are determined by management as follows:

	Year ended 30 June 2008	Year ended 30 June 2007
Prepayment rate	Ranging from 16.43% to 36.04% depending on the age of the loans	Ranging from 15.5% to 34% depending on the age of the loans
Discount rate	12.0%	12.0%

A remeasurement of all assets and liabilities using the discounted cash flow valuation technique occurs periodically, usually quarterly but must be completed at each reporting date.

There are a number of parameters that affect these calculations

- Loan balance
- Prepayment rate

Each of these parameters can change over time and therefore regular revaluations are required, incorporating up to date assumptions for these parameters, to reflect the true value of the discounted assets and liabilities.

The increase in the prepayment rate assumption reflects the increasing probability that customers will prepay their loans ahead of schedule due to recent interest rate rises. If changes had not been made, the net profit before tax would have increased by $2,531,000. It should be noted that the impact of the change in accounting estimate on the results of future financial year was not practicable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(ee) Comparatives
Certain comparative figures have been reclassified to conform with current year presentation and disclosure requirements.

NOTE 3: CHANGES IN ACCOUNTING POLICY

During the financial period, the Group changed its accounting policies in relation to the identification of costs incurred in originating interest bearing loans that form part of the effective interest computation. The change provides a more transparent representation of interest income and aligns Group accounting policies with the recent amendment of the definition of financial services fees under AASB 118 Revenue by the Australian Accounting Standards Board.

Under the previous accounting policies, loans and advances were initially recognised at fair value plus transaction costs. After initial recognition, loans were subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts on acquisition, over the period to maturity. Internal direct staff costs such as credit assessment and settlement fees were included in the transaction costs and therefore in the effective interest computation.

The previous accounting policy is in accordance with AASB 118 "Revenue", which specifically allowed for costs associated with activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction together with related direct costs to be deferred and recognised as an adjustment to the effective interest rate. However, Australian Accounting Standard AASB 139 Financial Instruments: Recognition and Measurement excludes internal administration costs from the effective interest calculation thereby creating ambiguity under the accounting standard.

The Australian Accounting Standards Board acknowledged this inconsistency and changed the definition of financial services costs under AASB 118 to bring it into line with AASB 139. Homeloans has changed its accounting policies to exclude internal costs from the effective interest calculation. The changes are applied retrospectively in accordance with Paragraph 19, AASB 108 "Accounting Policies, Changes in Accounting Estimates and Errors". The following analyses the impact of the change in accounting policy:

i) Reconciliation of accumulated losses:

	CONSOLIDATED $'000	CONSOLIDATED $'000
	30 June 2008	30 June 2007
Total accumulated losses as at 1 July 2007 before changes to accounting policies	(22,181)	(21,798)
- De-recognition of unamortised transaction costs	(1,710)	(1,437)
- Tax effect of above adjustments	513	431
Total accumulated losses as at 1 July 2007 as restated	(23,378)	(22,804)

For the year ended 30 June 2007, the changes in accounting policies resulted in a decrease in loans and advances of $1,710,000 and a decrease in deferred tax liabilities of $513,000 as at the balance date.

ii) Reconciliation of profit after tax

	CONSOLIDATED $'000
	30 June 2007
Net profit after tax as reported	2,390
- Administration costs net off Interest income	(273)
- Tax effect of above adjustments	82
Net profit after tax under new accounting policy	2,199

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Impact of the changes on Earnings per share is as follows:

	30 June 2007	EFFECT OF CHANGES IN ACCOUNTING POLICIES	30 June 2007 (RESTATED)
Earnings per share (cents)	3.74	(0.30)	3.44
Diluted Earnings per share (cents)	3.57	(0.28)	3.29

Australian Accounting Standards require the financial impact of a change in accounting policy to be applied retrospectively in the accounts of a company (i.e. to adjust opening retained earnings and the prior year results). Disclosure of the financial impact of a change in accounting policy is required, where it is practicable to obtain, at:

- The beginning of the earliest reported period (1 July 2006)
- The prior year
- The current year

Management has determined that it is not practicable to calculate the financial impact of the change in policy on the current year.

NOTE 4: SEGMENT INFORMATION

The consolidated entity's primary segment reporting format is business segments as the consolidated entity's risks and rates of return are affected predominantly by differences in the products and services produced.

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

BUSINESS SEGMENTS

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2008 and 30 June 2007. The consolidated entity has two identifiable business segments:

- Origination and management; and
- Securitisation of mortgages

The origination and management segment originates residential mortgages through external mortgage brokers, satellite offices and internal consultants. The funding for these mortgages is supplied by a pool of funders, and then the origination and management segment continues the ongoing management of that loan after it is processed and settled.

The securitisation of mortgages segment is the consolidated entity's own funding source. Using a series of mortgage trusts, this segment packages groups of mortgages and issues bonds with rights to the principal repayments and interest received from borrowers via a securitised mortgage trust.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. These transfers are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

YEAR ENDED 30 JUNE 2008	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	8,541	79,099	87,640
Fee and commission income	39,079	3,050	42,129
Other operating income	845	-	845
Total segment revenue	48,465	82,149	130,614
Inter-segment elimination			(8,957)
Total consolidated revenue			121,657
Result			
Segment results before impairment loss	6,278	2,651	8,929
Impairment loss	(7,500)	(5,529)	(13,029)
Loss on loans and advances recognised at amortised cost	-	(5,943)	(5,943)
Profit / (loss) before tax and finance costs	(1,222)	(8,821)	(10,043)
Finance costs			(2,183)
Profit / (loss) before income tax and minority interest			(12,226)
Income tax expense			(285)
Net loss for the year			(12,511)
Assets and liabilities			
Segment assets	105,232	955,207	1,060,439
Total assets			1,060,439
Segment liabilities	44,614	955,810	1,000,424
Total liabilities			1,000,424
Other segment information			
Capital expenditure	214	-	214
Depreciation	423	-	423
Other non-cash expenses:	166	583	749

YEAR ENDED 30 JUNE 2007	ORIGINATION AND MANAGEMENT $'000	SECURITISATION OF MORTGAGES $'000	TOTAL $'000
Revenue			
Interest Income	4,651	56,414	61,065
Fee and commission income	29,858	5,281	35,139
Other operating income	5,365	-	5,365
Total segment revenue	39,874	61,695	101,569
Inter-segment elimination			(8,449)
Total consolidated revenue			93,120
Result			
Segment results	1,560	2,719	4,279
Profit / (loss) before tax and finance costs			4,279
Finance costs			(1,066)
Profit / (loss) before income tax and minority interest			3,213
and minority interest			
Income tax expense			(1,014)
Net profit for the year			2,199
Assets and liabilities			
Segment assets	106,082	831,265	937,347
Total assets			937,347
Segment liabilities	40,501	821,375	861,876
Total liabilities			861,876
Other segment information			
Capital expenditure	295	-	295
Depreciation	402	-	402
Other non-cash expenses:	401	414	815

Geographical Segments

The consolidated entity's business segments are located in Australia.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 5: REVENUES AND EXPENSES

		CONSOLIDATED		HOMELOANS LIMITED	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
	Revenue				
(a)	Interest income				
	Interest received – other person/corporations	87,640	61,065	7,128	4,017
(b)	Fee and commission income				
	Mortgage origination income	12,540	14,152	11,614	16,069
	Loan management fees	20,632	17,329	12,207	11,133
(c)	Other operating income				
	Rental income	617	402	584	392
	Management Fees – Wholly owned controlled entities	-	-	8,118	6,696
	Insurance commission	80	94	80	94
	Other	148	78	127	69
		121,657	93,120	39,858	38,470
	EXPENSES				
(d)	Interest expense				
	Interest on bank loan	1,895	818	1,128	310
	Finance charges on leases	57	74	57	74
	Interest on other loans	231	299	231	293
	Interest recognised on trailer commission payable	1,664	1,089	1,132	970
	Interest on reset preference shares	-	210	-	210
	Interest payable to bondholders	25,919	33,458	-	-
	Interest payable to warehouse facility provider	44,029	14,896	-	-
		73,795	50,844	2,548	1,857
(e)	Fee and commission expense				
	Mortgage origination expense	12,730	13,314	10,582	11,973
	Loan management expense	7,879	8,152	5,346	6,240
		20,609	21,466	15,928	18,213
(f)	General administrative expenses				
(i)	Depreciation consists of:				
	Depreciation and amortisation of:				
	Plant and equipment	143	86	126	82
	Plant and equipment under lease	280	316	280	316
		423	402	406	398

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

		CONSOLIDATED		HOMELOANS LIMITED	
		2008 $'000	2007 $'000	2008 $'000	2007 $'000
(ii)	Rent:	1,782	1,578	1,634	1,537
(g)	Employee benefits				
	Wages & salaries	9,770	8,412	8,990	8,266
	Workers' compensation costs	24	45	23	44
	Annual leave provision	22	26	-	18
	Long service leave provision	7	60	-	59
	Share-based payments expense	119	288	119	288
	Employee incentive payments	1,459	1,340	1,453	1,336
	Payroll tax	581	600	576	600
	Other employee costs	1,491	1,015	1,612	989
		13,473	11,786	12,773	11,600
(h)	Impairment – Goodwill [i]	13,029	-	-	-
	Impairment – investments in controlled entities [ii]	-	-	9,445	-
	Impairment – receivable from controlled entities [ii]	-	-	5,041	-
		13,029	-	14,486	-
(i)	Gain on derivative financial asset held for trading	243	98	-	-
(j)	Loss on loans and advances recognised at amortised cost [iii]	5,943	-	-	-

[i]*Impairment - Goodwill*

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments for impairment testing as follows:

- Origination and Management;
- Securitisation of Mortgages.

As a result of the dislocation and tightening in credit markets, and the resultant impact on the lending volumes originated by both cash generating units, management has recognised a goodwill impairment for the Consolidated Group of $13,029,000 as follows:

	$'000
Origination and Management	7,500
Securitisation of Mortgages	5,529
Total	13,029

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

[ii]*Impairment - investments in and receivables from controlled entities*

Included in the balance sheet of the parent entity are investments in and receivables from controlled entities. As a result of the credit crisis and the impact this has had on lending volumes, management has made write downs of $14,486,000 to these balances which predominantly relates to the securitisation of mortgages business. Upon consolidating the accounts for the group, this write down is eliminated.

[iii]*Loss on loans and advances recognised at amortised cost reflects the impact of expected lower future cash flows to be generated from the loans within the RMT SPV's.*

NOTE 6: INCOME TAX

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
The major components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	1,002	524	(73)	521
Adjustments in respect of current income tax of previous years	-	(129)	-	(134)
Deferred income tax				
Relating to origination and reversal of temporary differences	(717)	619	(818)	47
Income tax expenses/(credit) reported in the income statement	285	1,014	(891)	434
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the consolidated entity's applicable income tax rate is as follows:				
Accounting profit before income tax	(12,226)	3,213	(12,544)	1,294
At the consolidated entity's statutory income tax rate of 30% (2007: 30%)	(3,668)	964	(3,763)	388
Reset preference share interest	-	63	-	63
Entertainment expenses	20	28	18	28
Share option expense	36	86	36	86
Impairment write down	3,909	-	2,834	-
Other	(12)	(127)	(16)	(131)
Income tax expense/(credit) reported in the consolidated income statement	285	1,014	(891)	434

	BALANCE SHEET		INCOME STATEMENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Deferred tax income				
Deferred income tax at 30 June related to the following:				
Consolidated				
Deferred tax liabilities				
Effective interest adjustments on loans and advances	-	(1,495)	(1,495)	253
Derivative instrument	(116)	(43)	73	29
Lease incentives	(40)	(54)	(14)	54
Prepayments	(8)	(41)	(33)	(18)
Leased assets	(198)	(282)	(84)	(93)
Accrued income	(210)	(516)	(306)	(381)
Trailing commissions receivable	(11,735)	(10,380)	(74)	(670)
Deferred income tax liabilities	(12,307)	(12,811)		
Deferred tax assets				
Losses available for offset against future taxable income	1,394	2,344	950	2,104
Accrued expenses	648	382	(266)	(159)
Effective interest adjustments on loans and advances	-	273	273	(50)
Lease incentives	126	151	25	17
Finance leases	133	229	96	89
Provisions	255	243	(7)	(39)
Capital items	97	80	(17)	(31)
Trailing commissions payable	4,602	3,435	162	(486)
Deferred income tax assets	7,255	7,137		
Net deferred income tax liabilities	(5,052)	(5,674)		
Deferred tax expense/(credit)			(717)	619

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

	BALANCE SHEET		INCOME STATEMENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Parent				
Deferred tax liabilities				
NPV future trailing commissions receivable	(7,502)	(7,588)	(86)	(455)
Lease incentives	(40)	(54)	(14)	11
Prepayments	(8)	(40)	(32)	(18)
Leased assets	(198)	(282)	(84)	(93)
Accrued income	(166)	(425)	(259)	(471)
Deferred income tax liabilities	(7,914)	(8,389)		
Deferred tax assets				
Losses available for offset against future profits	1,394	2,344	950	1,520
NPV future trailing commissions payable	2,434	2,831	397	(404)
Accrued expenses	636	355	(281)	(146)
Lease incentives	126	151	25	17
Provisions	1,749	236	(1,513)	(32)
Capital items	97	80	(17)	29
Finance leases	133	229	96	89
Deferred income tax assets	6,569	6,226		
Net deferred income tax assets/(liabilities)	(1,345)	(2,163)		
Deferred tax expense/(credit)			(818)	47

TAX CONSOLIDATION

Effective 1 July 2003, for the purposes of income taxation, Homeloans Limited and its 100% owned subsidiaries formed a tax consolidated group. The members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. The head entity of the tax consolidated group is Homeloans Limited.

TAX EFFECT ACCOUNTING BY MEMBERS OF THE TAX CONSOLIDATED GROUP

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes. The nature of the tax funding agreement is set out below.

In addition to its own current and deferred tax amounts, the head entity also recognises 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.

Nature of the tax funding agreement

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement requires payment to/from the head entity equal to the current tax liability/asset assumed by the head entity and any tax losses assumed by the head entity.

NOTE 7: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (after deducting interest on the convertible redeemable preference shares) by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	CONSOLIDATED	
	2008 $'000	**2007 $'000**
Net (loss)/profit attributable to ordinary equity holders of the parent	(12,511)	2,199
Net profit attributable to ordinary equity holders used in the calculation of basic and diluted EPS	(12,511)	2,199
Weighted average number of ordinary shares (excluding reserved shares) for basic earnings per share	100,762	63,900
Effect of dilution: Share options	-	2,966
Weighted average number of ordinary shares adjusted for the effect of dilution used in calculation of diluted EPS	100,762	66,866

Basic earnings per share (cents) before impairment loss and write-off of transaction costs in loans and advances was 4.64 (2007: 3.44).

There is no impact from 6,022,500 options outstanding at 30 June 2008 on the earnings per share calculation because they are anti-dilutive for the current year.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 8: DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Declared and paid during the year:				
Franked dividends:				
Final dividend on ordinary shares for 2007 - 1.2 cents per share (2006 – 2.5 cents)	831	1,259	831	1,259
Unfranked interim dividend on ordinary shares for 2008 - 0 cents per share (2007 - 2.5 cents)	-	1,514	-	1,514
30% franked interim dividend on ordinary shares for 2008 – 2.0 cents per share (2007 - 2.5 cents)	2,020	-	2,020	-
	2,851	2,773	2,851	2,773
Proposed and not recognised				
Dividends on ordinary shares:				
Final franked dividend for 2008 – 0 cents (2007 - 1.2 cents)	-	831	-	831

Franking credit balance	HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**
The amount of the franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2007: 30%)	251	190
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	982	297
Franking debits that will arise from the payment of dividends as at the end of the financial year	-	-
	1,233	487
The amount of franking credits available for future reporting periods:		
Impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	-	-
	1,233	487

The tax rate at which dividends have been franked is 30% (2007 - 0%)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 9: CASH AND CASH EQUIVALENTS

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Reconciliation to Cash Flow Statement				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at banks and in hand	1,982	1,665	993	787
Commercial Paper	43,409	-	43,409	-
RMT Cash Collections Account	27,209	30,166	-	-
Short-term deposits	-	62	-	-
	72,600	31,893	44,402	787

Cash at bank earns interest at floating rates based on daily bank deposit rates and has a term less than 3 months. The carrying amount of cash and cash equivalents represents fair value.

Commercial Paper represents paper purchased through Westpac Institutional Bank. The face value of the paper as at 30 June 2008 was $44,000,000 comprising a tranche of $2,000,000 due to mature in early July 2008 and a second tranche of $42,000,000 due to mature in early August. From the date of acquisition, these tranches of Commercial paper had maturities of one month and two months respectively.

RMT cash collection account includes monies held in the RMT Special Purpose Vehicles (SPV's) on behalf of investors in those trusts and is not available to Homeloans Limited.

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the consolidated entity, and earn interest at the respective short-term deposit rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Reconciliation of net profit after tax to net cash flows from operations				
Net profit/(loss)	(12,511)	2,199	(11,653)	860
Adjustments for:				
Movement in Net Profit due to change in accounting policy	-	191	-	-
Impairment Loss	18,972	-	9,445	-
Depreciation	423	402	406	398
Amortisation of bond distribution costs	583	414	-	-
Amortisation of prepaid royalties & commissions	47	68	47	61
Amortisation of reset preference share issue costs	-	38	-	38
Net (profit)/loss on disposal of plant and equipment	-	7	-	7
Share options expensed	119	288	119	288
Share of profit in associate	(87)	-	(87)	-
Changes in assets and liabilities				
(Increase)/decrease in receivables	(6,619)	(563)	(2,520)	(11,616)
(Increase)/decrease in due from borrowers	(132,294)	(103,713)	-	-
(Decrease)/increase in due to bondholders	(146,134)	(198,967)	-	-
Increase/(decrease) in due to warehouse facility	281,972	307,168	-	-
Increase/(decrease) in deferred tax liabilities	(622)	729	(818)	575
Increase/(decrease) in current tax liability	685	297	685	629
Increase/(decrease) in trade and other payables	(2,995)	475	(347)	2,590
(Decrease)/increase in non-interest bearing liabilities	-	(57)	-	(57)
Increase/(decrease) in provisions	698	114	689	105
Net cash from operating activities	2,237	9,090	(4,034)	(6,122)

Disclosure of financing facilities

Refer to note 19.

Disclosure of non-cash financing and investing activities

The only non-cash financing activities are share-based payments as discussed in note 17.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 10: RECEIVABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Fees receivables				
Non-related parties (i)	2,712	3,982	2,012	2,593
Related parties (ii) - wholly owned controlled entity	-	-	16,982	19,928
	2,712	3,982	18,994	22,521
Accrued interest (iii)	3,177	2,062	15	13
Prepayments (iv)	369	1,789	370	513
Last days collections receivable (v)	2,758	465	-	-
Other	490	67	392	21
	9,506	8,365	19,771	23,068

Terms and conditions relating to the above financial instruments

(i) Fees receivable are non-interest-bearing and on settlement terms of between 4 to 60 days.

(ii) Details of the terms and conditions of related party receivables are set out in Note 27. The amount recorded is net of an impairment allowance of $5,041,000 recognised during the financial year (2007: Nil). The remaining balance is considered fully collectible.

(iii) Accrued interest is due and payable within 30 days.

(iv) Prepayments are non-interest-bearing and due in the ordinary course of business between 30 days and 12 months.

(v) Last days collections receivable represents amounts received within the RMT SPV's on the last day of the reporting period and not cleared in the bank until the first day of the next financial period.

Except for the related party receivables, other balances are neither past due nor impaired. The amount is considered fully collectible. Refer to note 25 for fair value.

NOTE 11: INVESTMENT IN ASSOCIATE

Investment in National Mortgage Brokers Pty Limited (i)	125	10	71	10
	125	10	71	10

(i) As at 30 June 2007, the Group had a 12.5% interest in Mosaic Financial Services Pty Ltd ("Mosaic"). Mosaic merged with National Mortgage Brokers Pty Limited ("nMB") as at 31 December 2007. nMB was incorporated in Australia and its principal activity is mortgage origination. The Group now has a 26.5% interest in nMB.

Carrying amount at the beginning of the financial year	10	10	10	10
Acquisition of Auspak	54	-	-	-
Share of associates net profit	61	-	61	-
Carrying amount at the end of the financial year	125	10	71	10

NOTE 12: LOANS AND ADVANCES TO CUSTOMERS

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Loans and advances to customers	921,151	788,857	-	-

EXPECTED MATURITY ANALYSIS	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Less than 1 year	270,958	231,611	-	-
1 – 2 years	189,807	163,319	-	-
2 – 3 years	133,456	115,268	-	-
3 – 4 years	94,162	81,424	-	-
4 - 5 years	66,652	57,561	-	-
> 5 years	166,116	139,674	-	-
Total	921,151	788,857	-	-

Loans and advances to customers represent lending for residential mortgages at either fixed or floating rates. In the above table, calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions based on actual experience. The following table provides analysis of loans past due but not considered impaired:

LOANS PAST DUE BUT NOT IMPAIRED	CONSOLIDATED		PARENT	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
0 - 1 month	45,837	26,669	-	-
1 - 3 months	19,453	5,458	-	-
3 - 6 months	8,921	1,056	-	-
> 6 months	4,110	4,251	-	-
Total	78,321	37,434	-	-

Payment terms of these loans have not been re-negotiated however credit has been stopped until payment is made. The Company has been in direct contact with relevant borrowers. It should be noted that all RMT loans are secured by a first ranking mortgage over the residential property and are covered 100% by Lenders Mortgage Insurance. Therefore, it is expected that the outstanding principal and normal accrued interest on loans will be received in full.

There were no restructured loans during the year. Refer to note 25 for fair value disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 13: OTHER FINANCIAL ASSETS

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Future trailing commissions receivable (i)	39,116	34,600	25,005	25,293
Loan to related party (ii)	-	44,680	-	44,680
Derivative financial asset held for trading (iii)	387	144	-	-
Other	135	180	135	180
	39,638	79,604	25,140	70,153

Terms and conditions relating to the above financial instruments

(i) Fair value of future trailing commission receivable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing income receivable under the origination and management agreement, less ongoing servicing costs not covered by transaction fees. Subsequent to initial recognition and measurement, the future trailing commission receivable is measured at amortised cost. On a consolidated basis, the amount of future trailing commissions receivable in less than 12 months is $16,606,000 while the amount receivable greater than 12 months is $22,510,000.

(ii) Loan to related party represents a subordinated loan to Challenger Mortgage Management Limited that was repaid on 31 December 2007 and the resulting cash was invested in commercial paper which carries a variable interest rate month to month.

(iii) The Group uses interest rate swaps for interest risk management purposes. Some of the loans and advances have fixed interest rates. In order to protect against rising interest rates, the Group has entered into fixed interest swap contracts under which it has right to receive interest at a variable rate and to pay interest at fixed rates. The swaps are used as an effective alternative to physical assets in order to achieve a desired level of total exposure and as a means to manage interest rate risk.

The table below sets out the effective exposure values of the derivatives underlying assets, which provides an indication of the Group's exposure to derivatives. The fair value of $387,000 (2007: $144,000) gives no indication of the ultimate gain or loss that will occur upon settlement of the derivatives as that is dependent upon the applicable market interest rate at the time of settlement.

NOTIONAL PRINCIPAL AMOUNT	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Less than 1 year	3,814	3,197	-	-
1 – 2 years	3,874	3,047	-	-
2 – 3 years	6,351	4,479	-	-
3 – 4 years	3,009	892	-	-
4 - 5 years	7,036	2,711	-	-
Total	24,084	14,326	-	-

The Group does not apply hedge accounting. All derivatives are designated as financial instruments – held for trading. Total income recognised from the movement in fair value for the financial year is $242,748 (2007: $97,678).

Refer to note 25 for fair value disclosure.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 14: PLANT AND EQUIPMENT

	CONSOLIDATED	HOMELOANS LIMITED
	PLANT AND EQUIPMENT $'000	PLANT AND EQUIPMENT $'000
Year ended 30 June 2008		
At 1 July 2007, net of accumulated depreciation and impairment	1,711	1,653
Additions	218	214
Depreciation charge for the year	(423)	(406)
At 30 June 2008, net of accumulated depreciation and impairment	1,506	1,461
At 30 June 2008		
Cost or fair value	5,797	5,736
Accumulated depreciation and impairment	(4,291)	(4,275)
Net carrying amount	1,506	1,461
Year ended 30 June 2007		
At 1 July 2006, net of accumulated depreciation and impairment	1,672	1,672
Additions	379	379
On acquisition of the business of Independent Mortgage Corporation Pty Ltd	62	-
Depreciation charge for the year	(402)	(398)
At 30 June 2007, net of accumulated depreciation and impairment	1,711	1,653
At 30 June 2007		
Cost or fair value	5,583	5,521
Accumulated depreciation and impairment	(3,872)	(3,868)
Net carrying amount	1,711	1,653

The useful life of the assets was estimated as follows both for 2007 and 2008:

Plant and equipment	5 to 15 years

A first mortgage was granted over all plant and equipment as security over bank loans. The terms of the first mortgages preclude the assets being sold or being used as security for further mortgages without the permission of the first mortgage holder. The first mortgage holder also requires all assets to be fully insured at all times.

The carrying value of plant and equipment held under finance leases at 30 June 2008 is $661,000 (2007: $941,000). Additions during the year include $Nil (2007: $Nil) of plant and equipment held under finance leases. Leased assets are pledged as security for the related finance lease.

NOTE 15: INVESTMENTS IN CONTROLLED ENTITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Investments at cost in controlled entities (Note 27)	-	-	21,387	19,178
Impairment provision (Note 5(h))	-	-	(9,445)	-
	-	-	11,942	19,178

NOTE 16: GOODWILL

	CONSOLIDATED	HOMELOANS LIMITED
	$'000	$'000
Year ended 30 June 2008		
At 1 July 2007, net of impairment	26,907	-
Add: Adjustment on the goodwill of the business of Independent Mortgage Corporation Pty Ltd	248	-
Add: Arising on acquisition of the business of Auspak Financial Services Pty Ltd (Note 24)	1,787	-
Less: Impairment loss	(13,029)	-
At 30 June 2008, net of impairment	15,913	-
At 30 June 2008		
Cost (gross carrying amount)	28,942	-
Less: Impairment loss	(13,029)	-
Net carrying amount	15,913	-
Year ended 30 June 2007		
At 1 July 2006, net of impairment	15,996	-
Add: Arising on acquisition of the business of Independent Mortgage Corporation Pty Ltd	10,911	-
Less: Impairment loss	-	-
At 30 June 2007, net of impairment	26,907	-
At 30 June 2007		
Cost (gross carrying amount)	26,907	-
Less: Impairment loss	-	-
Net carrying amount	26,907	-

Goodwill acquired through business combinations has been allocated to two individual cash generating units, which are reportable segments, for impairment testing as follows:

- Origination and Management
- Securitisation of Mortgages

Origination and Management

The recoverable amount of the Origination and Management Cash Generating Unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets, approved by senior management covering a period of ten years. The ten year period has been used as it provides a better indication of business performance given the market in which the segment operates and is supported by historical mortgage market growth. The business' financial budgets and forecasts are also modeled from 10 year forecasts.

The assumed growth rate in settled loans over the period covered by the forecast averages 12% (2007: average of 9.5%). The higher growth rates reflect managements' belief that this business segment will benefit from strong levels of growth in the home loan market in the initial period following market recovery. During this period, the business segment will also be growing lending volumes from a lower base. Following this initial period, projected growth rates reduce to market averages. Loan repayment rates range from 24% to 32% depending on types of loans and lenders (2007: 18% to 35%). A terminal value of 8 times (2007: 10 times) was used for cash flows beyond 10 years.

The discount rate applied to cash flow projections is 12.5% (2007: 10.8%) and is based on average discount rates for comparable businesses in the industry.

Securitisation of Mortgage

The recoverable amount of the Securitisation of Mortgage Cash Generating Unit has been determined based on a value in use calculation. To calculate this, cash flow projections are based on financial budgets, approved by senior management covering a period of five years.

The model assumes no new settled loans are originated in this segment (2007: average growth rate of 9.5%). This assumption reflects the significant impact that the credit crisis has had on the securitisation market, the market in which this segment operates. Annual prepayment rates range from 32% to 40% (2007: 35%). A terminal value of 8 times (2007: 10 times) was used for cash flows beyond 10 years.

The discount rate applied to cash flow projections is 12.5% (2007: 10.8%) and is based on average discount rates for comparable businesses in the industry.

Carrying amount of goodwill allocated to each of the cash generating units

	CONSOLIDATED					
	ORIGINATION AND MANAGEMENT		SECURITISATION OF MORTGAGES		TOTAL	
	2008	2007	2008	2007	2008	2007
	$'000	$'000	$'000	$'000	$'000	$'000
Carrying amount of goodwill	15,913	21,378	-	5,529	15,913	26,907

Key assumptions used in the value in use calculation for the Origination and Management Cash Generating Unit ("CGU") and the Securitisation of Mortgages CGU for 30 June 2008 and 30 June 2007.

The following describes each key assumption other than those described above on which management has based its cash flow projections when determining the value in use of the Origination and Management CGU and the Securitisation of Mortgages CGU:

- Inflation – constant 3% per annum (2007: 3%)
- Securitisation of Mortgages CGU pays to the Origination and Management CGU a management fee representing services provided by the latter to the Securitisation of Mortgages CGU and is based on key business drivers.
- Average interest margin earned of 0.54%pa within Securitisation of Mortgages segment. (2007: 1.1%)
- Maintenance of existing commission rates earned and paid.

SENSITIVITY TO CHANGES IN ASSUMPTIONS

Origination and Management

With regard to the assessment of the value in use of the Origination and Management CGU, the most sensitive assumption used in the cash flow projections is the assumed average growth rate in settled loans over the forecast period. Given the recoverable amount of this unit at reporting date is broadly in line with its carrying value, management believes that reasonably possible changes in the assumed average growth rate, for example a reduction from 12% to 11%, would cause the recoverable amount of the unit to fall short of its carrying value by approximately $5,000,000. However, and as noted above, management is confident the higher average growth rate will be achieved due to expected strong levels of growth in the home loan market following market recovery, together with the fact the business segment will be growing lending volumes from a lower base.

NOTE 17: SHARE-BASED PAYMENT PLANS

Employee Share Option Plan

An employee option plan exists where eligible employees of the consolidated entity, as determined by the directors, are issued with options over the ordinary shares of Homeloans Limited. The options, issued for nil consideration, are issued in accordance with the guidelines established by the directors of Homeloans Limited. The options issued carry various terms and exercising conditions. There are currently 28 members of this plan of whom 16 are current employees or directors.

Information with respect to the number of options granted under the employee option scheme and options issued to directors, employees, and business partners are as follows:

	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	6,912,500	0.38	7,880,000	0.48
Granted during the year	-	-	1,150,000	0.50
Forfeited during the year	(465,000)	0.46	(1,915,000)	0.67
Exercised during the year	(425,000)	0.40	(202,500)	0.35
Outstanding at the end of the year	6,022,500	0.43	6,912,500	0.38
Exercisable at the end of the year	5,422,500	0.40	3,978,500	0.41

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Options held at the beginning of the reporting period:

The following table summarises information about options held by employees and other related parties as at 1 July 2007:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
100,000	1 April 2003	21 January 2005	21 January 2008	0.52	0.50
100,000	1 April 2003	21 January 2006	21 January 2008	0.52	0.50
375,000	1 December 2004	1 December 2004	1 December 2009	0.40	0.34
500,000	1 December 2004	1 June 2005	1 December 2009	0.45	0.34
500,000	1 December 2004	1 June 2006	1 December 2009	0.50	0.34
750,000	7 December 2004	7 December 2004 [D]	7 December 2009	0.40	0.35
312,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
425,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
326,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
549,000	14 October 2005	31 August 2007	31 August 2010	0.46	0.45
315,000	23 November 2005	31 August 2006	31 August 2009	0.36	0.40
310,000	23 November 2005	31 August 2007	31 August 2010	0.46	0.40
200,000	20 February 2006	31 August 2006	31 August 2009	0.36	0.42
300,000	20 February 2006	31 August 2007	31 August 2010	0.46	0.42
250,000	7 April 2006	30 September 2006 [A]	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007 [B]	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 [C]	7 December 2009	0.51	0.40
350,000	15 February 2007	29 December 2008	29 December 2011	0.56	0.64
350,000	15 February 2007	29 December 2009	29 December 2011	0.56	0.64
150,000	17 April 2007	30 June 2008	30 June 2010	0.35	0.92
250,000	17 April 2007	30 June 2008	30 June 2010	0.45	0.92
6,912,500				0.38	0.38

^^ *Average share price on the date of grant.*

A *only exercisable if average mortgage settlements in any three (3) month prior period to 30 September 2006 exceeds $100 million per month*
B *only exercisable if average mortgage settlements in any three (3) month prior period to 31 March 2007 exceeds $112.5 million per month*
C *only exercisable if average mortgage settlements in any three (3) month prior period to 31 December 2007 exceeds $137.5 million per month*
D *only exercisable if average mortgage settlements in any three (3) month prior period to 31 March 2007 exceeds $225 million per month*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Options granted:

No options were granted by Homeloans Limited during the year ended 30 June 2008.

The following table summarises information about options granted by Homeloans Limited during the year ended 30 June 2007:

FAVOUREE	GRANT DATE	NUMBER GRANTED	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $
Business partners	17 April 2007	200,000	30 June 2008 [E]	30 June 2010 [E]	0.35
	17 April 2007	250,000	30 June 2008 [E]	30 June 2010 [E]	0.45
Staff	15 February 2007	350,000	29 December 2008	29 December 2011	0.56
	15 February 2007	350,000	29 December 2009	29 December 2011	0.56

E *Subject to performance hurdles. Options are exercisable up to 2 years from the date of vesting or 30 June 2009, whichever is the earlier. Business partners are required to grow their loan books to pre-agreed thresholds to vest.*

Fair values of options:

The weighted average fair value of options granted in 2007 is $0.3612. The fair value of options is estimated on the date of grant using a Binomial Option Pricing Model.

The following table lists the inputs for the models used for 30 June 2007

GRANT DATE	15 FEB 07	15 FEB 07	17 APR 07	17 APR 07
Dividend Yield	5.0%	5.0%	5.0%	5.0%
Expected volatility	45%	45%	45%	45%
Risk-free interest rate	6.115%	6.010%	6.300%	6.1126%
Expected life of option	1.9 years	2.9 years	1.2 years	1.2 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases.

The expected life of the options is based on period from grant date to expiry as so far no options have been exercised, and is therefore not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Options exercised:

The following table summarises information about options exercised by option holders during the year:

DATE	NUMBER OF OPTIONS	RANGE OF EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE AT GRANT $	WEIGHTED AVERAGE SHARE PRICE AT EXERCISE $
30 June 2008	425,000	$0.35 to $0.52	$0.48	$0.59
30 June 2007	202,500	$0.35 to $0.36	$0.53	$0.97

Options held as at the end of the year:

The following table summarises information about options held by employees and other related parties as at 30 June 2008:

NUMBER OF OPTIONS	GRANT DATE	VESTING DATE	EXPIRY DATE	WEIGHTED AVERAGE EXERCISE PRICE $	WEIGHTED AVERAGE SHARE PRICE ^^ $
375,000	1 December 2004	1 December 2004	1 December 2009	0.40	0.34
500,000	1 December 2004	1 June 2005	1 December 2009	0.45	0.34
500,000	1 December 2004	1 June 2006	1 December 2009	0.50	0.34
750,000	7 December 2004	7 December 2004	7 December 2009	0.40	0.35
262,500	14 January 2005	14 December 2006	14 December 2009	0.35	0.38
375,000	14 January 2005	14 December 2007	14 December 2009	0.35	0.38
290,000	14 October 2005	31 August 2006	31 August 2009	0.36	0.45
495,000	14 October 2005	31 August 2007	31 August 2010	0.46	0.45
315,000	23 November 2005	31 August 2006	31 August 2009	0.36	0.40
310,000	23 November 2005	31 August 2007	31 August 2010	0.46	0.40
200,000	20 February 2006	31 August 2006	31 August 2009	0.36	0.42
300,000	20 February 2006	31 August 2007	31 August 2010	0.46	0.42
250,000	7 April 2006	30 September 2006	7 December 2009	0.36	0.40
250,000	7 April 2006	31 March 2007	7 December 2009	0.46	0.40
250,000	7 April 2006	31 December 2007 [(A)]	7 December 2009	0.51	0.40
300,000	15 February 2007	29 December 2008	29 December 2011	0.56	0.64
300,000	15 February 2007	29 December 2009	29 December 2011	0.56	0.64
6,022,500				0.43	0.49

[(A)] only exercisable if average mortgage settlements in any three (3) month period prior to 31 December 2007 exceeds $137.5 million per month.

^^ Weighted average share price on the date of grant.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Superannuation Commitments

Employees and the employer contribute to a number of complying accumulation funds at varying percentages of salaries and wages. The consolidated entity's contributions of up to 9% of employees' wages and salaries are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act.

NOTE 18: PAYABLES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Trade payables (i)	947	820	929	820
Payable to related parties:				
Wholly-owned consolidated entity				
- controlled entity (ii)	-	-	11,666	9,886
Accrued commissions (iii)	586	1,732	585	1,053
Sundry creditors and accruals (iv)	3,006	1,873	2,671	2,143
Current income tax payable	982	297	982	297
Interest payable (v)	1,393	2,595	-	-
Deferred acquisition installment (vi)	-	2,548	-	-
	6,914	9,865	16,833	14,199

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30 day terms.
(ii) Details of the terms and conditions of related party payables are set out in Note 27.
(iii) Accrued commissions are non-interest bearing and are payable between 30 and 90 days.
(iv) Sundry creditors and accruals are non-interest bearing and are normally settled on 30 day terms.
(v) Interest payable is non-interest bearing and is payable within 30 days.
(vi) Provisional estimate of final purchase installment in relation to the acquisition of 100% of the business of Independent Mortgage Corporation (See Note 24). The final installment, which was paid in December 2007.

Refer to note 25 for fair value disclosure.

NOTE 19: INTEREST-BEARING LIABILITIES

		CONSOLIDATED		HOMELOANS LIMITED	
	MATURITY	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Bank loans					
Secured bank loans (ii)	02/03/2010	15,428	12,867	15,428	12,867
Net interest margin (iii)	12/12/2008	7,544	7,189	-	-
Warehouse facility (iv)	30/06/2009	649,671	367,699	-	-
Non-bank loans					
Obligations under finance leases and hire purchase contracts (v)	2008 – 2009	469	825	469	825
Bonds (vi)	2035 – 2040	295,824	436,948	-	-
Other (vii)	On demand	-	5,010	-	-
Loans from funders (viii)	2008 - 2012	2,875	3,657	2,825	3,593
		971,811	834,195	18,722	17,285

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Terms and conditions relating to the above financial instruments:

(i) The Company has a bank overdraft which is not utilised at year end. The bank overdraft is repayable on demand. Interest is charged at the bank's floating rate. The overdraft is secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities.

(ii) Secured bank loans incur interest at the bank bill rate plus a margin. The bank loans are secured by way of registered first mortgages over all assets and undertakings of the Company and its controlled entities. Interest is recognised at an effective rate of 8.11% (2007: 7.29%).

(iii) The Net interest margin facility incurs interest at the bank bill rate plus a margin. The facility is secured by specified cash flows from the assets of the Residential Mortgage Trusts and is guaranteed by the Company. Interest is recognised at an effective rate of 10.37% (2007: 8.14%).

(iv) The Warehouse Facility incurs interest at the bank bill rate plus a margin. The facility is secured by the assets of the warehouse trust. Interest is recognised at an effective rate of 8.66% (2007: 6.67%). All loans funded by the RMT program are secured by a first ranking mortgage over a residential property and are 100% mortgage insured. The mortgage insurer must be rated at least AA- by Standard & Poor's or Moody's. The RMT Warehouse facility is provided by Westpac Banking Corporation ("WBC"). The RMT warehouse is a rolling 12 month facility and has been extended for a further 12 months to 30 June 2009. WBC also act as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT trusts. FAI First Mortgage Pty Ltd ("FAIFM") is the Trust Manager and Servicer to all RMT trusts. FAIFM outsource these services to Bendigo and Adelaide Bank Limited. Both are rated "Strong" by Standard and Poor's. Perpetual Trustees Limited is the Trustee to all RMT trusts. There have been two amendments made to the terms and conditions of the warehouse. The first requires a minimum of $1,000,000 in cash reserves to be held within the warehouse trust. The second requires that in the event of the total balance of loans greater than 30 days past due exceeding 3.50% of the total balance of loans in the warehouse, the Company will be required to contribute collateral support equating to 50% of the balance of loans greater than 30 days past due over and above the 3.50% level.

(v) Finance leases and hire purchases have an average lease term of 4.8 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 8.83% (2007:8.77%). The lease liability is secured by a charge over the leased assets.

(vi) Residential Mortgage Backed Securities with a legal final maturity of 32 years from issue, and an expected maturity of at least 5 years. Interest is recognised at an effective rate of 7.14% (2007: 6.62%).

(vii) Other loans represent short term funding provided by the sub-servicer appointed to administer the Residential Mortgage Trusts. This funding is usually for 24 hours only and is repaid from RMT bank accounts the following day. Interest is recognised at an effective rate of 10.37% (2007: 8.14%).

(viii) Some of the funders used by the company and its controlled entities provide payment of an upfront commission at the point of origination of a mortgage loan. A portion of this upfront commission is then paid back via reduced ongoing management fees over a period of 5 years. Interest is also charged on this facility. The company recognises the upfront commission from these funders as a loan. The principal and interest will be paid back over the 5 year period. Interest is recognised at an effective rate of 7.53% (2007: 5.25%).

Fair value disclosures

Details of the fair value of the consolidated entity's interest bearing liabilities are set out in note 25.

Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Total Facilities				
- bank overdraft	900	900	900	900
- cash advance and net interest margin facilities	22,972	25,200	15,428	16,200
- RMT warehouse facility	750,000	500,000	-	-
	773,872	526,100	16,328	17,100
Facilities used at reporting date				
- bank overdraft	-	-	-	-
- cash advance and net interest margin facilities	22,972	20,056	15,428	12,867
- RMT warehouse facility	649,671	367,699	-	-
	672,643	387,755	15,428	12,867
Facilities unused at reporting date				
- bank overdraft	900	900	900	900
- cash advance and net interest margin facilities	-	5,144	-	3,333
- RMT warehouse facility	100,329	132,301	-	-
	101,229	138,345	900	4,233

Assets pledged as security

The carrying amounts of assets pledged as security for interest bearing liabilities are:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Assets				
First mortgage				
Finance lease	661	941	661	941
Plant and equipment	845	770	800	712
Loans and advances to customers	921,151	788,857	-	-
Floating charge				
Cash assets	72,600	31,893	44,402	787
Receivables	9,506	8,365	19,771	23,068
Investment in associate	125	10	71	10
Other financial assets	39,638	79,604	25,140	70,153
Total assets pledged as security	1,044,526	910,440	90,845	95,671

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 20: OTHER FINANCIAL LIABILITIES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Future trailing commisisions payable (i)	15,339	11,450	8,112	9,436

Terms and conditions relating to the above financial instruments:

(i) Fair value of future trailing commission payable is recognised on the origination of managed and non-managed mortgage loans. This represents the net present value of the expected future trailing commissions payable to introducers associated with the origination of the loan. Subsequent to initial recognition and measurement, the trailing commission payable is measured at amortised cost.

Refer to note 25 for fair value disclosure.

NOTE 21: LEASE INCENTIVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Lease incentives	421	503	421	503

Terms and conditions relating to the lease incentive:

(i) Net rental incentives were received or are receivable in the form of an upfront cash incentive and rent-free periods by the consolidated entity for entering into a non-cancellable operating lease for premises occupied by the parent entity. This was entered into in September 2003 in respect of the Head Office of the parent entity.

The lease term for the Head office premises is 10 years. The value of these incentives has been deferred and amortised against occupancy costs over the lease term.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

NOTE 22: PROVISIONS

	RESTRUCTURING PROVISION $'000	PROVISION FOR EMPLOYEE BENEFITS $'000	OTHER PROVISIONS $'000	TOTAL $'000
CONSOLIDATED				
At 1 July 2007	-	189	-	189
Arising during the year				
- Long Service Leave	-	(2)	-	(2)
- Restructuring Provision [1]	360	-	-	360
- Other Provision	-	-	340	340
At 30 June 2008	360	187	340	887
PARENT				
At 1 July 2007	-	179	-	179
Arising during the year				
- Long Service Leave	-	(11)	-	(11)
- Restructuring Provision [1]	360	-	-	360
- Other Provision	-	-	340	340
At 30 June 2008	360	168	340	868

[1] Restructuring Provision includes provisions for corporate entity restructuring and employee termination benefits. The restructuring is expected to be completed within the next year.

NOTE 23: CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Ordinary shares issued and fully paid	97,981	98,194	97,981	98,194
	97,981	98,194	97,981	98,194

Effective 1 July 1998, the Corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the Parent does not have authorised capital or par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Terms and conditions of contributed equity
Ordinary shares

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

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

	CONSOLIDATED		HOMELOANS LIMITED	
	THOUSANDS	$'000	THOUSANDS	$'000
Movement in ordinary shares on issue				
At 30 June 2007	100,627	98,194	100,627	98,194
Issued during the year				
- exercise of options [(i)]	425	186	425	186
- share buy back program [(ii)]	(685)	(399)	(685)	(399)
At 30 June 2008	100,367	97,981	100,367	97,981

(i) 425,000 shares were issued for cash on the exercise of share options.
(ii) 685,244 shares were bought back during the year under the existing share buy back program.

Share options

There were no options over ordinary shares granted during the financial year (2007: 1,150,000 options). At the end of the year there were 6,022,500 unissued ordinary shares in respect of which options were outstanding (2007: 6,912,500 options). For more information refer to Note 17.

Capital Management Plan

The Company's capital comprises share capital, reserves less accumulated losses amounting to $60,015,000 at 30 June 2008 (2007: $75,471,000). The primary objectives of the Group's capital management are to ensure that the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest costs of capital available to the Group.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue capital securities. During the year the Company bought back 685,244 shares under its current Share Buy Back Program for a total consideration of $395,000. The maximum buyback amount under the current program is $1,000,000. The program is part of the long term capital management strategy aimed at maximising shareholder value.

The Group also reports regularly on its performance against various measures that are stipulated in loan covenants. One of these measures is around the level of gearing. The Group complied with all loan covenants during the financial year.

The Company is also subject to an externally imposed capital requirement by the Australian Securities & Investments Commission (ASIC). In accordance with Condition 5 of the Company's Australian Financial Services Licence, it must (a) be able to pay all its debts as and when they become due and payable; (b) have total assets that exceed total liabilities; (c) have no reason to suspect that its total assets would not exceed its total liabilities; and (d) demonstrate, based on cashflow projections, that it will have access to sufficient financial resources to meet its short term liabilities. The Company complied with this requirement for both the year ended 30 June 2008 and the year ended 30 June 2007.

Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance 30 June	(23,378)	(21,798)	(27,765)	(25,852)
Change in accounting policy *:	-	(1,006)	-	-
Balance 1 July	(23,378)	(22,804)	(27,765)	(25,852)
Net profit for the year	(12,511)	2,199	(11,653)	860
Dividends	(2,851)	(2,773)	(2,851)	(2,773)
Balance 30 June	(38,740)	(23,378)	(42,269)	(27,765)

* Refer Note 3 for details of impact of changes in accounting policy affecting net profit reported in the previous reporting period.

Employee Option Reserve

Movements in the employee option reserve were as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Balance 1 July	655	367	655	367
Charge for the period	119	288	119	288
Balance 30 June	774	655	774	655

The employee option reserve recognises the fair value of options issued to employees and other related parties as remuneration. It applies to all share-based payments issued after 7 November 2002, which had not vested as at 1 January 2005. The option value is calculated using a Binomial model and expensed over the period in which the options vest. The value allocated to each option issue is determined, among other things, by reference to, the share price at the date of grant, the volatility of the share price, and current risk free interest rates (see Note 17).

NOTE 24: ACQUISITION OF CONTROLLED ENTITY

(a) Acquisition of Auspak Financial Services Pty Ltd
On 22 November 2007 Homeloans Limited acquired a 100% interest in Auspak Financial Services Pty Ltd, a Sydney based mortgage distribution business.

The total cost of the combination is $2,209,000 and comprises the payment of cash and costs directly attributable to the combination of $1,959,000, plus a deferred cash payment of $250,000.

The fair value of the identifiable assets and liabilities of Auspak Financial Services Pty Ltd as at the date of acquisition were detailed as follows.

	CONSOLIDATED	
	RECOGNISED ON ACQUISITION $'000	CARRYING VALUE $'000
Net Assets acquired:		
- Cash assets	19	19
- Other financial assets	4,970	4,970
- Investments	54	54
	5,043	5,043
- Provisions	(12)	(12)
- Other financial liabilities	(4,427)	(4,427)
- Deferred tax liability	(182)	(182)
	(4,621)	(4,621)
- Fair value of net tangible assets acquired	422	
- Goodwill arising on acquisition	1,787	
Cost of acquisition	2,209	

	$'000
Cost of the acquisition:	
- Cash paid	1,890
- Deferred installment	250
- Costs of acquisition	69
Total cost of the acquisition	2,209
Net cash effect	
Cash paid	(2,209)
Cash included in net assets acquired	19
Net consolidated cash outflow	(2,190)

The decrease of $200,000 to the provisional goodwill figure of $1,987,000 reported in the half year end accounts at 31 December 2007 was due to the identification of additional professional fees associated with the merger of $69,000, a reduction in the deferred acquisition installment made at date of acquisition of $250,000 and the inclusion of cash assets of $19,000 acquired not previously recognised.

From the date of acquisition, Auspak Financial Services Pty Ltd has contributed $2,963,000 and $199,000 to the revenue and net profit before tax of the Group respectively. If the combination had taken place at the beginning of the year, the contribution to the revenue and net profit before tax for the group would have been approximately $5,079,000 and $341,000 respectively.

The goodwill arising on consolidation is attributable to various factors including synergistic savings arising from combining administrative activities and inseparable intangible assets such as employee skills and experience.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

(b) Acquisition of the business of Independent Mortgage Corporation Pty Ltd

Effective 12 March 2007, the Group acquired 100% of the business of Independent Mortgage Corporation Pty Ltd, a Melbourne based mortgage originator of managed and brokered loans with long established customer and funder relationships. For the financial year, the Group has fully repaid the remaining deferred consideration owing on the acquisition as at 30 June 2007.

NOTE 25: FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks through its financial assets and liabilities comprising cash and cash equivalents, loans and advances, receivables, payables, interest bearing liabilities and fixed to floating interest rate swaps, which arise directly from its operations. The main risks arising from the consolidated entity's financial instruments are credit risk, liquidity risk, interest rate risk and prepayment risk . The consolidated entity manages these risks in accordance with its risk management policies. The objective of the policies is to support the delivery of the Group's financial target whilst protecting future financial security.

The group uses different methods to measure and manage different types of risk to which it is exposed. These include monitoring levels of exposure to interest rate risk, prepayment risk and assessment of market forecast for interest rate. Ageing analysis and monitoring of specific credit exposures are undertaken to manage credit risk. Liquidity is monitored through the development of future rolling cash flow forecast.

The Board is responsible for overseeing the establishment and implementation by management of risk management systems and reviewing the effectiveness of these systems. The Board is assisted in this process by the Audit Committee, which has in its charter, responsibility for overseeing the effective operation of the company's risk management framework. The fundamental aim of the company's risk management strategy is to balance risk against reward, and to optimise returns to all stakeholders.

The Board reviews the different types of risk the entity is exposed to including those related to commercial and legal, economic circumstance, natural events, regulations, technological and technical issues and risk related to management activities. A number of possible treatment options are proposed by management and reviewed by the Board and an option is chosen to proceed with. A member of the senior management team is then made responsible for its implementation and a process is put in place to monitor and control the risk.

Credit risk exposures

Credit risk is the risk that the group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The group has established lending policies and procedures to manage the credit risk inherent in lending. The dominant lending focus has been in the housing market where standard lending practice is that the borrowing facilities for each client is mortgaged secured against residential property and via lenders mortgage insurance. In addition, loan balances are monitored with the result that the Group's exposure to bad debts is monitored and managed. Refer to note 12 for an ageing analysis of the loans.

The Group's broker division trades with recognised, credit-worthy lending institutions in Australia. The Group's approach to credit management utilises a credit risk framework to ensure that the following principals are adhered to:

- Independence from risk originators;
- Recognition of the different risks in the various Group businesses;
- Credit exposures are systematically controlled and monitored;
- Credit exposures are regularly reviewed in accordance with existing credit procedures; and
- Credit exposures include such exposures arising from derivative transactions.

Each of the divisions is responsible for managing credit risks that arise in their own areas with oversight from a centralised credit risk management team. It is the policy of the Group to monitor the policies of all divisions to ensure that the risk of the Group is monitored.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

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

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Assets				
Cash assets	72,600	31,893	44,402	787
Receivables	9,506	8,365	19,771	23,068
Loans and advances to customers	921,151	788,857	-	-
Other financial assets	39,638	79,604	25,140	70,153
Total assets pledged as security	1,042,895	908,719	89,313	94,008

All loans funded by the RMT program are secured by a first ranking mortgage over residential property and are 100% mortgage insured. The mortgage insurer must be rated at least AA- by Standard & Poor's or Moody's. The RMT Warehouse facility is provided by Westpac Banking Corporation ("WBC"). The RMT warehouse is a rolling 12 month facility and has been extended for a further 12 months to 30 June 2009. WBC also acts as the Liquidity, Redraw and Interest Rate Swap Provider to all RMT trusts. FAI First Mortgage Pty Ltd ("FAIFM") is the Trust Manager and Servicer to all RMT trusts. FAIFM outsource these services to Bendigo and Adelaide Bank Limited. Both are rated "Strong" by Standard and Poor's. Perpetual Trustees Limited is the Trustee to all RMT trusts. There have been two amendments made to the terms and conditions of the warehouse. The first requires a minimum of $1,000,000 in cash reserves to be held within the warehouse trust. The second requires that in the event of the total balance of loans greater than 30 days past due exceeding 3.50% of the total balance of loans in the warehouse, the Company will be required to contribute collateral support equating to 50% of the balance of loans greater than 30 days past due over and above the 3.50% level.

Credit exposure by credit rating

The majority of the group cash assets, broking related receivable, future trailing commissions receivable and derivative financial assets are held with Australian banks with a S&P rating of at least "A" and above.

Loans and advances are for residential borrowers, who are not rated. All loans are individually mortgage insured by AA- rated insurers.

Concentration of credit risk

The consolidated entity minimises concentrations of credit risk in relation to cash, broking related accounts receivable, future trailing commission payable and derivative financial assets by undertaking transactions with a number of investment grade lending institutions. Some agreements with lenders also contain provisions requiring the consolidated entity to pay installments due from borrowers until securities are enforced or an insurance claim has been paid and to purchase the mortgage from the lender if Homeloans Limited is in default. The consolidated entity's risk in this area is mitigated by insurance policies and a rigorous credit assessment process.

The consolidated entity operates in residential mortgage industry segment and is not materially exposed to any individual borrower.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Liquidity risk

Liquidity risk is the risk that the Group will be able to meet its payment obligations when they fall due under normal and stress circumstances. The Group manages its liquidity risk by maintaining sufficient cash and cash equivalents and credit facilities to meet its obligations as they fall due. Surplus funds are generally invested in at call bank accounts or instruments with maturities of less than 90 days. Within the RMT SPV's, the Group also maintains sufficient cash reserves to fund redraws and additional advances on existing loans. As stated in note 19, the Group has unused warehouse facilities at the reporting date. However, given no new loans are being originated via this business segment, the unused facility is not required.

The Group's Finance department also monitors actual and forecast cash flows on a daily basis to ensure that sufficient cash resources and/or financing facilities are in place to ensure the Group can meet its corporate debts and other payment obligations as and when they fall due.

The Group's mortgage loan balances are typically repayable over 25-30 years. In contrast, the Group borrows funds with differing maturity profiles:

> *Term Bonds payable*
> Term bonds payable are residential mortgage backed securities (RMBS) issued by the Group's SPV's. They are 32 year pass through securities that may be repaid early (i.e. at the call date) by the issuer in certain circumstances.
>
> *RMT warehouse facility*
> The RMT warehouse facility is a short term pass through funding facility (typically 12 months) that is renewable annually at the funder's option.

Going forward, the group is reliant on the renewal/negotiation of the existing warehouse facility or the issuance of new residential mortgage backed securities in order to fund the existing mortgage loans in the RMT SPV. The Group remains in discussions with its warehouse provider in relation to the future maturity of the facility, however a high level of uncertainty still remains in the current market. The warehouse facility is structured so that if it is not renewed or otherwise defaults, there is only limited recourse to the Group. If the warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds and fee income.

The directors are satisfied that in the event of either of these scenarios occurring, the Group's ability to continue as a going concern will not be affected.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

The table below summarises the maturity profile of the Group's contractual undiscounted financial liabilities including derivative financial instruments.

		MATURITY ANALYSIS					
CONSOLIDATED	BALANCE $'000	0 - 6 MONTHS $'000	6 - 12 MONTHS $'000	1 - 3 YEARS $'000	3 - 5 YEARS $'000	> 5 YEARS $'000	TOTAL $'000
30 June 2008							
Financial Liabilities							
Leases and hire purchase	469	417	62	-	-	-	479
Trade payables	6,914	6,914	-	-	-	-	6,914
Interest bearing liabilities							
- Cash advance facility	15,428	657	657	16,413	-	-	17,727
- Net interest margin facility	7,544	7,896	-	-	-	-	7,896
- RMT Warehouse facility	649,671	118,110	580,243	-	-	-	698,353
- Bonds	295,824	66,389	53,502	128,818	55,231	60,905	364,845
- Other loans	-	-	-	-	-	-	-
- Loans from funders	2,875	461	423	1,021	680	1,293	3,878
Trailing commissions payable	15,339	3,731	3,045	7,318	3,038	2,063	19,195
30 June 2007							
Financial Liabilities							
Leases and hire purchase	825	210	204	479	-	-	893
Trade payables	9,865	9,865	-	-	-	-	9,865
Interest bearing liabilities							
- Cash advance facility	12,867	514	514	14,667	-	-	15,695
- Net interest margin facility	7,189	7,482	-	-	-	-	7,482
- RMT Warehouse facility	367,699	378,527	-	-	-	-	378,527
- Bonds	436,948	80,982	67,599	176,111	86,565	108,663	519,920
- Other loans	5,010	5,010	-	-	-	-	5,010
- Loans from funders	3,657	520	476	1,367	780	994	4,137
Trailing commissions payable	11,450	2,619	2,215	5,582	2,438	1,823	14,677

						MATURITY ANALYSIS	
PARENT	**BALANCE** **$'000**	**0 - 6 MONTHS** **$'000**	**6 - 12 MONTHS** **$'000**	**1 - 3 YEARS** **$'000**	**3 - 5 YEARS** **$'000**	**> 5 YEARS** **$'000**	**TOTAL** **$'000**
30 June 2008							
Financial Liabilities							
Leases and hire purchase	469	417	62	-	-	-	479
Interest bearing liabilities							
- Cash advance facility	15,428	657	657	16,413	-	-	17,727
- Loans from funders	2,825	454	417	1,002	668	1,270	3,811
Trailing commissions payable	8,112	2,478	2,002	4,710	1,904	1,207	12,301
30 June 2007							
Financial Liabilities							
Leases and hire purchase	825	210	204	479	-	-	893
Interest bearing liabilities							
- Cash advance facility	12,867	514	514	14,667	-	-	15,695
- Loans from funders	3,593	512	468	1,343	765	975	4,063
Trailing commissions payable	9,436	2,385	2,020	5,101	2,231	1,670	13,407

The above liquidity profile is based on the period from reporting date to contractual maturity date. The amounts disclosed in the tables are undiscounted cash flows based on the earliest date at which repayment is required. It should be noted that in the case of the RMT warehouse facility and term bonds, funding is arranged on a pass through basis and therefore there is an element of principal amortisation in each of these funding facilities prior to repayment. The expected principal pass through to the funders shown above is based on the expected principal receipts from mortgage loans. Calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions based on actual experience.

In the case of the warehouse facility, the above maturity profile reflects the contractual maturity date effective at reporting date. In the case of bonds, the maturity profile assumes that the issuer (i.e. the group's SPV) will not opt to repay the securities at the call date, but rather, that they will be repaid at their respective maturity dates.

Interest rate risk

Interest rate risk is the risk to the Group's earnings and equity arising from movements in interest rates, including changes in the absolute levels of interest rates, the shape of the yield curve, the margin between the yield curve and the volatility of the interest rates.

It is the group's policy to minimise the impact of interest rate movements on our debt servicing capacity, Group profitability, business requirements and company valuation.

The Group's main interest rate risk arises from mortgage loans, cash deposits and interest bearing liabilities. The vast majority of the Group's borrowings are issued at variable rates and expose the Group to interest rate risk. Mortgage loans that are written at variable rates and cash deposits also expose the Group to interest rate risk, however the risk is naturally hedged by the variable rate borrowings.

The impact of a rising/falling BBSW benchmark over the Reserve Bank of Australia's target cash rate can have a significant increase/decrease in the cost of funding and therefore on the net spread earned on the mortgages funded in the RMT Trusts. In the event of a sustained differential to the benchmark, the Group actively manages this exposure by adjusting the interest rate charged to borrowers.

Mortgages written at fixed interest rates are managed with interest rate swaps to match the borrowings used to fund the mortgages. It is a policy of the Group to utilise swaps to manage interest rate risk for 100% of the outstanding balance of fixed rate loans.

The Group's objective is to minimise exposure to adverse risk and therefore continuously analyses its interest rate exposure. The Group's Finance department also monitors actual and forecast interest rate information and incorporates this data into the Group's financial forecasts that are prepared on an ongoing basis throughout the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

At balance date, the Group had the following mix of financial assets and liabilities exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Financial Assets				
Cash and cash equivalents	72,600	31,893	44,402	787
Loans and advances to customers	897,067	774,531	-	-
Interest rate swap	24,084	14,326	-	-
	993,751	820,750	44,402	787
Financial Liabilities				
Interest-bearing liabilities - floating	(971,154)	(832,993)	(18,066)	(16,082)
	(971,154)	(832,993)	(18,066)	(16,082)
Net Exposures	22,597	(12,243)	26,336	(15,295)

The sensitivity to movements in interest rates in relation to the value of the interest bearing financial assets and liabilities is shown in the table below with all other variables held constant and assuming that interest rate changes are passed on. The change in basis points is derived from a review of historical movements.

	2008		2007	
MOVEMENT IN VARIABLE	**NET PROFIT / (LOSS) AFTER TAX $'000**	**TOTAL EQUITY $'000**	**NET PROFIT / (LOSS) AFTER TAX $'000**	**TOTAL EQUITY $'000**
Consolidated				
+ 100bps	158	158	(86)	(86)
- 100bps	(158)	(158)	86	86
Parent				
+ 100bps	185	185	(107)	(107)
- 100bps	(185)	(185)	107	107

The risks faced and methods used in the sensitivity analysis did not change from the previous period. As shown above, a 100bps movement in interest rate risk would have minimal impact on the consolidated Group's financial position.

Prepayment risk
Prepayment risk is the risk that the Group will incur a financial loss because its customers request repayment earlier than expected, which results in adverse movements in the future trailing commissions receivable and future trailing commissions payable. Refer to note 13 and note 20 for exposure at the balance date. The group monitors the prepayment rates on a monthly basis and modifies its valuation model input when the trends are established.

The consolidated Group's sensitivity to movements in prepayment rates in relation to the value of the financial assets and liabilities is shown in the table below with all other variables held constant. The change is derived from a review of historical movements.

	2008		2007	
MOVEMENT IN VARIABLE	**NET PROFIT / (LOSS) AFTER TAX $'000**	**TOTAL EQUITY $'000**	**NET PROFIT / (LOSS) AFTER TAX $'000**	**TOTAL EQUITY $'000**
Consolidated				
+ 10%	(1,439)	(1,439)	(1,373)	(1,373)
- 10%	1,672	1,672	1,591	1,591
Parent				
+ 10%	(1,074)	(1,074)	(969)	(969)
- 10%	1,249	1,249	1,125	1,125

The risks faced and methods used in the sensitivity analysis did not change from the previous period.

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the consolidated entity's financial instruments recognised in the financial statements.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments
Cash and cash equivalent: The carrying amount approximates fair value because of their short-term maturity.

Receivables, loans and advances, other financial assets, payables, non-interest bearing liabilities and variable rate interest bearing liabilities: The carrying amount approximates fair value. In the case of Non-interest bearing liabilities, this is because they are short term in nature.

The fair value of interest rate swap contracts and fixed rate interest bearing liabilities is determined by reference to market value for similar instruments. The future trailing commissions receivable and future trailing commissions payable have a carrying amount that approximates fair value.

	CARRYING AMOUNT		FAIR VALUE	
	2008 $'000	**2007 $'000**	**2008 $'000**	**2007 $'000**
Consolidated				
Financial assets				
Cash	72,600	31,893	72,600	31,893
Receivables	9,506	8,365	9,506	8,365
Loans and advances to customers	921,151	788,857	921,151	788,857
Other financial assets	39,638	79,604	39,638	79,604
Financial liabilities				
Payables	6,914	9,865	6,914	9,865
Interest bearing liabilities	971,811	834,195	971,811	834,195
Other financial liabilities	15,339	11,450	15,339	11,450

	CARRYING AMOUNT		FAIR VALUE	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Parent				
Financial assets				
Cash	44,402	787	44,402	787
Receivables	19,771	23,068	19,771	23,068
Other financial assets	25,140	70,153	25,140	70,153
Financial liabilities				
Payables	16,833	14,199	16,833	14,199
Interest bearing liabilities	18,722	17,285	18,722	825
Other financial liabilities	8,112	9,436	8,112	9,436

NOTE 26: COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Consolidated entity as lessee

The consolidated entity has entered into commercial property leases on its office space requirements. Operating leases have an average lease term of 5.8 years. Assets, which are the subject of operating leases, include office space and items of office machinery.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	1,915	1,840	1,794	1,709
After one year but not more than five years	5,407	6,057	5,407	5,928
More than five years	220	1,412	220	1,400
	7,542	9,309	7,421	9,037

Operating lease commitments – Consolidated entity as lessor

The consolidated entity has entered into commercial property leases on its surplus office space requirements. Operating leases have an average lease term of 6.4 years.

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Within one year	694	712	694	712
After one year but not more than five years	2,294	2,783	2,294	2,783
More than five years	73	534	73	534
	3,061	4,029	3,061	4,029

Contingent liabilities and capital commitments

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

Finance lease commitments – Consolidated entity as lessee

The consolidated entity has entered into finance leases of plant and equipment. The leases have an average lease term of 5 years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 8.83% (2007: 8.77%). The lease liability is secured by a charge over the leased assets.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2008		2007	
	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000
Consolidated				
Within one year	479	469	414	356
After one year but not more than five years	-	-	479	469
Total minimum lease payments	479	469	893	825
Less amounts representing finance charges	(10)	-	(68)	-
Present value of minimum lease payments (Note 18)	469	469	825	825

	2008		2007	
	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000	MINIMUM LEASE PAYMENTS $'000	PRESENT VALUE OF LEASE PAYMENTS $'000
Parent				
Within one year	479	469	414	356
After one year but not more than five years	-	-	479	469
Total minimum lease payments	479	469	893	825
Less amounts representing finance charges	(10)	-	(68)	-
Present value of minimum lease payments (Note 18)	469	469	825	825

The weighted average interest rate implicit in the leases for both the consolidated entity and Homeloans is 8.83% (2007: 8.77%).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Loans approved but not advanced	3,208	60,873	3,061	4,029

NOTE 27: RELATED PARTY DISCLOSURES

The consolidated financial statements include the financial statements of Homeloans Limited and the subsidiaries listed in the following table:

NAME	COUNTRY OF INCORPORATION	% EQUITY INTEREST		INVESTMENT	
		2008 %	2007 %	2008 $'000	2007 $'000
Parent entity					
Homeloans Limited					
Controlled entities of Homeloans Limited:					
NSW Home Loans Pty Ltd	Australia	100%	100%	-	-
VIC Home Loans Pty Ltd	Australia	100%	100%	-	-
QLD Home Loans Pty Ltd	Australia	100%	100%	-	-
SA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
WA Home Loans Australia Pty Ltd	Australia	100%	100%	-	-
IF & I Securities Pty Ltd	Australia	100%	100%	-	-
FAI First Mortgage Pty Ltd (*)	Australia	100%	100%	-	7,115
Access Home Loans (*)					
Consolidated incorporating:				9,620	11,723
- Access Network Management Pty Ltd	Australia	100%	100%	-	-
- Access Home Loans Pty Ltd	Australia	100%	100%	-	-
- HLL Pty Ltd	Australia	100%	100%	-	-
Independent Mortgage Corporation Pty Ltd	Australia	100%	100%	-	-
Match Funds Management Limited (*)	Australia	100%	100%	113	340
Residential Mortgage Trust Warehouse Trust No.1 [a]	Australia	100%	100%	-	-
RMT Securitisation Trust No.5 [a]	Australia	100%	100%	-	-
RMT Securitisation Trust No.6 [a]	Australia	100%	100%	-	-
RMT Securitisation Trust No.7 [a]	Australia	100%	100%	-	-
Auspak Financial Services Pty Ltd	Australia	100%	-	2,209	-
				11,942	19,178

[a] – Capital unit is held by a third party.
* - The decrease is attributed to investment write down during the financial year (refer to note 5(h)).

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances at year-end, refer to Note 10 and Note 18).

RELATED PARTY		SALES TO RELATED PARTIES $	PURCHASES FROM RELATED PARTIES $	AMOUNTS OWED BY RELATED PARTIES $	AMOUNTS OWED TO RELATED PARTIES $
PARENT					
Subsidiaries:					
FAI First Mortgage Pty Ltd	2008	-	-	3,705,795	-
	2007	8,448,517	-	7,664,900	-
Access Network Management Pty Ltd	2008	-	-	-	7,946,238
	2007	1,897,008	-	-	6,180,313
Match Funds Management Limited	2008	-	-	-	13,979
	2007	-	-	-	13,979
Independent Mortgage Corporation Pty Ltd	2008	-	-	13,276,695	-
	2007	-	22,418	12,264,436	-
Residential Mortgage Trusts	2008	-	-	-	3,705,795
	2007	-	-	-	3,705,795
Other related parties:					
National Mortgage Brokers Pty Ltd (formerly Mosaic Financial Services Pty Ltd)	2008	-	-	71,612	-
	2007	-	-	16,800	-
Challenger Mortgage Management	2008	-	-	-	-
	2007	427,507	-	44,687,563	-
Mortgage Asset Services Pty Ltd	2008	-	-	46,687	34,803
	2007	92,778	559,191	43,938	56,345
Auspak Financial Services Pty Ltd	2008	-	-	-	-
	2007	-	-	-	-

Transactions between subsidiaries:

FAI First Mortgage Pty Ltd (FAI) is the sole beneficiary of the Residential Mortgage Trust holding the sole income unit for each securitisation trust that is on issue. FAI receives a fee as manager, a fee as servicer of the trust, and the excess distribution payable at the monthly anniversary date after payment of all third parties including bondholders and the warehouse facility provider (Westpac Banking Corporation).

FAI does not pay anything to the trust, nor does it pay the trust for any services.

The loans to and from subsidiaries are interest free and are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Other related parties

(a) During the financial year Challenger Mortgage Management Limited ("Challenger") repaid a subordinated loan of $44,680,000.

The company has received interest revenue, upfront commissions and management fees on loans originated by the company on behalf of a Challenger company since the date of Challenger acquiring its interest in the share capital of Homeloans Limited.

(b) As at 30 June 2007, the Group had a 12.5% interest in Mosaic Financial Services Pty Ltd ("Mosaic"). Mosaic merged with National Mortgage Brokers Pty Limited ("nMB") as at 31 December 2007. nMB was incorporated in Australia and its principal activity is mortgage origination. The Group now has a 26.5% interest in nMB.

NOTE 28: EVENTS AFTER THE BALANCE SHEET DATE

No final dividend has been declared as a result of the statutory loss recorded of $12,511,000.

NOTE 29: AUDITORS' REMUNERATION

The auditor of Homeloans Limited is Ernst & Young.

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Amounts received or due and receivable by Ernst & Young (Australia) for: • an audit or review of the financial report of the entity and any other entity in the consolidated group	337,305	434,596	271,920	351,309
• other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	-	38,278	-	38,278
- accounting advice	-	-	-	-
	-	38,278	-	38,278
	337,305	472,874	271,920	389,587

NOTE 30: DIRECTORS AND EXECUTIVE DISCLOSURES

Compensation by Category: Key Management Personnel

	CONSOLIDATED		HOMELOANS LIMITED	
	2008 $	2007 $	2008 $	2007 $
Short-Term	1,792,559	2,010,524	1,792,559	2,010,524
Post Employment	85,116	59,850	85,116	59,850
Other Long-Term	-	-	-	-
Termination Benefits	278,762	-	278,762	-
Share-based Payment	22,160	152,869	22,160	152,869
	2,178,597	2,223,243	2,178,597	2,223,243

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Option holdings of Key Management Personnel (Consolidated)

	BALANCE AT BEGINNING OF PERIOD 1 JULY 07	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 08	VESTED AT 30 JUNE 2008 TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2008								
Directors								
B.D.Jones	2,000,000	-	-	-	2,000,000	2,000,000	2,000,000	-
J.L.Smith	1,150,000	-	(200,000)	-	950,000	950,000	950,000	-
Executives								
L.McDonald	95,000	-	-	-	95,000	95,000	95,000	-
T.Phillips/ B.Hartley	1,500,000	-	-	-	1,500,000	1,500,000	1,500,000	-
Total	4,745,000	-	(200,000)	-	4,545,000	4,545,000	4,545,000	-

includes forfeits and options that lapsed or did not meet performance hurdles.

	BALANCE AT BEGINNING OF PERIOD 1 JULY 06	GRANTED AS REMUNERATION	OPTIONS EXERCISED	NET CHANGE OTHER #	BALANCE AT END OF PERIOD 30 JUNE 07	VESTED AT 30 JUNE 2007 TOTAL	EXERCISABLE	NOT EXERCISABLE
30 June 2007								
Directors								
B.D.Jones	2,000,000	-	-	-	2,000,000	2,000,000	1,690,000	310,000
J.L.Smith	1,350,000	-	-	(200,000)	1,150,000	1,150,000	600,000	550,000
Executives								
L.McDonald	175,000	-	(80,000)	-	95,000	95,000	-	95,000
T.Phillips/ B.Hartley	2,500,000	-	-	(1,000,000)	1,500,000	1,500,000	1,250,000	250,000
Total	6,025,000	-	(80,000)	(1,200,000)	4,745,000	4,745,000	3,540,000	1,205,000

includes forfeits and options that lapsed or did not meet performance hurdles.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Shareholdings of Key Management Personnel

Shares held in Homeloans Limited (number)

	BALANCE 01 JULY 2007		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2008	
	Ord.	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**
30 June 2008										
Directors										
T.A.Holmes	12,434,781	-	-	-	-	-	18,389	-	12,453,170	-
R.P.Salmon	12,114,186	-	-	-	-	-	-	-	12,114,186	-
B.D.Jones	225,952	-	-	-	-	-	-	-	225,952	-
J.L.Smith	86,883	-	-	-	200,000	-	(37,616)	-	249,267	-
R.N.Scott	2,077,982	-	-	-	-	-	-	-	2,077,982	-
Executives										
L.McDonald	-	-	-	-	-	-	-	-	-	-
T.Phillips/ B.Hartley	2,598,811	-	-	-	-	-	120,000	-	2,718,811	-
Total	29,538,595	-	-	-	200,000	-	100,773	-	29,839,368	-

	BALANCE 01 JULY 2006		GRANTED AS REMUNERATION		ON EXERCISE OF OPTIONS		NET CHANGE OTHER		BALANCE 30 JUNE 2007	
	Ord.	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**	**Ord.**	**Pref.**
30 June 2007										
Directors										
T.A.Holmes	9,019,781	170,750	-	-	-	-	3,415,000	(170,750)	12,434,781	-
R.P.Salmon	8,705,366	170,441	-	-	-	-	3,408,820	(170,441)	12,114,186	-
B.D.Jones	225,952	-	-	-	-	-	-	-	225,952	-
J.L.Smith	82,723	208	-	-	-	-	4,160	(208)	86,883	-
R.N.Scott	1,489,794	29,458	-	-	-	-	588,188	(29,458)	2,077,982	-
Executives										
L.McDonald	-	-	-	-	80,000	-	(80,000)	-	-	-
T.Phillips/ B.Hartley	2,518,811	-	-	-	-	-	80,000	-	2,598,811	-
Total	22,042,427	370,857	-	-	80,000	-	7,416,168	(370,857)	29,538,595	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont)

Loans to Key Management Personnel

(i) Details of aggregates of loans to key management personnel are as follows:

	BALANCE AT BEGINNING OF PERIOD $'000	INTEREST CHARGED $'000	INTEREST NOT CHARGED $'000	AMOUNT WRITTEN OFF $'000	BALANCE AT END OF PERIOD $'000	NUMBER IN GROUP #
2008	6,467	605	-	-	13,131	4
2007	6,088	457	-	-	6,467	4

(ii) Details of key management personnel with loans above $100,000 in the reporting period are as follows:

	BALANCE AT BEGINNING OF PERIOD $'000	INTEREST CHARGED $'000	INTEREST NOT CHARGED $'000	AMOUNT WRITTEN OFF $'000	BALANCE AT END OF PERIOD $'000	HIGHEST BALANCE IN PERIOD $'000
Directors						
T.A. Holmes	240	20	-	-	260	260
	1,930	191	-	-	3,500	3,500
	1,287	99	-	-	1,287	1,287
	-	-	-	-	227	227
	-	29	-	-	2,000	2,000
B.D. Jones	380	27	-	-	327	382
	551	25	-	-	282	551
	-	-	-	-	308	308
R. P. Salmon	179	11	-	-	-	229
	154	10	-	-	139	155
	415	28	-	-	413	417
	397	27	-	-	360	397
	160	40	-	-	816	816
	350	36	-	-	595	595
	-	-	-	-	1,712	1,712
R.N.Scott	424	62	-	-	905	926
Total	6,467	605	-	-	13,131	

The above loans represent residential mortgages and have been advanced under the same terms and conditions as other borrowers. There were no other transactions with directors or key management personnel during the year.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Homeloans Limited, I state that:

1. In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the Corporations Act 2001 for the financial period ending 30 June 2008.

On behalf of the Board

Timothy A. Holmes
Non-Executive Chairman

Perth, 30 September 2008

ERNST & YOUNG

Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

Tel: 61 8 9429 2222
Fax: 61 8 9429 2436
www.ey.com/au

Independent auditor's report to the members of Homeloans Limited

Report on the Financial Report

We have audited the accompanying financial report of Homeloans Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 controls. 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.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration

Auditor's Opinion

In our opinion:

1. the financial report of Homeloans Limited is in accordance with the *Corporations Act 2001*, including:
   - i giving a true and fair view of the financial position of Homeloans Limited and the consolidated entity at 30 June 2008 and of their 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*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 22 of the directors' report for the year ended 30 June 2008. 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 Homeloans Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001.*

Ernst & Young

Ernst & Young

T G Dachs
Partner
30 September 2008

INVESTOR INFORMATION

The following information is furnished under the requirements of Chapter 4 of the Listing Rules of the Australian Stock Exchange Limited, to the extent that the information required does not appear elsewhere in the Financial Statements or the Directors Report.

(a) Distribution of shareholders and their holdings as at 22 September 2008

SIZE OF HOLDINGS OF HOLDERS	ORDINARY SHARES NUMBER OF HOLDERS
1 – 1,000	94
1,001 - 5,000	302
5,001 – 10,000	102
10,001 – 100,000	151
100,001 and over	35
TOTAL	684
Unmarketable parcel of shares	144

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

(b) Top 20 holders of Ordinary Shares as at 22 September 2008

		LISTED ORDINARY SHARES
Name	Number of shares	% of ordinary shares
Challenger Mortgage Management Holdings Pty Ltd	40,000,000	39.75
Tico Pty Ltd	11,899,795	11.86
Peterlyn Pty Ltd	11,747,975	11.70
Redbrook Nominees Pty Ltd	11,496,564	11.45
UBS Wealth Management Australia Nominees Pty Ltd	3,446,312	3.43
Hartley Phillips Securities Pty Ltd	2,718,811	2.71
UBS Nominees Pty Ltd	2,700,000	2.69
Gemtrick Pty Ltd (John Harris Family A/c)	2,151,630	2.14
ANZ Nominees Pty Ltd	1,397,404	1.39
Carpenter Nominees Pty Ltd	1,220,127	1.22
Ferber Holdings Pty Ltd	857,855	0.85
Gemtrick Pty Ltd (John Harris Super Fund A/c)	500,000	0.50
JAMAC Holdings Pty Ltd	429,955	0.43
Mr Timothy Alastair Holmes	423,211	0.42
Mr JD Cannon & Mrs AE Cannon	405,343	0.40
Mr Robert Peter Salmon	366,211	0.36
Daison Holdings Pty Ltd	321,542	0.32
Beecraft Pty Ltd	305,400	0.30
Beneficial Home Loans Pty Ltd	261,273	0.26
Challenger Group Pty Ltd	250,000	0.25
Cumulative Total after Top 20 Shareholders	**92,899,408**	**92.43**

INVESTOR INFORMATION (cont)

(c) Substantial Shareholders details as at 22nd September 2008 were:
Set out below is an extract of the Company's register of substantial shareholders, showing the substantial shareholders and the number of equity securities in which they have a relevant interest as disclosed by notices received by the Company under Part 6.7 of the Corporations Act 2001

SUBSTANTIAL HOLDER	NUMBER OF ORDINARY SHARES IN WHICH INTEREST HELD
Challenger Mortgage Management Holdings Pty Ltd	40,000,000
Timothy Alastair Holmes , Tico Pty Ltd (TA Holmes Family Fund A/C), Tico Pty Ltd (TA Holmes Superfund A/C) Joanna Mary Holmes, Tiffany Eliza Farrar Holmes, Lucy Caroline Holmes and Carol Mary Holmes	12,453,170
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/C), Peterlyn Pty Ltd (Salmon Superfund A/C)	12,114,186
Redbrook Nominees Pty Ltd	11,496,463

The number of holders of each class of security

There are 684 holders of Ordinary Shares
There are 2 holders of Executive Directors' Options
There are 17 holders of Employee Options
There are 15 holders of a different class of Employee Options
There are 10 holders of Senior Executive Options
There is 1 holder of Other Options

(d) Voting rights
The Company has Ordinary Shares on issue. All of the Ordinary Shares are fully paid.

Voting Rights attaching to each class of equity securities

Ordinary Shares

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

(e) Share Trading
The Company's shares are listed on the Australian Stock Exchange Limited and the Home Exchange is Perth. Ordinary shares are traded under the code HOM.

(f) Share Buy-Back
There is a current on-market share buy-back of the Company's ordinary shares.

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Homeloans LTD

Level 2, The Atrium, 168 St Georges Terrace, Perth WA 6000
Phone: (08) 9261 7000 Facsimile: (08) 9261 7060