

Full Financial Results



Corporate Directory

for the year ended 30 June 2010

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of Mortgage Choice Limited will be held at:

The Pavilion, Gallery Level
Star Court – Darling Park
201 Sussex Street, Sydney NSW 2000

Time: 10am

Date: 10 November 2010

DIRECTORS

P D Ritchie
Chairman

S J Clancy

P G Higgins

R G Higgins

S C Jermyn

D E Ralston

CHIEF EXECUTIVE OFFICER

M I Russell

SECRETARY

D M Hoskins

DIVISIONAL GENERAL MANAGERS

S R Mitchell
Chief Financial Officer

N C Rose-Innes
Chief Information Officer

S C Dehne
National Manager, Non-Core

K Rampal
Head of LoanKit

PRINCIPLE REGISTERED OFFICE IN AUSTRALIA

Level 10, 100 Pacific Highway,
North Sydney NSW 2060
(02) 8907 0444

SHARE REGISTER

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
(02) 8280 7111

AUDITOR

PricewaterhouseCoopers
Chartered Accountants
Darling Park Tower 2
201 Sussex Street
Sydney NSW 2000

SOLICITORS

Minter Ellison
Aurora Place, 88 Phillip Street
Sydney NSW 2000

BANKERS

ANZ Banking Group Limited
116 Miller Street
North Sydney NSW 2060

STOCK EXCHANGE LISTINGS

Mortgage Choice Limited
shares are listed on the
Australian Stock Exchange

WEBSITE ADDRESS

www.mortgagechoice.com.au

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Directors' Report

for the year ended 30 June 2010

Your Directors present their report on the consolidated entity consisting of Mortgage Choice Limited ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2010, hereafter referred to as "Mortgage Choice", "the Mortgage Choice Group" or "the Group".

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

During the year the principal continuing activity of the Mortgage Choice Group was mortgage broking. This activity involves:

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

DIVIDENDS

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

A final ordinary dividend of \$6.542 million (5.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2009 on 21 August 2009 and paid on 16 September 2009.

An interim ordinary dividend of \$6.579 million (5.5 cents per fully paid share) was declared out of profits of the Company for the half-year ended 31 December 2009 on 24 February 2010 and paid on 22 March 2010.

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

REVIEW OF OPERATIONS

Operational results for the year

The improving market conditions combined with the historically low interest rates and the First Home Owners Grant (FHOG) boost near the end of FY 2009 gave Mortgage Choice a strong start to the year. Approvals and settlements for the first half of the year increased significantly at 17% compared to the first half of the prior year. The second half of the year met with the headwinds of progressive interest rate rises, the end of the FHOG boost and continuous credit tightening but it also saw the return of the investor and the economy remained fundamentally sound. Despite these headwinds, a solid result was delivered for the year.

During the year the Group acquired the assets of the LoanKit business as detailed in note 28. This business included 50 brokers and a loan book of \$0.6 billion and was re-launched as the commencement of the Group's aggregation arm.

Mortgage Choice – residential	2010	2009
Loans approved – \$m	9,973	10,059
Change	(0.9%)	(8.2%)
Loans settled – #	34,083	33,646
Change	1.3%	(12.6%)
Loans settled – \$m	8,891	8,620
Change	3.1%	(9.8%)

The Group's loan book balance continued to grow. At 30 June 2010, the balance was \$40.0 billion, including LoanKit and the non-core offering. Mortgage Choice's residential loan book increased to \$39.1 billion, an 8.6% increase on the 30 June 2009 balance of \$36.0 billion.

Financial results for the year

Despite the fall in revenue for the year, underlying profit before tax and before the adjustment for loan book assumptions is \$20.6m, which represents a 30% increase from FY 2009. This increase is primarily as a result of a decrease in operating expenses and refinements in the estimates of margins on future trailing commissions.

The annual review of the historical trail book found that the trail book performance with regard to run-off was overstated and an adjustment to the profit and loss for the year was required to recognise the actual experience in the portfolio. In addition, assumptions used in the valuation of future trailing commissions were changed to reflect an extension of the current economic environment for the short to medium term. These refinements to the trailing commission model resulted in a \$12.8 million adjustment before tax to the Group's profit and loss for FY 2010. The resulting profit after tax was \$23.479 million, which is 12.5% lower than the previous year. The fall in after tax profit as compared to 2009 is primarily the result of the revised approach to forecasting future cash flows adopted in 2009, which resulted in a \$22.3m adjustment before tax in FY 2009.

The effect of the adjustment is summarised below.

Financial Summary	2010	2009
	\$'000	\$'000
Revenue		
Underlying revenue	130,464	134,305
Adjustment to loan book assumptions	40,864	58,590
Total Revenue	171,328	192,895
Profit before tax		
Underlying result before tax	20,623	15,842
Adjustment to loan book assumptions	12,845	22,303
Total Profit Before Tax	33,468	38,145

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

Strategy and Plans for next year

At the end of June 2009, Mortgage Choice developed a strategy to address negative trends in the business caused by the GFC and lender commission cuts. It was codenamed DREAM:

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

Twelve months on, DREAM has evolved into a three year strategy. Mortgage Choice recognises that DREAM is not a quick solution. This next year will see the continuation of initiatives and improvements to drive the implementation of DREAM.

Directors' Report (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matters or circumstances have arisen since 30 June 2010 that have significantly affected, or may significantly affect:

- the Group's operations in future financial years;
- the results of those operations in future financial years; or
- the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

Peter Ritchie AO, BCom, FCPA Independent Non-Executive Chairman Chairman of Nomination and Remuneration Committees	Peter is Deputy Chairman of Seven Network and Chairman of Reverse Corp Limited. He previously served as Managing Director of McDonald's Australia from 1974 to 1995 and as its Chairman from 1995 to 2001. Peter was a Director of Westpac Banking Corporation from 1993 to 2002 and Solution 6 Holdings from 2000 to 2002. Age 68.
Sean Clancy Dip Mkt Independent Non-Executive Director Member of Audit Committee	With a sales and marketing background across many industries including banking, fast moving consumer goods, liquor, pharmacy, consumer electronics, telecommunications and hardware, Sean brings a diverse range of knowledge and expertise to the Mortgage Choice Board. He is also a Director of the Sydney Swans Foundation, and the STW Executive Council Board. Age 50.
Peter Higgins Non-Executive Director Member of Audit Committee	Peter is co-founder of Mortgage Choice. He also is a Director of technology company Power & Data Corporation Pty Ltd, trading as Mainlinepower.com. Having been successfully self-employed for over 25 years, Peter is an investor in a diverse number of industries covering manufacturing, agriculture, technology, property and finance. Age 50.
Rodney Higgins Non-Executive Director Member of Nomination and Remuneration Committees	Rodney is co-founder of Mortgage Choice. With a background in residential and commercial property, sales and leasing, he has been a Director of companies involved in manufacturing, wholesaling, importing, retailing and finance. Age 55.
Steve Jermyn FCPA Independent Non-Executive Director Chairman of Audit Committee	Steve joined McDonald's Australia in 1984 and joined the Board of Directors in 1986. In June 1999, he was appointed Deputy Managing Director. Steve has been involved in all aspects of the development of the McDonald's restaurant business in Australia and brings with him significant experience in the development of new business and franchising. He retired from McDonald's Australia in 2005. Steve is also a Director of Reverse Corp Limited. Age 61.
Deborah Ralston PhD, FAICD, FFin, FCPA Independent Non-Executive Director Member of Audit Committee	Deborah is Director of the Australian Centre for Financial Studies and Professor of Finance at Monash University. She was formerly Pro Vice Chancellor at the University of Canberra and has also been Director of the Centre for Australian Financial Institutions at the University of Southern Queensland. Deborah is a former Director of Heritage Building Society. Age 57.

The table below sets out the Directors' interests at 30 June 2010:

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

COMPANY SECRETARY

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

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees					
	A	B	Audit		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
P D Ritchie	7	8	*	*	–	–	2	2
S J Clancy	7	8	2	2	*	*	*	*
P G Higgins	6	8	2	2	*	*	*	*
R G Higgins	5	8	*	*	–	–	1	2
S C Jermyn	8	8	2	2	*	*	*	*
D E Ralston	8	8	2	2	*	*	*	*

A = Number of meetings attended

B = Number of meetings held

* = Not a member of the relevant committee

RETIREMENT, ELECTION AND CONTINUATION IN THE OFFICE OF DIRECTORS

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

REMUNERATION REPORT

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

Principles used to determine the nature and amount of remuneration

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

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

Alignment to shareholders' interests means the remuneration framework:

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

Alignment to program participants' interests means the remuneration framework:

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

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

Directors' Report (continued)

Non-Executive Directors

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

Directors' fees

The base remuneration for the year ended 30 June 2010 was determined on 17 May 2005 and was based on the recommendations of independent remuneration consultants. Directors do not receive additional remuneration for representation on board committees. Shareholders at the General Meeting on 5 April 2004 set the maximum aggregate remuneration of the Board (excluding the Managing Director and any executive Director) at \$750,000.

The following fees apply :

	From 1 July 2010	From 1 July 2009 to 30 June 2010
Chairman	\$119,900	\$119,900
Other Non-Executive Directors	\$65,400	\$65,400

Retirement allowances for Directors

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

Executive pay

The executive pay and reward framework has three components:

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

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

Base pay and non-cash benefits

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

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay is reviewed annually in conjunction with external consultants to ensure it is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases in any senior executives' contracts.

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

Short-term incentives

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

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

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

Long-term incentives

Long-term incentives are provided in the form of share-based payments through the Executive Performance Option Plan (EPOP) and the Performance Share Plan (PSP); see pages 10-14 for further information.

Performance of Mortgage Choice Limited

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

Year	EPS (cents per share)
2006	15.2
2007	16.6
2008	16.4
2009	22.6
2010	19.7

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

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

Year	TSR
2006	117%
2007	34%
2008	-61%
2009	-20%
2010	55%

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

Details of remuneration

Amounts of remuneration

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

The key management personnel of Mortgage Choice Limited and the Group are the Chief Executive Officer, M I Russell, the Company Secretary, D M Hoskins, and those executives serving on the executive committee during the year:

- S R Mitchell – *Chief Financial Officer*
- N C Rose-Innes – *Chief Information Officer*
- D L Ennis – *Head of Franchise Distribution*
- M N Writer – *Head of Human Resources (to 28 April 2010)*
- S C Dehne – *National Manager, Non-Core (from 28 July 2009)*
- K Rampal – *Head of LoanKit (from 1 December 2009)*

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

Subsequent to year end, D L Ennis resigned from the Company effective 2 July 2010.

Directors' Report (continued)

Key management personnel

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

1 Remuneration in the form of rights and options includes negative amounts for rights and options forfeited during the year.

2 D L Ennis' employment terminated effective 2 July 2010, whereby her unvested shares lapsed.

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

Key management personnel

2009	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments		Total
	Cash salary and fees	STI	Non-monetary benefits	Super-annuation	Long service leave	Termination benefits	Shares, Rights & options ¹		
Name	\$	\$	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors									
P D Ritchie <i>Chairman</i>	110,000	–	–	9,900	–	–	–	–	119,900
S J Clancy <i>(from 18/5/09 to 30/6/09)</i>	7,308	–	–	658	–	–	–	–	7,966
P G Higgins	60,000	–	–	5,400	–	–	–	–	65,400
R G Higgins	60,000	–	–	5,400	–	–	–	–	65,400
S C Jermyn	60,000	–	–	5,400	–	–	–	–	65,400
D E Ralston	60,000	–	–	5,400	–	–	–	–	65,400
Executive Directors									
P A Lahiff ² <i>Managing Director</i> <i>(from 1/7/08 to 19/5/09)</i>	505,758	–	9,405	45,518	34,078	735,928	(443,439)	–	887,248
M I Russell ⁴ <i>Chief Executive Officer</i> <i>(from 23/4/09- 30/6/09)</i>	100,843	–	–	8,507	–	–	32,918	–	142,268
Other key management personnel									
D L Ennis ³	230,422	–	–	20,631	6,755	–	33,796	–	291,604
S R Mitchell <i>(from 27/2/09 to 30/6/09)</i>	89,158	–	–	7,490	–	–	–	–	96,648
N C Rose-Innes ³	223,600	–	–	20,124	632	–	23,707	–	268,063
M N Writer	161,200	12,090	–	15,596	1,719	–	24,653	–	215,258
D M Hoskins ^{3,5}	162,463	–	–	9,762	9,845	120,365	6,748	–	309,183
M C Newton ³ <i>(from 1/7/08 to 15/5/09)</i>	235,973	40,500	–	24,883	12,915	230,122	(7,698)	–	536,695
A D Crossley <i>(from 1/7/08 to 27/2/09)</i>	186,174	–	–	16,756	(4,050)	93,600	(69,167)	–	223,313
L A Wyatt <i>(from 1/7/08 to 17/10/08)</i>	57,022	–	–	5,132	(1,125)	33,225	10,299	–	104,553
W J O'Rourke <i>(from 1/7/08 to 17/10/08)</i>	59,383	–	–	5,344	6,559	136,545	12,220	–	220,051
Other Company and Group executives									
D A Player ³ <i>(from 1/7/08 to 12/6/09)</i>	175,171	–	–	15,765	11,917	83,378	32,744	–	318,975

1 Remuneration in the form of rights and options includes negative amounts for rights and options forfeited during the year.

2 P A Lahiff's employment terminated effective 1 July 2009, whereby his unvested options lapsed. His termination benefits include payment in lieu of notice, payment for past services.

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

4 M I Russell received 2.5m options in the 1 May 2009 grant in conjunction with accepting the role of Chief Executive Officer as of 23 April 2009.

5 D M Hoskins ceased to be an employee on 31 December 2008 after which his services were provided through The Governance Practice Pty Limited. Payments to this entity are included in the above table.

Directors' Report (continued)

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

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2010	2009	2010	2009	2010	2009
Key management personnel of Group						
M I Russell	61%	77%	29%	–	10%	23%
S R Mitchell	73%	100%	22%	–	5%	–
N C Rose-Innes	70%	91%	19%	–	11%	9%
D L Ennis	74%	88%	26%	–	–	12%
D M Hoskins	100%	98%	–	–	–	2%
M N Writer	100%	83%	–	6%	–	11%
S C Dehne	82%	–	14%	–	4%	–
K Rampal	100%	–	–	–	–	–
Other Company and Group executives						
J M Stevenson	82%	94%	12%	–	6%	6%

Service agreements

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

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

- The employment contracts of Messrs Russell, Rose-Innes, and Ms Mitchell are terminable by either the Company or the executive with three months notice.
- The employment contracts of Messrs Dehne, Stevenson, Writer and Ms Ennis are terminable by either the Company or the executive with four weeks notice.

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

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

The services of the Company Secretary D M Hoskins are provided through The Governance Practice Pty Limited on a contract that has a term of one year.

K Rampal provides services to the Group pursuant to contracts for the purchase of the assets constituting the LoanKit business from Freeol Pty Ltd of which he is a Director. These contracts require services to be provided for a set term ending 31 December 2011.

Share-based compensation

Executive Performance Option Plan (EPOP)

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

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and have an exercise price based on the market value of the Company's shares at the time of offer. Market value will be the trade-weighted average price of the Company's shares over the one-week period immediately preceding the date of offer.

The options offered to executives under the EPOP are subject to performance conditions set by the Board. In the year ending 30 June 2010, no options were offered.

The rules of the EPOP permit the Company to issue new shares or to purchase shares on-market for the purposes of satisfying the exercise of options.

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

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

When a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason', any options that have not become exercisable will lapse. However, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, options will vest on a pro-rata basis or in their entirety for certain senior executives.

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

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

Grant date	Date vested and exercisable	Expiry date	Exercise price	Value per option at grant date	Vested
1 May 2009	From 22 May 2009	1 May 2019	\$0.76	\$0.03	100%
1 May 2009	From 22 April 2010	1 May 2019	\$0.76	\$0.03	100%
1 May 2009	From 22 April 2011	1 May 2019	\$0.76	\$0.03	n/a

The above grants vest based on service requirements.

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

Details of options provided as remuneration to key management personnel of the Company and the Group are set out below. Further information on the options is set out in note 32 to the financial statements.

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

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

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

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables on pages 8 and 9 of this report. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes option pricing model framework that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

Performance Share Plan ("PSP")

The PSP permits eligible employees as identified by the Board to be offered conditional entitlements to shares. The shares allocated to those employees are subject to the achievement of performance requirements specified by the Board. The PSP is designed to provide the long-term incentive component of remuneration for managers and any other designated employees.

Participation in the PSP is offered on an annual basis. Eligible employees are offered shares to a value determined by reference to the Company's reward policy and market practice with regard to long-term incentive arrangements provided by peer organisations. The performance requirements and vesting scale applicable to offers under the PSP for years up to and including 30 June 2009 use TSR as the basis of their performance criteria. The right to receive performance shares will lapse if the performance criteria have not been met at the end of the performance period. Offers made under the PSP for the year ended 30 June 2010 are based on service requirements.

The rules of the PSP permit the Company to issue new shares or to purchase shares on-market if the performance requirements are satisfied at the end of the performance period. Participants are not required to pay for shares allocated to them under the PSP. Until the shares are released from the PSP, they will remain subject to the plan rules including the 'holding lock' applied pursuant to those rules and the participant is restricted from trading in those shares.

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

Directors' Report (continued)

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

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

While shares remain subject to the PSP rules, participants will, in general, enjoy the rights attaching to those shares (such as voting or dividend rights etc). Where a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, or any other reason determined by the Board), any conditional entitlements to receive shares will lapse. However, in the event of a change in control of the Company or if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the shares may be allocated to the participant.

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

The terms and conditions of each offer of performance shares affecting remuneration in this or future reporting periods are as follows:

Offer date	Value per performance share at offer date	Vesting date
31 August 2007	\$2.20	31 August 2010
31 August 2008	\$1.00	31 August 2011
9 December 2009	\$1.24	31 August 2011
9 December 2009	\$1.24	31 August 2012
9 December 2009	\$1.24	31 August 2013

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

Name	Number of performance share rights granted during the year	Value of performance share rights at grant date*	Number of performance shares rights vested during the year	Number of performance shares rights lapsed during the year	Value at lapse date**
Key management personnel					
M I Russell	239,250	296,670	-	-	-
S R Mitchell	62,450	77,438	-	-	-
N C Rose-Innes	62,050	76,942	-	-	-
D L Ennis	54,500	67,580	-	143,950	161,816
M N Writer	36,350	45,074	-	88,200	106,134
S C Dehne	27,050	33,542	-	-	-
Other Company and Group executives					
J M Stevenson	23,700	29,388	-	6,350	7,080

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

** The value at lapse date of share rights that lapsed during the year because a vesting condition was not satisfied is calculated assuming the condition was satisfied.

The assessed fair value at grant date of share rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes option pricing model framework that takes into account the term of the rights, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield (acknowledging that dividends will be paid to participants from the date of grant) and the risk-free interest rate for the term of the share rights. There are no performance hurdles associated with the 2010 grant.

The model inputs for performance shares granted during the year ended 30 June 2010 included:

- (a) share rights are granted for no consideration and vest over a period of four years;
- (b) grant date: 9 December 2009 (2009 – 11 September 2008);
- (c) share price at grant date: \$1.25 (2009 – \$1.12);
- (d) expected price volatility of the company's shares: 40% (2009 – 40%);
- (e) expected dividend yield: 9.2% (2009 – 10.0%); and
- (f) risk-free interest rate: 5.25% (2009 – 5.54%).

Shares provided on vesting of performance share entitlements

No shares were issued in the company in the year ended 30 June 2010 as a result of the vesting of performance share entitlements.

Details of remuneration: cash bonuses, share rights and options

For each cash bonus and grant of share rights and options in the tables on pages 8 – 9 and 11–12, the percentage of the available grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service or performance criteria is set out below. The share rights and options vest at the end of a set period of up to four years, providing vesting conditions are met. No share rights or options will vest if the conditions are not satisfied, hence the minimum value of the share rights and options yet to vest is nil. The maximum value of the share rights and options yet to vest has been determined as the amount of the grant date fair value of the share rights and options that is yet to be expensed.

Name	STI		Share rights and options					
	Paid %	Forfeited %	Financial Year granted	Vested %	Forfeited %	Financial years in which rights and options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
M I Russell	100	-	2010	-	-	30/6/2014	Nil	87,078
			2010	-	-	30/6/2013	Nil	78,656
			2010	-	-	30/6/2012	Nil	66,919
			2009	-	-	30/6/2011	Nil	10,837
			2009	100	-	-	-	-
S R Mitchell	100	-	2010	-	-	30/6/2014	Nil	21,946
			2010	-	-	30/6/2013	Nil	20,531
			2010	-	-	30/6/2012	Nil	17,468
N C Rose-Innes	100	-	2010	-	-	30/6/2014	Nil	21,806
			2010	-	-	30/6/2013	Nil	20,400
			2010	-	-	30/6/2012	Nil	17,356
			2009	-	-	30/6/2012	Nil	9,322
			2008	-	-	30/6/2011	Nil	2,898
D L Ennis	100	-	2010	-	100	-	-	-
			2009	-	100	-	-	-
			2008	-	100	-	-	-
			2007	-	100	-	-	-
M N Writer	-	100	2010	-	100	-	-	-
			2009	-	100	-	-	-
			2008	-	100	-	-	-
			2007	-	100	-	-	-
S C Dehne	100	-	2010	-	-	30/6/2014	Nil	9,506
			2010	-	-	30/6/2013	Nil	8,893
			2010	-	-	30/6/2012	Nil	7,566
J M Stevenson	100	-	2010	-	-	30/6/2014	Nil	8,329
			2010	-	-	30/6/2013	Nil	7,792
			2010	-	-	30/6/2012	Nil	6,629
			2009	-	-	30/6/2012	Nil	4,578
			2008	-	-	30/6/2011	Nil	687
			2007	-	100	30/6/2010	-	-

Directors' Report (continued)

Shares under option

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

Date options granted	Expiry date	Exercise price	Number under option
1 May 2009	1 May 2019	\$0.76	2,500,000

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

Shares provided on exercise of remuneration options

No options issued to key management personnel were exercised during the year. Options issued to former employees granted on 10 August 2004 were exercised during the year at \$1.05 per share. These options were satisfied by issuing 323,200 ordinary shares.

INSURANCE OF DIRECTORS AND OFFICERS

Insurance premiums were paid for the year ended 30 June 2010 in respect of Directors' and Officers' liability and legal expenses for Directors and Officers of the Company and all controlled entities. The insurance contract prohibits disclosure of the premium paid.

The insurance premiums relate to:

- Costs and expenses incurred by relevant Directors and Officers in defending any proceedings; and
- Other liabilities that may arise from their position, with the exception of conduct involving dishonesty, wrongful acts, or improper use of information or position to gain personal advantage.

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

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

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

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

	Consolidated	
	2010 \$	2009 \$
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	193,214	227,940
Total remuneration for audit services	193,214	227,940
2. Non-audit services		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Other assurance services	8,000	7,500
Total remuneration for audit-related services	8,000	7,500
3. Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	23,700	24,885
Other tax services	30,610	13,205
Total remuneration for taxation services	54,310	38,090
Total remuneration for non-audit services	62,310	45,590

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING

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

AUDITOR

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

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



Peter Ritchie
Director

Sydney
25 August 2010

Corporate Governance Statement

for the year ended 30 June 2010

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

A statement of the Company's full corporate governance practices is set out below. The Company considers that it complies with the August 2007 ASX Corporate Governance Principles and Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board acts on behalf of shareholders and is accountable to shareholders for the overall direction, management and corporate governance of the Company.

The Board is responsible for:

- overseeing the Company, including its control and accountability systems;
- appointing and removing the Chief Executive Officer;
- monitoring the performance of the Chief Executive Officer;
- monitoring senior management's implementation of strategy, and ensuring appropriate resources are available;
- reporting to shareholders;
- providing strategic advice to management;
- approving management's corporate strategy and performance objectives;
- determining and financing dividend payments;
- approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks and controls are in place;
- reviewing and overseeing the implementation of the Company's corporate code of conduct and code of conduct for Directors and senior executives;
- approving charters of Board committees;
- monitoring and ensuring compliance with legal and regulatory requirements and ethical standards and policies; and
- monitoring and ensuring compliance with best practice corporate governance requirements.

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

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

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

The Board operates in accordance with the broad principles set out in its Charter which is available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

Board size, composition and independence

The Charter states that:

- there must be a minimum of five Directors and a maximum of seven Directors;
- the Board must comprise:
 - a majority of independent Non-Executive Directors;
 - Directors with an appropriate range of skills, experience and expertise;
 - Directors who can understand and competently deal with current and emerging business issues; and
 - Directors who can effectively review and challenge the performance of management and exercise independent judgement;
- the nomination committee is responsible for recommending candidates for appointment to the Board; and
- each Director is appointed by a formal letter of appointment setting out the key terms and conditions of their appointment to ensure that each Director clearly understands the Company's expectations of him or her.

Directors' independence

The Board Charter sets out specific principles in relation to Directors' independence. These state that an independent Non-Executive Director is one who is independent of management and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;

- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another Group member, or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or another Group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

All Directors are required to complete an independence questionnaire.

Independent professional advice

Board committees and individual Directors may seek independent external professional advice for the purposes of proper performance of their duties.

Performance assessment

The performance of the Board, the Directors and key executives is reviewed annually. The nomination committee is responsible for reviewing:

- the Board's role;
- the processes of the Board and Board committees;
- the Board's performance; and
- each Director's performance before the Director stands for re-election.

The process for performance evaluation of the Board, its committees and individual Directors, and key executives that has been adopted by the Board is available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

A review of the Board was conducted by the Chairman of the nomination committee in concert with the Company Secretary during the financial year ended 30 June 2010.

Board committees

Mortgage Choice has three Board committees comprising the remuneration committee, the audit committee and the nomination committee. These committees serve to support the functions of the Board and will make recommendations to Directors on issues relating to their area of responsibility.

The nomination committee

The objective of the nomination committee is to help the Board achieve its objective of ensuring the Company has a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. The nomination committee is responsible for evaluating the Board's performance. The nomination committee comprises Peter Ritchie and Rodney Higgins.

The nomination committee charter is available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Codes of conduct

The Company has adopted a corporate code of conduct setting out its legal and other obligations to all legitimate stakeholders including shareholders, franchisees, employees, customers and the community.

The Company has also adopted a code of conduct for Directors and senior executives setting out required standards of behaviour, for the benefit of all shareholders. The purpose of this code of conduct is to:

- articulate the high standards of honesty, integrity, ethical and law-abiding behaviour expected of Directors and senior executives;
- encourage the observance of those standards to protect and promote the interests of shareholders and other stakeholders (including franchisees, employees, customers, suppliers and creditors);
- guide Directors and senior executives as to the practices thought necessary to maintain confidence in the Company's integrity; and
- set out the responsibility and accountability of Directors and senior executives to report and investigate any reported violations of this code or unethical or unlawful behaviour.

The Company requires that its Directors and senior executives adhere to a share trading policy that restricts the purchase and sale of Company securities to three six-week periods following the release of the half-yearly and annual financial results to the market, and the Annual General Meeting.

Copies of the Corporate Code of Conduct, the Code of Conduct for Directors and Senior Executives and the Share Trading Policy are available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The audit committee

The audit committee provides advice and assistance to the Board in fulfilling the Board's responsibilities relating to:

- financial reporting;
- the application of accounting policies;
- business policies and practices;
- legal and regulatory compliance; and
- internal risk control and management systems.

The audit committee comprises Steve Jermyn (Chairman), Sean Clancy, Peter Higgins and Deborah Ralston.

The objective of the audit committee is to:

- maintain and improve the quality, credibility and objectivity of the financial accountability process; and
- provide a forum for communication between the Board and senior financial and compliance management.

The audit committee charter is available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

Corporate Governance Statement (continued)

External auditor

The Company has adopted procedures for the selection and appointment of the external auditor which are available in the Shareholders section of the Company's website at www.mortgagechoice.com.au.

The audit committee will regularly review the performance of the external auditor and consider any ongoing appointment.

The external auditor should rotate the senior audit partner and the audit review partner every five years with suitable succession planning to ensure consistency.

The external auditor should not place itself in a position where its objectivity may be impaired or where a reasonable person might conclude that its objectivity has been impaired. This requirement also applies to individual members of an audit team. The credibility and integrity of the financial reporting process is paramount. The Company has adopted guidelines on external auditor independence. These guidelines help to ensure a consistent approach to the appointment and review of external auditors.

The Company will not give work to the external auditor likely to give rise to a 'self review threat' (as defined in Australian Professional and Ethical Standards APES110, The Institute of Chartered Accountants in Australia and CPA Australia). It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the Annual General Meeting of the Company.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure

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

- ensure the Company immediately discloses all price-sensitive information to ASX in accordance with the ASX Listing Rules and the *Corporations Act 2001 (Cth)*;
- ensure officers and employees are aware of the Company's continuous disclosure obligations; and
- establish procedures for:
 - the collection of all potentially price-sensitive information;
 - assessing if information must be disclosed to ASX under the ASX Listing Rules or the *Corporations Act 2001 (Cth)*;
 - releasing to ASX information determined to be price-sensitive information and to require disclosure; and
 - responding to any queries from ASX (particularly queries under Listing Rule 3.1B).

The protocol is carried out through a market disclosure committee comprised of management representatives. The market disclosure committee is responsible for:

- ensuring compliance with continuous disclosure obligations;
- establishing a system to monitor compliance with continuous disclosure obligations and this protocol;
- monitoring regulatory requirements so that this protocol continues to conform with those requirements;

- monitoring movements in share price and share trading to identify circumstances where a false market may have emerged in company securities; and
- making decisions about trading halts.

All relevant information provided to ASX will be posted immediately on the Company's website www.mortgagechoice.com.au, in compliance with the continuous disclosure requirements of the *Corporations Act 2001 (Cth)* and ASX Listing Rules.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

Communication to shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. The Board will:

- communicate effectively with shareholders;
- give shareholders ready access to balanced and understandable information about the Company and its corporate goals; and
- make it easy for shareholders to participate in general meetings.

Information is communicated to shareholders through ASX announcements, the Company's annual report, the Annual General Meeting, half and full year results announcements and the Company's website, www.mortgagechoice.com.au

The Board has adopted a communications strategy to facilitate and promote effective communication with shareholders and encourage participation at general meetings. Arrangements the Company has to promote communication with shareholders are set out in the Shareholders section of the Company's website at www.mortgagechoice.com.au

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has adopted and endorsed a compliance policy. The policy is a commitment to:

- promote a culture of compliance throughout the Company and franchise network;
- create an understanding of the relevant laws at all levels;
- minimise the possibility of a contravention of the law and manage any legal risk;
- enhance the Company's corporate image and customer service; and
- market, promote and sell the Company's services in a way that is competitive, ethical, honest and fair, and in compliance with the law.

The Company has developed and implemented a compliance program. The aim of the program is to promote a culture of compliance through a number of measures including staff and franchise network training, compliance procedures, support systems and the appointment of staff responsible for compliance.

The centrepiece of the program is a web based compliance education and evaluation tool. A self paced system, it covers the key legislative and regulatory obligations applicable to the business. Each major regulatory area (Trade Practices, Privacy, Equal Opportunity, Occupational Health and Safety, Technology,

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

The Company expects its employees, franchisees and representatives to actively support its compliance program. It is each employee, franchisee and representative's responsibility to make use of the training systems and support offered by the Company. Non-compliance with the law or failure to comply with the compliance program will not be tolerated and could result in disciplinary action.

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

In fundamental terms, this process involves:

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

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

Corporate reporting

The Chief Executive Officer and Chief Financial Officer have certified that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and are in accordance with relevant accounting standards.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The remuneration committee

The remuneration committee is responsible for determining and reviewing compensation arrangements for the Directors and senior management team. The remuneration committee comprises Peter Ritchie and Rodney Higgins.

The objective of the remuneration committee is to help the Board achieve its objective of ensuring the Company:

- has coherent remuneration policies and practices to attract and retain executives and Directors who will create value for shareholders;
- observes those remuneration policies and practices; and
- fairly and responsibly rewards executives and other employees having regard to the performance of the Company, the performance of the executive or employee and the general and specific remuneration environment.

Non-Executive Directors are not entitled to retirement benefits with the exception of statutory superannuation.

The remuneration committee charter is available in the Shareholders section of the Company's website at www.mortgagechoice.com.au

Auditor's Independence Declaration

As lead auditor for the audit of Mortgage Choice Limited for the year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been:

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

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



Maria Martin
Partner
PricewaterhouseCoopers

Sydney
25 August 2010

Financial Report

for the year ended 30 June 2010

These financial statements are the consolidated financial statements of the consolidated entity consisting of Mortgage Choice Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Mortgage Choice Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Mortgage Choice Limited
Level 10, 100 Pacific Highway
North Sydney NSW 2060

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

The financial statements were authorised for issue by the Directors on 25 August 2010. The Company has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the Company. All financial statements and other information are available in the Shareholders section of company's website: www.mortgagechoice.com.au

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	25/ Consolidated statement of cash flows	26/ Notes to the consolidated financial statements
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Consolidated Income Statement

for the year ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
Revenue from continuing operations	5	170,513	191,993
Other income	6	815	902
Expenses from continuing operations	7		
Sales		(103,417)	(119,809)
Technology		(4,677)	(5,356)
Marketing		(8,378)	(8,941)
Finance		(1,800)	(2,038)
Corporate		(4,709)	(5,449)
Finance costs		(14,879)	(13,157)
Profit before income tax		33,468	38,145
Income tax expense	8	(9,989)	(11,296)
Net profit attributable to the owners of Mortgage Choice Limited		23,479	26,849
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	31	19.7	22.6
Diluted earnings per share	31	19.5	22.6

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

Consolidated Statement of Comprehensive Income

as at 30 June 2010

	Notes	2010 \$'000	2009 \$'000
Profit for the year		23,479	26,849
Other comprehensive income		-	-
Total comprehensive income attributable to the owners of Mortgage Choice Limited		23,479	26,849

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

Consolidated Balance Sheet

for the year ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	10,042	5,334
Trade and other receivables	10	83,315	82,403
Total current assets		93,357	87,737
Non-current assets			
Receivables	11	184,326	153,874
Property, plant and equipment	12	1,759	2,046
Deferred tax assets	13	813	675
Intangible assets	14	3,516	2,725
Total non-current assets		190,414	159,320
Total assets		283,771	247,057
LIABILITIES			
Current liabilities			
Trade and other payables	15	58,372	57,631
Current tax liabilities		2,664	349
Provisions	16	539	425
Total current liabilities		61,575	58,405
Non-current liabilities			
Trade and other payables	17	114,795	96,331
Deferred tax liabilities	18	29,615	25,316
Provisions	19	507	609
Total non-current liabilities		144,917	122,256
Total liabilities		206,492	180,661
Net assets		77,279	66,396
EQUITY			
Contributed equity	20	1,207	808
Reserves	21(a)	597	471
Retained profits	21(b)	75,475	65,117
Total equity		77,279	66,396

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

Consolidated Statement of Changes in Equity

as at 30 June 2010

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 1 July 2008		437	1,291	53,393	55,121
Total comprehensive income for the year as reported in the 2009 financial statements		-	-	26,849	26,849
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	32	371	(639)	-	(268)
Dividends paid	22	-	-	(15,125)	15,125
Employee share options – value of employee services		-	(181)	-	(181)
		371	(820)	(15,125)	(15,574)
Balance at 30 June 2009		808	471	65,117	66,396
Total comprehensive income for the year as reported in the 2010 financial statements		-	-	23,479	23,479
Transactions with equity holders in their capacity as owners:					
Contributions of equity net of transaction costs	32	399	(59)	-	340
Dividends paid		-	-	(13,121)	(13,121)
Employee share options – value of employee services		-	185	-	185
		399	126	(13,121)	(12,596)
Balance at 30 June 2010		1,207	597	75,475	77,279

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	Notes	2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		129,402	133,540
Payments to suppliers and employees (inclusive of goods and services tax)		(116,251)	(121,154)
		13,151	12,386
Interest received from trailing commissions		24,068	20,689
Interest paid on trailing commissions		(14,879)	(13,157)
Income taxes paid		(3,543)	(6,257)
Net cash inflow from operating activities	30	18,797	13,661
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		(1,180)	(2,092)
Payments for acquisition of LoanKit business		(500)	-
Proceeds from sale of plant and equipment		-	4
Interest received from cash and deposits at call		373	404
Net cash (outflow) from investing activities		(1,307)	(1,684)
Cash flows from financing activities			
Proceeds from sale of shares		339	-
Dividends paid to company's shareholders		(13,121)	(15,125)
Net cash (outflow) from financing activities		(12,782)	(15,125)
Net increase/(decrease) in cash and cash equivalents		4,708	(3,148)
Cash and cash equivalents at the beginning of the financial year		5,334	8,482
Cash and cash equivalents at the end of year	9	10,042	5,334

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

Notes to the Consolidated Financial Statements

for the year ended 30 June 2010

Note 1 Summary of significant accounting policies

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

A. BASIS OF PREPARATION

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

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been represented so that it is also in conformity with the revised standard.

B. PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mortgage Choice Limited ("Company" or "Parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Mortgage Choice Limited and its subsidiaries together are referred to in these financial statements as the Group or the Consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

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

(ii) Employee Share Trust

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

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

C. SEGMENT REPORTING

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

Changes in accounting policy

The Group has adopted AASB 8 Operating Segments from 1 July 2009, which replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in reporting in a manner that is consistent with the internal reporting provided to the chief operating decision maker. This format is disclosed in note 4.

D. REVENUE RECOGNITION

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

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

Revenue from sale of services is recognised as follows:

(i) Origination commissions

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

(ii) Trailing commissions

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

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

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

(iii) Franchise fee income

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

(iv) Service fee income

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

(v) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(vi) Other income

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

Note 1. Summary of significant accounting policies (continued)

E. INCOME TAX

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

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

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

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

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

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

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

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

(i) Investment allowances

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

(ii) Tax consolidation legislation

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

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

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

F. LEASES

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

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

G. BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. The consideration transferred for an acquisition comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration also includes the fair value of any contingent

consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's net identifiable assets.

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

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

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

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill. Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

H. IMPAIRMENT OF ASSETS

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

I. CASH AND CASH EQUIVALENTS

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

J. TRADE RECEIVABLES

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

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

K. TRAILING COMMISSIONS RECEIVABLE

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

L. INVESTMENTS AND OTHER FINANCIAL ASSETS

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

Note 1. Summary of significant accounting policies (continued)

Loans and receivables

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

M. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

N. INTANGIBLE ASSETS

Software

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

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

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

O. TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

P. TRAILING COMMISSIONS PAYABLE

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

Q. BORROWING COSTS

Borrowing costs are recognised as expenses.

R. PROVISIONS

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

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

S. EMPLOYEE BENEFITS

Short-term obligations

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

Other long-term employee benefit obligations

The liability for long service leave and annual leave, which is not expected to be settled within twelve months after the end of the period in which the employees render the related service, is recognised in the provisions and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations

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

Share-based payments

Share-based compensation benefits are provided to employees via the Mortgage Choice Executive Performance Option Plan and the Mortgage Choice Performance Share Plan. Information relating to these schemes is set out in note 32.

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

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

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

Short term incentive plans

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

Termination benefits

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

T. CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or option for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

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

U. DIVIDENDS

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

Note 1. Summary of significant accounting policies (continued)

V. EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

W. GOODS AND SERVICES TAX (GST)

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

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

X. ROUNDING OF AMOUNTS

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

Y. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

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

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt AASB 9.

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

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

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as a result of applying the revised rules.

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

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

Z. PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Mortgage Choice Limited, disclosed in note 33 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

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

Tax consolidation legislation

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

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

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

The entities intend to also enter into a tax funding agreement under which the wholly-owned entities fully compensate Mortgage Choice Limited for any current tax payable assumed and are compensated by Mortgage Choice Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Mortgage Choice Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

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

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

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

Financial guarantees

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

Note 2 Financial risk management

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

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

The Group holds the following financial instruments:

	2010	2009
	\$'000	\$'000
Financial Assets		
Current		
Cash and cash equivalents	10,042	5,334
Trade and other receivables	83,315	82,403
Non-current		
Receivables	184,326	153,874
	277,683	241,611

Note 2. Financial risk management (continued)

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

A. MARKET RISK

Interest rate risk

The Group's main interest rate risk arises from cash and cash equivalents. At 30 June 2010 the weighted average interest rate on its cash balances was 4.5% (2009 3.2%). If interest rates were to increase by 100 basis points, the Group's after tax result would increase by \$68,000 (2009 \$53,000). A decrease of 100 basis points would reduce the Group's after tax result by \$68,000 (2009 \$53,000).

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

B. CREDIT RISK

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

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

2010	Standard & Poor's Credit Rating	Current Assets		Non-Current Assets
		Trade Receivables	NPV Future Trailing Commissions Receivable	NPV Future Trailing Commissions Receivable
		\$ 000's	\$ 000's	\$ 000's
ADIs	AA	8,294	52,221	134,656
	A+	1,025	6,915	17,830
	A	643	4,388	11,314
	BBB+	440	2,114	5,452
	BBB	232	1,335	3,441
	Not rated	398	2,843	7,332
		11,032	69,816	180,026
Non ADIs	A+	8	-	-
	Not rated	315	1,648	4,250
		323	1,648	4,250
Total Receivable		11,355	71,464	184,276

2009	Standard & Poor's Credit Rating	Current Assets		Non-Current Assets
		Trade Receivables	NPV Future Trailing Commissions Receivable	NPV Future Trailing Commissions Receivable
		\$ 000's	\$ 000's	\$ 000's
ADIs	AA	9,920	55,294	122,164
	A+	1	9	19
	A	607	4,926	10,883
	BBB+	386	2,400	5,303
	BBB	340	1,810	3,998
	Not rated	432	3,623	8,005
		11,686	68,062	150,372
Non ADIs	Not rated	420	1,585	3,502
		420	1,585	3,502
Total Receivable		12,106	69,647	153,874

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

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

At 30 June 2009	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total cash flows	Carrying Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Interest bearing							
Cash and cash equivalents	5,431	-	-	-	-	5,431	5,431
Non-interest bearing							
Cash and cash equivalents	3	-	-	-	-	3	3
Trade receivable	12,106	-	-	-	-	12,106	12,106
Other receivables	550	-	-	-	-	550	550
Future trailing commissions receivable	38,650	35,114	58,840	104,248	76,660	313,512	223,521
	56,740	35,114	58,840	104,248	76,660	331,602	241,611

C. LIQUIDITY RISK

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

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

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

Note 2. Financial risk management (continued)

Contractual maturities of financial liabilities At 30 June 2009	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total cash flows	Carrying Amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives							
Non-interest bearing							
Trade payable	10,723	–	–	–	–	10,723	10,723
Other payables	2,666	–	–	–	–	2,666	2,666
Future trailing commissions payable	24,704	22,083	36,963	65,072	47,794	196,616	140,553
	38,093	22,083	36,963	65,072	47,794	210,005	153,942

D. FAIR VALUE ESTIMATION

Refer note 3 Critical Accounting Estimates and Judgements.

Note 3 Critical accounting estimates and judgements

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

A. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Trailing commissions

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

The fair value of trailing commissions receivable and the corresponding payable to franchisees is determined by using the discounted cash flow valuation technique, which requires the use of assumptions. The key assumptions to determine the fair value at balance sheet date are the future run-off rate of the underlying loan portfolio, the discount rate and the percentage paid to franchisees. The future run-off rate used is actually a series of rates applied to the underlying loans based primarily on their age at the date of valuation. The weighted average life shown below is the result of the series of future run-off rates applied to the specific loan data at the balance sheet date.

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

The significant assumptions used in the valuation are listed below:

	2010	2009
Weighted average loan life	3.9 years	3.5 years
Average discount rate	10.9%	11.8%
Percentage paid to franchisees (10 year average)	62%	63%

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

- an increase in net assets of \$4.5 million (made up of increases in current assets of \$0.5 million, non-current assets of \$16.6 million, current liabilities of \$0.3 million, non-current liabilities of \$10.4 million and deferred tax liabilities of \$1.9 million) if favourable; or
- a decrease in net assets of \$4.0 million (made up of decreases in current assets of \$0.6 million, non-current assets of \$14.7 million, current liabilities of \$0.4 million, non-current liabilities of \$9.2 million and deferred tax liabilities of \$1.7 million) if unfavourable.

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

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

B. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

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

Note 4 Segment information

A. DESCRIPTION OF SEGMENTS

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

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

B. INFORMATION PROVIDED TO THE CHIEF EXECUTIVE OFFICER

Information provided to the Chief Executive Officer for the year ended 30 June 2010 is as follows:

	2010	2009	% change	2010	2009	% change
	Cash*			Reported		
	\$000's	\$000's		\$000's	\$000's	
Origination commission income	52,150	53,408	(2%)	52,150	53,408	(2%)
Trailing commission income	82,931	84,622	(2%)	115,150	136,696	(16%)
	135,081	138,030	(2%)	167,300	190,104	(12%)
Origination commission paid	37,237	38,073	(2%)	37,237	38,073	(2%)
Trailing commission paid	51,329	52,903	(3%)	70,920	85,551	(17%)
	88,566	90,976	(3%)	108,157	123,624	(13%)
Net core commissions	46,515	47,054	(1%)	59,143	66,480	(11%)
Non-core products net revenue	460	266	73%	460	266	73%
Other income	1,948	1,738	12%	1,948	1,738	12%
Gross Profit	48,923	49,058	0%	61,551	68,484	(10%)
Operating Expenses	27,900	30,606	(9%)	27,900	30,607	(9%)
Share based remuneration	–	–		185	(268)	
Net profit before tax	21,023	18,452	14%	33,466	38,145	(12%)
Net profit after tax	14,825	12,983	14%	23,479	26,849	(13%)

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

C. OTHER INFORMATION

(i) Revenue

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

Note 4. Segment information (continued)

Revenue reconciles to total revenue from continuing operations as follows:

	2010		2009	
	\$000's		\$000's	
Origination commission income		52,150		53,408
Trailing commission income		115,150		136,696
		167,300		190,104
Non-core gross revenue	2,080	2,080	1,053	1,053
Non-core cost	(1,620)		(787)	
Non-core net revenue	460		266	
Franchise Income	616	616	432	432
Interest	373	373	404	404
Service fees	144	144		
Other income		815		902
Total other income		1,948		1,738
Total revenue from continuing operations		170,513		191,993

(ii) Net profit after tax

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

	2010	2009
	\$000's	\$000's
Cash Net profit after tax	14,825	12,983
NPV future trails on new loans originated, net of payout	13,042	11,478
Less modelled expectation of cash to be received in the year	(13,810)	(13,714)
Plus adjustments to loan book assumptions	8,991	15,834
Plus gain on prepayment of trail liability	252	-
Reversal of amortisation of trail liability*	364	-
Share based payments expense	(185)	268
Profit for the year	23,479	26,849

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

Note 5 Revenue

	2010	2009
	\$'000	\$'000
Revenue from continuing operations		
Sales revenue		
Services	146,069	170,901
Other revenue		
Interest (note (A))	24,444	21,092
	170,513	191,993

(A) INTEREST

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

Note 6 Other income

	2010	2009
	\$'000	\$'000
Conference sponsorships (note (A))	813	844
Amortisation of software licence cost recovery (note (B))	-	17
Other	2	41
	815	902

(A) CONFERENCE SPONSORSHIPS

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

(B) AMORTISATION OF SOFTWARE LICENCE COST RECOVERY

The cost of software licences purchased for use by franchisees is recovered from franchisees. This cost recovery is amortised over three to five years, consistent with the amortisation of the corresponding intangible asset.

Note 7 Expenses

	2010	2009
	\$'000	\$'000
Profit from ordinary activities before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges (note (A))	14,879	13,157
Net loss on disposal of property, plant and equipment	-	141
Depreciation		
Plant and equipment	323	254
Amortisation		
Leasehold improvements	222	268
Computer software	560	574
Other provisions		
Employee entitlements	13	(131)
Rental expense relating to operating leases	1,177	1,085
Defined contribution superannuation expense	914	1,033
Termination benefits	105	1,548

(A) INTEREST AND FINANCE CHARGES

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

Note 8 Income tax

	2010	2009
	\$'000	\$'000
A. INCOME TAX EXPENSE		
Current tax	5,886	4,915
Deferred tax	4,161	6,381
Under (over) provided in prior years	(58)	–
	<u>9,989</u>	<u>11,296</u>
Income tax expense is attributable to:		
Profit from continuing operations	<u>9,989</u>	<u>11,296</u>
Deferred income tax (revenue) expense including income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 13)	(5,769)	(9,281)
Increase/(decrease) in deferred tax liabilities (note 18)	9,930	15,662
	<u>4,161</u>	<u>6,381</u>
B. NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE TO PRIMA FACIE TAX PAYABLE		
Profit from continuing operations before income tax expense	33,468	38,145
Income tax calculated @ 30% (2009 – 30%)	10,040	11,444
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income:	7	(148)
	<u>10,047</u>	<u>11,296</u>
Under/(over) provision from prior years	(58)	–
Income tax expense	<u>9,989</u>	<u>11,296</u>

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

Note 9 Current assets – Cash and cash equivalents

	2010	2009
	\$'000	\$'000
Cash at bank and on hand	10,042	1,340
Deposits at call	–	3,994
	<u>10,042</u>	<u>5,334</u>

A. RISK EXPOSURE

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

Note 10 Current assets – Trade and other receivables

	2010	2009
	\$'000	\$'000
Trade receivables ⁽¹⁾	11,355	12,106
Net present value of future trailing commissions receivable	71,464	69,647
Franchisee receivables	124	127
Other receivables	147	263
Prepayments	225	260
	<u>83,315</u>	<u>82,403</u>

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

A. OTHER RECEIVABLES

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

B. EFFECTIVE INTEREST RATES AND CREDIT RISK

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

C. FAIR VALUES

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

Note 11 Non-current assets – Receivables

	2010	2009
	\$'000	\$'000
Net present value of future trailing commissions receivable	184,276	153,874
Other receivables	50	–
	<u>184,326</u>	<u>153,874</u>

A. IMPAIRED RECEIVABLES AND RECEIVABLES PAST DUE

None of the non-current receivables are impaired.

B. RISK EXPOSURE

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

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

	Plant and Equipment \$'000	Leasehold Improvements \$'000	Total \$'000
Year ended 30 June 2009			
Opening net book amount	618	401	1,019
Additions	940	754	1,694
Disposals	(113)	(32)	(145)
Depreciation charge	(254)	(268)	(522)
Closing net book amount	1,191	855	2,046
At 30 June 2009			
Cost	1,945	1,403	3,348
Accumulated depreciation	(754)	(548)	(1,302)
Net book amount	1,191	855	2,046
Year ended 30 June 2010			
Opening net book amount	1,191	855	2,046
Additions	255	4	259
Disposals	(1)	–	(1)
Depreciation charge	(323)	(222)	(545)
Closing net book amount	1,122	637	1,759
At 30 June 2010			
Cost	2,029	1,406	3,435
Accumulated depreciation	(907)	(769)	(1,676)
Net book amount	1,122	637	1,759

Note 13 Non-current assets – Deferred tax assets

	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:		
Net present value of future trailing commissions payable	47,797	42,166
Employee benefits	580	224
Depreciation and amortisation	108	62
Accrued expenses	125	389
Total deferred tax assets	48,610	42,841
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	(47,797)	(42,166)
Net deferred tax assets	813	675
Deferred tax assets to be recovered within twelve months	14,046	13,816
Deferred tax assets to be recovered after more than twelve months	34,564	29,025
	48,610	42,841

Movements	NPV of future trailing commissions payable \$'000	Employee benefits \$'000	Depreciation and amortisation \$'000	Accrued expenses \$'000	Other \$'000	Total \$'000
At 30 June 2008	32,371	732	379	52	26	33,560
Charged/(credited) to the income statement	9,795	(508)	(317)	337	(26)	9,281
At 30 June 2009	42,166	224	62	389	–	42,841
Charged/(credited) to the income statement	5,631	356	46	(264)	–	5,769
At 30 June 2010	47,797	580	108	125	–	48,610

Note 14 Non-current assets – intangible assets

	Computer Software* \$'000
At 30 June 2008	
Cost	5,218
Accumulated amortisation	(2,316)
Net book amount	2,902
Year ended 30 June 2009	
Opening net book amount	2,902
Additions	397
Amortisation charge	(574)
Closing net book amount	2,725
At 30 June 2009	
Cost	5,531
Accumulated amortisation	(2,806)
Net book amount	2,725
Year ended 30 June 2010	
Opening net book amount	2,725
Additions	1,351
Amortisation charge	(560)
Closing net book amount	3,516
At 30 June 2010	
Cost	6,849
Accumulated amortisation	(3,333)
Net book amount	3,516

* Capitalised computer software includes internally generated software development costs. A significant component of these costs will not be installed and ready for use until September 2010 at which time amortisation will commence.

Note 15 Current liabilities – Trade and other payables

	2010	2009
	\$'000	\$'000
Trade payables ⁽¹⁾	10,754	10,723
Net present value of future trailing commissions payable	44,588	44,242
Licence fees repayable	98	68
Other payables	2,932	2,598
	58,372	57,631

⁽¹⁾ LOAN BOOK SECURITY TRUST

The Loan Book Security Scheme provides security for the trailing commissions payable to certain eligible franchisees based on performance criteria. Mortgage Choice Limited has granted two charges in favour of a trustee on behalf of the eligible franchisees. At this time the trustee is a controlled entity of Mortgage Choice Limited.

The first charge is over a specified percentage of the Company's trailing commission income. The purpose of this charge is to be the first source of funds available to eligible franchisees for the payment of trailing commissions in the event that administration or liquidation occurs. The charge will crystallise and can be enforced by eligible franchisees only in the event of liquidation or administration of Mortgage Choice Limited.

As at 30 June 2010, the amount that would be subject to charge resulting from applying the specified percentage to the trailing commission immediately due to be received by Mortgage Choice Limited is \$3,416,867 (2009 – \$3,619,843). This is included as part of the balance of trade payables at 30 June 2010 and would be subject to charge until disbursed to the eligible franchisees. The amount subject to the charge would vary dependant on trailing commission due to be received by Mortgage Choice Limited from month to month.

The second charge is a floating charge over all of the assets of Mortgage Choice Limited. It is limited in the powers it allows the security trustee to exercise prior to liquidation. Its primary purpose is to ensure that the loan book security structure need not be subject to the moratorium arising if an administrator were to be appointed to Mortgage Choice Limited. Only after liquidation does this charge confer comprehensive mortgagee powers on the security trustee.

FAIR VALUES

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

Note 16 Current liabilities – Provisions

	2010	2009
	\$'000	\$'000
Make good provision (note(A))	–	–
Employee entitlements – annual leave	428	414
Employee entitlements – long service leave	111	11
	539	425

(A) MAKE GOOD PROVISION

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

Note 17 Non-current liabilities – Payables

	2010	2009
	\$'000	\$'000
Net present value of future trailing commissions payable	114,735	96,311
Licence fees repayable	60	20
	114,795	96,331

Note 18 Non-current liabilities – Deferred tax liabilities

	2010	2009
	\$'000	\$'000
The balance comprises temporary differences attributable to:		
NPV of future trailing commissions receivable	76,722	67,056
Intangibles	655	426
Prepayments and other receivables	35	–
	77,412	67,482
Setoff of deferred tax assets pursuant to setoff provisions (note 13)	(47,797)	(42,166)
Net deferred tax liabilities	29,615	25,316
Deferred tax liabilities to be settled within twelve months	24,351	20,940
Deferred tax liabilities to be settled after more than twelve months	53,061	46,542
	77,412	67,482

Movements – Consolidated

	NPV of future trailing commissions payable	Intangibles	Prepayments and other receivables	Total
	\$'000	\$'000	\$'000	\$'000
At 30 June 2008	51,434	386	–	51,820
Charged to income tax provision	–	–	–	–
Charged to the income statement	15,622	40	–	15,662
At 30 June 2009	67,056	426	–	67,482
Charged to the income statement	9,666	229	35	9,930
At 30 June 2010	76,722	655	35	77,412

Note 19 Non-current liabilities – Provisions

	2010	2009
	\$'000	\$'000
Make good provision (refer note 16)	408	408
Employee entitlements – long service leave	99	201
	507	609

Note 20 Contributed equity

	2010 number '000	2009 number '000	2010 \$'000	2009 \$'000
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A. SHARE CAPITAL

Ordinary shares – fully paid	118,438	118,106	1,207	808
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Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

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

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

B. TOTAL CONTRIBUTED EQUITY AS AT 30 JUNE 2010:

Details	Notes	Number of shares
Total ordinary shares on issue		119,617,705
Treasury shares	(i)	(1,179,800)
Total ordinary shares held as contributed equity		118,437,905

(i) Treasury shares

Treasury shares are shares in Mortgage Choice Limited that are held by the Mortgage Choice Performance Share Plan Trust for the purpose of issuing shares under the Mortgage Choice Performance Share Plan (PSP) (see note 32 for further information).

Date	Details	Number of shares
30 June 2008	Balance	460,000
1 July 2008	Acquisition of shares on market to meet vesting requirements	56
11 September 2008	Shares issued to the Mortgage Choice Performance Share Plan Trust	499,100
24 September 2008	Acquisition of shares on market to meet vesting requirements	172,476
24 September 2008	Treasury shares issues under the Performance Share Plan to employees	(172,476)
17 October 2008	Treasury shares issues under the Performance Share Plan to employees	(43,162)
31 December 2008	Treasury shares issues under the Performance Share Plan to employees	(19,632)
15 May 2009	Treasury shares issues under the Performance Share Plan to employees	(26,600)
12 June 2009	Treasury shares issues under the Performance Share Plan to employees	(36,600)
30 June 2009	Balance	833,162
23 July 2009	Treasury shares issues under the Performance Share Plan to employees	(8,900)
23 December 2009	Shares issued to the Mortgage Choice Performance Share Plan Trust	355,538
30 June 2010	Balance	1,179,800

Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
30 June 2008	Balance	117,979,867	437
1 July 2008	Acquisition of shares on market to meet vesting requirements	(56)	–
11 September 2008	Shares issued to the Mortgage Choice Performance Share Plan Trust	499,100	–
11 September 2008	Held as treasury shares	(499,100)	–
24 September 2008	Acquisition of shares on market to meet vesting requirements	(172,476)	–
24 September 2008	Shares vested to employees under the Performance Share Plan	172,476	152
17 October 2008	Shares vested to employees under the Performance Share Plan	43,162	78
31 December 2008	Shares vested to employees under the Performance Share Plan	19,632	36
15 May 2009	Shares vested to employees under the Performance Share Plan	26,600	47
12 June 2009	Shares vested to employees under the Performance Share Plan	36,600	58
30 June 2009	Balance	118,105,805	808
6 October 2009	Shares issued on exercise of options	323,200	387
15 July 2009	Shares vested to employees under the Performance Share Plan	8,900	12
23 December 2009	Shares issued to the Mortgage Choice Performance Share Plan Trust	355,538	–
23 December 2009	Held as treasury shares	(355,538)	–
30 June 2010	Balance	118,437,905	1,207

C. EMPLOYEE SHARE SCHEME

Information relating to the employee share scheme, including details of shares issued under the scheme, is set out in note 32.

D. OPTIONS

Information relating to the Mortgage Choice Executive Performance Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year are set out in the Directors' report on pages 10 – 14 of the remuneration report.

Note 21 Reserves and retained profits

A. RESERVES

	2010	2009
	\$'000	\$'000
Share-based payments reserve	597	471
Movements:		
Share-based payments reserve		
Balance 1 July	471	1,291
Options and performance shares expensed/(reversed)	185	(268)
Acquisition of shares on market to meet vesting requirements	-	(181)
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	(12)	(371)
Options exercised	(47)	-
Balance 30 June	597	471

B. RETAINED PROFITS

	2010	2009
	\$'000	\$'000
Balance 1 July	65,117	53,393
Net profit for the year	23,479	26,849
Dividends	(13,121)	(15,125)
Balance 30 June	75,475	65,117

C. NATURE AND PURPOSE OF RESERVES

Share-based payments reserve

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

Note 22 Dividends

	2010	2009
	\$'000	\$'000

A. ORDINARY SHARES

Final dividend declared out of profits of the Company for the year ended 30 June 2008 of 8.0 cents per fully paid share paid on 15 September 2008:

Fully franked based on tax paid @ 30%

8.0 cents per share

- 9,475

Interim dividend declared out of profits of the Company for the half-year ended 31 December 2008 of 4.75 cents per fully paid share paid 23 March 2009:

Fully franked based on tax paid @ 30%

4.75 cents per share

- 5,650

Final dividend declared out of profits of the Company for the year ended 30 June 2009 of 5.5 cents per fully paid share paid on 16 September 2009:

Fully franked based on tax paid @ 30%

5.5 cents per share

6,542 -

Interim dividend declared out of profits of the Company for the half-year ended 31 December 2009 of 5.5 cents per fully paid share paid 22 March 2010:

Fully franked based on tax paid @ 30%

5.5 cents per share

6,579 -

13,121 15,125

B. DIVIDENDS NOT RECOGNISED AT YEAR END

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 6.5 cents per fully paid ordinary share, (2009 – 5.5 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 20 September 2010 out of retained profits at 30 June 2010, but not recognised as a liability at year end, is

7,775 6,542

C. FRANKED DIVIDEND

The franked portions of the final dividends recommended after 30 June 2010 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2010.

	2010	2009
	\$'000	\$'000

Franking credits available for subsequent financial years to the equity holders of the parent entity based on a tax rate of 30% (2009 – 30%)

3,161 2,927

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

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividend recommended by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$3,332,000 (2009: \$2,804,000).

Note 23 Key management personnel disclosures

A. KEY MANAGEMENT PERSONNEL COMPENSATION

	2010	2009
	\$	\$
Short-term employee benefits	2,106,978	2,019,991
Post-employment benefits	90,788	179,743
Long-term benefits	(15,171)	67,328
Termination benefits	–	1,349,785
Share-based payments	112,129	(375,963)
Payments to KMP whose services are provided through external companies	221,105	54,000
Balance 30 June	2,515,829	3,294,884

Detailed remuneration disclosures are provided in the Directors' report on pages 8 – 14 of the remuneration report.

B. EQUITY INSTRUMENT DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

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

Details of options and performance shares provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the Directors' report on pages 10 – 14 of the remuneration report.

Option holdings

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

2010	Balance at the start of the year	Granted as compensation	Exercised	Forfeited/lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Key management personnel of the Group							
M I Russell	2,500,000	–	–	–	2,500,000	1,700,000	800,000

2009	Balance at the start of the year	Granted as compensation	Exercised	Forfeited/lapsed	Balance at the end of the year	Vested and exercisable	Unvested
Directors of Mortgage Choice Limited							
P A Lahiff	2,693,600	3,396,250	–	(5,537,636)	552,214	552,214	–
Other key management personnel of the Group							
A D Crossley	536,100	–	–	(536,100)	–	–	–
M C Newton	298,350	491,050	–	(638,394)	151,006	151,006	–
M I Russell	–	2,500,000	–	–	2,500,000	900,000	1,600,000

Performance share rights

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

2010	Balance at the start of the year	Granted as compensation	Exercised	Forfeited	Balance at the end of the year	Unvested
Key management personnel of the Group						
M I Russell	–	239,250	–	–	239,250	239,250
D L Ennis	89,450	54,500	–	(143,950)	–	–
N C Rose-Innes	63,000	62,050	–	–	125,050	125,050
M N Writer	51,850	36,350	–	(88,200)	–	–
S R Mitchell	–	62,450	–	–	62,450	62,450
S C Dehne	–	27,050	–	–	27,050	27,050

2009	Balance at the start of the year	Granted as compensation	Exercised	Forfeited	Balance at the end of the year	Unvested
Directors of Mortgage Choice Limited						
P A Lahiff	83,300	–	(44,982)	(38,318)	–	–
Other key management personnel of the Group						
D L Ennis	54,600	53,550	(10,098)	(8,602)	89,450	89,450
N C Rose-Innes	29,300	33,700	–	–	63,000	63,000
M N Writer	45,800	20,250	(7,668)	(6,532)	51,850	51,850
D M Hoskins	67,400	–	(33,780)	(33,620)	–	–
M C Newton	61,300	–	(38,156)	(23,144)	–	–
A D Crossley	25,300	112,750	(13,662)	(124,388)	–	–
L A Wyatt	35,800	–	(16,915)	(18,885)	–	–
W J O'Rourke	61,550	–	(30,800)	(30,750)	–	–

Note 23. Key management personnel disclosures (continued)

Share holdings

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

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

D L Ennis' employment terminated effective 2 July 2010.

2009	Balance at the start of the year	Received during the year on the vesting of share rights	Other changes during the year	Balance at the end of the year
Directors of Mortgage Choice Limited				
P A Lahiff	247,000	44,982	–	291,982
P D Ritchie	350,125	–	–	350,125
P G Higgins	5,822,939	–	–	5,822,939
R G Higgins	15,226,215	–	–	15,226,215
S C Jermyn	2,000,000	–	–	2,000,000
D E Ralston	50,000	–	–	50,000
Other key management personnel of the Group				
M I Russell	–	–	–	–
D L Ennis	–	10,098	–	10,098
S R Mitchell	–	–	–	–
N C Rose-Innes	–	–	–	–
M N Writer	–	7,668	–	7,668
D M Hoskins	33,950	33,780	–	67,730
M C Newton	27,600	38,156	(65,756)	–
A D Crossley	17,500	13,662	(31,162)	–

P A Lahiff's employment terminated effective 1 July 2009.

Shareholdings of Directors and other key management personnel of the Group include those that have been disclosed under representation made to them by the parties within the AASB 124 Related Party Disclosures. The Directors and other key management personnel have relied upon the representations made as they have no control or influence over the financial affairs of the personally related entities to substantiate the shareholdings declared. Where a personally related entity has declined to provide shareholding details, the shareholding of that personally related entity has been assumed to be nil.

Note 24 Remuneration of auditors

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

	2010	2009
	\$	\$
A. AUDIT SERVICES		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports	193,214	227,940
Total remuneration for audit services	193,214	227,940
B. NON-AUDIT SERVICES		
Audit-related services		
PricewaterhouseCoopers Australian firm:		
Other assurance services	8,000	7,500
Total remuneration for audit-related services	8,000	7,500
Taxation services		
PricewaterhouseCoopers Australian firm:		
Tax compliance services	23,700	24,885
Other tax services	30,610	13,205
Total remuneration for taxation services	54,310	38,090
Total remuneration for non-audit services	62,310	45,590

Note 25 Contingencies

CONTINGENT LIABILITIES

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

Guarantees

Guarantees given in respect of premises leases \$963,405 (2009: \$963,405).

Contingent claims

From time to time disputes occur between the Company and its franchisees in the normal course of operation, a number of which may be unresolved at any point in time. At 30 June 2010 and 30 June 2009, there were no disputes or claims in progress that are expected to have a material financial impact on the Company.

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

Note 26 Commitments

A. LEASE COMMITMENTS

Non-cancellable operating leases

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

	2010	2009
	\$'000	\$'000
Operating leases		
Operating lease expenditure contracted for at the reporting date but not recognised as liabilities payable:		
Within one year	1,090	1,018
Later than one year but not later than five years	2,068	3,008
Later than five years	-	-
	3,158	4,026

B. OTHER COMMITMENTS

	2010	2009
	\$'000	\$'000
Commitments in relation to non-cancellable obligation for the supply of media placement services as at the reporting date but not recognised as liabilities payable:		
Within one year	-	50
Later than one year but not later than five years	-	-
	-	50

Note 27 Related party transactions

A. PARENT ENTITY

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

B. SUBSIDIARIES

Interests in subsidiaries are set out in note 28.

C. KEY MANAGEMENT PERSONNEL

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

D. LOANS TO/FROM RELATED PARTIES

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

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

Note 28 Business combination

A. SUMMARY OF ACQUISITION

On 1 December 2009 the Group acquired the LoanKit business and associated assets. Details of the purchase consideration and the net assets acquired are as follows:

	\$'000
Purchase consideration	500

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value
	\$'000
Intangible asset: software	430
Other receivable: service fees receivable	100
Deferred tax liability	(30)
Net identifiable assets acquired	500

As part of the purchase agreement, the former owner will provide ongoing services to the Group including the provision of software maintenance. This agreement has a set term to 31 December 2011. Total payments to be made over the period are \$412,360 of which \$109,490 has been recognised in the current period.

There were no acquisitions in the year ended 30 June 2009.

Service fees receivable is calculated as the present value of service fees to be received from processing trailing commissions for the loans existing at the time of acquisition.

The LoanKit business is operated through Beagle Finance Pty Limited, a wholly owned subsidiary of Mortgage Choice Limited. Since acquisition, the LoanKit business incurred a net loss after tax of \$0.11m

If the acquisition had occurred on 1 July 2009, revenue and profit after tax for the year ended 30 June 2010 would have been \$171.4m and \$23.4m respectively which management considers represents an approximate measure of the Group, incorporating the LoanKit business, on an annualised basis.

Note 29 Events occurring after the balance sheet date

A. DIVIDEND PAYMENT

A final ordinary dividend of \$7,775,000 (6.5 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2010 on 25 August 2010 to be paid on 20 September 2010.

The financial effects of the above transaction have not been brought to account at 30 June 2010.

Note 30 Reconciliation of profit after income tax to net cash inflow from operating activities

	2010	2009
	\$'000	\$'000
Profit for the year	23,479	26,849
Depreciation and amortisation	1,105	1,095
Non-cash net present value of future trailing inflows	(32,219)	(52,074)
Non-cash net present value of future trailing outflows	18,771	32,648
Non-cash employee expense benefits – share-based payments	185	(268)
Share purchases to meet vesting – share-based payments	–	(181)
Interest received on cash and deposits at call	(373)	(404)
Net loss on sale of non-current assets	1	143
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	920	(452)
(Increase)/decrease in deferred tax asset	(138)	514
Decrease/(increase) in other operating assets	35	232
Increase/(decrease) in trade payables	479	1,166
(Decrease)/increase in other operating liabilities	(44)	(44)
Increase/(decrease) in provision for income taxes payable	2,315	(1,343)
Increase/(decrease) in provision for deferred income tax	4,269	5,867
Increase/(decrease) in other provisions	12	(87)
Net cash inflow from operating activities	18,797	13,661

Note 31 Earnings per share

	Consolidated	
	2010	2009
	Cents	Cents
Basic earnings per share	19.7	22.6
Diluted earnings per share	19.5	22.6
	\$'000	\$'000
Earnings used in calculating earnings per share – profit from continuing operations	23,479	26,849

	2010	2009
	Number	Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	119,361,350	118,811,799
Adjustments for calculation of diluted earnings per share:		
Rights and options	1,251,341	154,769
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	120,612,691	118,966,568

INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

A. Options

Options granted to employees under the Mortgage Choice Executive Performance Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in the Remuneration report.

B. Performance Share Plan

Rights to shares issued to employees under the Mortgage Choice Performance Share Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The rights have not been included in the determination of basic earnings per share. Details relating to the options are set out in the Remuneration report.

Note 32 Share-based payments

A. EXECUTIVE PERFORMANCE OPTION PLAN (EPOP)

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

Under the terms of the EPOP, options are offered over one ordinary share of Mortgage Choice Limited and have an exercise price based on the market value of the Company's shares at the time of offer. Market value will be the trade-weighted average price of the Company's shares over the one-week period immediately preceding the date of offer.

The options offered to executives under the EPOP are subject to performance conditions set by the Board. In the year ending 30 June 2010, no options were offered.

The rules of the EPOP permit the Company to issue new shares or to purchase shares on-market for the purposes of satisfying the exercise of options.

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

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

When a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason', any options that have not become exercisable will lapse. However, if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the options may vest. In the event of a change of control of the Company, options will vest on a pro-rata basis or in their entirety for certain senior executives.

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

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

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables on pages 8 and 9 of this report. Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes option pricing model framework that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

Details of options over ordinary shares in the Company provided as remuneration to each Director and key management personnel of the Company are set out below. Further information on the options is set out in the Directors' report remuneration report.

Note 32. Share-based payments (continued)

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated – 2010									
10 August 2004	10 August 2014	\$1.05	415,400	–	(323,200)	–	(92,200)	–	–
2 September 2005	2 September 2015	\$1.43	287,820	–	–	–	(287,820)	–	–
1 May 2009	1 May 2019	\$0.76	2,500,000	–	–	–	–	2,500,000	1,700,000
Total			3,203,220	–	(323,200)	–	(380,020)	2,500,000	1,700,000
Weighted average exercise price			\$0.86	–	\$1.05	–	\$1.34	\$0.76	\$0.76

Consolidated – 2009

10 August 2004	10 August 2014	\$1.05	415,400	–	–	–	–	415,400	415,400
24 February 2005	24 February 2015	\$1.08	81,800	–	–	–	(81,800)	–	–
2 September 2005	2 September 2015	\$1.43	661,600	–	–	–	(373,780)	287,820	287,820
29 December 2006	29 December 2016	\$2.60	953,250	–	–	–	(953,250)	–	–
22 November 2007	22 November 2017	\$2.51	1,416,000	–	–	–	(1,416,000)	–	–
2 October 2008	2 October 2018	\$1.12	–	491,050	–	–	(491,050)	–	–
20 November 2008	20 November 2018	\$1.12	–	3,396,250	–	–	(3,396,250)	–	–
1 May 2009	1 May 2019	\$0.76	–	2,500,000	–	–	–	2,500,000	900,000
Total			3,528,050	6,387,300	–	–	(6,712,130)	3,203,220	1,603,220
Weighted average exercise price			\$2.13	\$0.98	–	–	\$1.64	\$0.86	\$0.96

The weighted average remaining contractual life of share options outstanding at the end of the period was 8.82 years (2009 – 8.88 years).

B. PERFORMANCE SHARE PLAN (PSP)

The PSP permits eligible employees as identified by the Board to be offered conditional entitlements to shares. The shares allocated to those employees are subject to the achievement of performance requirements specified by the Board. The PSP is designed to provide the long-term incentive component of remuneration for managers and any other designated employees.

Participation in the PSP is offered on an annual basis. Eligible employees are offered shares to a value determined by reference to the Company's reward policy and market practice with regard to long-term incentive arrangements provided by peer organisations. The performance requirements and vesting scale applicable to offers under the PSP for years up to and including 30 June 2009 use TSR as the basis of their performance criteria. The right to receive performance shares will lapse if the performance criteria have not been met at the end of the performance period. Offers made under the PSP for the year ended 30 June 2010 are based on tenure.

The rules of the PSP permit the Company to issue new shares or to purchase shares on-market if the performance requirements are satisfied at the end of the performance period. Participants are not required to pay for shares allocated to them under the PSP. Until the shares are released from the PSP, they will remain subject to the plan rules including the 'holding lock' applied pursuant to those rules and the participant is restricted from trading in those shares.

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

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

- 1 July in the year (being a period commencing 1 July and ending 30 June) that is ten years after the year in which the offer is made and is accepted by the participant;

- the participant ceasing to be an employee of the Company;
- a 'capital event' (generally, a successful takeover offer or scheme of arrangement relating to the Company) occurring; or
- the date upon which the Board gives its written consent to the lodgement of a Notice of Withdrawal by the participant.

While shares remain subject to the PSP rules, participants will, in general, enjoy the rights attaching to those shares (such as voting or dividend rights etc). Where a participant ceases to be employed by the Company prior to the end of the performance period, other than because of a 'qualifying reason' (i.e. death, total and permanent disability, redundancy, or any other reason determined by the Board), any conditional entitlements to receive shares will lapse. However, in the event of a change in control of the Company or if there is cessation of employment due to a 'qualifying reason', the Board may determine that some or all of the shares may be allocated to the participant.

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

The assessed fair value at grant date of share rights granted to individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above.

Fair values at grant date are independently determined using a Monte Carlo simulation model utilising a BlackScholes option pricing model framework that takes into account the term of the rights, the vesting criteria, the exercise price (zero), the expected price volatility of the underlying share, the expected dividend yield (acknowledging that dividends will be paid to participants from the date of grant) and the risk-free interest rate for the term of the share rights. There are no performance hurdles associated with the 2010 grant.

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

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

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

Consolidated – 2009

2 September 2005	2 September 2008	\$1.43	328,700	–	(172,476)	–	(156,224)	–	–
12 December 2006	31 August 2009	\$2.21	150,300	–	(51,180)	–	(37,020)	62,100	–
31 August 2007	31 August 2010	\$2.20	308,750	–	(67,097)	–	(99,103)	142,550	–
31 August 2008	31 August 2018	\$1.00	–	499,100	(7,717)	–	(172,033)	319,350	–
Total			787,750	499,100	(298,470)	–	(464,380)	524,000	–
Weighted average exercise price			\$1.88	\$1.00	\$1.73	–	\$1.50	\$1.47	–

The weighted average remaining contractual life of performance shares outstanding at the end of the period was 1.79 years (2009 – 1.66 years).

Note 32. Share-based payments (continued)

The model inputs for performance shares granted during the year ended 30 June 2010 included:

- (a) share rights are granted for no consideration, each tranche vests and is exercisable three years after grant date;
- (b) grant date: 9 December 2009 (2009 – 11 September 2008);
- (c) share price at grant date: \$1.25 (2009 – \$1.12);
- (d) expected price volatility of the company's shares: 40% (2009 – 40%);
- (e) expected dividend yield: 9.2% (2009 – 10.0%); and
- (f) risk-free interest rate: 5.25% (2009 – 5.54%).

C. EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	Consolidated	
	2010	2009
	\$'000	\$'000
Options issued under EPOP	33	(519)
Shares issues under PSP	152	251
	185	(268)

Note 33 Parent entity financial information

A. SUMMARY FINANCIAL INFORMATION

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

	2010	2009
	\$'000	\$'000
Balance sheet		
Current assets	93,885	87,737
Total assets	283,873	247,057
Current liabilities	61,548	58,405
Total liabilities	206,486	180,661
Shareholders' equity		
Issued capital	1,207	808
Share-based payments reserve	597	471
Retained profits	75,583	65,117
	77,387	66,396
Profit or loss for the year	23,587	26,849
Total comprehensive income	23,587	26,849

B. GUARANTEES ENTERED INTO BY THE PARENT ENTITY

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

The parent entity has provided guarantees in respect of obligations under premises leases of its head office and state offices totalling \$963,405 (2009 \$963,405). No liability was recognised by the parent entity or the consolidated entity in relation to these guarantees.

C. CONTINGENT LIABILITIES OF THE PARENT ENTITY

Other than the guarantees mentioned above, the parent entity did not have any contingent liabilities as at 30 June 2010 or 30 June 2009.

Directors' Declaration

for the year ended 30 June 2010

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 22 – 60 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance, for the financial year ended on that date; and
- (b) Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



Peter Ritchie
Director

Sydney
21 August 2010

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

Report on the financial report

We have audited the accompanying financial report of Mortgage Choice Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Mortgage Choice Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year 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 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 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Mortgage Choice Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year/period ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 5 to 14 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Mortgage Choice Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Maria Martin
Partner

Sydney
25 August 2010

Shareholder Information

for the year ended 30 June 2010

The shareholder information set out below was applicable as at 23 August 2010.

A. DISTRIBUTION OF EQUITY SECURITIES

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

	Class of equity security	
	Ordinary Shares	Options
1 – 1,000	394	
1,001 – 5,000	993	
5,001 – 10,000	545	
10,001 – 100,000	553	
100,001 and over	37	1
	2,522	1

There were 84 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary Shares	
	Number held	Percentage of issued shares
Finconnect (Australia) Pty Ltd	20,611,785	17.23
Citicorp Nominees Pty Limited	13,369,499	11.18
National Nominees Limited	9,840,503	8.23
Ochoa Pty Ltd	9,620,000	8.04
HSBC Custody Nominees (Australia) Limited	9,167,856	7.66
J P Morgan Nominees Australia Limited	6,706,519	5.61
RBC Dexia Investor Services Australia Nominees Pty Limited <Pipooled A/C>	6,209,913	5.19
Cogent Nominees Pty Limited	3,038,909	2.54
R G Higgins	2,934,548	2.45
Ochoa Pty Ltd <The Rodney Higgins Superannuation Fund>	2,666,667	2.23
SCJ Pty Ltd <Jermyn Family A/C>	2,000,000	1.67
RBC Dexia Investor Services Australia Nominees Pty Limited <GSAM A/C>	1,608,398	1.34
Australian Reward Investment Alliance	1,443,478	1.21
ANZ Nominees Limited	1,219,658	1.02
Pacific Custodians Pty Ltd <Perf Share Plan Tst A/C>	1,179,800	0.99
Basscave Pty Limited	817,939	0.68
Mr Ian Edwards & Mrs Josephine Edwards	675,000	0.57
RBC Dexia Investor Services Australia Nominees Pty Limited <Bkcust A/C>	519,715	0.43
RPG Management Pty Limited	463,500	0.39
UBS Wealth Management Australia Nominees Pty Ltd	357,300	0.30
	94,450,987	78.96

Unquoted equity securities

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

C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Count Financial Limited	20,611,785	17.33
R G Higgins and Ochoa Pty Ltd	15,231,215	12.80
FMR Corp. & Fidelity International Limited	13,270,161	11.20
Commonwealth Bank of Australia	9,728,478	8.13
INVESCO Australia Limited	9,001,873	7.53
Perpetual Limited	7,249,700	6.06

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(b) Options

No voting rights.

(c) Conditional entitlements

No voting rights.

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

