

Appendix 4E

Preliminary Final Report

For the year ended 30 June 2009

RHG LIMITED

ABN 22 055 136 564

1. Reporting Period

Reporting Period: Year ended 30 June 2009

Previous Corresponding Period: Year ended 30 June 2008

2. Results for announcement to the market

		%		\$'m
Revenues from ordinary activities	Up	150.9	To	202.3
Profit from ordinary activities after tax attributable to members	Up	305.0	To	120.0
Net profit for the period attributable to members	Down	3.9	To	120.0

The consolidated profit after income tax attributable to members, for the year ended 30 June 2009 was \$120.0 million (2008: \$124.8 million) including:

	30 June 2009	30 June 2008
	\$'m	\$'m
Profit after tax on disposal of origination business	-	104.2
Profit after tax from continuing operations	120.0	29.6
Loss after tax from discontinued operations	-	(9.0)
	<u>120.0</u>	<u>124.8</u>

The results of the previous financial year included a gain on sale of the group's origination business of \$128.9 million. The profit after tax from continuing operations for the prior period includes charges in respect of a change in accounting estimates in relation to average loan life of \$37.5 million. No material change in accounting estimate were made on 2009.

Dividends

Given the continued uncertainty of warehouse funding and markets in general and the further potential need to support some warehouses with credit enhancement in the form of cash collateral the directors do not recommend the payment of a dividend in respect of this financial year (2008: \$nil).

Audited Accounts

This preliminary final report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the audited accounts.

The audited accounts have 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.

Annual General Meeting

The Annual General Meeting is scheduled for 12 November 2009.

3. **Commentary on the results for the period**

Between September 2008 and June 2009 the company purchased and cancelled 30,391,372 ordinary shares on-market. The buy-back was announced to the market on 22 July 2008. The shares were acquired at an average all in price of 18.4 cents per share, with prices ranging from 8.9 cents to 42.0 cents. The total cost of \$5,597,200 was deducted from equity. At 30 June 2009, the maximum number of shares that RHG Limited was permitted to purchase under the share buy back was 4,993,202. On the 22 July 2009 the buyback was completed with a total of 30,731,189 shares being bought back and cancelled at a cost of \$5,755,083.

During the year the mortgage insurers used by the group were downgraded by the various rating agencies. Whilst the revised ratings levels do not directly impact the ability of an insurer to pay claims it creates uncertainty and nervousness with some warehouse providers. In some cases the downgrade of insurers triggered obligations to support minimum warehouse rating requirements. This has led to the need to offer further credit support on all warehouse facilities, either as a contractual requirement or as a new condition to roll a warehouse facility. On review of these enhancements it is believed that a reduction in fair value of these assets of \$22 million is appropriate. Under accounting rules this reduction in fair value estimates is not reflected in the balance sheet or profit and loss. Further disclosure of fair value estimates can be located in note 2(d) of the financial report.

In December 2008 we renewed our mortgage administration outsourcing agreement with Unisys. Unisys is a valued supporter of the business and it was most pleasing to continue this relationship.

In April 2009 we were involved in a court action with one of our warehouse providers regarding currency and basis swap costs charged to the facility. We were unsuccessful in this case and have lodged an appeal. If this appeal is unsuccessful then the ruling could have a significant and material impact on future years profits.

The group's mortgage book is 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 2009 was:

	\$'000
Warehouse facilities	5,218,256
Residential Mortgage Backed Securities ("RMBS")	2,219,568

During the year we were able to roll warehouse facilities albeit at considerably higher margins payable by RHG and with more onerous conditions. These conditions have included the need to provide further subordinated debt and removal of some arrears loans. The market for RMBS remains all but closed to RHG Limited.

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.

3. Commentary on the results for the period (continued)

Each RMBS may be repaid at the group's option at their call date. During the year, a further two of the group's RMBS issues reached their call dates. We currently have four RMBS issues that have passed call dates and have not been called.

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 2009 the group's significant liabilities (excluding liabilities of the group's securitisation vehicles) include trail commissions payable to brokers of \$21.8 million and taxation payable of \$38.5 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 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". The legislation has not yet been finalised, however if legislation is passed which is wholly consistent with this statement it may result in a reduction of tax payable by the group of up to \$21.2 million. This issue was noted in the 2008 annual accounts with an estimated tax reduction 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.

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

At 30 June 2009 the group has a provision for loan losses of \$4.9 million, up from \$3.2 million at 30 June 2008.

At 30 June 2009 the group's mortgage book including deferred transaction costs was \$7.7 billion (2008: \$11.6 billion). The group's mortgage book is now closed and in runoff.

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4. Income statement

	Consolidated	
	2009	2008
	\$'000	\$'000
Revenue from continuing operations		
Interest income	775,170	1,105,581
Interest expense	(598,295)	(1,050,552)
Net interest income	<u>176,875</u>	<u>55,029</u>
Fee and commission income	<u>25,420</u>	<u>25,591</u>
Total income net of interest expense	<u>202,295</u>	<u>80,620</u>
Total expenses excluding interest	<u>(29,746)</u>	<u>(39,493)</u>
Profit before income tax	<u>172,549</u>	<u>41,127</u>
Income tax expense	<u>(52,589)</u>	<u>(11,505)</u>
Profit from continuing operations	<u>119,960</u>	<u>29,622</u>
Profit from discontinued operations	<u>-</u>	<u>95,192</u>
Profit attributable to equity holders of RHG Limited	<u>119,960</u>	<u>124,814</u>
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company:	Cents	Cents
Basic earnings per share	35.5	8.4
Diluted earnings per share	34.5	8.4
Earnings per share for profit from discontinued operations attributable to the ordinary equity holders of the company:		
Basic earnings per share	-	26.9
Diluted earnings per share	-	26.9

5. Balance sheet

	Consolidated	
	2009	2008
	\$'000	\$'000
Assets		
Cash and cash equivalents	495,722	405,010
Loan assets held at amortised cost	7,748,430	11,579,790
Derivative financial assets	39,616	24,804
Other assets	7,248	23,855
Plant and equipment	120	186
Total assets	8,291,136	12,033,645
Liabilities		
Debt issued at amortised cost	7,933,848	11,740,728
Derivative financial liabilities	49,118	66,670
Financial liabilities at amortised cost	21,854	35,917
Other liabilities	17,038	40,081
Provisions	39,653	30,379
Deferred tax liabilities	412	5,166
Total liabilities	8,061,923	11,918,941
Net assets	229,213	114,704
Equity		
Contributed equity	18,475	24,072
Retained profits	210,592	90,632
Reserves	146	-
Total equity	229,213	114,704

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6. Statement of cash flows

	Consolidated	
	2009 \$'000	2008 \$'000
Cash flows from operating activities		
Interest received	794,185	1,212,185
Interest paid and other costs of finance	(616,434)	(1,054,462)
Receipts from customers	39,295	46,235
Payments to suppliers	(30,404)	(108,893)
Tax refund/(paid)	(47,786)	740
Net cash inflow from operating activities	138,856	95,805
Cash flows from investing activities		
Payments for plant and equipment and intangibles	(22)	(744)
Sale of subsidiaries/investment in subsidiaries	-	126,202
Net decrease in mortgages and receivables	3,783,778	2,148,440
Net cash inflow from investing activities	3,783,756	2,273,898
Cash flows from financing activities		
Repayments of borrowings	-	(124,700)
Proceeds from calls on shares	-	1,584
Dividends paid	-	(12,600)
Share buyback	(5,597)	-
Net proceeds from issue of bonds, secured liquidity notes and warehouses	(3,826,303)	(2,168,702)
Net cash outflow from financing activities	(3,831,900)	(2,304,418)
Net increase in cash held	90,712	65,285
Effects of exchange rate changes on cash and cash equivalents	-	(10)
Cash and cash equivalents at the beginning of the financial year	405,010	339,735
Cash and cash equivalents at the end of the financial year	495,722	405,010

7. Dividends

Given the continued uncertainty of warehouse funding and markets in general and the further potential need to support some warehouses with credit enhancement in the form of cash collateral the directors do not recommend the payment of a dividend in respect of this financial year (2008: \$nil).

8. Dividend reinvestment plans

Not applicable.

9. Statement of retained earnings

	Consolidated	
	2009 \$'000	2008 \$'000
Movements in retained profits/ (accumulated losses) were as follows:		
Balance 1 July	90,632	(21,523)
Net profit for the year	119,960	124,814
Equity adjustment – sale of investment	-	(59)
Dividends paid	-	(12,600)
Balance at 30 June	210,592	90,632

10. Net tangible assets per security

	Consolidated	
	2009 Cents	2008 Cents
Net tangible assets per security*	72.2	32.4

* Including deferred mortgage and debt transaction costs

11. **Entities over which control has been gained or lost during the period**

Wind up of RHG Net Interest Margin Limited

On 9 March 2009 RHG Net Interest Margin Limited was deregistered.

12. **Accounting standards for foreign entities**

The accounts for foreign entities have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs).

13. **Results commentary**

(a) **Earnings per share**

	Consolidated	
	2009 \$'000	2008 \$'000
Reconciliation of earnings used in calculating earnings per share		
Net profit after tax per income statement from continuing operations	119,960	29,622
Net profit after tax per income statement from discontinued operations	-	95,192
	119,960	29,622
Profit from continuing operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	119,960	29,622
Profit from discontinued operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	-	95,192
	347,553,430	353,845,742
Weighted average number of ordinary shares used in the denominator in calculating the basic and diluted earnings per share	347,553,430	353,845,742

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. These options have been included in the calculation of the of the weighted average number of shares,

(b) **Segment information**

The Group operates in a single business segment of servicing and provision of 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.

(c) **Events occurring after balance sheet date**

On the 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 over a 12 month period. On the 22nd July 2009 the company announced that the buyback was completed with 30,731,189 shares being bought back and cancelled with total consideration paid of \$5,755,083.

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.

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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 effect the group's ability to continue as a going concern.

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As advised to the ASX on April 9 and June 19 RHG is involved in a legal dispute with a noteholder. This matter is currently the subject of an appeal. If the appeal is unsuccessful then the ruling could have a significant and material impact on future profitability. This same noteholder is also party to a further action regarding their notes and this matter is before the courts. RHG is defending this further action vigorously. If this matter is lost it could have a significant and material impact on future profitability.

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