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**RHG Limited**  
(formerly RAMS Home Loans Group Limited)  
ABN 22 055 136 564

**Financial Report**  
**for the year ended 30 June 2008**

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This financial report covers the consolidated entity consisting of RHG Limited (formerly RAMS Home Loans Group Limited) and its controlled entities.

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

RHG Limited  
Level 22  
1 York Street  
Sydney NSW 2000.

RHG Limited's shares were listed on the Australian Stock Exchange on 27 July 2007.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1 to 9.

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## **Directors' report**

The directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of RHG Limited (the "Company") and the entities it controlled at the end of, or during, the year ended 30 June 2008.

### **Directors**

The following persons were directors of RHG Limited during the financial year and up to the date of this report:

- DR Coe
- GK Jones
- JA Kinghorn
- JV McGuigan

J McFadden was a director from the beginning of the financial year until his resignation on 27 September 2007.

### **Principal activities and significant changes in the nature of these activities**

During the year the principal continuing activities for the Group involved securitised funding and servicing of residential home loans in Australia. The Group ceased originating new mortgage loans on its own behalf on 16 November 2007.

### **Result**

The consolidated profit from ordinary activities, after income tax, attributable to members for the financial year ended 30 June 2008 was \$124.8 million (2007: \$15.1 million).

### **Dividends**

The directors do not recommend the payment of a dividend in respect of this financial year (2007: \$12.6 million).

### **Review of operations**

The 2008 financial year has been a tumultuous period for RHG Limited. July 2007 saw the public offering and float of the Group. In August 2007, global debt markets witnessed severe dislocation and a significant tightening in credit markets. Whilst many market commentators expected the markets to recover quickly, this has not been the case. The tightening in the credit markets is now referred to as the US sub-prime crisis and has now affected all credit markets globally including the markets for new issues of securities backed by residential mortgages. Whilst the Group has no sub-prime exposures it was not able to access, in any meaningful amounts, funding for its new business volumes.

On 15 August 2007 the Group was unable to effect the rollover of its two Extendible Commercial Paper ("XCP") programs totaling \$6.17 billion. This triggered an extension event. The result of this was that the Group had to pay a higher margin to note-holders and had up to 180 days to repay these programs. During August, the Group was able to obtain increases in warehouse facilities totalling \$1 billion from various providers, however these were at higher margins than previously paid. These increases were used by the Group to fund mortgages. The Group was the subject of considerable negative media speculation which combined with the inability to access its traditional sources of funding resulted in a substantial drop in new business and made the task of mortgage financing more difficult.

In October the Group announced the proposed sale of its origination and distribution business to Westpac. This sale was approved by shareholders on 26 November 2007 and settled on 4 January 2008. The business sold included the RAMS brand, franchise network, associated mortgage origination and servicing systems and contracts required to operate the distribution business. In addition a payment was made to Westpac of approximately \$32 million to release the Group from any future obligation in relation to future trail and other commissions payable to the franchise network. As part of this transaction the Group ceased receiving the benefits of new mortgages originated from 16 November 2007. Westpac, in consideration of receiving beneficial ownership of mortgages settled from 16 November 2007 reimbursed the Group for the operating costs of the origination and distribution business from 16 November until completion of the sale transaction in January 2008. The bulk of the proceeds of this transaction were used by the Group to repay secured debt in January 2008. Refer to Note 7 for further information in relation to this sale.

In February 2008 the Group's XCP programs were repaid in full. To repay the XCP programs, the Group obtained funding via warehouse facilities, a private placement of a rated security and a sale of mortgages, at par, of \$1 billion. The Group is currently administering the sold mortgages and receiving a fee for this service.

During the 2008 financial year there was considerable volatility in the spread between the cash rate and the Group's benchmark borrowing rate, being the 30 day bank bill rate. This volatility, as well as higher funding costs through increased warehouse facility margins and the step up in funding margin on term RMBS not called led to a need to increase mortgage rates to our customers over and above the increases in the RBA cash rates, along with other market participants.

The Group's mortgage book is now closed and in runoff. The Group will continue to manage and service its mortgage book. It is important to note that the revenue of the business will reduce over time in line with rundown of the Group's mortgage book.

The Group's funding mix as at 31 July 2008 was:	\$'000
Warehouse facilities	8,121,485
Residential Mortgage Backed Securities ("RMBS")	3,092,969

The Group remains in discussion with its various warehouse providers in regards to future maturity dates, however a high level of uncertainty still remains in the current market which will likely result in the Group selling further mortgages at par in repayment of warehouse facility balances.

A default will likely arise if a warehouse cannot be renewed and the mortgages are not sold. This will result in a higher margin and all principal, interest and fee collections on mortgages funded through the warehouse after payment of security trustee, servicer and manager expenses being returned to the warehouse facility provider in order to accelerate repayment of the facility. As a result the cash flow available to the Group from excess spread would be deferred until the facility is repaid in full.

Each warehouse facility has been structured so that if it is not renewed or otherwise defaults there is only limited recourse to the Group. If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between the Group's mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs.

The directors are satisfied that any sale of mortgages in repayment of warehouse facilities or an event of default in relation to the Group's warehouse facilities will not affect the Group's ability to continue as a going concern.

The Group provides limited support in respect of the warehouse facilities by way of representations and warranties. To the extent that the Group breaches any of these representations or warranties, the Group may be exposed to losses. In addition the Group provides limited credit support and undertakes a range of services in respect of the warehouse facilities.

Each RMBS may be repaid at the Group's option at their call date. During the year, three of the Group's RMBS issues reached their call dates. The Group re-financed one of these issues and attempted to renegotiate the terms of two of these bond issues to provide additional subordination, higher margin than required under documentation and insert a new call date. The proposals were not approved by bondholders and as such the RMBSs remain on issue, albeit at higher margins, as required under the relevant series documentation.

The Group provides limited support in respect of the RMBS facilities by way of representations and warranties. To the extent that the Group breaches any of these representations or warranties, the Group may be exposed to losses. In addition the Group provides limited credit support and undertakes a range of services in respect of RMBS facilities.

At 30 June 2008 the Group's significant liabilities (excluding liabilities of the Group's securitisation vehicles) include trail commissions payable to brokers of \$35.9 million and taxation payable of \$28.9 million. The provision for taxation payable has been calculated in accordance with current Income Tax legislation. In a press release on 13 May 2008 the Treasurer announced that the Government will proceed with a number of modifications to the tax consolidation regime. In an attachment to the release the Treasurer stated that the government will proceed with modifications which will "treat rights to future income as retained cost base assets with a tax cost setting amount equal to the terminating value for the rights at the joining time". If legislation is passed confirming this position it may result in a reduction in tax payable by the group in relation to the 2008 year of up to \$17.3 million.

The Directors are satisfied that the Group will have sufficient cash resources to settle these liabilities as and when they fall due.

The consolidated profit after income tax attributable to members, for the year ended 30 June 2008 was \$124.8 million (2007: \$15.1 million) including:

	<b>30 June 2008 \$m</b>	30 June 2007 \$m
Profit after tax on disposal of origination business	<b>104.2</b>	-
Profit after tax from continuing operations	<b>29.6</b>	32.9
Loss after tax from discontinued operations	<b>(9.0)</b>	(17.8)
	<b>124.8</b>	15.1

The profit after tax from continuing operations includes charges in respect of:

- i) a change in accounting estimates in relation to average loan life of \$37.5m after tax and
- ii) write-off after tax of unamortised balance of transaction costs of \$6.5m in relation to mortgages sold at par.

It is important to note that revenue will reduce over time as the Group's mortgage book ages and amortises.

At 30 June 2008 the Group has a provision for loan losses of \$3.2 million, up from \$1.0 million at 30 June 2007.

At 30 June 2008 the Group's mortgage book, including deferred transaction costs was \$11.6 billion (2007: \$13.9 billion). The Group's mortgage book is now closed and in runoff.

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During June 2008 the Group settled its GST dispute with the Australian Taxation Office. The cost of settlement net of associated credits received by SPE's and claim under indemnity is reflected in Group profit for the year.

#### **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group for the 2008 financial year other than those mentioned above.

#### **Matters subsequent to the end of the financial year**

On 22 July 2008 the Company announced its intention to undertake an on market buy back of up to 10% of the Company's share capital in the next twelve months. As at 26 August 2008 the Company has not bought back or cancelled any shares.

On 28 July 2008 the Company announced that the Group's CEO, Mr GW Goddard has been granted 10 million options with a strike price of 10 cents which expire on 30 June 2013 if not exercised. The options vest as follows:

4,000,000 on 28 July 2008  
2,000,000 on 30 June 2009  
2,000,000 on 30 June 2010  
2,000,000 on 30 June 2011

Other key terms attaching to the options include:

1. in the event that Mr Goddard ceases to be employed by RHG, any unvested options on that date will be cancelled; and
2. in the event of a successful takeover offer that had been recommended for acceptance by the directors, any unvested options will immediately vest.

The Group has executed renewal documents on one warehouse facility (balance at 31 July 2008 \$0.6 billion) and agreed in principle to extend another warehouse facility, subject to documentation (balance at 31 July 2008 \$0.9 billion), for a further 364 days from execution of documentation. In addition agreement has been reached with another warehouse facility provider to extend their current facilities (balance at 31 July 2008 \$1.7 billion) to November 2008.

The Group remains in discussion with its various warehouse providers in regards to future maturity dates, however a high level of uncertainty still remains in the current market which will likely result in the Group selling further mortgages at par in repayment of warehouse facilities.

A default will likely arise if a warehouse cannot be renewed and the mortgages are not sold. This will result in a higher margin and all principal, interest and fee collections on mortgages funded through the warehouse after payment of security trustee, servicer and manager expenses being returned to the warehouse facility provider in order to accelerate repayment of the facility. As a result the cash flow available to the Group from excess spread would be deferred until the facility is repaid in full.

Each warehouse facility has been structured so that if it is not renewed or otherwise defaults there is only limited recourse to the Group. If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income stream for excess spread, being the difference between the Group's mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs.

The directors are satisfied that any sale of mortgages in repayment of warehouse facilities or an event of default in relation to the Group's warehouse facilities will not affect the Group's ability to continue as a going concern.

#### **Likely developments and expected results of operations**

Other than the matters outlined above further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

#### **Environmental regulation**

The Group has assessed whether there are any particular or significant environmental regulations that apply to it and has determined there are none.

#### **Information on directors**

##### John Kinghorn - Chairman – non-executive

John qualified as a Chartered Accountant with Price Waterhouse & Co Sydney. John was the founder of and a partner in Delfin Armco Financial Services, established in 1971; the founder and majority shareholder in Allco Finance Group Limited, established in 1978; the founder and majority shareholder in Rentworks Limited, established in 1989 and the founder and majority shareholder in RHG Limited (formerly RAMS Home Loans Group Limited), established in 1995. He is a director of and the principal shareholder in Orbian Corporation, a US and UK based specialist in receivables finance and a trustee of The Kinghorn Foundation, established in 2006. John is Chairman of RentWorks India Private Limited and a director of Krispy Kreme Australia Pty Limited, Felix Resources Limited, and Dia Vikas Capital Private Limited.

John is a member of the Nomination and Remuneration Committee.

John has relevant interests in 35,384,574 ordinary shares of RHG Limited.

David Coe - independent - non-executive director

David Coe is one of Allco Finance Group Limited's founders and was Chairman and CEO of the firm from 1994. He has relinquished his management roles over the past year to dedicate his focus more to the firms' investment activities. Prior to joining Allco, David was a partner at Mallesons Stephen Jaques specialising in international finance and leasing.

David is the Chairman of CITIC Allco Investments Limited and is a founding director and chairman of Sports and Entertainment Limited, an entertainment, sports and leisure group.

He is on the Board of RHG Limited, the Sydney Children's Hospital Foundation, the National Gallery of Australia Foundation and is Chairman of the Museum of Contemporary Art.

David holds a Bachelor of Arts (Hons) and a Bachelor of Laws from Sydney University.

David has relevant interests in 750,000 ordinary shares of RHG Limited.

Greg Jones – non-executive director

Greg served as senior advisor during the 1970's and 1980's to the NSW Government. Greg was a founder, and has been a director of RHG Limited (formerly RAMS Home Loans Group Limited) since 1995. He is also a director of Healthservices Direct Pty Limited, E-lect Interactive Pty Limited, Uniqueworld Pty Limited and Clinical Solutions Limited (UK) and Chairman of CAS Services (Asia) Limited.

Greg is a member of the Audit and Risk Committee.

Greg has relevant interests in 4,962,990 shares of RHG Limited.

John McGuigan – independent non-executive director

John has both an accounting and legal background having commenced his career with Price Waterhouse & Co. He practiced as a lawyer for 25 years with the international law firm Baker & McKenzie. John held the position of Executive Chairman where he was based in Chicago and was responsible for Baker & McKenzie's worldwide operations.

In 1998 John co-founded Hunter Bay Partners, an investment and advisory group based in Sydney. Hunter Bay has invested in a number of industries particularly technology, food and beverage and coal technology. He is currently CEO and Chairman of Krispy Kreme Australia Pty Ltd and Chairman of White Energy Company Limited, an ASX listed company. He is also a director of the Victor Chang Cardiac Research Institute.

John holds a Bachelor of Economics and a Bachelor of Laws from Sydney University and is a fellow of the Certified Public Accountants.

John is the chairman of the Audit and Risk Committee.

John has relevant interests in 80,000 shares of RHG Limited.

**Company Secretary**

Nick Geddes - Company Secretary.

Nick is the principal of Australian Company Secretaries, a company secretarial practice he formed in 1993. Nick is a Vice President of the National Council of Chartered Secretaries Australia and a former Chairman of the NSW Council of that Institute. His previous experience, as a Chartered Accountant and Company Secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia.

Nick is a Chartered Accountant (Fellow of the Institute of Chartered Accountants in England & Wales) and Fellow of the Institute of Chartered Secretaries (Chartered Secretaries Australia).

**Meetings of directors**

The number of meetings of the Company's board of directors held during the year ended 30 June 2008, and the number of meetings attended by each director were:

	Number of meetings held while a director	Number of meetings attended
JA Kinghorn	12	11
DR Coe	12	9
GK Jones	12	11
J McFadden (to 27 September 2007)	4	2
JV McGuigan	12	11

On 26 July 2007, the board approved the establishment of a Nomination and Remuneration Committee and an Audit and Risk Committee.

## Remuneration Report

### A. Principles

#### Non-executive directors

Fees and payments to non-executive directors aim to reflect the responsibilities and time demands which are made of the respective director. These fees have been determined by the Chairman of the board, having taken into account appropriate market comparisons. Non-executive director's fees are reviewed annually (in future by the Nomination and Remuneration Committee). Fees for non-executive directors do not have a direct link to the financial performance of the group. Directors have not received additional remuneration for representation on board committees. Non-executive directors do not receive retirement allowances. Superannuation contributions in accordance with superannuation guarantee legislation are paid on non-executive directors' remuneration.

#### Executives

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. To create value, the Group must attract, motivate and retain highly competent, experienced and skilled executives.

To this end, the Group embodies the following principles in its remuneration framework applied by the Nomination and Remuneration Committee:

- provide competitive rewards to attract and retain appropriate calibre executives;
- link executive rewards to the creation of shareholder value;
- have a material portion of the executive remuneration 'at risk', dependent upon meeting Group and role specific performance targets; and
- acceptability to shareholders.

Remuneration of executives consists of the following components:

#### Fixed remuneration

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

Fixed remuneration for the CEO is reviewed annually by the Nomination and Remuneration Committee. Fixed remuneration for other executives is reviewed annually by the CEO. Fixed remuneration is inclusive of the legislated superannuation guarantee.

#### Short term incentive

The CEO does not receive any cash bonus amount. Subsequent to year end the CEO has been granted options as part of his remuneration package. Refer subsequent events section of Directors' Report.

Other key executives participate in an annual discretionary cash bonus scheme. The achievement of a bonus is principally linked to the achievement of individual performance targets and corporate objectives. The CEO determines the bonus amounts payable.

### B. Details of Remuneration

#### Amounts of remuneration

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

Remuneration includes all consideration paid, payable or provided by the Group in exchange for services rendered to the entity by the directors and the key management personnel during the relevant financial year.

2007 comparative remuneration disclosures have been restated to reflect all consideration paid, payable or provided by the Group in exchange for services rendered to the entity by the directors and the key management personnel during the 2007 year. The remuneration contained in the 2007 financial report reflected only amounts paid during the year regardless of the period to which the services rendered related.

The key management personnel of the Company include the directors as per page 1.

The key management personnel of the Group includes the directors as per page 1 and the following executive officers who have authority and responsibility for planning, directing and controlling the activities of the entity:

- GG Kolivos - Chief executive officer (employment transferred to purchaser of origination business 4 January 2008)
- GA Kinghorn - Executive general manager (to 30 June 2008)
- GD Hall - Chief financial officer (to 21 September 2007)
- MJ Ryan - General counsel/company secretary (to 15 August 2007)
- GW Goddard - Chief executive officer
- WG Williams - Treasurer
- SJ Lonie - Chief financial officer



Key Management Personnel and other executives of the Company include:

**2008**

Name

*Non-executive directors*

JA Kinghorn (chairman)  
 DR Coe  
 GK Jones  
 J McFadden (to 27 September 2007)  
 JV McGuigan

Name	Short term benefits			Post employment benefits		Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement Benefits	
	\$	\$	\$	\$	\$	
JA Kinghorn (chairman)	137,616	-	-	12,384	-	150,000
DR Coe	73,394	-	-	6,606	-	80,000
GK Jones	73,394	-	-	6,606	-	80,000
J McFadden (to 27 September 2007)	25,229	-	-	2,271	-	27,500
JV McGuigan	73,394	-	-	6,606	-	80,000
	383,027	-	-	34,473	-	417,500

**2007**

Name

*Non-executive directors*

JA Kinghorn (chairman)  
 DR Coe (from 26 June 2007)  
 GK Jones  
 J McFadden (from 26 June 2007)  
 JV McGuigan (from 26 June 2007)

Name	Short term benefits			Post employment benefits		Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement Benefits	
	\$	\$	\$	\$	\$	
JA Kinghorn (chairman)	73,395	-	-	6,605	-	80,000
DR Coe (from 26 June 2007)	-	-	-	-	-	-
GK Jones	55,004	-	-	-	-	55,004
J McFadden (from 26 June 2007)	-	-	-	-	-	-
JV McGuigan (from 26 June 2007)	-	-	-	-	-	-
	128,399	-	-	6,605	-	135,004

Note - All key management personnel are employed by RHG Home Loans Pty Limited.

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**Key Management Personnel and other executives of the Group include:**

**2008 Employee benefits**

Name	Short-term				Post employment	Long term	Termination Benefits	Total
	Salary and fees	Retention * bonus - listing	Retention **** bonus - other	Performance Bonus	Non monetary benefits	Superannuation		
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>								
JA Kinghorn (chairman)	137,616	-	-	-	-	12,384	-	150,000
DR Coe	73,394	-	-	-	-	6,606	-	80,000
GK Jones	73,394	-	-	-	-	6,606	-	80,000
J McFadden (to 27 September 2007)	25,229	-	-	-	-	2,271	-	27,500
JV McGuigan	73,394	-	-	-	-	6,606	-	80,000
<b>Sub-total non-executive directors</b>	<b>383,027</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,473</b>	<b>-</b>	<b>417,500</b>
<i>Other key management personnel</i>								
GW Goddard ***	526,084	125,000	-	-	-	45,000	91,964	788,048
WG Williams ***	139,440	50,000	68,571	150,000	21,810	11,612	6,039	447,472
SJ Lonie	194,753	50,000	-	92,000	1,328	17,438	1,046	356,565
GG Kolivos (to 4 January 2008 )	248,140	150,000	-	-	-	6,565	5,303	410,008
GD Hall (to 21 September 2007 ) ***	75,538	125,000	-	-	-	3,282	-	395,763
GA Kinghorn (to 30 June 2008) ***	357,895	150,000	-	-	-	13,129	(43,287)	477,737
MJ Ryan (to 15 August 2007) ***	27,382	125,000	-	-	562	2,723	-	344,428
<b>Sub-total key management personnel</b>	<b>1,569,232</b>	<b>775,000</b>	<b>68,571</b>	<b>242,000</b>	<b>23,700</b>	<b>99,749</b>	<b>61,065</b>	<b>3,579,508</b>
<b>Total non-executive directors and key management personnel</b>	<b>1,952,259</b>	<b>775,000</b>	<b>68,571</b>	<b>242,000</b>	<b>23,700</b>	<b>134,222</b>	<b>61,065</b>	<b>3,997,008</b>

**2007 Employee benefits**

Name	Short-term				Post employment	Long term	Termination Benefits	Total
	Salary and fees	Retention * bonus - listing	Bonus other **	Performance Bonus	Non monetary benefits	Superannuation		
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>								
JA Kinghorn (chairman)	73,395	-	-	-	-	6,605	-	80,000
GK Jones	55,004	-	-	-	-	-	-	55,004
J McFadden	82,569	-	-	-	-	7,431	-	90,000
<b>Sub-total non-executive directors</b>	<b>210,968</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,036</b>	<b>-</b>	<b>225,004</b>
<i>Other key management personnel</i>								
GW Goddard ***	271,154	125,000	100,000	265,000	-	21,117	4,867	787,138
GG Kolivos ***	412,653	150,000	200,000	170,000	-	12,686	11,964	957,303
GD Hall ***	262,694	125,000	200,000	254,000	4,474	12,686	7,706	866,560
GA Kinghorn ***	363,243	150,000	200,000	151,000	-	12,686	9,536	886,465
MJ Ryan ***	233,365	125,000	100,000	207,500	4,474	20,702	10,139	701,180
<b>Sub-total key management personnel</b>	<b>1,543,109</b>	<b>675,000</b>	<b>800,000</b>	<b>1,047,500</b>	<b>8,948</b>	<b>79,877</b>	<b>44,212</b>	<b>4,198,646</b>
<b>Total non-executive directors and key management personnel</b>	<b>1,754,076</b>	<b>675,000</b>	<b>800,000</b>	<b>1,047,500</b>	<b>8,948</b>	<b>93,913</b>	<b>44,212</b>	<b>4,423,650</b>

- \* Paid during 2008 financial year following listing on ASX.
- \*\* Bonus paid during 2007 financial year in relation to work undertaken on unsuccessful trade sale.
- \*\*\* Denotes one of five highest paid executives of the Group as required to be disclosed under the Corporations Act 2001.
- \*\*\*\* Provision for retention bonus payable 1 March 2009. Amount will be forfeited if Mr Williams resigns before 1 March 2009.

Fixed remuneration includes salary and fees, non monetary benefits, superannuation and long service leave.

At risk remuneration includes all short-term bonus amounts. Refer notes above for details of retention bonus amounts. Performance bonuses are discretionary and amounts payable are determined by the CEO after consideration of achievement of individual performance targets and corporate objectives.

### **C. 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 terms of the appointment, including compensation, relevant to the office of director.

All of the key executives are permanent employees of RHG Home Loans Pty Limited. Each executive has an employment contract in place with no fixed end date. Any executive may resign from their position and thus terminate their contract by giving four weeks written notice. On resignation, any annual cash bonus potential for the respective financial year is forfeited. The Company may terminate an employment contract by providing written notice and making payment in lieu of notice in accordance with the Company's termination policies. The Company may terminate an employment contract at any time if serious misconduct has occurred.

### **Directors' benefits**

No director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the financial statements) by reason of a contract made by the Company or a related corporation with the director or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

### **Indemnification and insurance of officers**

To the maximum extent permitted by law, the Company has indemnified current and former directors, secretaries and officers of the Company and its subsidiaries out of the property of the Company against:

- a) any liability incurred by the person in that capacity (except a liability for legal costs);
- b) legal costs incurred in defending or resisting (or otherwise in connection with) proceedings, whether civil or criminal or of an administrative nature, in which the person becomes involved because of that capacity; and
- c) legal costs incurred in good faith in obtaining legal advice on issues relevant to the performance of their functions and discharge of their duties as an officer of the Company or a subsidiary, if that expenditure has been approved in accordance with the Company's policy.

The Company may pay or agree to pay, whether directly or through an interposed entity, a premium for a contract insuring a person who is or has been an officer of the Company or a subsidiary against liability incurred by the person in that capacity, including a liability for legal costs, unless the Company is forbidden by law to do so.

During the financial year, the Group paid a premium of \$78,730 to insure the directors and officers of the Company and its controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### **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 Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
- None of the services undermine the general principles relating to auditor independence as set out in APES110 *Code of Ethics for Professional Accountants*.

Fees paid or payable for services provided during the year by the auditor (PricewaterhouseCoopers) of the parent entity, its related practices and non-related audit firms, are shown in Note 27 to the consolidated financial report.

**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 10.

**Rounding of amounts**

The entity is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' Report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars.

**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.

.....  
**JA Kinghorn**  
Director

29 August 2008

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**Auditor's Independence Declaration**

As lead auditor for the audit of RHG Limited for the year ended 30 June 2008, 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 RHG Limited and the entities it controlled during the year.

CPG Cooper  
Partner  
PricewaterhouseCoopers

Sydney  
29 August 2008

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## **Corporate Governance**

RHG Limited (the "Company") became an ASX listed entity on 27 July 2007.

The Company and its directors are committed to good corporate governance and disclosure. On 26 July 2007, the Company adopted committee charters and other policies which substantially comply with the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". Where the Company has departed in any way from these principles, it is indicated and explained below.

### **1. Lay solid foundations for management and oversight**

#### **1.1 Roles and responsibilities of the board and management**

The directors of the Company are accountable to shareholders for the proper management of the business and affairs of the Group.

The key responsibilities of the board are:

- overseeing the development of, and reviewing, the Group's strategic direction, and monitoring implementation of its strategic plans;
- oversight of management of the Group;
- ensuring effective communication with, and reporting to, shareholders and facilitating effective exercise of shareholders' rights;
- ensuring proper corporate governance and ethical standards;
- overseeing the Group's accounting and financial management systems, monitoring financial results and approving financial reports;
- approving decisions concerning the capital (including capital restructures) and dividend policies of the Group, and approving and monitoring major capital expenditure, major acquisitions and divestitures and material commitments;
- ensuring that appropriate risk management, internal controls and reporting systems and compliance frameworks are in place and are operating effectively; and
- compliance with reporting and other requirements of the law.

The board has confirmed the role and responsibilities of the board in a written board charter.

As contemplated by the board charter, the board has delegated to the chief executive officer the authority to manage the day to day operations of the Company.

#### **1.2 Other information**

A copy of the board charter is available on the Group's website.

### **2. Structure the board to add value**

#### **2.1 Composition of the board**

The constitution of the Company provides that the number of directors must be not less than three. There are presently four non-executive directors and no executive directors.

The non-executive directors are:

- Mr John Kinghorn (chairman) has held office since 3 June 1992. Mr Kinghorn is a non-independent director, and a major shareholder in the Company.
- Mr David Coe, initially appointed by the board on 26 June 2007 (independent director);
- Mr John McGuigan, initially appointed by the board on 26 June 2007 (independent director);
- Mr Gregory Jones, has held office since 1 February 1995. Mr Jones is a non-independent director, with a longstanding minority (but not substantial) shareholding in the Company.

All directors were re-elected to the board by shareholders of the Company on 23 July 2007. Mr Jones was subsequently re-elected at the Group's Annual General Meeting on 26 November 2007.

The board consists of two independent directors and two non-independent directors. The board believes the directors (including the chairman) can make, and do make, quality and independent judgments in the best interest of the Group on all relevant issues, notwithstanding that the directors are not all independent. The board believes that the skills and experience of all directors together with the business understanding of the non-independent directors outweigh other benefits of having a majority of independent directors. As a result and given the significant change in the business the directors do not intend to appoint an additional independent director at this stage.

The directors are able to obtain independent advice at the expense of the Company.

The qualifications of the directors are set out on pages 3 and 4 of the Directors' report.

The board considers a director to be an independent director if that director is a non-executive director (i.e. is not a member of management) and:

- (i) is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- (ii) 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;
- (iii) 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;
- (iv) 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;
- (v) has no material contractual relationship with the Company or another Group member other than as a director of the Company;
- (vi) 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
- (vii) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

## **2.2 Chairperson of the board**

The chairperson, Mr John Kinghorn, is a non-executive director, but is not an independent director. The board believes that the chairperson is able to, and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a chairperson. The board believes that the skills and insights deriving from the chairperson's experience as a founder of the business are of significant value to the board and the business, and outweigh other benefits of having an independent chair.

## **2.3 Management of the business of the Group**

The roles of chairperson and chief executive officer are separate in the Group's management structure. The business of the Group is conducted by or under the supervision of the chief executive officer, Mr Glenn Goddard, and by employees to whom management functions have been delegated by the chief executive officer. The board has delegated responsibility for the day-to-day management of the Group to the chief executive officer. The chief executive officer consults the board on matters that are sensitive, extraordinary or of a strategic nature.

## **2.4 Committee to oversee nomination**

The Company has established a Nomination and Remuneration Committee consisting of the Chairman and one non-executive director, Mr David Coe, who is independent.

Mr John Kinghorn is the chair of the committee appointed by the board, and is not an independent director. This does not comply with the recommendation that the committee comprise three members and have an independent chair. However, the directors believe that the committee and the relevant experience of its members is sufficient in light of the size of the Group and is able to fulfill its responsibilities in an efficient manner meeting the needs of the Group.

The responsibilities of the committee include advising the board on the selection and nomination of suitable persons as members of the board, overseeing implementation of evaluation processes, and reviewing board and senior management succession plans. The board has confirmed the role and responsibilities of the committee in a written charter adopted by the board.

## **2.5 Board, board committee and directors' performance**

The board will assess the performance of individual directors, board committees and the board as a whole, to determine if there is a need during the reporting period for the appointment of any additional directors.

## **2.6 Other information**

A copy of the board charter and the Nomination and Remuneration Committee's charter is available on the company website.

## **3. Promote ethical and responsible decision-making**

The Company has:

- (i) identified the standards of ethical behaviour required of directors and key executives (that is, officers and employees who have the opportunity to materially influence the integrity, strategy and operation of the business and its financial performance) and encourages the observance of those standards; and
- (ii) published the position of the Company concerning the issue of board and employee trading in Company securities.

### **3.1 Code of conduct**

The Company has established a code of conduct to guide the non-executive directors, the chief executive officer and other key executives as to:

- (i) the practices and ethical standards necessary to maintain confidence in the integrity of the Company; and
- (ii) the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

The code of conduct deals with the following matters:

- (i) conflicts of interest - managing situations where the interest of a private individual interferes or appears to interfere with the interests of the Company as a whole;
- (ii) corporate opportunities - preventing directors and key executives from taking advantage of property, information or position, or opportunities arising from these, for personal gain or to compete with the Company;
- (iii) confidentiality - restricting the use of non-public information except where disclosure is authorised or legally mandated;
- (iv) privacy - respecting the privacy of personal information held by the Company, and complying with the Privacy Act (Cth) 1998;
- (v) fair dealing - by all employees with the customers, suppliers, competitors and employees of the Company;
- (vi) no discrimination - to maintain a work environment where everyone is treated fairly and with respect;
- (vii) protection and proper use of the assets of the Company - protecting and ensuring efficient use of assets for legitimate business purposes;
- (viii) compliance with laws and regulations - active promotion of compliance; and
- (ix) encouraging the reporting of unlawful or unethical behaviour - active promotion of ethical behaviour and protection for those who report violations in good faith.

### **3.2 Trading in Company securities by directors, officers and employees**

The Company has a share trading policy which applies to directors, officers and employees. All directors and staff are required to comply with insider trading laws at all times.

The policy restricts the buying or selling of Company securities by directors and senior management (and their associates) to "trading window" periods (between 24 hours and 30 working days) following the release of the annual results, the release of the half-yearly results and the close of the annual general meeting) and such other times as the board permits, or with prior approval. In addition, directors and senior management must notify the chairperson before they or their close relatives buy or sell Company securities.

### **3.3 Other information**

A copy of the code of conduct and the trading policy is available on the Group's website.

## **4. Safeguard integrity in financial reporting**

The Company has put in place a structure of review and authorisation designed to ensure the truthful and factual presentation of the financial position of the Company. The structure includes:

- (i) review and consideration of the accounts by the Audit and Risk Committee; and
- (ii) a process to ensure the independence and competence of the external auditors of the Company.

The board requires the chief executive officer and the chief financial officer to state in writing to the board that the financial reports of the Company 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.

### **4.1 Audit and Risk Committee**

The board has established an Audit and Risk Committee.

The committee provides assistance to the board in fulfilling the corporate governance and oversight responsibilities of the board to verify and safeguard the integrity of the financial reporting of the Company. The Audit and Risk Committee maintains free and open communication between the committee, the auditors and management of the Company.

The Audit and Risk Committee's functions and purpose include:

- (i) oversight of the performance of external audit functions, and a review of the audit plans and the audit results;
- (ii) oversight of the integrity of the Company's external financial reporting and financial statements, including reviewing and approving the half-year financial report and the annual financial report;
- (iii) meeting with the external auditors in private session, without management, at least annually;
- (iv) assessing whether external reporting is consistent with committee members' information and knowledge and is adequate for shareholder needs;
- (v) reviewing management's processes supporting external reporting;
- (vi) making recommendations to the board on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners;
- (vii) making recommendations for the appointment or removal of an auditor;
- (viii) assessment of the performance and independence of the external auditors and whether the Audit and Risk Committee is satisfied that the independence of this function has been maintained having regard to the provision of any non audit services; and
- (ix) reviewing risk management and internal compliance and control systems.



The Audit and Risk Committee makes a report to the board in relation to matters relevant to the role and responsibilities of the committee, after each committee meeting. It is empowered to investigate any matter brought to the attention of the Audit and Risk Committee with full access to the Company's documents and records, external auditors and personnel of the Company, as the Audit and Risk Committee determines necessary to carry out the duties of the committee.

The Audit and Risk Committee meet with the external auditor to review the results of the audit of the Company's financial report and discuss any issues identified as part of the audit.

#### **4.2 Composition of the committee**

The Audit and Risk Committee consists of two members, one of whom is independent and one who is non-independent. While this does not comply with the ASX principles of good corporate governance to have a minimum of three members and a majority of independent directors, the directors believe that the relevant experience of its members ensures that the committee is able to fulfill its function and responsibilities. The chairperson of the Audit and Risk Committee must not be the chairperson of the board of directors, and must be independent.

As at the date of this report, the Company's Audit and Risk Committee consists of two members, comprising two non-executive directors, as follows:

- JV McGuigan (chairman)
- GK Jones

J McFadden was a member of the committee until he resigned on 27 September 2007.

At least one member of the Audit and Risk Committee must have financial expertise (i.e. is a qualified accountant or other financial professional with experience in financial and accounting matters), and members who have an understanding of the industry in which the Company operates.

The qualifications of the members of the Audit committee are set out on pages 3 and 4 of the Directors' report.

#### **4.3 Meetings of Audit and Risk Committee**

The following meetings were held during the 2008 year

Member	No. Meetings Held	No. Meetings Attended
J McFadden	1	-
JV McGuigan	2	2
GK Jones	2	2

The chief financial officer, chief executive officer and auditor attend and participate in meetings by invitation.

#### **4.4 Audit and Risk Committee charter**

The board confirmed the role and responsibilities of the Audit and Risk Committee in a written charter, which was formally adopted at a meeting of directors of the Company held 26 July 2007.

#### **4.5 Other information**

A copy of the Audit and Risk Committee's charter is available on the company's website.

### **5. Timely and balanced disclosure**

#### **5.1 Written disclosure policies**

The Company has established written policies and procedures designed to ensure compliance with the ASX Listing Rule requirements (including disclosure requirements) so that:

- (i) all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- (ii) Company announcements are factual and presented in a clear and balanced way.

The policies and procedures are designed to ensure accountability at a senior management level for compliance with ASX Listing Rule disclosure requirements. The board authorises all disclosures necessary to ensure compliance with these requirements.

#### **5.2 Other information**

The Company's disclosure and communication policy is available on the Group's website.

## **6. Respect the rights of shareholders**

### **6.1 Communications policy**

The Company has a communications strategy to promote effective communication with shareholders, subject to privacy laws and the need to act in the best interests of the Company by protecting confidential commercial information, and encourage effective participation at general meetings. This strategy is reflected in the Company's disclosure and communication policy. The Company requests the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

### **6.2 Other information**

A copy of the Company's disclosure and communication policy is available on the Group's website.

## **7. Recognise and manage risk**

### **7.1 Policy on risk oversight and management**

The board and the Audit and Risk Committee have established policies on risk oversight and management.

### **7.2 Risk management and reporting**

The board requires the Audit and Risk Committee to oversee the Company's risk management system and processes, and evaluates the effectiveness of internal control systems. As part of this function, the Audit and Risk Committee:

- (i) reviews the financial reporting process of the Company on behalf of the board, and reports to the board;
- (ii) discusses with management and the external auditors, the adequacy and effectiveness of the accounting and financial controls, including the policies and procedures of the Company to assess, monitor and manage business risk, and any legal and ethical compliance programmes;
- (iii) reviews with the external auditor any audit problems or difficulties and the response of management;
- (iv) receives reports from the external auditor;
- (v) makes recommendations to the board on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of the effectiveness, and independence of the external auditors;
- (vi) reviews and assesses the independence of the external auditor;
- (vii) reviews and discusses with the board any ASX press releases, the half-year financial report, Appendix 4E and other reports required to be lodged with the ASX, prior to the filing of these documents with the ASX;
- (viii) establishes procedures for the receipt, retention and treatment of complaints or reports received by the Company (if any) regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company of concerns regarding accounting or auditing matters.

### **7.3 Statement regarding foundation for integrity of financial statements**

The chief executive officer and the chief financial officer have stated to the board in writing that:

- (i) the accounts are true and fair and comply with accounting standards and are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board; and
- (ii) the Company's risk management and internal compliance is operating efficiently and effectively in all material respects.

The systems of internal financial control have been determined by senior management of the Company and are designed to provide reasonable, but not absolute protection against fraud, material misstatement or loss. These controls are intended to identify, in a timely manner, control issues that require attention of the board or Audit and Risk Committee.

### **7.4 Other information**

The Audit and Risk Committee charter is available from the Group's website.

## **8. Remunerate fairly and equally**

The Company intends to ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined.

### **8.1 Nomination and Remuneration Committee**

The Company has a Nomination and Remuneration Committee, consisting of at least two non-executive directors, one of whom is an independent director (see 2.4, above). The chair of the committee is appointed by the board, and is not currently an independent director. As indicated in 2.4, above, this does not comply with the recommendation that the committee comprise three members and have an independent chair.

The board believes that the members of the Nomination and Remuneration Committee can make, and do make, quality and independent judgements in the best interests of the Group on remuneration issues, notwithstanding that the members of the committee are not all independent. It believes that the current chair of the committee is well placed to facilitate the efficient review and assessment of remuneration policies.

The board confirmed the role and responsibilities of the Nomination and Remuneration Committee in a written charter, which was formally adopted at a meeting of directors of the Group, held 26 July 2007.

The responsibilities of the Nomination and Remuneration Committee include the review and making of recommendations to the board on Group policies relating to:

- (i) executive remuneration and incentive policies;
- (ii) remuneration packages of senior management;
- (iii) the recruitment, retention and termination policies of the Group and procedures for senior management;
- (iv) incentive schemes;
- (v) superannuation arrangements; and
- (vi) the remuneration framework for directors.

### **8.2 Structure of non-executive and executive remuneration**

The remuneration policy of the Group has been designed so that the policy:

- (i) motivates directors and management to pursue the best possible return to shareholders within an appropriate control framework; and
- (ii) demonstrates a clear relationship between key executive performance and remuneration.

The performance of the chief executive officer ("CEO") is evaluated by the Nomination and Remuneration Committee using such criteria as business performance, accomplishment of short and long-term strategic objectives and the development of management. The Remuneration Committee takes this evaluation into account when considering the CEO's remuneration package to ensure that it is reasonable and competitive. The CEO is responsible for the remuneration of all senior executives and staff. Senior executive remuneration typically includes a discretionary bonus component which is linked to performance against personal and corporate KPIs.

Non-executive directors are remunerated by means of a fee. Non-executive directors are not entitled to any retiring allowance payable upon their retirement as a director of the Company.

On 28 July 2008 the Company granted the CEO options over unissued shares with various vesting dates (refer director's report subsequent events).

### **8.3 Meetings of Nomination and Remuneration Committee**

Member	No. Meetings Held	No. Meetings Attended
JA Kinghorn	-	-
DR Coe	-	-

The Nomination and Remuneration Committee met in July 2008 to approve the CEO's remuneration package.

### **8.4 Other information**

The Nomination and Remuneration Committee charter is available on the Group's website.

**Income statements**

For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008	2007	2008	2007
		\$'000	\$'000	\$'000	\$'000
<b>Revenue from continuing operations</b>					
Interest income		1,105,581	847,881	17	51
Interest expense		(1,050,552)	(783,741)	-	-
Net interest income	5	55,029	64,140	17	51
Fee and commission income	5	25,591	22,047	13,057	100
Total income net of interest expense		80,620	86,187	13,074	151
Total expenses excluding interest	6	(39,493)	(39,145)	-	(105)
<b>Profit before income tax</b>		<b>41,127</b>	<b>47,042</b>	<b>13,074</b>	<b>46</b>
Income tax expense	9	(11,505)	(14,112)	(22)	(14)
<b>Profit from continuing operations</b>		<b>29,622</b>	<b>32,930</b>	<b>13,052</b>	<b>32</b>
<b>Profit from discontinued operations</b>	7(b)	<b>95,192</b>	<b>(17,824)</b>	<b>-</b>	<b>-</b>
<b>Profit attributable to equity holders of RHG Limited</b>		<b>124,814</b>	<b>15,106</b>	<b>13,052</b>	<b>32</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:</b>					
		<b>Cents</b>	<b>Cents</b>		
Basic and diluted earnings per share	34	8.4	117.5		
<b>Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company:</b>					
		<b>Cents</b>	<b>Cents</b>		
Basic and diluted earnings per share	34	26.9	(63.6)		

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

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**Balance sheets**

**As at 30 June 2008**

	Notes	Consolidated		Parent entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Assets</b>					
Cash and cash equivalents	10	405,010	339,735	41	40
Loan assets held at amortised cost	11	11,579,790	13,865,184	-	-
Derivative financial assets	12	24,804	5,296	-	-
Other assets	13	23,855	37,453	-	-
Investments in controlled entities	14	-	-	21,275	21,586
Intangible assets	15	-	3,838	-	-
Due from related parties	30	-	-	31,842	798
Plant and equipment	16	186	1,699	-	-
Deferred tax asset	21	-	-	-	32
<b>Total assets</b>		<b>12,033,645</b>	<b>14,253,205</b>	<b>53,158</b>	<b>22,456</b>
<b>Liabilities</b>					
Debt issued at amortised cost	17	11,740,728	13,856,791	-	-
Derivative financial liabilities	12	66,670	229,562	-	-
Financial liabilities at amortised cost	18	35,917	92,472	-	-
Other liabilities	19	40,081	65,590	-	106
Provisions	20	30,379	6,671	28,912	(844)
Deferred tax liabilities	21	5,166	1,164	-	-
Due to related parties	30	-	-	5	989
<b>Total liabilities</b>		<b>11,918,941</b>	<b>14,252,250</b>	<b>28,917</b>	<b>251</b>
<b>Net assets</b>		<b>114,704</b>	<b>955</b>	<b>24,241</b>	<b>22,205</b>
<b>Equity</b>					
Contributed equity	22	24,072	22,488	24,072	22,488
Retained profits/(accumulated losses)	23	90,632	(21,523)	169	(283)
Foreign currency translation reserve	25	-	(10)	-	-
<b>Total equity</b>		<b>114,704</b>	<b>955</b>	<b>24,241</b>	<b>22,205</b>

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

**Statements of changes in equity**

**For the year ended 30 June 2008**

	Note	Consolidated		Parent entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>955</b>	<b>(14,141)</b>	<b>22,205</b>	<b>22,173</b>
Profit for the year		<b>124,814</b>	15,106	<b>13,052</b>	32
Additional equity contribution	22	<b>1,584</b>	-	<b>1,584</b>	-
Equity adjustment - sale of investment		<b>(59)</b>	-	-	-
Dividends paid	23	<b>(12,600)</b>	-	<b>(12,600)</b>	-
Increase/(decrease) in foreign currency translation reserve arising on translation of foreign subsidiaries		<b>10</b>	(10)	-	-
Total recognised income and expense		<b>113,749</b>	15,096	<b>2,036</b>	32
<b>Total equity at the end of the financial year</b>		<b>114,704</b>	<b>955</b>	<b>24,241</b>	<b>22,205</b>

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

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**Cash flow statements**

For the year ended 30 June 2008

	Notes	Consolidated		Parent entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Cash flows from operating activities</b>					
Interest received		1,212,185	894,677	17	51
Interest paid and other costs of finance		(1,054,462)	(758,417)	-	-
Receipts from customers		46,235	27,875	-	4,343
Payments to suppliers		(108,893)	(76,711)	-	-
Tax refund/(paid)		740	(5,038)	740	(5,037)
<b>Net cash inflow/(outflow) from operating activities</b>	33	<b>95,805</b>	<b>82,386</b>	<b>757</b>	<b>(643)</b>
<b>Cash flows from investing activities</b>					
Payments for plant and equipment and intangibles		(744)	(1,628)	-	-
Sale/(purchase) of subsidiaries/investment in subsidiaries		126,202	(311)	1	(586)
Cash received through acquisition of subsidiaries		-	264	-	-
Loans to subsidiaries		-	-	(3,108)	-
Proceeds from share buy back		-	-	367	-
Dividends received		-	-	13,000	-
Net decrease/(increase) in mortgages and receivables		2,148,440	(3,785,531)	-	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>2,273,898</b>	<b>(3,787,206)</b>	<b>10,260</b>	<b>(586)</b>
<b>Cash flows from financing activities</b>					
Repayments of borrowings		(124,700)	(42,000)	-	-
Proceeds from calls on shares		1,584	-	1,584	-
Dividends paid		(12,600)	-	(12,600)	-
Net (repayments)/proceeds from issue of bonds, secured liquidity notes and warehouses		(2,168,702)	3,773,915	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(2,304,418)</b>	<b>3,731,915</b>	<b>(11,016)</b>	<b>-</b>
<b>Net increase/(decrease) in cash held</b>		<b>65,285</b>	<b>27,095</b>	<b>1</b>	<b>(1,229)</b>
Effects of exchange rate changes on cash and cash equivalents		(10)	(8)	-	-
Cash and cash equivalents at the beginning of the financial year		339,735	312,648	40	1,269
<b>Cash and cash equivalents at the end of the financial year</b>	10	<b>405,010</b>	<b>339,735</b>	<b>41</b>	<b>40</b>

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

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**Notes to the financial statements**  
**30 June 2008**

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**Notes to the financial statements**  
**30 June 2008**

**1. Summary of significant accounting policies**

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report covers the consolidated entity consisting of RHG Limited and its controlled entities.

**(a) Basis of preparation**

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

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRSs). Compliance with AIFRS ensures that the consolidated financial statements and notes of RHG Limited comply with International Financial Reporting Standards (IFRSs). The Parent Entity financial statements also comply with IFRS.

*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 and financial assets and liabilities (including derivative financial instruments) which are carried at fair value through profit or loss.

**(b) Principles of consolidation**

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of RHG Limited ("Company" or "Parent Entity") as at 30 June 2008 and the results of all subsidiaries for the year ended on that date. RHG Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

When assessing whether the Group controls (and therefore consolidates) a special purpose entity (SPE), judgement is required about risks and rewards as well as the Group's ability to make operational decisions for the SPE. The range of factors that are considered in assessing control are whether; (a) a majority of the benefits of an SPE's activities are obtained; (b) a majority of the residual ownership risks related to the SPE's assets are obtained; (c) the decision-making powers of the SPE vest with the Group; and (d) the SPE's activities are being conducted on behalf of the Group and according to its specific business needs.

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

Intercompany transactions, balances and unrealised gains or losses on transactions between Group companies are eliminated.

Investments in subsidiaries are accounted for at the lower of cost or recoverable amount in the individual financial statements of the Company.

**(c) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the consolidated entity's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale financial assets are included in the fair value reserve in equity.

*(iii) Group entities*

The results and financial position of all of the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case the income and expense are translated at the date of the transactions); and
- All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold or any borrowings part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale as applicable.

Goodwill and fair value adjustments arising on acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at closing rate.

**(d) Revenue recognition**

Interest income is recognised in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments over the expected life of the financial instrument to the net carrying amount of the financial asset or financial liability (which includes the unamortised balance of transaction costs).

*(i) Transaction costs*

Transaction costs are fees and costs that are incremental and directly attributable to the origination of mortgages. They include:

- Direct costs of loan origination;
- Settlement fees paid to outsourced service providers; and
- Upfront and trail commissions paid to brokers and franchisees.

*(ii) Interest rate changes over mortgage life*

Contractual changes to customer interest rates over the life of the loan are recognised using the effective interest method.

Fee revenue is recognised when it is due and payable except in relation to fees which are an integral part of the return on the loan asset which form part of the effective interest method calculations.

**(e) Income tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

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 and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

*Tax Consolidation legislation*

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The Company and the wholly owned Australian 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 tax payer in its own right.

In addition to its own current and deferred tax amounts, the Company as head entity of the tax consolidated group 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.

Assets or liabilities arising under the tax funding agreements with the tax consolidated entities are recognised as 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.

**(f) Impairment of assets**

*(i) Assets at amortised cost*

Collectibility of mortgage loans is assessed on an ongoing basis. An allowance account (provision for losses) is used when there is objective evidence that the group will not be able to collect all amounts due under the terms of the loan. Significant financial difficulties of the borrower, probability that the borrower will enter bankruptcy or financial reorganisation, and the existence of arrears are all indicators that the asset is impaired. The amount of the provision allowance is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the original effective interest rate. Discounting is not performed when the effect of discounting is immaterial. Mortgage loan balances that are known to be uncollectible are written off by reducing the carrying amount directly. Any such write-off is recognised in the income statement in other expenses.

Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

*(ii) Financial assets carried at fair value through profit or loss*

The expected net cash flows included in determining the recoverable amount of financial assets are discounted to their present value and cash flows are reviewed at each balance date with the asset value adjusted to fair value.

All assumptions used in determining the recoverable amount are reviewed annually.

**(g) Leases**

Leases entered into by the Group in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

**(h) Acquisition of assets**

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition.

**(i) Cash and cash equivalents**

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

**(j) Investments and other financial assets**

All receivables and other financial assets are recognised at the amounts receivable and all bad debts are written off in the period in which they are recognised and specific provisions made for doubtful debts.

The Group classifies its financial assets as loan assets held at amortised cost. Loan assets held at amortised cost are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when a mortgage loan is originated on the Group's balance sheet. These are accounted for at amortised cost using the effective interest method.

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**(k) Derivative financial instruments and hedging**

The Group enters into derivative financial instruments comprising; interest rate swaps, cross currency swaps and basis swaps, to manage its exposure to fluctuations in interest and foreign exchange rates.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to both the effective and ineffective portions of fair value swaps are recognised in the income statement within interest expense, together with changes in the fair value of the hedged item.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

The Group has designated cross currency swaps and FX forwards as fair value hedges of foreign currency borrowings and the interest rate swaps as fair value hedges of fixed rate mortgages.

*(ii) Non qualifying derivatives*

Certain derivative instruments including basis swaps do not qualify for hedge accounting. Changes in the fair value of any derivative instrument are recognised immediately in the income statement.

**(l) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Fair values of derivative financial instruments quoted in an active market, are obtained from quoted market prices, including recent market transactions, and valuation techniques, including discounted cash flow models. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The fair value of financial assets and financial liabilities that are not traded in an active market is determined using valuation techniques. Discount rates used in these valuations are determined by reference to available market data for similar assets.

Unless otherwise stated, the fair value of financial assets and financial liabilities approximates their carrying values.

**(m) Plant and equipment**

Plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

- Office equipment 2 to 5 years
- Furniture and fixtures 5 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(f)).

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

**(n) Leasehold improvements**

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter. Leasehold improvements held at the end of the reporting period are being amortised over the unexpired period of the lease.

**(o) Intangible assets**

Franchisee incentives have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of incentives over the expected life of the franchise agreements.

**(p) Software development costs**

Costs incurred to update existing systems or to design, develop and implement new systems are charged as expenses as incurred, except where they result in an enhancement of future economic benefits and are therefore recognised as an asset.

**(q) Financial liabilities**

The Group has on issue debt securities and instruments, which are initially recognised at fair value, net of transaction costs incurred. These debt securities and instruments are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Interest expense on such items is recognised in the income statement as interest expense.

**(r) Trail commissions liability**

The Group has a liability to pay trail commissions to brokers (2007: brokers and franchisees) who originated mortgage receivables. They are accounted for as financial liabilities at amortised cost.

**(s) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

**(t) Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic benefit will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting expected future cash flows at a market rate. Provisions are not recognised for future operating losses.

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

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

**(u) Employee benefits**

Liabilities for unpaid salaries, salary related costs and provisions for annual leave are recorded in the balance sheet at the salary rates plus related on-costs, which are expected to be paid when the liability is settled.

Provisions for long service leave are recognised at the present value of expected future payments. In determining this amount, consideration is given to expected future salary levels and employee service history. Expected future payments are discounted to their net present value using rates on Commonwealth Government securities with terms that match as closely as possible to the expected future cash flows.

**(v) Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

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

**(w) Rounding**

The entity is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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**(x) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options 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 buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit and loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

**(y) Earnings per share**

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial 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 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 the dilutive potential ordinary shares.

**(z) Changes to comparatives**

Certain comparative figures have been reclassified to conform to the current year's presentation and disclosure requirements.

**(aa) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods.

The Group's and the Company's assessment of the impact of these new standards and interpretations is set out below.

- AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8*. AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. AASB 8 will not have an impact on the financial report of the Group on the basis that it operates in a single business segment and a single geographic segment and therefore does not prepare segment reporting.
- Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12). The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and – when applied – will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group
- Revised AASB 101 *Presentation of Financial Statements* and AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101*. A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

## 2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as cross currency swaps, interest rate swaps and basis swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risks to which it is exposed. These methods include ageing analysis for credit risk and maturity analysis for liquidity risk.

Risk management is carried out by a central Treasury department (Treasury) under policies approved by the board of directors and the Group's Asset and Liability Committee. Treasury identifies, evaluates and hedges financial risks.

### (a) Market risk

#### (i) Foreign exchange risk

Foreign exchange risk arises when the Group obtains funding in a foreign currency. The Group's policy is to ensure swaps are in place with an appropriately rated counterparty to eliminate the potential impact of adverse movements in exchange rates.

The Group's exposure to foreign exchange risk at the reporting date was fully hedged through the use of cross currency swaps (2007: cross currency swaps and FX forwards). All cross currency hedges have been designated as 'fair value' hedges. The table below illustrates the value of the Group's financial assets and liabilities denominated in foreign currencies:

	30 June 2008		30 June 2007	
	USD \$'000	EUR €000	USD \$'000	EUR €000
Debt issued at amortised cost	105,012	635,583	5,570,816	876,748
Notional principal of foreign currency swaps	(105,012)	(635,583)	(5,570,816)	(876,748)
Other Liabilities – accrued interest	159	4,270	16,315	7,632

Accrued interest on foreign denominated debt is covered by the cross currency swaps (2007: cross currency and FX forwards).

The carrying value of the Parent Entity's financial assets and liabilities are all denominated in Australian dollars, therefore it is not subject to foreign exchange risk.

#### Sensitivity

Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar and EURO with all other variables held constant, the Group's post tax profit for the year would have been \$17,000 higher/\$17,000 lower (2007: \$5,000 higher/\$5,000 lower), mainly as a result of changes in the fair value of cross currency hedges, offset by changes in the fair value of the hedged liability. The impact on equity would be identical to the impact on profit after tax due to the fact that the cross currency hedges are all fair value hedges. Unless new foreign denominated debt is issued after the reporting date, the impact in future reporting periods is expected to be lower than the sensitivities set out above due to the fact that the foreign currency funding and associated swaps are amortising.

#### (ii) Interest rate risk

The Group's main interest rate risk arises from mortgage loans, cash deposits and interest bearing liabilities. All of the Group's borrowings are issued at variable rates and expose the group to interest rate risk. Mortgage loans that are written at variable rates and cash deposits also expose the Group to interest rate risk, however the risk is naturally hedged by the variable rate borrowings. Mortgages written at fixed interest rates are hedged with interest rate swaps to match the borrowings used to fund the mortgages. It is company policy to hedge 100% of the outstanding balance of fixed rate loans. Such interest rate swaps have the economic effect of converting mortgage loans from fixed rates to floating rates.

Interest rate swaps were also previously used to hedge interest rate risk on the portion of the margin received from the Group's special purpose entities used to pay interest on the Group's working capital facilities. The margin received is fixed but interest was paid at floating rates on the working capital loan. The interest rate swaps converted borrowings from floating rates to fixed rates. The Group's working capital facility was repaid during the reporting period and any associated swaps were unwound.

A portion of the Group's borrowings are priced relative to the 90 day BBSW. The Group's mortgage receivables are priced relative to the Reserve Bank of Australia Cash Rate, which has a closer correlation to the 30 day BBSW than to the 90 day BBSW. The Group hedges its exposure to resultant adverse movements by entering basis swap contracts to swap exposures from 90 day to 30 day BBSW.

The following table demonstrates the Group's exposure to interest rate risk at the reporting date:

	30 June 2008			30 June 2007		
	Weighted average interest rate %	Floating Interest Rate Balance \$'000	Fixed Interest Rate Balance \$'000	Weighted average interest rate %	Floating Interest Rate Balance \$'000	Fixed Interest Rate Balance \$'000
Cash and cash equivalents	7.90%	405,010	-	6.24%	339,735	-
Mortgage loans	9.52%	10,304,644	1,232,052	7.75%	13,108,903	584,605
Notional principal value of interest rate swaps	7.16% 7.56%	1,212,782	(1,212,782)	6.42% 6.29%	686,876	(686,876)
Notional principal value of basis swaps:						
• 3 month BBSW	7.83%	448,832	-	6.51%	716,750	-
• 1 month BBSW	7.65%	(448,832)	-	6.33%	(716,750)	-
Interest bearing Other Assets	6.90%	6,378	-	6.70%	20,397	-
Interest bearing debt	8.36%	(11,805,484)	-	6.58%	(14,090,439)	-
Net exposure to interest rate risk		123,330	19,270		65,472	(102,271)

The following table demonstrates the Parent's exposure to interest rate risk at the reporting date:

	30 June 2008			30 June 2007		
	Weighted average interest rate %	Floating Interest Rate Balance \$'000	Fixed Interest Rate Balance \$'000	Weighted average interest rate %	Floating Interest Rate Balance \$'000	Fixed Interest Rate Balance \$'000
Cash and cash equivalents	2.00%	41	-	1.85%	40	-
Net exposure to interest rate risk		41	-		40	-

*Group sensitivity*

Based on balances at 30 June 2008, if interest rates (i.e. both the cash rate and BBSW) had changed by +/- 50 basis points from year end rates with all other variables held constant, post-tax profit for the year would have been \$517,000 higher/lower (2007: change of +/-50 bps: \$98,000 lower/higher), mainly as a result of higher interest income offset by higher interest expense. The impact on equity would have been identical to the impact on profit after tax. The impact in future reporting periods is expected to be lower than the sensitivities set out above due to the fact that the mortgage loans and underlying funding are amortising.

*Parent sensitivity*

Based on balances at 30 June 2008, if interest rates had changed by +/- 50 basis points from year end rates with all other variables held constant, the impact on post-tax profit for the year and equity would have been less than \$1,000 (2007: change of +/- 50 bps: less than \$1,000 impact).

*(iii) Other Price Risk*

Other price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Neither the Parent nor the Group are exposed to other price risk.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default in its contractual obligations resulting in financial loss to the Group. Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks and financial institutions and mortgage loans.

The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account the value of any collateral or mortgage insurance obtained.

The Group has no significant concentrations of mortgage customer credit risk. Mortgage loans consist of a large number of customers spread across diverse geographical areas within Australia. The Group has policies in place to ensure that sales of mortgage products were made to customers with an appropriate credit history and security. The Group retains the registered mortgages over security property until the mortgage loans are repaid. The Group is entitled to take possession of and enforce the sale of security property in the event that the customer defaults under the terms of their mortgage. In the event that the sale proceeds are insufficient to extinguish the mortgage balance, the Group may make a claim for the shortfall (subject to certain terms and conditions) against the mortgage insurer. The Group's policy is to ensure that mortgage insurance is arranged with a minimum rating of AA- or better at the time cover is obtained.

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Derivative counterparties, cash transactions and mortgage insurance providers are limited to high credit quality financial institutions and insurers. The external credit ratings (where available) of counterparties and mortgage insurers will provide some indication of the credit quality of financial assets.

The following table demonstrates the split of the Group's mortgage loans by rating of mortgage insurer:

Ratings	Consolidated	
	2008 \$'000	2007 \$'000
Rated AAA	68,693	100,037
Rated AA+	4,267,460	3,397,275
Rated AA	3,606,724	9,693,215
Rated AA-	3,246,500	-
Rated A+	347,319	502,981
	<b>11,536,696</b>	13,693,508

As at the reporting date, receivables under derivative financial instruments are with swap counterparties with a rating of AA (2007: AA).

At the current and previous reporting date, the Group had invested in CP rated A1 or A1+, however no more than 20% of the investments were in paper rated A1. At the current and previous reporting date, cash and security deposits were invested with banks which had a credit rating of A1+.

All quoted ratings by Standard and Poors are published ratings.

It should be noted in regard to mortgage loan balances that a registered mortgage is held over security property (being land and buildings) with an assessed value of \$18,501,387,000 at the reporting date (\$22,519,456,000 at 30 June 2007). The valuations of the underlying security properties have been performed at the later of the original loan application date or subsequent loan variation date, and do not take into account any realisation costs.

The following table demonstrates the arrears status of the mortgage loan balances at the reporting date:

Arrears status	Mortgage loan balance 2008 \$'000	Mortgage loan balance 2007 \$'000
Under-limit	11,289,569	13,503,725
Over-limit days:		
30-59	33,904	38,154
60-89	74,973	47,630
90-179	80,071	66,475
180+	58,179	37,524
<b>Total mortgage loans</b>	<b>11,536,696</b>	13,693,508

Included in the above ageing analysis are mortgage loan balances of \$13,979,000 (2007: \$2,818,000) against which a provision of \$3,200,000 (2007: \$978,000) has been raised.

Arrears are assessed by the Group on an 'over-limit' basis. A mortgage loan is classified as being in arrears if the excess of the mortgage balance over the amortised credit limit at the report date represents more than 30 days worth of minimum required repayments. The 'over-limit' method of reporting arrears is used on the basis that it best represents the credit risk to the Group.

An impairment loss is recognised in regard to mortgage loans if the total expected recoveries in regard to a loan do not exceed the mortgage balance. In the event that the actual or expected net sale proceeds ensuing from an enforced sale of the security property do not exceed the mortgage loan balance, the shortfall may be claimed against the mortgage insurer (subject to certain terms and conditions). Instances where shortfalls may not be claimable against the insurer include shortfalls that constitute the fees and charges component of a mortgage balance (rather than principal or interest), cases involving fraud or cases involving certain administrative errors. The Group has recognised a provision for impairment at 30 June 2008 of \$3,200,000 (2007: \$978,000) in relation to un-claimable mortgage shortfalls.

The carrying amount of mortgage loans that would otherwise have been in arrears if the terms and conditions had not been renegotiated is less than 0.2% of the mortgage loan balance.

At the reporting date, the Group has taken possession of security properties with a last assessed fair value of \$31,521,002 (2007: \$18,230,753). These properties act as security for mortgage loans of \$30,198,035 (2007: \$15,748,357) that will remain in the balance sheet until the security properties are sold and any shortfall is claimed from the mortgage insurer.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group's Treasury department aims to ensure that sufficient cash

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and credit facilities are maintained to meet funding requirements, however this has become increasingly difficult to achieve given the global credit crisis. While the Group continues to maintain sufficient cash reserves within its SPEs to fund redraws and additional advances on existing loans it has no unused warehouse facilities at the reporting date. Surplus funds are generally only invested in at call bank accounts or instruments with maturities of less than 90 days.

At the previous reporting date the Group had entered into Market Value Liquidity Facilities with highly rated counterparties which ensured that if following an extension event under the extendible commercial paper program the Group was unable to arrange an alternative source of funding the total proceeds from any sale of the underlying mortgage receivables would be at least equivalent to their face value.

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

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

*Term Bonds payable*

Term bonds payable are residential mortgage backed securities (RMBS) issued by the Group's SPEs. They are 30-32 year pass through securities that may be repaid early (i.e. at the call date) by the issuer in certain circumstances.

*Warehouse facilities*

Warehouse facilities are typically short term funding facilities (typically 364 days) that are renewable annually at the funder's option. As at the reporting date the Group has one warehouse facility of \$646 million which has been structured as a 32 year pass through security.

The Group's Treasury department aims at maintaining flexibility in funding by keeping surplus un-drawn warehouse facilities available, however the current global credit squeeze has made this increasingly difficult to achieve. At 30 June 2008 the Group has no un-drawn warehouse facilities.

The Group has access to un-drawn facilities, consisting of bank overdrafts, at the reporting date of \$26,900,000 (2007: \$61,449,000). The bank overdraft facilities may be utilised at anytime however they may be terminated by the bank without notice. These overdrafts are for operational purposes to cover overnight timing differences and are not available for corporate or SPE funding. The parent does not have access to any un-drawn facilities.

Going forward, the Group is reliant on the renewal of existing warehouse facilities, the negotiation of new warehouse facilities or the issuance of new residential mortgage backed securities.

The Group remains in discussions with its various warehouse providers in regards to future maturity dates, however a high level of uncertainty still remains in the current market which will likely result in the Group selling further mortgages at par in repayment of facilities.

A default will likely arise if a warehouse cannot be renewed and the mortgages are not sold. This will result in a higher margin and all principal, interest and fee collections on mortgages funded through the warehouse after payment of security trustee, servicer and manager expenses being returned to the warehouse facility provider in order to accelerate repayment of the facility. As a result the cash flow available to the Group from excess spread would be deferred until the facility is repaid in full.

Each warehouse facility has been structured so that if it is not renewed or otherwise defaults there is only limited recourse to the Group. If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income streams from excess spread, being the difference between our mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transactions costs.

The directors are satisfied that any sale of mortgages in repayment of warehouse facilities or an event of default in relation to the Group's warehouse facilities will not affect the Group's ability to continue as a going concern.

The maturity profile of financial liabilities and net settled derivative financial instruments of the Group is demonstrated in the following table. Derivative financial liabilities have not been analysed separately from non derivative liabilities on the basis that all liabilities are settled on a net basis.

Group – at 30 June 2008	6 months or less	6 – 12 months	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interest Bearing financial liabilities inclusive of associated derivative instruments	8,868,627	704,747	1,077,252	1,477,915	965,973	13,094,514	11,807,397
Non interest bearing financial liabilities	48,372	7,051	10,649	14,153	5,054	85,279	75,998
Total financial liabilities	8,916,999	711,798	1,087,901	1,492,068	971,027	13,179,793	11,883,395

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Group – at 30 June 2007	6 months or less	6 – 12 months	Between 1 & 2 years	Between 2 & 5 years	Over 5 years	Total contractual cash flows	Carrying amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interest Bearing financial liabilities inclusive of associated derivative instruments	1,689,433	8,229,468	2,559,661	1,664,371	1,786,166	15,929,099	14,086,352
Non interest bearing financial liabilities	77,429	10,780	15,257	23,896	70,560	197,922	158,062
<b>Total financial liabilities</b>	<b>1,766,862</b>	<b>8,240,248</b>	<b>2,574,918</b>	<b>1,688,267</b>	<b>1,856,726</b>	<b>16,127,021</b>	<b>14,244,414</b>

The above analysis is based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are undiscounted cash flows based on the earliest date at which repayment is required, however it should be noted that funding is arranged on a 'pass through' basis and therefore there is an element of principal amortisation in each funding facility prior to repayment. The expected principal-pass-through to the funders is based on the expected principal receipts from mortgage loans. Calculations of expected principal receipts on mortgage loans have been derived using prepayment assumptions that are based on historic actual experience.

In the case of warehouse facilities, the above maturity analysis reflects contractual maturity dates effective at the reporting date. Refer to the 'Events occurring after balance sheet date' note for details of any extensions effected after the reporting date. In the case of RMBS, the maturity analysis assumes that the issuer (being one of the Group's SPEs) will not opt to repay the securities at the call date, but rather, that they will be repaid at their respective maturity dates.

The Parent's financial liabilities at the reporting date are expected to be repaid within a year.

**(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market are determined using valuation techniques. The Group uses estimated discounted cash flows with assumptions based on market conditions existing at each balance date to determine fair value.

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values:

	Consolidated 30 June 2008		Consolidated 30 June 2007	
	Carrying amount \$'000	Fair Value \$'000	Carrying amount \$'000	Fair Value \$'000
Financial Assets:				
Loan assets held at amortised cost	<b>11,579,790</b>	<b>11,515,026</b>	13,865,184	13,687,928
Financial Liabilities:				
Debt issued at amortised cost	<b>11,740,728</b>	<b>11,629,316</b>	13,856,791	13,912,006
Financial liabilities at amortised cost	<b>35,917</b>	<b>34,317</b>	92,472	91,185

The financial statements of the Parent include investments in controlled entities. Investments in controlled entities are carried at cost and further details are included in Note 14. These amounts represent the equity (being ordinary shares) held in controlled entities. Fair value cannot be reliably measured on the basis that the relevant entities do not have a quoted market price in an active market. Conduit Management Corporation was sold during the reporting period. This resulted in a gain on sale of \$56,524. As at the reporting date, the Parent does not have an intention to dispose of the remaining balance of the investments in controlled entities.

*Assumptions used in determining fair value of financial assets and liabilities:*

The carrying value of Cash and cash equivalents, Other assets, Due to/from related parties, Other liabilities and Other provisions are assumed to approximate their fair values due to their short term nature.

The fair value of Loans held at amortised cost for disclosure purposes has been estimated by discounting the estimated future cash flows at the current market rates for similar financial instruments. A weighted average discount rate of 9.5% has been used at the reporting date (2007: 7.7%).

The fair value of derivative financial assets and liabilities are calculated as the present value of the estimated future cash flows, taking into account the difference between the swapped and market rates at the reporting date.

The fair value of Debt issued at amortised cost for disclosure purposes has been estimated by discounting the future contractual cash flows at the current interest rate that is available to the Group for similar financial instruments. At the reporting date, discount rates varying from 8.9% to 9.2% have been used depending on the type of borrowing (2007: 6.5% - 8.3%). At the previous reporting date, there were a number of RMBS issues that provided a benchmark rate, however in the half year leading up to the current reporting date there have been limited RMBS issues. In addition, the interest rate margins applicable to the subordinated debt components of these issues have typically been absorbed by the issuer or a related entity.

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A discount rate of 9.3% has been applied to future contractual cash flows related to RMBS as at the reporting date, which represents management's view of the current market rate. There are no observable market transactions that provide a guide to the current market value of the Group's issued debt, however recent transactions involving other issuers have been taken into consideration.

The fair value of Financial liabilities at amortised cost has been estimated by discounting the future estimated cash flows by 13.4% at the reporting date (2007: 10.7%).

### 3. Critical accounting estimates and judgements

The preparation of the financial report in accordance with AIFRSs requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. The notes to the financial statements set out areas involving a high degree of judgement or complexity or areas where assumptions are significant to the Group and Parent Entity financial report such as:

- Consolidation of special purpose entities (note 1(b));
- Trail commission liability (note 1(r));
- Effective interest rate (note 1(d)); and
- Impairment of assets (note 1(f)).

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Management believes the estimates used in preparing the financial report are reasonable. Actual results in the future may differ from those reported.

### 4. Segment information

The Group operates in a single business segment of servicing and provision of securitised funding of residential mortgages in a single geographic segment of Australia. The Group ceased origination of mortgages in which it holds beneficial interest on 16 November 2007.

### 5. Revenue

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Net interest income</b>				
Interest income	1,159,157	886,372	17	51
Change in accounting estimate (Note 8)	(53,576)	(38,491)	-	-
Interest income	<b>1,105,581</b>	847,881	<b>17</b>	51
Interest expense (before hedging adjustments)	(1,051,580)	(783,777)	-	-
Gain/(Loss) arising on derivatives not in a designated fair value relationship	856	26	-	-
Gain/(Loss) arising on derivatives in a designated fair value relationship	181,544	(189,340)	-	-
Gain/(Loss) arising on adjustment to hedged items in a designated fair value relationship	(181,372)	189,350	-	-
Net interest income	<b>55,029</b>	64,140	<b>17</b>	51
<b>Net fee and commission income</b>				
Loan fee revenue	25,195	19,815	-	-
Sundry revenue	396	2,232	13,057	100
Net fee and commission income	<b>25,591</b>	22,047	<b>13,057</b>	100
<b>Total net income</b>	<b>80,620</b>	86,187	<b>13,074</b>	151

**6. Operating expenses**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Fee and commission expense	(15,454)	(14,756)	-	-
Employee benefits	(5,723)	(10,119)	-	-
Securitisation expenses	(3,399)	(1,983)	-	-
Trustee fees	(2,711)	(2,476)	-	-
Amortisation and depreciation	(96)	(100)	-	-
Marketing expenses	(100)	(100)	-	-
Occupancy expenses	(351)	(240)	-	-
System maintenance expenses	(447)	(277)	-	-
Outsourced loan servicing	(1,983)	(2,362)	-	-
Professional fees	(2,581)	(3,303)	-	(105)
Bad and Doubtful debts expense	(4,563)	(1,367)	-	-
Other expenses	(2,085)	(2,062)	-	-
	<b>(39,493)</b>	<b>(39,145)</b>	<b>-</b>	<b>(105)</b>

**7. Discontinued operations**

**(a) Description**

On 2 October 2007, the Group announced its intention to sell the RAMS brand and distribution business to Westpac Banking Corporation for \$140 million. Shareholders approved the sale transaction on 26 November 2007 and the transaction was completed on 4 January 2008. The business sold included the RAMS brand, franchise network and associated mortgage origination and servicing systems and contracts required to operate the distribution business. The terms of the agreement provide that RHG Limited has no economic interest in loans settled after 15 November 2007. Costs related to the distribution business incurred after 15 November 2007 were reimbursed by Westpac until completion on 4 January 2008.

**(b) Financial performance and cash flow information in relation to distribution business**

	2008 \$'000	2007 \$'000
<b>Profit from discontinued operations</b>		
Income from ordinary activities net of interest expense	7,931	8,333
Expenses	(20,741)	(34,729)
Loss from discontinued operation before gain on sale	(12,810)	(26,394)
Gain on sale of origination business	128,921	-
<b>Profit/(loss) before income tax</b>	<b>116,111</b>	<b>(26,394)</b>
Income tax (expense)/benefit	(20,919)	8,570
<b>Profit/(loss) from discontinued operations</b>	<b>95,192</b>	<b>(17,824)</b>
	2008 \$'000	2007 \$'000
<b>Cash flows from discontinued operations</b>		
Net cash (outflow) from operating activities	(23,884)	(38,287)
Net cash (outflow) from investing activities(2008 net of inflow of \$126,201,000 from sale of origination business)	(2,109,490)	(7,287,250)
Net cash inflow from financing activities (being funding utilised to fund new mortgage settlements)	2,221,996	7,235,305
<b>Net increase/(decrease) in cash generated by the division</b>	<b>88,622</b>	<b>(90,232)</b>

**(c) Value of assets and liabilities**

The carrying values of assets and liabilities sold or scrapped at 4 January 2008 as part of the business sale were:

	<b>As at 4 January 2008 \$'000</b>	As at 30 June 2007 \$'000
<b>Assets</b>		
Other assets including franchisee loans	20,498	16,306
Intangible assets – franchisee incentives	3,212	3,838
Plant and equipment	1,517	1,619
<b>Total assets</b>	<u>25,227</u>	<u>21,763</u>
<b>Liabilities</b>		
Financial liabilities at amortised cost – franchisee trail commissions	32,916	34,827
Other liabilities	-	1,773
Provisions – employee entitlements	1,381	3,863
<b>Total liabilities</b>	<u>34,297</u>	<u>40,463</u>
<b>Net assets/(liabilities)</b>	<u>(9,070)</u>	<u>(18,700)</u>

**(d) Details of sale of the division**

	<b>\$'000</b>
<b>Consideration payable</b>	<b>140,000</b>
Add price adjustments for franchisee loans	19,438
Less price adjustments for franchisee trail commissions	(32,916)
Less other price adjustments	(321)
<b>Net cash consideration payable</b>	<u><u>126,201</u></u>
<b>Consideration received</b>	
Cash	<u>126,201</u>
Total disposal consideration	<u>126,201</u>
Carrying amount of net liabilities sold/scrapped at sale	9,070
Costs of sale	<u>(6,350)</u>
<b>Gain on sale before income tax</b>	<u>128,921</u>
Income tax expense	<u>(24,759)</u>
<b>Gain on sale after income tax</b>	<u><u>104,161</u></u>

**(e) Sale of Conduit Management Corporation**

During the year the Parent disposed of Conduit Management Corporation (“CMC”) for \$1,000USD. Prior to the sale CMC bought back 299,000 ordinary shares held by the Parent Entity for \$299,000USD. A profit before tax on disposal of CMC of \$56,524 is reflected in the Parent Entity’s profit for the year.

**8. Change in accounting estimate**

During the year the Group reviewed its assumptions in relation to estimated average loan life due to increased actual loan prepayment rates and continuing uncertainty in credit markets which will likely result in the Group selling additional mortgages at par in repayment of facilities.

The impact of this change in accounting estimate is as follows:

- Decrease profit before tax by \$53.6 million, decrease tax expense by \$16.1 million and decrease profit after tax by \$37.5 million;
- Decrease loan assets held at amortised cost by \$53.6 million; and
- Decrease in deferred tax liability by \$16.1 million.

**9. Income tax**

**(a) Income tax expense**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Current tax	28,422	4,113	(10)	15
Current tax assumed by head entity of the tax consolidated group	-	-	-	(19,210)
Deferred tax	4,002	1,429	32	19,209
Tax expense	<b>32,424</b>	<b>5,542</b>	<b>22</b>	<b>14</b>

Income tax expense is attributable to:

Profit from continuing operations	11,505	14,112	22	14
Profit from discontinuing operations	20,919	(8,570)	-	-
Aggregate income tax expense	<b>32,424</b>	<b>5,542</b>	<b>22</b>	<b>14</b>

Deferred income tax expense included in income tax expense comprises:

Decrease in deferred tax assets (note 21)	4,002	1,429	32	19,209
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**(b) Numerical reconciliation of income tax expense to prima facie tax payable:**

Profit from continuing operations before income tax expense	41,127	47,042	13,074	46
Profit from discontinuing operations before income tax expense	116,111	(26,394)	-	-
	<b>157,238</b>	<b>20,648</b>	<b>13,074</b>	<b>46</b>
Tax at the Australian tax rate of 30% (2007 - 30%)	47,171	6,194	3,922	14
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Acquired Future servicing rights	(739)	(459)	-	-
Sale of discontinued operations	(13,917)	-	-	-
Dividends	-	-	(3,900)	-
Sundry items	(91)	(193)	-	-
Income tax expense	<b>32,424</b>	<b>5,542</b>	<b>22</b>	<b>14</b>

**(c) Tax consolidation legislation**

The Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 July 2003. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the Company as head entity.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate the Company for any current tax payable assumed and are compensated by the Company for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the Company 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. The funding amounts are recognised as current intercompany receivables or payables (see note 30).

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**10. Cash and cash equivalents**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Cash at bank, in hand and commercial paper	398,131	339,719	41	40
Deposits at call	6,879	16	-	-
	<b>405,010</b>	<b>339,735</b>	<b>41</b>	<b>40</b>

Total Cash and cash equivalents includes \$26,541,406 (2007: \$6,227,532) held by Group entities other than the Group's SPEs. Cash held by the Group's SPEs predominantly represents principal receipts on mortgage loans which will be passed to bondholders and warehouse providers on the next payment date for each funding facility.

The Group's exposure to interest rate risk is discussed in note 2.

**11. Loan assets held at amortised cost**

Mortgage loans	11,536,696	13,693,508	-	-
Provision for losses	(3,200)	(978)	-	-
Interest rate swap hedges fair value adjustment	(18,470)	(4,602)	-	-
Deferred transaction costs	64,764	177,256	-	-
	<b>11,579,790</b>	<b>13,865,184</b>	<b>-</b>	<b>-</b>

**(a) Mortgage loans**

Mortgages are taken out for a period not exceeding 30 years and regular repayments are required throughout the term.

**(b) Bad and doubtful mortgage loans**

The Group has recognised a provision for loss of \$3,200,000 (2007:\$978,000) in respect of mortgage loans. The loss has been included in 'Bad and doubtful debts' expense in the income statement.

**(c) Interest rate swaps at fair value**

Interest rate swaps are used to hedge the fair value of mortgage loans. The carrying value of mortgage loans is adjusted for changes in the fair value of the asset where such hedges are highly effective. There is an offsetting fair value adjustment in derivative financial assets (Note 12).

**(d) Risk exposures**

Information about the Group's exposure to risks in relation to Loan assets held at amortised cost is provided in note 2.

**(e) Deferred transaction costs**

Fees and costs that are incremental and directly attributable to the origination or acquisition of a financial instrument are recorded against the asset/liability. The Group uses the effective interest method whereby the net transaction costs are amortised to profit over the life of the loans. Any unamortised transaction costs form part of the carrying value of the loan.



## 12. Derivative financial instruments

The following table provides details of the Group's outstanding derivatives used for hedging purposes as at reporting date.

	Consolidated 2008		Parent entity 2008	
	Notional Principal \$'000	Net fair value \$'000	Notional principal \$'000	Net fair value \$'000
<b>Derivative financial assets</b>				
Basis swaps	448,832	640	-	-
Interest rate swaps	1,212,782	18,482	-	-
Cross currency swaps	385,374	5,682	-	-
	<b>2,046,988</b>	<b>24,804</b>	-	-

### Derivative financial liabilities

Cross currency swaps	834,488	66,670	-	-
	<b>834,488</b>	<b>66,670</b>	-	-

	Consolidated 2007		Parent entity 2007	
	Notional Principal \$'000	Net fair value \$'000	Notional principal \$'000	Net fair value \$'000
<b>Derivative financial assets</b>				
Interest rate swaps	686,876	5,296	-	-
	<b>686,876</b>	<b>5,296</b>	-	-
<b>Derivative financial liabilities</b>				
Cross currency swaps	1,723,397	132,756	-	-
Basis swaps	716,749	216	-	-
FX forwards	6,457,180	96,590	-	-
	<b>8,897,326</b>	<b>229,562</b>	-	-

With the exception of basis swaps, all derivative financial assets and liabilities are highly effective and, in such cases, hedge accounting has been applied. There is an offsetting fair value adjustment to hedged assets and liabilities where hedges are highly effective (Notes 11,17).

Information about the Group's and the Parent Entity's exposure to credit risk, foreign exchange and interest rate risk and use of derivatives is provided in note 2.

## 13. Other assets

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Receivables	1,650	25,524	-	-
Security deposits	6,378	2,299	-	-
Rental bonds	355	15	-	-
Prepayments	334	572	-	-
Sundry debtors	15,138	9,043	-	-
	<b>23,855</b>	<b>37,453</b>	-	-

At the reporting date, the Receivables balance represents accrued interest on deposits with banks rated A1+ (2007: \$9,341,116 represents accrued interest on deposits with banks rated A1+ and the balance is with unrated entities). At the reporting date the Security deposits and Rental bonds are with banks rated A1+ (2007: Security deposits are with banks rated A1+ but the Rental bonds are with unrated entities). Included in the Sundry debtors balance at the reporting date is an amount of \$14,322,817 representing GST credits received by the Group in July 2008.

None of the receivables in this category are either past due or impaired.

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**14. Investments in controlled entities**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
RHG Home Loans Pty Limited	-	-	20,000	20,000
Receivables Servicing Pty Limited	-	-	1,000	1,000
RHG Treasury Services Pty Limited	-	-	275	275
Conduit Management Corporation	-	-	-	311
	-	-	21,275	21,586

Other controlled entities in the Group (note 31) are not directly owned by the Parent Entity.

**15. Intangible assets**

	Consolidated \$'000	Parent entity \$'000
<b>Franchisee incentives</b>		
<b>At 1 July 2006</b>		
Cost	3,590	-
Accumulated amortisation	(100)	-
Net book amount	3,490	-
<b>Year ended 30 June 2007</b>		
Opening net book amount	3,490	-
Additions	801	-
Amortisation charge	(453)	-
Closing net book amount	3,838	-
<b>At 30 June 2007</b>		
Cost	4,384	-
Accumulated amortisation	(546)	-
Net book amount	3,838	-
<b>Year ended 30 June 2008</b>		
Opening net book amount	3,838	-
Additions	374	-
Disposals / scrapping	(3,950)	-
Amortisation charge	(262)	-
Closing net book amount	-	-
<b>At 30 June 2008</b>		
Cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-

Amortisation of \$262,258 (2007:\$453,095) is included in profit (2007: loss) from discontinued operations in the income statement. Incentives were amortised over the remaining term of their estimated useful lives. The unamortised balance of franchisee incentives was written off during the 2008 financial year following the Group's sale of its brand name and distribution business.

**16. Plant and equipment**

<b>Consolidated</b>	<b>Leasehold improvements \$'000</b>	<b>Furniture and equipment \$'000</b>	<b>Total \$'000</b>
<b>At 1 July 2006</b>			
Cost	1,736	1,364	3,100
Accumulated depreciation	(820)	(445)	(1,265)
Net book amount	<u>916</u>	<u>919</u>	<u>1,835</u>
<b>Year ended 30 June 2007</b>			
Opening net book amount	916	919	1,835
Additions	309	538	847
Disposals	(20)	-	(20)
Depreciation	(331)	(632)	(963)
Closing net book amount	<u>874</u>	<u>825</u>	<u>1,699</u>
<b>At 30 June 2007</b>			
Cost	1,802	1,902	3,704
Accumulated depreciation	(928)	(1,077)	(2,005)
Net book amount	<u>874</u>	<u>825</u>	<u>1,699</u>
<b>Year ended 30 June 2008</b>			
Opening net book amount	<b>874</b>	<b>825</b>	<b>1,699</b>
Additions	<b>199</b>	<b>320</b>	<b>519</b>
Disposals	<b>(897)</b>	<b>(622)</b>	<b>(1,519)</b>
Depreciation	<b>(176)</b>	<b>(337)</b>	<b>(513)</b>
Closing net book amount	<u>-</u>	<u>186</u>	<u>186</u>
<b>At 30 June 2008</b>			
Cost	-	328	328
Accumulated depreciation	-	(142)	(142)
Net book amount	<u>-</u>	<u>186</u>	<u>186</u>

**17. Debt issued at amortised cost**

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2008 \$'000</b>	<b>2007 \$'000</b>	<b>2008 \$'000</b>	<b>2007 \$'000</b>
<b>Secured</b>				
Secured liquidity notes payable	-	6,438,400	-	-
FX forward hedges fair value adjustment	-	(96,590)	-	-
Term bonds payable	<b>3,960,097</b>	3,824,791	-	-
Cross currency swap hedges fair value adjustment	<b>(61,232)</b>	(132,828)	-	-
Warehouse facilities	<b>7,845,387</b>	3,702,548	-	-
Revolving cash advance facility	-	108,000	-	-
Interest rate swap hedges fair value adjustment	-	684	-	-
Deferred transaction costs – debt issues	<b>(3,524)</b>	(4,914)	-	-
<b>Total secured</b>	<u><b>11,740,728</b></u>	<u>13,840,091</u>	<u>-</u>	<u>-</u>
<b>Unsecured</b>				
Loans from related parties	-	16,700	-	-
<b>Total unsecured</b>	<u>-</u>	<u>16,700</u>	<u>-</u>	<u>-</u>
	<u><b>11,740,728</b></u>	<u>13,856,791</u>	<u>-</u>	<u>-</u>

**Secured liquidity notes**

Secured liquidity notes ("SLNs") are residential mortgage backed securities previously issued by the group into the US extendible commercial paper market. All SLNs were repaid during the 2008 year.

**Term Bonds payable**

Term bonds payable are residential mortgage backed securities issued by the Group's SPE's. They are 30 to 32 year variable rate pass through securities. Term bonds may be repaid early by the issuer in certain circumstances.

**Cross currency swaps, FX forwards and Interest rate swaps fair value adjustment.**

The Cross Currency Swaps, FX Forwards and Interest Rate Swaps are used to hedge the fair value of debt. The carrying value of debt is adjusted for changes in the fair value of the liability where such hedges are highly effective. There is an offsetting fair value adjustment contained in derivative financial assets and derivative financial liabilities (Note 12).

**Risk Exposures**

Details of the Group's exposures to risk arising from Debt issued at amortised costs are set out in note 2.

**Warehouse facilities**

The Warehouse facilities are used to fund mortgages and are primarily 364 day facilities that are renewable annually. The balance of warehouse facilities at reporting date includes one warehouse facility of \$614 million which has been structured as a 32 year pass through security.

**Loans from related parties - J. A. Kinghorn & Co Pty Limited:**

An amount of \$16,700,000 was advanced from J. A. Kinghorn & Co Pty Limited, a related party, under an unsecured loan facility agreement entered into on 23 September 2003 and amended June 2006. The facility was repaid and terminated during the 2008 year.

Note 2 contains a maturity analysis of financial liabilities that reflects agreements in place at reporting date.

**(a) Assets pledged as security**

	Notes	Consolidated		Parent entity	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
The carrying amounts of assets pledged as security are					
Cash and cash equivalents	10	346,589	333,209	-	-
Other assets		9,382	2,409	-	-
Derivative financial assets		24,804	5,296	-	-
Mortgages	11	11,518,561	13,693,509	-	-
<b>Total assets pledged as security</b>		<b>11,899,336</b>	<b>14,034,423</b>	<b>-</b>	<b>-</b>

Each of RHG Mortgage Corporation Limited and RHG Mortgage Securities Pty Limited has granted security over all of its assets in favour of a security trustee for the benefit of various financiers funding the mortgage loans held by those entities.

**(b) Financing arrangements**

	Consolidated	
	2008 \$'000	2007 \$'000
<b>Warehouse facilities</b>		
Used at balance date	7,845,387	3,702,548
Unused at balance date	-	947,452
	<b>7,845,387</b>	<b>4,650,000</b>
<b>Secured liquidity note facilities</b>		
Used at balance date	-	6,438,400
Unused at balance date	-	28,600
	<b>-</b>	<b>6,467,000</b>
<b>Revolving cash advance facility</b>		
Used at balance date	-	108,000
Unused at balance date	-	20,000
	<b>-</b>	<b>128,000</b>
<b>Loans from related parties</b>		
Used at balance date	-	16,700
	<b>-</b>	<b>16,700</b>

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<b>Consolidated</b>		<b>Parent entity</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>

**18. Financial liabilities at amortised cost**

Trail commission liability	<b>35,917</b>	92,472	-	-
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Liability is recognised for the future trail commissions payable to mortgage brokers (2007: mortgage brokers and franchisees) for mortgages they have originated on behalf of the Group.

The following methods and significant assumptions have been applied in determining the liability for future trail commissions:

- liability value has been estimated using valuation models;
- prepayment rates on underlying mortgages are assumed to align with recent experience; and
- the proportion of fixed rate mortgages and mortgages in arrears are assumed to align with recent experience.

**19. Other liabilities**

Interest accruals due to bond holders and warehouse	<b>34,020</b>	48,316	-	-
Trade and other creditors	<b>6,061</b>	17,274	-	106
	<b>40,081</b>	65,590	-	106

**20. Provisions**

Employee entitlements	<b>971</b>	6,514	-	-
Lease costs	<b>30</b>	700	-	-
Other	<b>466</b>	300	-	-
Income tax provision	<b>28,912</b>	(843)	<b>28,912</b>	(844)
	<b>30,379</b>	6,671	<b>28,912</b>	(844)

**(a) Lease provisions**

Provision is made for operating lease rentals on a straight line basis.

**(b) Movements in provisions**

Movements in each class of provisions during the financial year, other than employee benefits, are set out below:

	<b>Lease costs</b>	<b>Other</b>	<b>Income tax</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Consolidated – 2008				
Carrying amount at 1 July 2007	<b>700</b>	<b>300</b>	<b>(844)</b>	<b>156</b>
Additional provision	<b>70</b>	<b>874</b>	<b>29,011</b>	<b>29,955</b>
Utilisation / release of provisions	<b>(740)</b>	<b>(708)</b>	<b>745</b>	<b>(703)</b>
Carrying amount at 30 June 2008	<b>30</b>	<b>466</b>	<b>28,912</b>	<b>29,408</b>
Parent – 2008				
Carrying amount at 1 July 2007	-	-	<b>(844)</b>	<b>(844)</b>
Additional provision	-	-	<b>(10)</b>	<b>(10)</b>
Assumed from subsidiaries	-	-	<b>29,021</b>	<b>29,021</b>
Utilisation of provisions	-	-	<b>745</b>	<b>745</b>
Carrying amount at 30 June 2008	-	-	<b>28,912</b>	<b>28,912</b>

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**21. Deferred tax liabilities**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
The balance comprises temporary differences attributable to: <i>Amounts recognised in profit and loss</i>				
<b>Deferred tax assets</b>				
Mortgage insurance	883	21,614	-	-
Depreciation and amortisation	261	956	-	-
Trail commission liability	10,776	27,742	-	-
Provisions and accruals	1,968	2,290	-	32
Effective interest rate revenue adjustments	1,432	1,479	-	-
Other	-	31	-	-
<b>Total deferred tax assets</b>	<b>15,320</b>	<b>54,113</b>	<b>-</b>	<b>32</b>
<b>Deferred tax liabilities</b>				
Deferred transaction costs	(20,486)	(54,651)	-	-
Other deferred costs	-	(625)	-	-
<b>Deferred tax liability</b>	<b>(20,486)</b>	<b>(55,276)</b>	<b>-</b>	<b>-</b>
<b>Net deferred tax (liability)/asset</b>	<b>(5,166)</b>	<b>(1,164)</b>	<b>-</b>	<b>32</b>
<b>Movements:</b>				
Opening balance at 1 July	(1,164)	265	32	19,241
Movement for the year	(4,002)	(1,429)	(32)	(19,209)
Closing balance at 30 June	<b>(5,166)</b>	<b>(1,164)</b>	<b>-</b>	<b>32</b>

**22. Contributed equity**

	2008 Shares	2008 \$'000	2007 Shares	2007 \$'000
<b>(a) Share capital</b>				
Ordinary shares				
Fully paid	353,845,742	24,072	330,657,000	22,472
Partly paid	-	-	23,188,742	16
<b>Total</b>	<b>353,845,742</b>	<b>24,072</b>	<b>353,845,742</b>	<b>22,488</b>
<b>(b) Movements in ordinary share capital</b>				
<b>Details</b>				
Opening balance	353,845,742	22,488	24,415,001	22,488
Conversion to greater number of shares (Sec 254H Corporations Act 2001)	-	-	329,430,741	-
Payment of call	-	1,584	-	-
Closing balance	<b>353,845,742</b>	<b>24,072</b>	<b>353,845,742</b>	<b>22,488</b>
<b>(c) Capital risk management</b>				

The Group's and Parent Entity's objective when managing capital is to safeguard the ability of the Group to continue as a going concern, so that they can provide the best possible return to shareholders in wind down. Given uncertainty in current markets the Group has used excess cash to retire corporate debt (i.e. debt of entities other than the Group's Special Purpose securitisation entities).

Subsequent to year end the Group has announced an on market share buy back of up to 10% of the Parent Entity's share capital over the next twelve months. The directors believe that given the recent market price of the Parent Entity's shares the use of capital to buy back shares on market will improve the return to shareholders.

The directors will continue to evaluate alternative capital management approaches (i.e. dividends, buy backs, etc.) to provide the best possible return to shareholders.

The Group and Parent Entity are not subject to any gearing covenants.

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>23. Retained profits/(accumulated losses)</b>				
<b>Movements in retained profits/ (accumulated losses) were as follows:</b>				
Balance 1 July	(21,523)	(36,629)	(283)	(315)
Net profit for the year	124,814	15,106	13,052	32
Equity adjustment – sale of investment	(59)	-	-	-
Dividends paid	(12,600)	-	(12,600)	-
Balance at 30 June	<u>90,632</u>	<u>(21,523)</u>	<u>169</u>	<u>(283)</u>

**24. Dividends**

**(a) Ordinary shares**

On 26 July 2007 a final dividend in relation to the 2007 year of 3.5609 cents per ordinary share was declared and paid. This dividend comprised \$10,600,000 which was fully franked based on tax paid at 30%, and \$2,000,000 which was unfranked. The aggregate amount of the dividend declared on 26 July 2007 out of retained earnings but not recognised as a liability at 30 June 2007 was \$12,600,000.

**(b) Franked dividends**

The directors do not recommend payment of a dividend in relation to the 2008 year. The franked portion of any future dividend will be franked out of existing credits or out of franking credits arising from the future payments of income tax.

	Parent	
	2008 \$'000	2007 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2007: 30%)	<u>259</u>	<u>10,622</u>

The above amounts represent the balance of the franking account as at the end of the financial year (2007: adjusted for franking debits from the refund of tax paid in advance).

The impact on the franking account of the dividend declared and paid on 26 July 2007 but not recognised as a liability at 30 June 2007 was a reduction in the franking account of \$10,600,000.

**25. Foreign currency translation reserve**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
<b>Movements in foreign currency translation reserve were as follows:</b>				
Balance 1 July	(10)	-	-	-
Currency translation differences arising during the year	10	(10)	-	-
Balance 30 June	<u>-</u>	<u>(10)</u>	<u>-</u>	<u>-</u>

**26. Key management personnel disclosures**

**(a) Directors**

The following persons were directors of the RHG Limited during the year:

- (i) Chairman – non-executive  
JA Kinghorn
- (ii) Non-executive directors  
DR Coe  
GK Jones  
J McFadden (to 27 September 2007)  
JV McGuigan

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**(b) Other key management personnel**

The following personnel also had authority and responsibility for planning, directing, and controlling the activities of the Group, directly or indirectly, during the year:

Name	Position	Employer
GG Kolivos (to 4 January 2008)	Chief executive officer	RHG Home Loans Pty Limited
GD Hall (to 21 September 2007)	Chief financial officer	RHG Home Loans Pty Limited
MJ Ryan (to 15 August 2007)	General counsel / company secretary	RHG Home Loans Pty Limited
GW Goddard	Chief executive officer	RHG Home Loans Pty Limited
GA Kinghorn (to 30 June 2008)	Executive general manager	RHG Home Loans Pty Limited
SJ Lonie	Chief financial officer	RHG Home Loans Pty Limited
WG Williams	Treasurer	RHG Home Loans Pty Limited

All of the above persons were key management persons during the year ended 30 June 2008

**(c) Key management personnel compensation**

	Consolidated		Parent	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	3,061,530	4,285,525	-	-
Post-employment benefits	134,222	93,915	-	-
Long-term benefits	61,065	44,211	-	-
Termination benefits	740,191	-	-	-
<b>Total</b>	<b>3,997,008</b>	<b>4,423,651</b>	<b>-</b>	<b>-</b>

The Company has adopted AASB 2008-4, which relieves the Company from replicating certain detailed remuneration disclosures which can be found in the remuneration report on pages 6 to 7.

**(d) Equity instrument disclosures relating to key management personnel**

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

No options have been provided as remuneration nor have any shares been issued in the exercise of any options during the year.

*(ii) Share holdings*

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

2008	Balance at start of the year	Changes during the year	Balance at end of the year
<b>Non executive directors</b>			
JA Kinghorn	330,657,000	(295,272,426)	35,384,574
GK Jones	23,188,742	(18,225,752)	4,962,990
DR Coe	-	750,000	750,000
JV McGuigan	-	80,000	80,000
J McFadden	-	-	-
<b>Key management personnel</b>			
GW Goddard	-	60,000	60,000
GA Kinghorn	-	36,885,574	36,885,574
GG Kolivos	-	-	-
GD Hall	-	-	-
MJ Ryan	-	-	-
WG Williams	-	2,000	2,000
SJ Lonie	-	-	-
<b>Total</b>	<b>353,845,742</b>	<b>(275,720,604)</b>	<b>78,125,138</b>
<b>2007</b>			
	Balance at start of the year	Changes during the year	Balance at end of the year
JA Kinghorn	22,815,001	307,841,999	330,657,000
GK Jones	1,600,000	21,588,742	23,188,742
<b>Total</b>	<b>24,415,001</b>	<b>329,430,741</b>	<b>353,845,742</b>



**27. Remuneration of auditors**

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

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Audit services</b>				
Half year review of the financial reports.	213,490	30,850	-	-
Full year audit of the financial reports.	525,107	400,488	162,816	97,940
<b>Total remuneration for audit services</b>	<b>738,597</b>	<b>431,338</b>	<b>162,816</b>	<b>97,940</b>
<b>Other assurance services</b>				
Audit of regulatory returns	16,769	15,820	-	-
Agreed upon review procedures	55,000	444,716	-	-
<b>Total other assurance services</b>	<b>71,769</b>	<b>460,536</b>	<b>-</b>	<b>-</b>
<b>Advisory services</b>				
Due Diligence	-	1,250,000	-	-
Agreed upon procedures	50,000	35,300	-	-
<b>Total advisory services</b>	<b>50,000</b>	<b>1,285,300</b>	<b>-</b>	<b>-</b>
<b>Total remuneration of auditors</b>	<b>860,366</b>	<b>2,177,174</b>	<b>162,816</b>	<b>97,940</b>

The remuneration for the current year also includes fees in relation to RHG Home Loans Pty Limited, Receivables Servicing Pty Limited, RHG Mortgage Corporation Limited, RHG Mortgage Securities Pty Limited atf RMS Trust 2002-1, RMS Trust 2003-1E, RMS Trust 2004-1E, RHG Mortgage Securities Trust, RHG Net Interest Margin Limited atf RHG Funding Trust, RHG Treasury Services Pty Limited, RHG Mortgage Securities Pty Limited, and RHG Funding Pty Limited. All fees for the Group are paid by RHG Home Loans Pty Limited.

**28. Contingencies**

**(a) Contingent Assets**

**(i) Income tax**

The financial statements have been prepared in accordance with current Income Tax legislation. In a press release on 13 May 2008 the Treasurer announced that the Government will proceed with a number of modifications to the tax consolidations regime. In an attachment to the release the Treasurer stated that the government will proceed with modifications which will "treat rights to future income as retained cost base assets with a tax cost setting amount equal to the terminating value for the rights at the joining time". If legislation is passed confirming this position it may result in a reduction in tax payable by the group in relation to the 2008 year of up to \$17.3 million.

**(b) Contingent Liabilities**

**(i) Claim for unspecified damages**

A claim for unspecified damages was lodged during the year against the Group in relation to an alleged breach of contract. The Group will strongly defend this action and has taken legal advice that the action is unlikely to succeed.

**(ii) Warehouse facilities**

The Group provides support in respect of the warehouse facilities by way of representations and warranties, the provision of credit support and undertaking a range of services. To the extent that the Group breaches any of these representations or undertakings, the Group may be exposed to losses.

**(iii) Residential mortgage backed securities**

The Group provides limited support in respect of the RMBS facilities by way of representations and warranties, the provision of limited credit support and undertaking a range of services. To the extent that the Group breaches any of these representations or undertakings, the Group may be exposed to losses.

**(iv) Share sale agreement**

On 4 January 2008 the Group completed the sale of RAMS Franchising Pty Limited. The Associated Share Sale Agreement contained various representations and warranties which if breached may result in warranty claims against the Group.

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**29. Commitments**

<b>Consolidated</b>		<b>Parent entity</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>

**(a) Capital expenditure commitments:**

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

Not later than one year	<b>181</b>	1,224	-	-
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**(b) Lease expenditure commitments:**

Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:

Not later than one year	<b>314</b>	2,592	-	-
Later than one year but not later than five years	<b>1,212</b>	5,508	-	-
	<b>1,526</b>	8,100	-	-

Less: amount provided for surplus leased space under non-cancellable operating leases

	-	(296)	-	-
	<b>1,526</b>	7,804	-	-

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases

	-	4,709	-	-
--	---	-------	---	---

<b>Consolidated</b>		<b>Parent entity</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>

**(c) Other expenditure commitments:**

Commitments in relation to expenditure under a licence and service agreement in relation to software usage contracted for at the reporting date but not recognised as liabilities, payable:

Not later than one year	-	1,432	-	-
Later than one year but not later than five years	-	2,039	-	-
	-	<b>3,471</b>	-	-

**(d) Outsourcing agreements**

The Group has entered an outsourcing agreement with a third party under which various services are provided to the Group. If the Group terminates this agreement and such termination takes effect on or before 31 October 2009 the Group must pay a fee of \$1 million to the service provider.

**30. Related party transactions**

**(a) Parent entity**

The Parent Entity within the Group is RHG Limited.

**(b) Directors**

The names of persons who were directors of the Company at any time during the financial year are as follows:

- DR Coe
- GK Jones
- JA Kinghorn
- J McFadden (to 27 September 2007)
- JV McGuigan

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**(c) Key management personnel compensation**

Key management personnel compensation for the years ended 30 June 2008 and 2007 is set out below. The key management personnel are all the directors of the Group and executives with the greatest authority for the strategic direction and management of the Group.

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Short-term employee benefits	3,061,530	4,285,525	-	-
Post-employment benefits	134,222	93,915	-	-
Long-term benefits	61,065	44,211	-	-
Termination benefits	740,191	-	-	-
Total	<b>3,997,008</b>	4,423,651	-	-

**(d) Receivable from shareholders**

Details of receivables from shareholders of RHG Limited and other key management personnel, including their personally related parties are set out below.

	Consolidated	
	2008	2007
	\$	\$
JA Kinghorn	-	6,230,532
GK Jones	-	577,201
	-	<b>6,807,733</b>

The above receivables relate to costs paid by the Group but recoverable from shareholders in relation to its listing on the ASX. The receivables were repaid in full on 27 July 2007.

Other than disclosed above, there were no loans to key management personnel at any time during the years ended 30 June 2008 and 30 June 2007.

**(e) Transactions with related parties**

The aggregate amounts recognised in respect of the following types of transactions and class of related entities involved were:

Transaction type	Class of other related entities	Consolidated	
		2008	2007
		\$	\$
Subordinated debt advanced/(repaid)	Director related entity*	-	(25,000,000)
Interest expense to	Director related entity*	1,722,478	1,379,909
Indemnity claim in relation to GST dispute settlement	Director related entity*	2,435,423	-

Transaction type	Class of other related entities	Parent entity	
		2008	2007
		\$	\$
Current year tax payable assumed from wholly owned tax consolidated entities	Controlled entities	29,023,381	23,572,581
Adjustments to prior year tax losses assumed from wholly owned tax consolidated entities	Controlled entities	-	(267,896)
Tax contributions (refunded)/received	Controlled entities	(761,498)	5,045,273
Dividends received from subsidiaries	Controlled entities	13,000,000	-
Dividends paid	Director related entities*	(12,600,000)	-

\* formerly controlling entities

**(f) Loans to director related entity**

	Consolidated	
	2008	2007
	\$	\$
Loans to director related entity	1,267	265,353

All loans are secured by registered mortgage over residential property and were made in the ordinary course of business of the Group, on an arm's length basis, and under normal terms and conditions.

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**(g) Balances with related parties**

Loans advanced to controlled entities and other related entities are interest free and repayable at call, except for non current loans advanced from controlling and other related entities.

The following balances are outstanding at the reporting date in relation to transactions with related parties

	Consolidated		Parent entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Current receivable from/(payable to) RHG Home Loans Pty Limited (tax funding agreement)	-	-	28,910,842	(868,042)
Current (payable to) Receivables Servicing Pty Limited	-	-	-	(121,300)
Current receivable from RHG Treasury Services Pty Limited (tax funding agreement)	-	-	6,066	2,453
Current receivable from RHG Home Loans Pty Limited	-	-	2,920,670	796,236
Payable to J.A. Kinghorn & Co Pty Limited (refer note 17)	-	(16,700,000)	-	-
	-	(16,700,000)	31,837,578	(190,653)

**31. Interests in controlled entities**

Name of entity	Country of incorporation	Class of shares/ units	Equity holding	
			2008	2007
			%	%
<b>Controlled entities</b>				
RHG Home Loans Pty Limited	Aust	Ordinary	100	100
RAMS Franchising Pty Limited	Aust	Ordinary	-	100
Receivables Services Pty Limited	Aust	Ordinary	100	100
RHG Treasury Services Pty Limited	Aust	Ordinary	100	100
Conduit Management Corporation	USA	Ordinary	-	100
RHG Mortgage Securities Pty Limited atf				
RMS Trust 2002-1	Aust	Ordinary	90.9	90.9
RMS Trust 2003-1E	Aust	Ordinary	93.4	93.4
RMS Trust 2004-1E	Aust	Ordinary	93.4	93.4
RHG Mortgage Securities Trust	Aust	Ordinary	90.9	90.9
RHG Mortgage Corporation Limited	Aust	Ordinary	-	-
RHG Net Interest Margin Limited atf				
RHG Funding Trust	Aust	Ordinary	*-	50.0
RHG Funding Pty Limited	Aust	Ordinary	-	-
RHG Funding Two LLC	USA	Ordinary	-	-
RHG Funding Three LLC	USA	Ordinary	-	-

\* Entity wound up during the 2008 financial year.

**32. Events occurring after balance sheet date**

On 22 July 2008 the Company announced its intention to undertake an on market buy back of up to 10% of the Company's share capital in the next twelve months. As at 26 August 2008 the Company has not bought back or cancelled any shares.

On 28 July 2008 the Company announced that the Group's CEO, Mr GW Goddard has been granted 10 million options with a strike price of 10 cents which expire on 30 June 2013 if not exercised. The options vest as follows:

4,000,000 on 28 July 2008  
2,000,000 on 30 June 2009  
2,000,000 on 30 June 2010  
2,000,000 on 30 June 2011

Other key terms attaching to the options include:

- 1 in the event that Mr Goddard ceases to be employed by RHG, any unvested options on that date will be cancelled; and
- 2 in the event of a successful takeover offer that had been recommended for acceptance by the directors, any unvested options will immediately vest.

The Group has executed renewal documents on one warehouse facility (balance at 31 July 2008 \$0.6 billion) and agreed in principle to extend another warehouse facility, subject to documentation (balance at 31 July 2008 \$0.9 billion), for a further 364 days from execution of documentation. In addition agreement has been reached with another warehouse facility provider to extend their current facilities (balance at 31 July 2008 \$1.7 billion) to November 2008.

The Group remains in discussion with its various warehouse providers in regards to future maturity dates, however a high level of uncertainty still remains in the current market which will likely result in the Group selling further mortgages at par in repayment of warehouse facilities.

A default will likely arise if a warehouse cannot be renewed and the mortgages are not sold. This will result in a higher margin and all principal, interest and fee collections on mortgages funded through the warehouse after payment of security trustee, servicer and manager expenses being returned to the warehouse facility provider in order to accelerate repayment of the facility. As a result the cash flow available to the Group from excess spread would be deferred until the facility is repaid in full.

Each warehouse facility has been structured so that if it is not renewed or otherwise defaults there is only limited recourse to the Group. If a warehouse facility is not renewed or otherwise defaults and the related assets are liquidated, the primary impact for the Group would be the loss of future income stream for excess spread, being the difference between the Group's mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs.

The directors are satisfied that any sale of mortgages in repayment of a warehouse facility or an event of default in relation to the Group's warehouse facilities will not effect the Group's ability to continue as a going concern.

**33. Reconciliation of profit after income tax to net cash inflow/ (outflows) from operating activities**

	Consolidated		Parent entity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Profit/(loss) for the year after income tax	124,814	15,106	13,052	32
Gain on sale of subsidiary	(128,921)	-	-	-
Depreciation and amortisation – fixed assets	776	1,416	-	-
Amortisation – loan assets	102,626	45,617	-	-
Amortisation – securitisation costs	4,165	2,442	-	-
Dividend income	-	-	(13,000)	-
Profit on sale of subsidiary	-	-	(57)	-
Change in operating assets and liabilities:				
(Increase)/decrease in intercompany receivables	-	-	(28,798)	(19,058)
(Increase)/decrease in future income tax benefit	4,002	1,429	31	19,209
(Increase)/decrease in other assets	13,598	(14,702)	-	-
Increase/(decrease) in operating liabilities	(25,509)	29,769	(227)	100
Increase/(decrease) in provisions	23,708	1,309	29,756	(926)
Increase/(decrease) in financial liabilities	(23,454)	-	-	-
<b>Net cash inflow/(outflows) from operating activities</b>	<b>95,805</b>	<b>82,386</b>	<b>757</b>	<b>(643)</b>

**34. Earnings per share**

	Consolidated	
	2008 \$'000	2007 \$'000
<b>(a) Reconciliation of earnings used in calculating earnings per share</b>		
Net profit after tax per income statement from continuing operations	29,622	32,930
Net profit/(loss) after tax per income statement from discontinued operations	95,192	(17,824)
Profit from continuing operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	29,622	32,930
Profit/(loss) from discontinued operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	95,192	(17,824)
<b>(b) Weighted average number of shares</b>		
Weighted average number of ordinary shares used in the denominator in calculating the basic and diluted earnings per share	353,845,742	28,025,201

(c) At 30 June 2008 there were no instruments that could potentially dilute basic earnings per share in the future.

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**Directors' Declaration**

In the directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 50 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 company's and consolidated entity's financial position as at 30 June 2008 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) the audited remuneration disclosures set out on pages 5 to 8 of the directors' report comply with the Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

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

**JA Kinghorn**  
Chairman

29 August 2008

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## Independent auditor's report to the members of RHG Limited

### Report on the financial report

We have audited the accompanying financial report of RHG Limited (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both RHG Limited and the RHG Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation 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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

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

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**Independent auditor's report to the members of  
RHG Limited (continued)**

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 RHG Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (a).

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 5 to 8 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the Remuneration Report of RHG Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

CPG Cooper Sydney  
Partner

29 August 2008