



**Homeloans**



LIMITED

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A N N U A L

R E P O R T



## CORPORATE DIRECTORY

### Directors

William J Conn  
(Chairman)

Timothy Holmes  
(Joint Managing Director)

Robert Salmon  
(Joint Managing Director)

Robert Scott  
(Non Executive Director)

Desmond Speakman  
(Non Executive Director)

Company Secretary  
Jennifer Murray

### Auditors

Ernst & Young  
Central Park

Chief Operating Officer  
John McGee

152 St George's Terrace  
Perth WA 6000

Registered Office  
Level 16 The Quadrant  
1 William Street  
Perth WA 6000

### Solicitors

Phillips Fox  
Level 20  
The Quadrant  
1 William Street  
Perth WA 6000

Head Office  
Level 31 QV.1 Building  
250 St George's Terrace  
Perth WA 6000  
Telephone: (08) 9261 7000  
Facsimile: (08) 9261 7079

### Corporate Adviser

Poynton and Partners Pty Ltd  
Level 25  
Exchange Plaza  
2 The Esplanade  
Perth WA 6000

Website  
[www.homeloans.com.au](http://www.homeloans.com.au)

### Bankers

ANZ Bank  
77 St George's Terrace  
Perth WA 6000

Postal Address  
PO Box 7216,  
Cloisters Square  
Perth WA 6850

Bank of Western Australia  
108 St George's Terrace  
Perth WA 6000

Share Registry  
Computershare Investor  
Services Pty Ltd  
Level 2 Reserve Bank Building  
45 St George's Terrace  
Perth WA 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

### Controlled Entities

NSW Home Loans P/L  
VIC Home Loans P/L  
QLD Home Loans P/L  
SA Home Loans Australia P/L  
WA Home Loans Australia P/L  
IF & I Securities P/L  
FAI First Mortgage P/L

ASX Code  
HOM

HOMELoANS LIMITED  
A.C.N. 095 034 003

Contents	The Year in Review	1
	Directors' Report	3
	Independent Audit Report	7
	Directors Declaration	7
	Financial Information	8
	Corporate Governance	31





## THE YEAR IN REVIEW

Your board is delighted to report a most satisfactory performance by Homeloans in its first year as a public company.

The past eight months have indeed been the most significant in the company's history. Not only has the company achieved a successful listing on the Australian Stock Exchange, it has also exceeded financial forecasts and completed several strategic acquisitions.

Homeloans has continued its expansion into the eastern states mortgage markets and now has growing operations in NSW, VIC, QLD, SA, ACT and WA. Our eastern states business has performed extremely well and we expect continued growth and profitability in the 2001/2002 year.

The housing market is currently experiencing strong demand, in part due to the first home owners grant, but more importantly driven by low interest rates and the introduction of attractive home loan products.

Homeloans has long recognised the need to be competitive and to provide its customers with excellent products and efficient and personal service.

To this end we have introduced unique new products, recruited excellent people, developed strategic alliances, and strengthened our brand awareness.

### PROFIT

Homeloans posted an after tax profit of \$1.947 million in the eight months to June 30, 2001. The company's earnings before interest, tax, depreciation and amortisation was \$3.64 million.

### DIVIDEND

Dividend projections have increased from 5 cents to 7.5 cents per share for year 2002, 2.5 cents of which will be paid this calendar year.

### ACQUISITIONS

The company has an acquisition strategy of purchasing profitable and compatible businesses that add value to our shareholders.

FAI First Mortgage Pty Limited was purchased in April 2001 for \$7.11 million and has performed particularly well. This acquisition also included the Residential Mortgage Trust, which provides the company with flexible lending capabilities.

The company has recently completed the acquisition of Eurofinance Corporation Pty Ltd's mortgage origination and funds under management business. This purchase was completed in August 2001.

### FUNDS UNDER MANAGEMENT

Funds under management at June 30, 2001 were \$2.3 billion and are expected to increase to \$3.4 billion in the 2001/2002 financial year.

### CUSTOMER RELATIONS

Homeloans has been at the forefront of personal service for many years. Recognising the strong public demand for increased personal interaction, the company has wisely invested in quality people and excellent phone and computer systems to provide superior service to our customers.

### PERSONNEL

Our executive and management teams have expanded rapidly in the past eight months. We have been fortunate to recruit a number of talented and experienced people including our chief operating officer, John McGee.

John brings with him a decade of experience in this industry and an invaluable knowledge of the big NSW, Victoria and Queensland markets. John's appointment continues Homeloans push for acquiring quality personnel.

### THE FUTURE

Your board is confident that the operating results for the 2001/2002 year should show a satisfactory increase on the excellent results achieved this year. Provided no unforeseen circumstances occur we would expect our strong growth to continue both by acquisition and organic growth. Since June 30 the company's loan applications are at record levels. The housing market continues to show considerable strength and the low interest rate environment is expected to continue during the next year.

Significantly the full benefits of our FAI First Mortgage Pty Limited and Eurofinance acquisitions will be reflected in the 2001/2002 financial year.

Your board believes that Homeloans Limited is well positioned to continue its strong performance as it aggressively pursues a bigger slice of the \$1 billion per year Australian mortgage market.



## DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2001.

### DIRECTORS

The names and details of the directors of the company 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



**William John Conn** Chairman

Appointed 14 November 2000. Bill Conn has been involved in Investment Banking for the past 33 years. He is director in a number of companies including Grand Hotel Group, Australian Springwater

Company and ACL Holdings Limited (Hong Kong) and a director of Village Roadshow, The King Island Company, and Becton Construction. He is also consultant to Merrill Lynch.



**Timothy Alastair Holmes** Founding Director of the Company & Joint Managing Director

32 years experience in the finance and banking industry. He is a former Vice President of The WA Chamber of Commerce and Industry, a fellow of the

Company Directors Association, and Honorary Consul of Austria in WA.



**Robert Peter Salmon** Founding Director of the Company & Joint Managing Director

30 years experience in the finance and banking industry. He was an executive for leading fund manager Armstrong Jones from 1976 until 1985. In 1985, he joined

with Tim Holmes to establish International Financing and Investment Pty Ltd prior to the inception of IF&I Securities Pty Ltd.



**Desmond Lee Speakman** Non-Executive Director

Appointed 13 November 2000. More than 18 years experience in the advertising industry. He was CEO and Joint Chairman of The Campaign Palace, Chairman of

Adidas Australia and a Non-Executive Director of S.Smith & Son. He currently serves on the board of Australian Springwater Company, also as a Non-Executive Director.



**Robert Norman Scott** Non-Executive Director

Appointed 9 November 2000. He is a Chartered Accountant with over 30 years experience. He was an International Partner with Arthur Andersen. He retired in 1995 and now consults on taxation to Perth based Gooding Pervan Chartered Accountants. He is the Chairman of publicly listed Amadeus Petroleum NL.

### 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:

	Ordinary Shares	Options over Ordinary shares
W. J. Conn	400,000	600,000
T. A. Holmes	8,045,123	-
R. P. Salmons	8,015,123	-
D. L. Speakman	30,000	300,000
R. N. Scott	1,453,480	300,000

### EARNINGS PER SHARE

	Cents
Basic Earnings Per Share	6.56
Diluted Earnings Per Share	6.04

### DIVIDENDS PAID OR PROPOSED

	Cents	\$
Final dividends recommended on ordinary shares	Nil	Nil



## DIRECTORS' REPORT

### CORPORATE INFORMATION

#### Corporate structure

Homeloans Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company was incorporated on 9 November 2000 with the issuance of 25,000,000 shares to the Unitholders in the IF&I Securities Unit Trust and acquisitions of the business (including assets and liabilities) of IF & I Securities Pty Ltd (as trustee for the IF & I Securities Unit Trust), Anedo Pty Ltd (as trustee for the Anedo Unit Trust) and various IFI group entities. On 19 March 2001, Homeloans Ltd 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.

#### Nature of operations and principal activities

The principal activities of Homeloans Limited and its consolidated subsidiaries were mortgage originators and managers of home loan mortgages for a number of financiers. The principal activities were conducted under the brand names WA Homeloans, Homeloans NSW, Homeloans VIC, Homeloans SA, Homeloans QLD and Homeloans Canberra. As of the balance date, the Company has mortgage origination and management agreements with Adelaide Bank Limited, ING Bank (Australia) Limited, Residential Mortgage Trust and other institutions.

#### Employees

The consolidated entity employed 141 employees as of 30 June 2001.

### REVIEW AND RESULTS OF OPERATIONS

#### Review

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 'The Year in Review.'

#### Operating results for the Year

The consolidated entity profit after providing for income tax for the financial year was \$1,947,148.

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the chief entity or the consolidated entity during the financial year.

#### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 25 July 2001, the Company entered into an agreement to acquire Eurofinance Corporation Pty Ltd's mortgage origination and fund under management business for approximately \$3.55million. The final purchase price for the transaction was linked to the actual amount under management at the settlement date of the transaction on 27 August 2001. Approximately \$2.1million of the purchase will be funded from borrowings. As of the date of the agreement, Eurofinance Corporation Pty Ltd has approximately \$262million funds under management.

#### 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.

#### SHARE OPTIONS

##### Unissued shares

As at the date of this report, there were 3,370,000 unissued ordinary shares

under options as follows:

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2002 and no later than 9 March 2006 at an exercise price of \$1.00.

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2003 and no later than 9 March 2006 at an exercise price of \$1.15.

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2004 and no later than 9 March 2006 at an exercise price of \$1.30.

On 27 March 2001, 1,670,000 options were issued to the employees under the Employee Share Option Plan. Fifty percent (50%) of the options are exercisable on or after 2 years and the remaining 50% are exercisable after 3 years. The exercise price is \$1.01. The options expire on 27 March 2006.

On 16 May 2001, 500,000 options were issued to the Company's Chief Operating Officer, fifty percent (50%) of the options are exercisable after 27 March 2003 and the remaining 50% are exercisable after 27 March 2004. The exercise price is \$1.01. The options expire on 27 March 2006.

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.

Shares issued as a result of the exercise of options

None

Shares forfeited as a result of the failure to exercise options

None



## DIRECTORS' 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 wilful breach of duty; or
- (b) there has been a contravention of Sections 182 or 183 of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$17,844.

### INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

During or since the financial year, no director has had any interest in a contract or proposed contract with the company being an interest the nature of which has been declared by the director in accordance with Section 300(11)(d) of the Corporations Act 2001.

### DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

#### Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors and the executive team. The Remuneration Committee 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 the form of cash and fringe benefits such as motor vehicles.

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

Details of the nature and amount of each element of the emoluments of each director and the executive officers of the company and the consolidated entity are as follows:

#### Emoluments of directors

Annual Emoluments			Long Term Emoluments		Total
	Base Fee	Other	Superannuation	Options Granted	
	\$	\$	\$	\$	\$
W. J. Conn	23,333	1,784	-	46,000	71,117
T. A. Holmes	133,333	1,784	10,666	-	145,783
R. P. Salmon	133,333	1,784	10,666	-	145,783
D. L. Speakman	11,667	1,784	-	23,000	36,451
R. N. Scott	14,167	1,784	-	23,000	38,951

#### Emoluments of executive officers

Annual Emoluments			Long Term Emoluments		Total
	Base Fee	Other	Superannuation	Options Granted	
	\$	\$	\$	\$	\$
Jayson Mehnert	47,499	1,784	3,712	9,000	61,995
Garry Driscoll	93,135	1,784	13,263	18,000	126,182
I. J. Forbes	62,498	1,784	13,333	18,000	95,615
Tanya White	57,691	1,784	4,224	7,200	70,899
John McGee	55,771	1,784	4,338	90,000	151,893

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

Executives are those directly accountable and responsible for the operational management and strategic direction of the company and the consolidated entity.

The category 'Other' includes the value of any non-cash benefits provided. Options granted is valued at the market price of the shares less exercise price times the number of options granted.

The above table does not include any value attributable to the options set out above.





## DIRECTORS' REPORT

### Options granted to directors and executive officers

No options were granted over unissued shares in Homeloans Limited during and or since the end of the year to any director and the executive officers of the company and the consolidated entity as part of their remuneration.

### DIRECTORS' MEETINGS

During the year 17 directors' meetings were held. The audit committee and remuneration committee had not held any meetings for the period up to 30 June 2001. The number of meetings at which directors were in attendance was as follows:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	No. of meetings held while in office	Meetings attended	No. of meetings held while in office	Meetings attended	No. of meetings held while in office	Meetings attended
W. J. Conn	13	12	-	-	-	-
T. A. Holmes	17	17	-	-	-	-
R. P. Salmon	17	17	-	-	-	-
D. L. Speakman	13	8	-	-	-	-
R. N. Scott	17	15	-	-	-	-

### CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Homeloans Limited support and have adhered to the principles of Corporate Governance.

The company's Corporate Governance Statement is contained in the additional Australian Stock Exchange information section of this annual report. Signed in accordance with a resolution of the directors

W. J. Conn - Chairman

Melbourne, 12 September 2001



## INDEPENDENT AUDIT REPORT

To the members of Homeloans Limited

### Scope

We have audited the financial report of Homeloans Limited for the financial year ended 30 June 2001, as set out on pages 7 to 30, including the Directors' Declaration. The financial report includes the financial statements of Homeloans Limited, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements, in Australia, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and their cash flows.

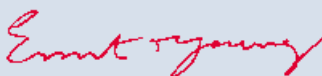
The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial report of Homeloans Limited is in accordance with:

- (a) 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 2001 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Act 2001; and
- (b) other mandatory professional reporting requirements.

Ernst & Young



G. E. Angove - Partner  
Perth, 12 September 2001

## 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 2001 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) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Group identified in note 8 will be able to meet their debts as and when they become due and payable.

On behalf of the Board



W. J. Conn - Chairman  
Melbourne, 12 September 2001



HOMELOANS LIMITED AND CONTROLLED ENTITIES  
STATEMENT OF FINANCIAL PERFORMANCE FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
REVENUES FROM ORDINARY ACTIVITIES	2	11,134,299	8,024,715
Salaries and employee benefits expense		3,022,283	2,824,289
Commissions and valuation fees		846,762	820,658
Depreciations and amortisation	3	1,191,423	1,109,564
Borrowing costs	3	248,455	244,815
Advertising expenses		140,696	126,609
Other expenses from ordinary activities	3	3,393,351	2,665,164
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		2,291,329	233,616
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	344,181	344,181
PROFIT/ (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE ATTRIBUTABLE TO MEMBERS OF HOMELOANS LIMITED	18	1,947,148	(110,565)
Basic earnings per share	24	6.56 cents	
Diluted earnings per share	24	6.04 cents	

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
<b>CURRENT ASSETS</b>			
Cash assets		2,785,192	1,109,463
Receivables	5	4,846,526	3,434,295
Deferred Expenses	6	1,386,194	1,336,322
Other	7	615,012	615,012
<b>TOTAL CURRENT ASSETS</b>		<b>9,632,924</b>	<b>6,495,092</b>
<b>NON-CURRENT ASSETS</b>			
Deferred expenses	6	3,549,276	3,399,684
Investments	8	31,499	7,142,319
Plant and equipment	9	1,075,686	1,074,686
Intangibles	10	31,551,944	25,085,080
Other	11	1,070,788	1,070,788
<b>TOTAL NON-CURRENT ASSETS</b>		<b>37,279,193</b>	<b>37,772,557</b>
<b>TOTAL ASSETS</b>		<b>46,912,117</b>	<b>44,267,649</b>
<b>CURRENT LIABILITIES</b>			
Payables	12	2,581,662	2,062,650
Non interest bearing liabilities	13	4,666,667	4,666,667
Unearned revenue	14	763,864	746,920
Interest bearing liabilities	15	834,461	834,461
Provisions	16	233,043	233,043
<b>TOTAL CURRENT LIABILITIES</b>		<b>9,079,697</b>	<b>8,543,741</b>
<b>NON-CURRENT LIABILITIES</b>			
Deferred income tax liabilities	4	344,181	344,181
Unearned revenue	14	1,071,133	1,020,334
Interest bearing liabilities	15	1,416,939	1,416,939
Provisions	16	44,167	44,167
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,876,420</b>	<b>2,825,621</b>
<b>TOTAL LIABILITIES</b>		<b>11,956,117</b>	<b>11,369,362</b>
<b>NET ASSETS</b>		<b>34,956,000</b>	<b>32,898,287</b>
<b>EQUITY</b>			
Contributed equity	17	33,008,852	33,008,852
Retained profits/(accumulated losses)	18	1,947,148	(110,565)
<b>TOTAL EQUITY</b>		<b>34,956,000</b>	<b>32,898,287</b>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
STATEMENT OF CASH FLOWS FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		12,989,005	10,728,733
Payments to suppliers and employees		(14,112,253)	(13,014,573)
Interest received		86,456	86,456
Borrowing costs		(143,329)	(127,378)
Goods and services tax paid		(434,225)	(267,298)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	19(a)	(1,614,346)	(2,594,060)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for trailing commissions		(1,455,856)	(1,455,856)
Loan to other entities		(229,786)	(229,786)
Loan repaid by other entities		846,502	846,502
Proceeds from sale of plant and equipment		43,034	-
Purchase of property, plant and equipment		(313,866)	(313,866)
Acquisition of business entities		(3,171,081)	(3,824,062)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(4,281,053)	(4,977,068)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Issue of Shares		9,860,000	9,860,000
Payment of share issue costs		(1,679,405)	(1,679,405)
Proceeds from borrowings – net of issue costs		1,530,000	1,530,000
Repayment of borrowings		(1,030,004)	(1,030,004)
NET CASH FLOWS FROM FINANCING ACTIVITIES		8,680,591	8,680,591
NET INCREASE IN CASH HELD		2,785,192	1,109,463
Opening cash brought forward		-	-
CLOSING CASH CARRIED FORWARD	19(b)	2,785,192	1,109,463

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention.

b) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Homeloans Limited (the parent entity) and all entities, which Homeloans Limited controlled from time to time during the eight months period ended 30 June 2001 and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

c) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at the lower of cost and net realisable value.

For the purpose of the statement of cash flows, cash includes cash on hand and in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

d) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

e) Investments

All non-current investments are carried at the lower of cost and recoverable amount.

f) Recoverable amount

Non-current assets are not carried at an amount above their recoverable amount and where carrying values exceed this recoverable amount assets are written down. In determining recoverable amount the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

g) Plant and equipment

Cost and valuation

Items of plant and equipment are measured at cost.

Depreciation

Depreciation is provided on a straight line basis on all plant and equipment.

Major depreciation periods for plant and equipment are 5 to 15 years.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

h) 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.

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 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.

i) Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or

shares in a controlled entity.

Goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. This is taken as being 20 years.

j) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

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

k) Loans and borrowings

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

l) Provisions

Dividends payable are recognised when a legal obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

Other provisions are provided for when it is likely that an obligation exists at the reporting date.

m) Share capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

n) Revenue and direct selling expenses 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:

Application and management fee revenue is deferred and recognised over the average term of the loan, currently taken as 50 months.

Interest income - Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Origination costs are deferred and recognised over the average term of the loan, currently taken as 50 months. Only costs that are directly attributable to establishing specific loans, and which would not have been incurred had those contracts not been entered into, have been deferred.

Certain brand development expenditure is deferred and recognised over 24 months.

o) Income tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between when items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

The income tax expense for the year is calculated using the 34% tax rate, however the deferred tax balances have been adjusted for the decreased corporate tax rate of 30% for the tax year 2001-02. The adjustment recognises that reversal of timing differences will occur within the 2001-02 or later income tax year, at which time tax will be attributed at a lower rate. The corresponding adjustment has been charged to income tax expense.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont'd)

p) Employee entitlements

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

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement 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 interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

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

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

The value of the employee option scheme described in note 25 is not being charged as an employee entitlement expense.

In respect of the consolidated entity's superannuation plans, any contributions made to the superannuation funds by entities within the consolidated entity are charged against profits when due.

q) Earnings per share

Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense by weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share is determined by dividing the profit from ordinary activities after related income tax expense adjusted for the effect of earnings on potential ordinary shares, by the weighted average number of ordinary shares (both issued and potentially dilutive) outstanding during the financial year.



HOMELOANS LIMITED AND CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
<b>2. REVENUES FROM ORDINARY ACTIVITIES</b>		
Revenues from operating activities		
Mortgage origination income	5,698,756	5,563,653
Loan management fees	6,746,438	3,720,166
Increase in unearned mortgage origination income	(1,446,242)	(1,378,499)
Total revenues from operating activities	<u>10,998,952</u>	<u>7,905,320</u>
Revenues from outside the Operating Activities		
Interest received – other person/corporations	81,871	65,919
Proceeds from sale of plant and equipment	43,034	-
Book value of plant and equipment disposed	(43,034)	-
	<u>-</u>	<u>-</u>
Other income	53,476	53,476
Total revenues from outside the operating activities	<u>135,347</u>	<u>119,395</u>
Total revenue from ordinary activities	<u>11,134,299</u>	<u>8,024,715</u>
<b>3. EXPENSES</b>		
Depreciations and amortisation		
Plant and equipment	66,745	66,745
Motor vehicles	34	34
Plant and equipment under leased	177,782	177,782
Amortisation of goodwill	946,862	865,003
Total depreciation and amortisations	<u>1,191,423</u>	<u>1,109,564</u>
Borrowing costs		
Finance lease charges	7,417	7,417
Borrowing costs and bank fees	90,809	87,169
Interest on bank loan	150,229	150,229
Total interest expense	<u>248,455</u>	<u>244,815</u>
Other expenses from ordinary activities		
Portfolio management fees	542,716	-
Management fees	798,714	775,714
Operating lease rental	417,012	405,007
Other occupancy expenses	91,792	86,611
Telecommunication	393,594	362,491
Other	1,149,523	1,035,341
	<u>3,393,351</u>	<u>2,665,164</u>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
<b>4. INCOME TAX</b>		
The prima facie tax on operating profit differs from the income tax provided in the financial statements as follows:		
Prima facie tax on profit from ordinary activities at 34%	79,429	79,429
Add/(less) tax effect of permanent differences:		
Goodwill amortisation	294,101	294,101
Entertainment expenses	16,541	16,541
Net gain attributable to change in income tax rate	(45,890)	(45,890)
Income tax expense attributable to ordinary activities	<u>344,181</u>	<u>344,181</u>
Deferred tax assets and liabilities		
Deferred income tax liabilities	<u>344,181</u>	<u>344,181</u>

Income tax losses

Future income tax benefit arising from tax losses of a controlled entity not brought to account at balance date as realisation of the benefit is not regarded as virtually certain

1,580,300

-

This future income tax benefit will only be obtained if :

- (a) future assessable income is derived of nature and of an amount sufficient to enable the benefit to be realised.
- (b) the conditions for deductibility imposed by the tax legislation continue to be complied with; and
- (c) no changes in the tax legislation adversely affect the consolidated entity in realising the benefit.

**5. RECEIVABLES**

**CURRENT**

Fees receivable	4,326,710	3,012,201
Less provision for doubtful debts	-	-
	<u>4,326,710</u>	<u>3,012,201</u>
Other debtors	519,816	422,094
	<u>4,846,526</u>	<u>3,434,295</u>

Fees receivables are on settlement terms of between 4 to 30 days

Other debtors represent other receivables with various maturities.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
<b>6. DEFERRED EXPENSES CURRENT</b>		
Deferred commissions and valuation fees	1,386,194	1,336,322
	<u>1,386,194</u>	<u>1,336,322</u>
<b>NON CURRENT</b>		
Deferred commissions and valuation fees	3,549,276	3,399,684
	<u>3,549,276</u>	<u>3,399,684</u>
<b>7. OTHER CURRENT ASSETS</b>		
Prepaid royalties and trailer commissions	396,427	396,427
Prepayments	94,838	94,838
Goods and Services Tax (GST) - net	123,747	123,747
	<u>615,012</u>	<u>615,012</u>
<b>8. INVESTMENTS</b>		
Shares in unlisted company		
- at cost	-	7,110,820
- capitalised pre-acquisition costs	31,499	31,499
	<u>31,499</u>	<u>7,142,319</u>

Particulars relating to controlled entities:

Chief Entity	Country of Incorporation	Percentage held by consolidated entity %	Chief Entity Investment \$
Chief Entity:			
Homeloans Ltd			
Controlled entities of Homeloans Limited:			
* NSW Home Loans Pty Ltd	Australia	100	100
* VIC Home Loans Pty Ltd	Australia	100	2
* QLD Home Loans Pty Ltd	Australia	100	2
* SA Home Loans Australia Pty Ltd	Australia	100	2
* WA Home Loans Australia Pty Ltd	Australia	100	2
* IF & I Securities Pty Ltd	Australia	100	100
* FAI First Mortgage Pty Ltd	Australia	100	7,110,820
			<u>7,110,820</u>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated 2001	Homeloans Ltd
	\$	\$
<b>9. PLANT AND EQUIPMENT</b>		
Motor Vehicles		
- At cost	1,700	1,700
- Provision for depreciation	(34)	(34)
	<u>1,666</u>	<u>1,666</u>
Plant and equipment		
- At cost	717,245	716,245
- Provision for depreciation	(410,222)	(410,222)
	<u>307,023</u>	<u>306,023</u>
Plant and equipment under lease		
- At cost	1,810,523	1,810,523
- Provision for amortisation	(1,043,526)	(1,043,526)
	<u>766,997</u>	<u>766,997</u>
Total plant and equipment	<u>1,074,020</u>	<u>1,073,020</u>
Total property, plant and equipment	<u>1,075,686</u>	<u>1,074,686</u>

(a) Assets pledged as security

All balances of property, plant and equipment have been granted first mortgages as security over bank loans (see note 15). The terms of the first mortgages requires all assets to be fully insured at all times.

Assets under lease are pledged as security for the associated lease liabilities.

(b) Reconciliations

Motor Vehicles		
Carrying amount at beginning	-	-
Additions	1,700	1,700
Disposals	-	-
Depreciation expense	(34)	(34)
	<u>1,666</u>	<u>1,666</u>
Plant and equipment		
Carrying amount at beginning	-	-
Additions	170,798	170,798
Additions through acquisition of entities	246,004	201,970
Disposals	(43,034)	-
Depreciation expense	(66,745)	(66,745)
	<u>307,023</u>	<u>306,023</u>
Plant and equipment under lease		
Carrying amount at beginning	-	-
Additions	142,367	142,367
Additions through acquisition of entities	802,411	802,411
Disposals	-	-
Amortisation expense	(177,781)	(177,781)
	<u>766,997</u>	<u>766,997</u>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
<b>10. INTANGIBLES (NON CURRENT)</b>		
Goodwill	32,498,806	25,950,083
Accumulated amortisations	(946,862)	(865,003)
	<u>31,551,944</u>	<u>25,085,080</u>
<b>11. OTHER (NON CURRENT)</b>		
Prepaid royalties and trailer commission	1,059,429	1,059,429
Refundable rent deposits	11,359	11,359
	<u>1,070,788</u>	<u>1,070,788</u>
<b>12. PAYABLES (CURRENT)</b>		
Trade creditors	349,220	327,809
Accrued commissions	803,575	780,575
Cash flow claim creditors	407,364	407,364
Accrued portfolio management fees	160,000	-
Sundry creditors and accruals	861,503	546,902
	<u>2,581,662</u>	<u>2,062,650</u>
Trade and other creditors are non-interest bearing and are normally settled on 30 days terms.		
<b>13. NON INTEREST BEARING LIABILITIES</b>		
Convertible notes	4,666,667	4,666,667
The convertible notes represent the remaining consideration payable for the acquisition of the interest in FAI First Mortgage Pty Ltd (FFM). Terms and conditions of the notes are as follows:		
(i) Must be converted into ordinary shares at the maturity date on 4 April 2002. The conversion price is 90(ninety)% of the market value of the shares as defined in the share purchase agreement		
(ii) Non interest bearing unless redeemed by the Company prior to the maturity date.		
(iii) Redeemable at the option of the Company. In such event, an interest equal to 12% per annum will be repayable.		
<b>14. UNEARNED REVENUE</b>		
<b>CURRENT</b>		
Deferred application fees	375,107	358,163
Loan management fee received in advance	388,757	388,757
	<u>763,864</u>	<u>746,920</u>
<b>NON CURRENT</b>		
Deferred application fees	1,071,133	1,020,334
	<u>1,071,133</u>	<u>1,020,334</u>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
<b>15. INTEREST BEARING LIABILITIES</b>			
<b>CURRENT</b>			
Lease liability – secured		334,461	334,461
Bank loans – secured		500,000	500,000
		<u>834,461</u>	<u>834,461</u>
<b>NON-CURRENT</b>			
Bank loans - secured		1,030,000	1,030,000
Lease liability – secured		386,939	386,939
		<u>1,416,939</u>	<u>1,416,939</u>
Terms and conditions			
Terms and conditions relating to the above financial instruments			
(i) The bank loan facility expires on 30 September 2003.			
Interest is charged at the bank's floating rate, as of the balance sheet date at 7.04% per annum. The bank loans are secured by way of registered first mortgages over all assets and undertaking of the Company and its controlled entities.			
(ii) Finance leases have an average lease term of 3 1/2 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 8.6%. The lease liability is secured by a charge over the leased assets.			
<b>16. PROVISIONS</b>			
<b>CURRENT</b>			
Employee entitlements	25	202,343	202,343
Other		30,700	30,700
		<u>233,043</u>	<u>233,043</u>
<b>NON-CURRENT</b>			
Employee entitlements	25	44,167	44,167
<b>17. CONTRIBUTED EQUITY</b>			
<b>(a) Issued and paid up capital</b>			
Ordinary shares fully paid		<u>33,008,852</u>	<u>33,008,852</u>
<b>(b) Movements in shares on issue</b>			
		Number of shares	\$
Beginning of the financial year		-	-
Issued during the year			
- Founding shareholders		25,000,000	25,000,000
- Public equity raising		9,860,000	9,860,000
Less: transaction costs			(1,985,148)
- Employee shares		134,000	134,000
		<u>34,994,000</u>	<u>33,008,852</u>
End of the financial year			

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

17. CONTRIBUTED EQUITY (Cont'd)

Mr. R.P. Salmon and Mr. T.A. Holmes as founding shareholders sold 5million of their shares at a price of \$1.00/shares as vendor shares under the Prospectus Issue. For their remaining shares, the Founding shareholders have provided an undertaking to the Company in relation to shares held by them ("voluntary escrow period") that:

- (a) During the first 12 months after the date of commencement of quotation of the Company's shares on ASX, they will not deal with or otherwise dispose of any of those shares; and  
 (b) During the following 12 months commencing on the expiry of the period referred to in paragraph (a) above, they will not deal with or otherwise dispose more than 50% of those Shares; except as follows:

Shareholders	No. of Shares Held	Exclusion ('permitted transferees')
Robert Peter Salmon	290,697	No exclusion
Peterlyn Pty Ltd as Trustee for Salmon Family Trust	7,674,426	Transfer to Robert Peter Salmon
Timothy Alastair Holmes	290,697	No exclusion
Tico Pty Ltd as Trustee for the TA Holmes Family Trust	7,674,426	Transfer to Timothy Alastair Holmes
Gemtrick Pty Ltd as trustee for the John Maxwell Harris Family Trust	2,616,274	Transfer to John Maxwell Harris
Carpenter Nominees Pty Ltd as Trustee for the Robert Scott Family Trust	1,453,480	Transfer to Robert Norman Scott or to the Robert Scott Superannuation Fund
Total	<u>20,000,000</u>	

If any of those Shares are transferred during the voluntary escrow period to any of the permitted transferees listed above, each of the permitted transferees provides the Company with a similar undertaking that they will not deal with or otherwise dispose of any of those shares before the expiry of the voluntary escrow period referred to in paragraph (a) or (b) above (whichever is applicable).

(c) Share Options

Options over ordinary shares:

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2002 and no later than 9 March 2006 at an exercise price of \$1.00.

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2003 and no later than 9 March 2006 at an exercise price of \$1.15.

On 9 March 2001, 400,000 options were issued to the Company's directors, exercisable on or after 19 March 2004 and no later than 9 March 2006 at an exercise price of \$1.30.

On 27 March 2001, 1,670,000 options were issued to the employees under the Employee Share Option Plan. Fifty percent (50%) of the options are exercisable on or after 2 years and the remaining 50% are exercisable after 3 years. The exercise price is \$1.01. The options expire on 27 March 2006.

On 16 May 2001, 500,000 options were issued to the Company's chief operating officer, fifty percent (50%) of the options are exercisable on or after 27 March 2003 and the remaining 50% are exercisable after 27 March 2004. The exercise price is \$1.01. The options expire on 27 March 2006.

At the end of the year there were 3,370,000 unissued ordinary shares in respect of which options were outstanding (Note 25).

(d) 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.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
<b>18. RETAINED PROFITS /(ACCUMULATED LOSSES)</b>			
Balance at the beginning of the year		-	-
Net profit attributable to members of Homeloans Limited		1,947,148	(110,565)
Total available for appropriation		1,947,148	(110,565)
Dividends provided for or paid		-	-
Balance at end of year		1,947,148	(110,565)
<b>19. STATEMENT OF CASH FLOWS</b>			
(a) Reconciliation of the operating profit after tax to the net cash flows from operations			
Profit/(loss) from ordinary activities after tax		1,947,148	(110,565)
<b>Non cash items</b>			
Depreciation of non-current assets		244,561	244,561
Amortisation of goodwill		946,862	865,003
Charges to provisions		101,043	3,415
<b>Changes in assets and liabilities</b>			
Increase in GST receivable		(139,916)	(139,916)
Increase in receivables		(1,587,148)	(452,425)
Increase in prepaid expenses		(2,188,558)	(2,060,063)
Increase in trade creditors		(1,099,370)	(1,105,102)
Decrease in lease liability		(183,149)	(183,149)
Increase in deferred income tax liability		344,181	344,181
Net cash used in operating activities		1,614,346	2,594,060
(b) Cash balances comprises			
- Cash on hand		2,500	2,500
- Cash at bank		2,782,692	1,106,963



HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
19. STATEMENT OF CASH FLOWS (Cont'd)		
(c) Financing facilities available		
At balance date the following financing facilities had been negotiated and were available		
Total facilities:		
- Bank overdraft	500,000	500,000
- Tape negotiation authority facility	145,000	145,000
- Cash advance	1,530,000	1,530,000
- Standby Letter of Credit Facility	1,000	1,000
	2,176,000	2,176,000
Facilities used at balance date:		
- Bank overdraft	-	-
- Tape negotiation authority facility	-	-
- Cash advance	1,530,000	1,530,000
- Standby Letter of Credit Facility	-	-
	1,530,000	1,530,000
Facilities unused at balance date:		
- Bank overdraft	500,000	500,000
- Tape negotiation authority facility	145,000	145,000
- Cash advance	-	-
- Standby Letter of Credit Facility	1,000	1,000
	646,000	646,000

(d) Non-cash financing and investing activities

Finance lease transactions:

During the year the consolidated entity acquired plant and equipment by means of finance leases with an aggregate fair market value of \$142,367.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

19. STATEMENT OF CASH FLOWS (Cont'd)

(e) Business Acquired

On 9 November 2000, Homeloans Limited purchased businesses of IF & I group of companies (IF & I) which consist of IF & I securities Unit Trust, IF & I securities Pty Ltd (as trustee for the IF & I Securities Unit Trust), Anedo Pty Ltd (as Trustee for the Anedo Unit Trust), and various IFI group entities.

On 3 April 2001, Homeloans Limited acquired 100% shares of FAI First Mortgage Pty Ltd (FAI), a private mortgage origination company previously owned by FAI Insurance Ltd and The Mortgage Company Pty Ltd.

Details of the acquisitions are as follows:

	IF & I	FAI
Consideration paid		
Shares issued	25,000,000	-
Cash paid	-	2,444,153
Convertible notes issued	-	4,666,667
	<u>25,000,000</u>	<u>7,110,820</u>
Fair value of net assets acquired		
Cash	-	652,981
Sundry debtors	3,030,745	182,546
Plant and equipment	1,025,619	44,034
Creditors	(3,626,538)	(290,667)
Bank overdraft	(1,379,909)	-
Employee entitlements	-	(26,797)
Goodwill arising on acquisition	<u>25,950,083</u>	<u>6,548,723</u>
	<u>25,000,000</u>	<u>7,110,820</u>
Net cash effect:		
Cash consideration paid	-	2,444,153
Less/add:		
(Cash)/overdraft balance included in the net assets acquired	<u>1,379,909</u>	<u>(652,981)</u>
	<u>1,379,909</u>	<u>1,791,172</u>

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

	Notes	Consolidated	Homeloans Ltd
		\$	\$
<b>20. EXPENDITURE COMMITMENTS</b>			
(a) Finance lease commitments			
Payable:			
- not later than one year		385,472	385,472
- later than one year but not later than five years		425,107	425,107
- later than five years		-	-
Minimum lease payments		810,579	810,579
Less future finance charges		(89,179)	(89,179)
		<u>721,400</u>	<u>721,400</u>
Total lease liability accrued for:			
Current liability	15	334,461	334,461
Non-current liability	15	386,939	386,939
		<u>721,400</u>	<u>721,400</u>
(b) Operating leases (non-cancellable):			
Minimum lease payments			
- not later than one year		723,537	723,537
- later than one year but not later than five years		1,704,295	1,704,295
- later than five years		-	-
- aggregate lease expenditure contracted for at balance date but not provided for		2,427,832	2,427,832
		<u>2,427,832</u>	<u>2,427,832</u>

(c) Finance leases have an average lease term of 3 1/2 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 8.6%. The lease liability is secured by a charge over the leased assets.

Operating leases have an average lease term of 4 years. Assets, which are the subject of operating leases, include office space and items of small machinery.

**21. SEGMENT INFORMATION**

Revenue is derived by the consolidated entity from mortgage origination and loans management. The consolidated entity operates predominantly within the one sector in Australia.

**22. FUNDS UNDER MANAGEMENT**

In performing its business operation, the Company has entered into deeds of mortgage origination and management with a number of financiers. Under the agreement, the Company originates and manages loans for a number of financiers who will source funding for the mortgages. Therefore, the Company does not fund the loan from its own balance sheet. As of the balance date, total funds managed under various deeds of mortgage origination and management is approximately \$2.3billion.

**23. ECONOMIC DEPENDENCY**

The consolidated entity does not have any economic dependency with any one client or group of clients.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

24. EARNINGS PER SHARE

(a) Basic earnings per share	6.56 cents
(b) Diluted earnings per share	6.04 cents
(c) Weighted average number of ordinary shares on issue used in the calculation of basic EPS	29,702,186
(d) Weighted average number of ordinary shares on issue used in the calculation of diluted EPS	32,697,764

25. EMPLOYEE ENTITLEMENTS AND SUPERANNUATION COMMITMENTS

	Notes	Consolidated	Homeloans Ltd
		\$	\$
<b>Employee Entitlements</b>			
The aggregate employee entitlements liability is comprised of:			
Accrued wages and salaries		112,581	112,581
Provisions (current)	16	202,343	202,343
Provisions (non-current)	16	44,167	44,167
		<u>359,091</u>	<u>359,091</u>

Employee Option Scheme

An employee option scheme was established 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 84 employees eligible for this scheme.

Information with respect to the number of options granted under the employee option scheme, options issued to the non-executive directors of the Company and options issued to the Company's chief operating officer are as follows:

	Number of options	Weighted average exercise price
Balance at the beginning of the year	-	-
- granted	3,370,000	1.06
- forfeited	-	-
- exercised	-	-
Balance at the end of the year	<u>3,370,000</u>	<u>1.06</u>
Exercisable at the end of the year	<u>-</u>	<u>-</u>

All options issued during the year have an average life of 5 years since issuance.

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

25. EMPLOYEE ENTITLEMENTS AND  
 SUPERANNUATION COMMITMENTS (cont'd)

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 are not legally enforceable other than those payable in terms of ratified award obligations required by the Occupational Superannuation Act. The assets of the fund are sufficient to satisfy all benefits that would have vested under the plan in the event of termination of the plan and voluntary or compulsory termination of employment of each employee.

Notes	Consolidated	Homeloans Ltd
	\$	\$

26. REMUNERATION OF DIRECTORS

Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party

438,085

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Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of Homeloans Limited, directly or indirectly, from the entity or any related party

438,085

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The number of directors of Homeloans Limited whose remuneration (including superannuation contributions) falls within the following bands is:

	No	No
\$ 30,000 - \$ 39,999	2	2
\$ 70,000 - \$ 79,999	1	1
\$140,000 - \$ 149,999	2	2

27. REMUNERATION OF EXECUTIVES

Remuneration received or due and receivable by executive officers of the consolidated entity whose remuneration is \$100,000 or more, from entities in the consolidated entity or a related party, in connection with the management of the affairs of the entities in the consolidated entity whether as an executive officer or otherwise:

278,075

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Remuneration received or due and receivable by executive officers of the company whose remuneration is \$100,000 or more, from the company or any related party, in connection with the management of the affairs of the company or any related party, whether as an executive officer or otherwise:

278,075

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The number of executives of the consolidated entity and the company whose remuneration falls within the following bands is:

	No	No
\$120,000 - \$129,999	1	1
\$150,000 - \$159,999	1	1

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

Notes	Consolidated	Homeloans Ltd
	\$	\$
<b>28. AUDITORS' REMUNERATION</b>		
Amounts received or due and receivable		
By the auditors of Homeloans Limited for:		
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	20,000	20,000
- other services in relation to the entity and any other entity in the consolidated entity	96,700	96,700
	<hr/>	<hr/>

**29. RELATED PARTY DISCLOSURES**

Directors

The directors of Homeloans Limited during the financial year were:

William John Conn  
 Timothy Alastair Holmes  
 Robert Peter Salmon  
 Desmond Lee Speakman  
 Robert Norman Scott

Director related entity transactions

Services

- (i) Homeloans Ltd entered into office lease agreement with St Michael Investments Pty Ltd, a Company which is 50% owned by the joint managing directors. The lease was made under normal commercial terms and conditions. Total lease payments for the eight months period ended 30 June 2000 were \$38,000.

Loan

- (ii) The Company has loan balance with R.P. Salmon and T.A. Holmes, both are directors of the Company. The balance owing to them as of 30 June 2001 is \$26,787. Subsequent to year end those loans have been repaid.

Equity instruments of directors

Interests at balance date

Interests in shares and options of entities within the consolidated entity held by directors of the reporting entity and their director related entities.

	Ordinary Shares	Options
W. J. Conn	400,000	600,000
T. A. Holmes	8,045,123	-
R. P. Salmon	8,015,123	-
D. L. Speakman	30,000	300,000
R. N. Scott	1,453,480	300,000

HOMELOANS LIMITED AND CONTROLLED ENTITIES  
NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

29. RELATED PARTY DISCLOSURES (Cont'd)

Movement in directors' equity holdings

During the year, 22,383,726 ordinary shares at a price of \$0.0001/shares were issued to Mr. R.P. Salmon, Mr. T.A. Holmes and Mr. R.N. Scott and their related entities. Of these shares 134 shares were issued to Mr. R.P. Salmon, Mr. T.A. Holmes and their related entities in relation to the rollover of the business of the various entities under the IF & I Group. Mr R.P. Salmon and Mr. T.A. Holmes sold 5,000,000 of their shares at a price of \$1.00/shares as vendor shares under the Prospectus Issue.

Mr. R.P. Salmon through his related entities acquired 50,000 shares at \$0.95/shares.

Mr. T.A. Holmes through his related entities acquired 80,000 shares at \$0.95/shares.

Mr. W.J. Conn through his related entity acquired 400,000 shares at \$1.00/shares.

Mr. D. L. Speakman through his related entity acquired 30,000 shares at \$0.95/shares.

There have been no other transactions concerning equity instruments during the financial year with directors or their director-related entities.

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

Ultimate parent

Homeloans Limited is the ultimate Australian holding company.

30. SUBSEQUENT EVENTS

On 25 July 2001, the Company has entered into an agreement to acquire Eurofinance Corporation Pty Ltd's mortgage origination and fund under management business for approximately \$3.55million. The final purchase price for the transaction was linked to the actual amount under management at the settlement date of the transaction on 27 August 2001. Approximately \$2.1million of the purchase will be funded from borrowings. As of the date of the agreement, Eurofinance Corporation Pty Ltd had approximately \$262million funds under management.

HOMELoANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

31. FINANCIAL INSTRUMENTS (Cont'd)

(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at balance date, are as follows:

Fixed Interest Rate Maturing in:

FINANCIAL INSTRUMENT	FLOATING INTEREST RATE	1 YEAR OR LESS	OVER 1 TO 5 YEARS	MORE THAN 5 YEARS	NON-INTEREST BEARING	TOTAL	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
<b>(i) FINANCIAL ASSETS</b>							
Cash assets	2,785,192					2,785,192	3.55%
Receivables					4,846,526	4,846,526	N/A
Goods and Services Tax					123,747	123,747	N/A
Total Financial Assets	2,785,192				4,970,273	7,755,465	N/A
<b>(ii) FINANCIAL LIABILITIES</b>							
Payables					2,581,662	2,581,662	N/A
Non interest bearing liabilities					4,666,667	4,666,667	N/A
Interest bearing liabilities	2,251,400					2,251,400	7.54 %
Total Financial Liabilities	2,251,400				7,248,329	9,499,729	N/A



HOMELOANS LIMITED AND CONTROLLED ENTITIES  
 NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (Cont'd)  
 FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

31. FINANCIAL INSTRUMENTS (Cont'd)

(b) Net fair values of financial assets and liabilities

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised, at balance date, are as follows:

	CARRYING AMOUNT	AGGREGATE NET FAIR VALUE
<b>(i) FINANCIAL ASSET</b>		
Cash	2,785,192	2,785,192
Receivables	4,846,526	4,846,526
Refundable GST	123,747	123,747
<b>Total Financial Assets</b>	<b>7,755,465</b>	<b>7,755,465</b>
<b>(ii) FINANCIAL LIABILITIES</b>		
Payables	2,581,662	2,581,662
Non interest bearing liabilities	4,666,667	4,666,667
Interest bearing liabilities	2,251,400	2,251,400
<b>Total Financial Liabilities</b>	<b>9,499,729</b>	<b>9,499,729</b>

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.

Trade receivables, payables, non interest bearing liabilities and interest bearing liabilities: The carrying amount approximates fair value.

(c) Credit Risk Exposures

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

Concentration of Credit Risk

The consolidated entity minimises concentrations of credit risk in relation to accounts receivable by undertaking transactions with a number of lending institutions within the banking industry. Some agreements with lenders also contain provisions enabling the lender to require the consolidated entity to pay installments due from borrowers until securities is enforced or an insurance claim has been paid and to purchase the mortgage from lender if Homeloans Limited is in default. The consolidated entity's risks in this area is mitigated by an insurance policy. The consolidated entity is not materially exposed to any individual lender.

## HOMELOANS LIMITED

### CORPORATE GOVERNANCE STATEMENT FOR EIGHT MONTHS PERIOD ENDED 30 JUNE 2001

The Board of Directors of Homeloans Limited is responsible for the corporate governance of the consolidated entity. The board guides and monitors the business and affairs of Homeloans Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure the board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the board.

#### Composition of the Board

The composition of the board is determined in accordance with the following principles and guidelines:

- the board should comprise directors with an appropriate range of qualifications and expertise; and
- the board shall meet at least every second month and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement are:

Name	Position
W. J. Conn	Chairman
T. A. Holmes	Joint Managing Director
R. P. Salmon	Joint Managing Director
D. L. Speakman	Non - Executive Director
R. N. Scott	Non - Executive Director

#### Audit Committee

The board has established an audit committee, which meets at least annually, to ensure that the board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The audit committee comprised Mr R.N. Scott as Chairman and Mr. W.J. Conn and Mr R.P. Salmon as members.

#### Remuneration Committee

The board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team. The remuneration committee comprised of D.L. Speakman as Chairman and all other directors are members of the committee.

#### Board Responsibilities

As the board acts on behalf of the shareholders and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

#### Monitoring of the Board's Performance and Communication to Shareholders

In order to ensure the board continues to discharge its responsibilities in an appropriate manner, the performance of all directors is reviewed annually by the chairperson.

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report circulated to the Australian Stock Exchange Limited and the Australian Securities Investment Commission; and
- the annual general meeting and other meetings so called to obtain approval of board action as appropriate.

## HOMELOANS LIMITED ADDITIONAL 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.

### SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder details as at 29 August 2001 were

Holder of Relevant Interest	Number of ordinary shares in which interest held
Timothy Alastair Holmes, Tico Pty Ltd (TA Holmes Family Fund A/C), Joanna Mary Holmes, Eliza Farrar Holmes, Lucy Caroline Holmes and Carol Mary Holmes	8,045,123 shares
Robert Peter Cockburn Salmon, Peterlyn Pty Ltd (Salmon Family Fund A/C) and Julie Kathleen Salmon	8,015,123 shares
Gemtrick Pty Ltd (Harris Family Fund A/C)	2,616,274 shares

There are 1,026 holders of ordinary shares

There are 3 holders of non-executive directors options

There are 84 holders of employee options

There is 1 holder of other options

There are 2 convertible note holders

### DISTRIBUTION OF MEMBERS AND THEIR HOLDINGS

Size of Holding	Number of ordinary shareholders
1 – 1000	144
1001 – 5000	523
5001 – 10000	162
10001 – 100000	177
100001 – and over	20

There is 1 holder of less than a marketable parcel of ordinary shares. A marketable parcel of shares is defined by the ASX as a parcel worth more than \$ 500.00

## TWENTY LARGEST SHAREHOLDERS

The twenty largest holders of ordinary shares in the Company as at 29 August 2001 were:

Name	Number of shares	% of issued capital
Peterlyn Pty Ltd (Salmon Family Fund A/C)	7,674,426	21.93%
Tico Pty Ltd (TA Holmes Family Fund A/C)	7,674,426	21.93%
Gemtrick Pty Ltd (Harris Family Fund A/C)	2,616,274	7.48%
Chase Manhattan Nominees Limited	2,020,675	5.77%
Carpenter Nominees Pty Ltd (Rob Scott Family Fund A/C)	1,453,480	4.15%
Perpetual Trustee Nominees Limited	777,000	2.22%
National Nominees Limited	733,000	2.09%
Permanent Trustee Australia Limited (PAR0002 A/C)	456,236	1.30%
Mulloway Pty Ltd	455,200	1.30%
Jamac Holdings Pty Ltd	400,000	1.14%
Invia Custodian Pty Limited (WAM Equity Fund A/C)	303,650	0.87%
Arton No 001 Pty Ltd	300,000	0.86%
Belike Nominees Pty Limited	300,000	0.86%
Timothy Alastair Holmes	290,697	0.83%
Robert Peter Cockburn Salmon	290,697	0.83%
Challenger Group Pty Ltd	250,000	0.71%
Felsink Pty Ltd	229,914	0.66%
Invia Custodian Pty Limited (WAM Capital Limited A/C)	178,334	0.51%
Permanent Trustee Australia Limited (MMC0002 A/C)	138,636	0.40%
Egmont Pty Ltd (C Carter Super Fund No1 A/C)	105,562	0.30%

The Company's ordinary shares are listed on the Australian Stock Exchange Limited and the Home Exchange is Perth.

During the period commencing from the admission of the Company to listing on the ASX and to the end of the reporting period Homeloans Limited has used its cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives.



## NOTES





NOTES



