

RHG Limited

ABN 22 055 136 564

Financial Report for the year ended 30 June 2010

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These financial statements cover the consolidated entity consisting of RHG 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:

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 10.

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 2010.

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

Principal activities and significant changes in the nature of these activities

During the year the principal continuing activities of the Group involved 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 2010 was \$94 million (2009: \$120 million).

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 (2009: \$nil). As advised at the Annual General Meeting held on 12 November 2009 the directors policy is to maximize cash reserves to be able to take advantage of an investment opportunity should it arise. If by 2011 the Company has not identified what it believes to be a superior investment opportunity then your directors intend to distribute the Company's available funds to shareholders in an optimal manner.

Review of operations

During the year the mortgage insurers used by the Group have been extensively reviewed by the rating agencies. These reviews and other factors have resulted in further requirements to contribute credit support on some 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 \$21 million is appropriate. Under accounting rules this reduction in fair value estimates is not reflected in the balance sheet or statement of comprehensive income. Further disclosure of fair value estimates can be located in note 2 to the financial statements.

The Company, as part of its capital management strategy, participated in its second on-market share-buy back arrangement during the financial year. On 19 November 2009, the Company, in accordance with regulatory requirements and the Corporations Act, announced to the market its intention to proceed with a share buy-back arrangement. The Company's intention is to buy up to 10% of its issued shares over the 12 months from November 2009. At close of business on 30 June 2010 the Company had purchased and cancelled 23,466,666 shares (71.3% of the share buy-back limit) on market with an average all in price of 62.99 cents. The total cost of \$14,735,282 was deducted from equity. At 30 June 2010, the maximum remaining number of shares that RHG Limited was permitted to purchase under the share buy-back was 9,444,789.

As disclosed to the market previously, a legal dispute with a noteholder was finalised on 4 February 2010. All matters have been resolved commercially in a manner which management believes is in shareholders' best interests. All current court proceedings have now ceased and the profit for the year includes the gross benefit of the settlement net of all cost associated with the dispute.

On 30 April 2010, the Group purchased 100% of the shares in Prime Insurance Group Limited ("PIGL") for one dollar and subsequently recapitalised the business, with an investment of \$600,000, so as to meet the capital requirements of the business. This purchase was a defensive move as the previous owner was looking to exit the business. PIGL has been in wind down for a number of years. Following acquisition of the PIGL business this strategy will continue.

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 the rundown of the Group's mortgage book.

The Group's funding mix as at 31 July 2010 was:	\$'000
Warehouse facilities	3,363,186
Residential Mortgage Backed Securities ("RMBS")	1,550,671

During the year the Company was able to roll warehouse facilities albeit with more onerous conditions. These conditions have included the need to provide further subordinated debt and removal of some arrears loans. Markets continue to remain at a high level of uncertainty which could ultimately result in the Group selling further mortgages to repay warehouse facilities. The market for RMBS remains all but closed to RHG Limited.

A default will likely arise if a warehouse cannot be renewed and the mortgages are not sold. This could 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. We currently have three 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 2010 the Group's significant liabilities (excluding liabilities of the Group's securitisation vehicles) include trail commissions payable to brokers of \$16.0 million and taxation payable of \$35.8 million. Tax has been calculated including all benefits from changes to the tax consolidation regime. The Group had requested an amendment of its income tax return for the year ended 30 June 2008. This issue was disclosed in the notes in 30 June 2009 financial reports. Following the year end (but reflected in the financial results for the period) RHG Limited has received a refund from the Australian Taxation Office in the amount of \$21.1 million. This refund was as a result of a request for amendment lodged in respect of its income tax return for the year ended 30 June 2008. The vast majority of the matters which were the subject of the amendment request related to the taxation treatment of assets that were recorded in the Financial Statements of RHG Limited in previous years and referred to as 'future servicing rights' following the formation of the RHG Limited tax consolidated group on 1 July 2003. Following recent legislative change, the tax treatment of these items has become clear and in part prompted the amendment request.

The directors are satisfied that the Group will have sufficient cash resources to settle its 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 2010 the Group has a provision for individually assessed loan losses of \$4.9 million (2009: \$4.9 million). Additionally a collective provision of \$2.1 million (2009: nil) has been booked to reduce the carrying value of loans that have not been individually assessed to their estimated recoverable amount.

At 30 June 2010 the Group's mortgage book, including deferred transaction costs was \$5.1 billion (2009: \$7.7 billion). The Group's mortgage book remains closed and in runoff.

Significant changes in the state of affairs

Contributed equity decreased by \$14,906,361 (2009: \$5,597,200) during the year as a result of the buy-back of 339,817 shares (balance of first share buy-back) and 23,466,666 shares (under the current buy-back agreement) on the ASX. The average price of the current buy-back was 62.995 (2009: 18.417) cents per share. Contributed equity increased by \$600,000 (2009: nil) during the year due to the issue of 6,000,000 shares on the 25 September 2009 as a result of the exercise of options.

There were no other significant changes in the state of affairs of the Group for the 2010 financial year other than those mentioned above.

Matters subsequent to the end of the financial year

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 may result in the Group selling further mortgages at par in repayment of warehouse facilities.

Subsequently to year end, a warehouse has rolled with a face value of \$446 million (as at roll date) in the normal course of business for a period of 12 months.

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

The Company expects to see a materially lower profit for the next financial year as well as further declines in future years. In the foreseeable future the Group's focus will be on maximising the return on the assets currently controlled by the Group. This may result in a portion of the Group's cash reserves being applied to supporting the mortgage book.

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, White Energy Company Limited, L J Hooker Limited, Graphite Energy Pty Limited, KV Aviation Pty 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 was Chairman and CEO of the Allco Finance Group from 1993-2007 and a partner of the firm from 1986-1993. David relinquished his management roles in the Group in April 2007. David also built Allco Equity Partners (now called Oceania Capital Partners), a publically listed private equity vehicle with over \$500 million under management.

Prior to joining Allco Finance Group, David was a partner at Mallesons Stephen Jaques, specialising in international finance and leasing. David was the Chairman of Allco Equity Partners and a director of CITIC Allco Investments Ltd. He is a founding director and chairman of Sports and Entertainment Limited, an entertainment, sports and leisure group.

David was on the Board of Queensland Treasury Corporation from 2003-2008, was Chair of the Museum of Contemporary Art from 2001-2008 and is on the boards of Sydney Children's Hospital Foundation and the National Gallery of Australia Foundation.

David holds a Bachelor of Arts with first class honours and a Bachelor of Laws from Sydney University.

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 iShop Interactive Pty Limited, E-lect Interactive Pty Limited, Australian College of the Arts Pty Limited and Krispy Kreme Australia Pty Limited.

Greg is a member of the Audit and Risk Committee.

Greg has relevant interests in 2,000,000 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 practised 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. He is currently Chairman of Krispy Kreme Australia Pty Ltd and a director 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 – FCA, FCIS Company Secretary.

Nick is the principal of Australian Company Secretaries, a company secretarial practice he formed in 1993. Nick is immediate past President 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 2010, and the number of meetings attended by each director were:

	Number of meetings held while a director	Number of meetings attended
JA Kinghorn	5	5
DR Coe	5	4
GK Jones	5	5
JV McGuigan	5	5

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 directors' fees are reviewed annually 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 Chief Executive Officer (CEO) is reviewed annually by the Nomination and Remuneration Committee. Fixed remuneration for other executives is reviewed annually by the CEO and ratified by the Nomination and Remuneration Committee. Fixed remuneration is inclusive of the legislated superannuation guarantee.

Short term incentive

The CEO does not receive any cash bonus amount.

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 and the CEO's determinations are ratified by the Nomination and Remuneration Committee.

Long term incentive

In July 2008 the CEO was granted 10 million options as part of his remuneration package.

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.

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

The key management personnel of the Group include 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:

- GW Goddard - Chief executive officer
- WG Williams - Treasurer

Key Management Personnel and other executives of the Company include:

Company- Key Management Personnel and other executives

2010

Name	Short term benefits			Post employment benefits		Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	
	\$	\$	\$	\$	\$	
<i>Non-executive directors</i>						
JA Kinghorn (chairman)	150,000	-	-	13,500	-	163,500
DR Coe	73,394	-	-	6,606	-	80,000
GK Jones	73,394	-	-	6,606	-	80,000
JV McGuigan	73,394	-	-	6,606	-	80,000
	370,182	-	-	33,318	-	403,500

2009

Name	Short term benefits			Post employment benefits		Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	
	\$	\$	\$	\$	\$	
<i>Non-executive directors</i>						
JA Kinghorn (chairman)	150,000	-	-	13,500	-	163,500
DR Coe	73,394	-	-	6,606	-	80,000
GK Jones	73,394	-	-	6,606	-	80,000
JV McGuigan	73,394	-	-	6,606	-	80,000
	370,182	-	-	33,318	-	403,500

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

Group - Key Management Personnel and other executives

2010 Employee benefits

Name	Short-term				Post employment	Long term	Termination benefits	Share-based payments	Total
	Salary and fees	Retention bonus - other	Performance bonus	Non monetary benefits	Superannuation	Long service leave		Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
JA Kinghorn (chairman)	150,000	-	-	-	13,500	-	-	-	163,500
DR Coe	73,394	-	-	-	6,606	-	-	-	80,000
GK Jones	73,394	-	-	-	6,606	-	-	-	80,000
JV McGuigan	73,394	-	-	-	6,606	-	-	-	80,000
Sub-total non-executive directors	370,182	-	-	-	33,318	-	-	-	403,500
<i>Other key management personnel</i>									
GW Goddard *	497,280	-	-	-	36,745	15,778	-	39,587	589,390
WG Williams *	175,021	60,000	128,440	21,066	29,952	5,027	-	-	419,506
Sub-total key management personnel	672,301	60,000	128,440	21,066	66,697	20,805	-	39,587	1,008,896
Total non-executive directors and key management personnel	1,042,483	60,000	128,440	21,066	100,015	20,805	-	39,587	1,412,396

2009 Employee benefits

Name	Short-term				Post employment	Long term	Termination benefits	Share-based payments	Total
	Salary and fees	Retention bonus - other	Performance bonus	Non monetary benefits	Superannuation	Long service leave		Options	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-executive directors</i>									
JA Kinghorn (chairman)	150,000	-	-	-	13,500	-	-	-	163,500
DR Coe	73,394	-	-	-	6,606	-	-	-	80,000
GK Jones	73,394	-	-	-	6,606	-	-	-	80,000
JV McGuigan	73,394	-	-	-	6,606	-	-	-	80,000
Sub-total non-executive directors	370,182	-	-	-	33,318	-	-	-	403,500
<i>Other key management personnel</i>									
GW Goddard	477,982	-	-	-	43,018	16,449	-	146,362	683,811
WG Williams	165,457	68,571	128,440	19,655	33,053	11,736	-	-	426,912
SJ Lonie (to 26 September 2008)	52,752	-	-	-	4,748	-	113,698	-	171,198
Sub-total key management personnel	696,191	68,571	128,440	19,655	80,819	28,185	113,698	146,362	1,281,921
Total non-executive directors and key management personnel	1,066,373	68,571	128,440	19,655	114,137	28,185	113,698	146,362	1,685,421

* Denotes the two executives of the Group who had authority and responsibility for planning, directing and controlling the activities of the entity during the year.

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

At risk remuneration includes all short-term 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. The CEO's determinations are ratified by the Nomination and Remuneration Committee

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. RHG Home Loans Pty Limited may terminate an employment contract by providing written notice and making payment in lieu of notice in accordance with the Company's termination policies. RHG Home Loans Pty Limited may terminate an employment contract at any time if serious misconduct has occurred.

D. Share-based compensation

The options granted to the CEO are designed to provide long-term incentives regarding the delivery of long-term shareholder returns. The awarding of options is at the Board's discretion and other than the options noted below, no individual has a contractual right to the award of options. The options are over common stock and have a strike price of 10.0 cents. 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

The options have been granted in accordance with the CEO's remuneration agreement and have been granted for no consideration. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The options expire on 30 June 2013 if not exercised.

Other key terms attaching to the options include:

1. in the event that Mr Goddard ceases to be employed by RHG Home Loans Pty Limited, 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.

Further information on the options is set out in note 35 to the financial statements.

The assessed fair value at grant date of options granted is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. The fair value at grant date was determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted include:

- (a) options are granted for no consideration and each tranche vests as documented above
- (b) exercise price: 10.0 cents
- (c) grant date: July 2008
- (d) expected life (years):

Tranche 1:	2.5
Tranche 2:	3.0
Tranche 3:	3.5
Tranche 4:	4.0

- (e) share price at grant date: 7.0 cents
- (f) assumed price volatility of the Company's shares: 50%
- (g) assumed dividend yield: 0%
- (h) risk-free interest rate: 6.6% - 6.7%

E. Additional Information

The options vest at various dates, subject to a continued service condition. The minimum value of the options yet to vest is therefore zero. The maximum value of the options yet to vest has been determined as the amount of the grant date fair value of the options that is yet to be expensed.

Name	Options					
	Year granted	Vested %	Forfeited %	Financial year in which options may vest	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
GW Goddard	2008	80	-	30/06/2011	-	\$16,597

The percentage of Mr GW Goddard's remuneration during the reporting period that consisted of options is 6.72%. This is based on the value of the options expensed during the reporting period. The value at the grant date of the options awarded to the CEO amounted to \$202,146. This value has been calculated in accordance with *AASB 2 Share-based Payment*. The value at exercise date of options that were granted as part of remuneration and were vested during the year amounted to \$39,587. This is the value of the options at that date. No options lapsed during the reporting period.

Share issued on the exercise of options

During the year ended 30 June 2010, 6,000,000 ordinary shares of RHG Limited were issued on the exercise of options (2009: nil).

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 \$139,999 (2009: \$114,711) 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 and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- 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 26 to the consolidated financial statements.

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
Chairman

25 August 2010

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Auditor's Independence Declaration

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

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

This declaration is in respect of RHG Limited and the entities it controlled during the year.

CPG Cooper
Partner
PricewaterhouseCoopers

Sydney
25 August 2010

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 27 October 2008, the Company adopted committee charters and other policies which substantially comply with the ASX Corporate Governance Council's "Corporate Governance Principles and Recommendations, 2nd Edn 2007". 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, the Chairman, the CEO and the Company Secretary 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.

The Company has undertaken a performance evaluation for senior executives in the reporting period.

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.

All directors were re-elected to the board by shareholders of the Company on 23 July 2007. Mr Jones and Mr Kinghorn have been subsequently re-elected at the 2007 and 2008 Annual General meetings respectively and Mr Coe was re-elected at the last Annual General meeting on 12 November 2009.

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 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 in 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 derived 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 comprises 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 behavior - active promotion of ethical behavior 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 CEO 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

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 and Risk Committee are set out on pages 3 and 4 in the directors' report.

4.3 Meetings of Audit and Risk Committee

The following meetings were held during the 2010 year

Member	No. Meetings Held	No. Meetings Attended
JV McGuigan	2	2
GK Jones	2	2

The CEO 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 27 October 2008.

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:

- all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- 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 programs;
- (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 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; and
- (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 has 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 equitably

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 comprises 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 judgments 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 an amended written charter, which was adopted on October 27 2008.

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 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 reviewing 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.

In July 2008 the Company granted the CEO options over unissued shares with various vesting dates (refer Share-based payments Note 35).

8.3 Meetings of Nominations and Remuneration Committee

The following meetings were held during the 2010 year

Member	No. Meetings Held	No. Meetings Attended
JA Kinghorn	1	1
DR Coe	1	1

8.4 Other information

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

Statements of comprehensive income

For the year ended 30 June 2010

	Notes	Consolidated		Parent entity	
		2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
Revenue from continuing operations					
Interest income		464,793	775,170	2	-
Interest expense		(339,734)	(598,295)	-	-
Net interest income	5	125,059	176,875	2	-
Fee and commission income	5	16,906	25,420	-	-
Total income net of interest expense		141,965	202,295	2	-
Total operating expenses excluding interest	6	(37,895)	(29,746)	-	-
Profit before income tax		104,070	172,549	2	-
Income tax expense	8	(10,088)	(52,589)	(1)	-
Profit for the year		93,982	119,960	1	-
Other comprehensive income		-	-	-	-
Total comprehensive income		93,982	119,960	1	-
Profit for the year attributable to:					
Owners of RHG Limited		93,982	119,960	1	-
Non-controlling interest		-	-	-	-
		93,982	119,960	1	-
Total comprehensive income for the year attributable to:					
Owners of RHG Limited		93,982	119,960	1	-
Non-controlling interest		-	-	-	-
		93,982	119,960	1	-
Earnings per share for profit from continuing operations attributable to ordinary equity holders of the Company:					
		Cents	Cents		
Basic earnings per share	34	29.2	35.5		
Diluted earnings per share		28.9	34.5		

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

Balance sheets

As at 30 June 2010

	Notes	Consolidated		Parent entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Assets					
Cash and cash equivalents	9	465,438	495,722	51	41
Loan assets held at amortised cost	10	5,094,340	7,748,430	-	-
Derivative financial assets	11	30	39,616	-	-
Other assets	12	26,801	7,248	-	-
Investments in controlled entities	13	-	-	21,275	21,275
Due from related parties	30	-	-	35,832	38,474
Plant and equipment	14	80	120	-	-
Deferred tax assets	19	4,156	-	-	-
Total assets		5,590,845	8,291,136	57,158	59,790
Liabilities					
Debt issued at amortised cost	15	5,128,328	7,933,848	-	-
Derivative financial liabilities	11	84,216	49,118	-	-
Financial liabilities at amortised cost	16	15,969	21,854	-	-
Other liabilities	17	16,199	17,038	-	-
Provisions	18	37,204	39,653	35,835	38,468
Deferred tax liabilities	19	-	412	-	-
Due to related parties	30	-	-	16,984	2,678
Total liabilities		5,281,916	8,061,923	52,819	41,146
Net assets		308,929	229,213	4,339	18,644
Equity					
Contributed equity	20	4,169	18,475	4,169	18,475
Retained profits	21	304,574	210,592	170	169
Reserves	23	186	146	-	-
Total equity		308,929	229,213	4,339	18,644

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

Statements of changes in equity

For the year ended 30 June 2010

Consolidated

	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2008	24,072	-	90,632	114,704	-	114,704
Total comprehensive income for the year	-	-	119,960	119,960	-	119,960
Transactions with owners in their capacity as owners:						
Employee share options - value of employee service	-	146	-	146	-	146
Buy-back of shares	(5,597)	-	-	(5,597)	-	(5,597)
Balance at 30 June 2009	18,475	146	210,592	229,213	-	229,213
Total comprehensive income for the year	-	-	93,982	93,982	-	93,982
Transactions with owners in their capacity as owners:						
Employee share options - value of employee service	-	40	-	40	-	40
Buy-back of shares	(14,906)	-	-	(14,906)	-	(14,906)
Proceeds on exercise of options	600	-	-	600	-	600
Balance at 30 June 2010	4,169	186	304,574	308,929	-	308,929

Parent entity

	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non- controlling interest \$'000	Total equity \$'000
Balance at 1 July 2008	24,072	-	169	24,241	-	24,241
Total comprehensive income for the year	-	-	-	-	-	-
Transactions with owners in their capacity as owners:						
Buy-back of shares	(5,597)	-	-	(5,597)	-	(5,597)
Balance at 30 June 2009	18,475	-	169	18,644	-	18,644
Total comprehensive income for the year	-	-	1	1	-	1
Transactions with owners in their capacity as owners:						
Buy-back of shares	(14,906)	-	-	(14,906)	-	(14,906)
Proceeds on exercise of options	600	-	-	600	-	600
Balance at 30 June 2010	4,169	-	170	4,339	-	4,339

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

Statements of cash flows

For the year ended 30 June 2010

	Notes	Consolidated		Parent entity	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Interest received		479,842	794,185	2	-
Interest paid and other costs of finance		(339,699)	(616,434)	-	-
Receipts from customers		15,608	39,295	8	-
Payments to suppliers		(35,053)	(30,404)	-	-
Income tax paid		(38,468)	(47,786)	-	-
Net cash inflow from operating activities	33	82,230	138,856	10	-
Cash flows from investing activities					
Payments for plant and equipment		(46)	(22)	-	-
Investment in subsidiaries		-	-	-	-
Net decrease in mortgages and receivables		2,607,748	3,783,778	-	-
Net cash inflow from investing activities		2,607,702	3,783,756	-	-
Cash flows from financing activities					
Proceeds on exercise of options		600	-	-	-
Share buy-back		(14,906)	(5,597)	-	-
Net repayments from issue of bonds, secured liquidity notes and warehouses		(2,705,910)	(3,826,303)	-	-
Net cash outflow from financing activities		(2,720,216)	(3,831,900)	-	-
Net increase in cash and cash equivalents		(30,284)	90,712	10	-
Cash and cash equivalents at the beginning of the financial year		495,722	405,010	41	41
Cash and cash equivalents at the end of the financial year	9	465,438	495,722	51	41

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements
30 June 2010

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Notes to the financial statements
30 June 2010

1. Summary of significant accounting policies

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

(a) Basis of preparation

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

Compliance with IFRS

The consolidated financial statements and notes of the Company also comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The Parent Entity financial statements also comply with the International Financial Reporting Standards.

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) carried at fair value through profit or loss.

Financial statement presentation

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

(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 2010 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 statement 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.

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

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.

As disclosed in the 2009 financial statements an individual pool of loans in one of the Group's SPE continues to be excluded from the financial accounts at 30 June 2010. As a result, \$279,573,673 (2009: \$401,846,005) of mortgage loans, \$8,914,182 (2009: \$11,342,440) of cash and \$288,499,617 (2009: \$413,203,644) of liabilities have not been consolidated as at 30 June 2010. The excess spread that has been re-directed to pay down the warehouse facility balance has not been recognised as income on the basis that it is improbable that the economic benefits will ever flow to the Group. It should be noted that if the pool of loans were able to be refinanced for a value equivalent to the face value of the mortgages, the trapped spread (being \$11,367,165) would be brought back to account as income at that time.

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 statement of comprehensive income, 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 statement of comprehensive income 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 which are part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the statement of comprehensive income, 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 statement of comprehensive income 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).

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.

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 other comprehensive income or equity are also recognised directly in other comprehensive income or 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) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

(g) Impairment of assets

(i) Assets at amortised cost

Collectability of mortgage loans is assessed on an ongoing basis. An individually assessed 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 uncollectable are written off by reducing the carrying amount directly. Any such write-off is recognised in the statement of comprehensive income in other expenses.

In addition to individually assessed provisions, a collective provision is also maintained in respect of loans that are not subject to an individually assessed provision to reduce their carrying amount to their estimated recoverable amount.

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 and at each reporting date. 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.

(h) 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 statement of comprehensive income on a straight-line basis over the period of the lease.

(i) 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.

(j) 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.

(k) Investments and other financial assets

All receivables and other financial assets are recognised at the amounts receivable and all related 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 (note 1(d)).

(l) 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. The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, 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 statement of comprehensive income 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 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 statement of comprehensive income.

(m) Fair value measurement

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 including discounted cash flow models. 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.

(n) 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 statement of comprehensive income 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(g)).

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

(o) 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.

(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 statement of comprehensive income over the period of the borrowings using the effective interest method. Interest expense on such items is recognised in the statement of comprehensive income as interest expense.

(r) Trail commissions liability

The Group may have a liability to pay trail commissions to brokers who originated mortgage receivables for the benefit of RHG Limited. 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.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and is recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options excludes the impact of any non-market vesting conditions such as participants' continued employment by the Group. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each reporting date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the statement of comprehensive income with a corresponding adjustment to equity.

(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 statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(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 are 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 2010 reporting periods.

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

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions [AASB 2] (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a Group share-based payment arrangement must recognise an expense for those goods and services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an entity or a cash-based transaction. The Group will apply these amendments retrospectively for the financial reporting period commencing on 1 July 2010. There will be no impact on the Group's or the Parent Entity's financial statements.

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

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

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. All cross currency swaps 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 2010		30 June 2009	
	USD \$'000	EUR €000	USD \$'000	EUR €000
Debt issued at amortised cost	31,304	311,001	60,731	450,532
Notional principal of cross currency swaps	(31,304)	(311,001)	(60,731)	(450,532)
Other Liabilities – accrued interest	15	469	29	1,262

Accrued interest on foreign denominated debt is covered by the cross currency swaps.

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

Sensitivity

Based on the financial instruments held at 30 June 2010, 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 \$5,000 higher/\$5,000 lower (2009: \$22,000 higher/\$22,000 lower), mainly as a result of changes in the fair value of cross currency swaps, 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 largely 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 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.

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 most of 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 2010			30 June 2009		
	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	4.89%	465,438		3.50%	495,722	
Mortgage loans	8.21%	4,679,615	403,769	6.79%	6,760,851	928,106
Notional principal value of interest rate swaps	4.70%	416,646	(416,646)	3.10%	921,437	(921,437)
Notional principal value of basis swaps:						
• 3 month BBSW	4.50%	155,285	-	3.08%	267,096	-
• 1 month BBSW	4.74%	(155,285)	-	3.23%	(267,096)	-
Interest bearing Other assets	4.56%	4,337	-	3.07%	5,502	-
Interest bearing debt	6.15%	(5,207,232)	-	4.25%	(7,913,168)	-
Net exposure to interest rate risk		358,804	(12,877)		270,344	6,669

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

	30 June 2010			30 June 2009		
	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	1.25%	51	-	0.05%	41	-
Net exposure to interest rate risk		51	-		41	-

Group sensitivity

Based on balances at 30 June 2010, 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 \$1,234,000 higher/lower (2009: change of +/-50 bps: \$986,000 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.

Parent sensitivity

Based on balances at 30 June 2010, 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 (2009: 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.

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	
	2010 \$'000	2009 \$'000
Rated AAA	39,358	59,053
Rated AA-	2,688,243	4,306,994
Rated A+	2,355,783	3,322,909
Total mortgage loans	5,083,384	7,688,956

As at the reporting date, receivables under derivative financial instruments are with swap counterparties with a rating of A or higher (2009: A or higher).

At the current reporting date, the Group's SPEs had invested in CP rated A1+ (2009: A1+) and Group entities other than the Group's SPEs at A1 or higher (2009: 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 \$8,585,948,510 at the reporting date (\$12,611,354,000 at 30 June 2009). 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 2010 \$'000	Mortgage loan balance 2009 \$'000
Under-limit	4,963,639	7,491,393
Over-limit days:		
30-59	49,449	59,028
60-89	24,445	28,847
90-179	23,546	40,755
180+	22,305	68,933
Total mortgage loans	5,083,384	7,688,956

Included in the above ageing analysis are mortgage loan balances of \$20,636,355 (2009: \$12,884,789) against which a provision of \$4,872,229 (2009: \$4,872,673) 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 individually assessed 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, misrepresentation or cases involving certain administrative errors. The Group has recognised individually assessed provisions for impairment at 30 June 2010 of \$4,872,229 (2009: \$4,872,673) in relation to expected un-claimable mortgage shortfalls.

In addition to the individually assessed provision, a collective provision is maintained in respect of loans that are not subject to an individually assessed provision to reduce their carrying amount to their estimated recoverable amount at balance date. At 30 June 2010 this amounts to \$2,080,061 (2009: nil).

At the reporting date, the Group has taken possession of security properties with a last assessed fair value of \$26,056,250 (2009: \$79,180,870). These properties act as security for mortgage loans of \$22,561,141 (2009: \$58,718,723) 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 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 facility limits at the reporting date. Surplus funds are generally only invested in at call bank accounts or instruments with maturities of less than 90 days.

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 at the funder's option. As at the reporting date the Group has one warehouse facility of \$246 million (2009: \$400 million) which has been structured as a 32 year pass through security.

The Group's Treasury department aims to maintain 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 2010 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 (2009: \$26,900,000). 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 Entity 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 could ultimately 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 would 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 2010	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	2,288,268	1,382,159	923,701	671,702	467,394	5,733,224	5,212,544
Non interest bearing financial liabilities	21,135	2,714	4,025	5,730	2,415	36,019	32,167
Total financial liabilities	2,309,403	1,384,873	927,726	677,432	469,809	5,769,243	5,244,711

Group – at 30 June 2009	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	\$'000
Interest Bearing financial liabilities inclusive of associated derivative instruments	2,182,403	3,181,660	1,661,203	877,582	570,097	8,472,945	7,982,966
Non interest bearing financial liabilities	23,813	4,105	5,677	7,524	2,956	44,075	38,892
Total financial liabilities	2,206,216	3,185,765	1,666,880	885,106	573,053	8,517,020	8,021,858

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 affected 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 measurement

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. From 1 July 2009, the Group has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the Group's and the Parent Entity's assets and liabilities measured and recognised at fair value at balance date:

Group – as 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Derivative financial assets	-	30	-	30
Derivative financial liabilities	-	84,216	-	84,216

Group – as 30 June 2009	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Derivative financial assets	-	39,616	-	39,616
Derivative financial liabilities	-	49,118	-	49,118

The fair values 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.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period. These instruments are included in level 2 and comprise debt investments and derivative financial instruments. In the circumstances where a valuation technique for these instruments is based on significant unobservable inputs, such instruments are included in level 3. There has been no movement between levels during the year.

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 2010		Consolidated 30 June 2009	
	Carrying amount \$'000	Fair Value \$'000	Carrying amount \$'000	Fair Value \$'000
Financial Assets:				
Cash and cash equivalents	465,438	444,476	495,722	473,322
Loan assets held at amortised cost	5,094,340	5,080,001	7,748,430	7,713,837
Financial Liabilities:				
Debt issued at amortised cost	5,128,328	5,070,879	7,933,848	7,827,937
Financial liabilities at amortised cost	15,969	15,910	21,854	21,639

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 13. 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. 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 differs from its fair value by those amounts held on deposit that are used as credit support and subordinated to various warehouse providers and are not expected to be repaid in full. There is a requirement to support various loan facilities with subordinated debt and this has increased primarily due to the downgrade of mortgage insurers, general uncertainty in markets and new conditions placed on warehouse facilities as a condition of renewal. In the current environment, and after a detailed review, it is believed that a reduction in the carrying value of cash and cash equivalents and loan assets held of \$21 million (2009: \$22 million) is appropriate.

The carrying value of 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.

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 6.65% to 6.75% (2009: 5.05% to 5.10%) have been used depending on the type of borrowing. In the half year leading up to the current reporting period there were a number of RMBS issues that were used by management in their assessment of the current market rate for the Group's issued debt.

The fair value of financial liabilities at amortised cost has been estimated by discounting the future estimated cash flows by 11.2% (2009: 11.6%) at the reporting date.

3. Critical accounting estimates and judgements

The preparation of the financial statements in accordance with Australian Accounting Standards 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(g)).

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 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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Net interest income				
Interest income	457,596	773,612	2	-
Change in accounting estimate (Note 7)	7,197	1,558	-	-
Interest income	464,793	775,170	2	-
Interest expense (before hedging adjustments)	(339,228)	(597,918)	-	-
Gain/(Loss) arising on derivatives not in a designated fair value relationship	(178)	(432)	-	-
Gain/(Loss) arising on derivatives in a designated fair value relationship	(74,506)	32,796	-	-
Gain/(Loss) arising on adjustment to hedged items in a designated fair value relationship	74,178	(32,741)	-	-
Net interest income	125,059	176,875	2	-
Net fee and commission income				
Loan fee revenue	16,400	25,084	-	-
Sundry revenue	506	336	-	-
Net fee and commission income	16,906	25,420	-	-
Total net income	141,965	202,295	2	-

6. Operating expenses

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Fee and commission expense	(10,823)	(11,170)	-	-
Employee benefits	(3,473)	(3,600)	-	-
Funding expenses	(4,819)	(2,954)	-	-
Trustee fees	(1,543)	(2,049)	-	-
Professional fees	(3,023)	(2,787)	-	-
Impairment expense	(11,823)	(4,889)	-	-
Other expenses	(2,391)	(2,297)	-	-
	(37,895)	(29,746)	-	-

7. Change in accounting estimate

During the year the Group made a change to its assumptions in relation to estimated average loan life due to lower than expected loan prepayment rates and continuing uncertainty in credit markets.

The impact of the change in accounting estimate in 2010 is as follows:

- Increase profit before tax of \$7.2m (2009: \$1.6m), increase tax expense of \$2.2m (2009: \$0.5m) and increase profit after tax of \$5.0m (2009: \$1.1m);

The carrying value of remaining deferred transaction costs of \$14.3m (2009: \$34.6) has been estimated based on assumptions including the remaining expected life of mortgage loans.

8. Income tax

(a) Income tax expense

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Current tax	26,699	47,835	1	-
Deferred tax	4,568	4,754	-	-
Adjustment to current tax - prior period tax return amendment (note 12)	(21,179)	-	-	-
Tax expense	10,088	52,589	1	-
Income tax expense is attributable to:				
Profit from continuing operations	31,267	52,589	1	-
Adjustment to current tax - prior period tax return amendment (note12)	(21,179)	-	-	-
Aggregate income tax expense	10,088	52,589	1	-
Deferred income tax expense included in income tax expense comprises:				
Decrease in deferred tax assets (note 19)	4,568	4,754	1	-

(b) Numerical reconciliation of income tax expense to prima facie tax payable:

Profit from continuing operations before income tax expense	104,070	172,549	2	-
Tax at the Australian tax rate of 30% (2009 - 30%)	31,221	51,765	1	-
Prior year amendment – refund (note 12)	(21,179)	-	-	-
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Non assessable income included in profit from continuing operations	32	-	-	-
FITB – capital loss not recognised	-	780	-	-
Sundry items	14	44	-	-
Income tax expense	10,088	52,589	1	-

(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 is 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).

9. Cash and cash equivalents

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	61,099	70,547	51	41
Deposits at call and commercial paper	404,339	425,175	-	-
	465,438	495,722	51	41

Total Cash and cash equivalents includes \$218,544,271 (2009: \$133,805,540) held by Group entities other than the Group's SPEs. Cash held by the Group's SPEs predominantly represents principal receipts on mortgage loans of \$161,472,588 (2009: \$262,628,234) which will be passed to bondholders and warehouse providers on the next payment date for each funding facility. Amounts set aside by the Group's SPEs include liquidity reserves \$22,946,015 (2009: \$45,777,833) and loan redraw reserves \$3,300,000 (2009: \$4,650,000). The Group has also provided credit support of \$59,174,755 (2009: \$48,860,725). This credit support is in addition to any sub debt provided by the Group.

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

10. Loan assets held at amortised cost

Mortgage loans	5,080,784	7,686,356	-	-
Loan loss provision – individually assessed	(4,872)	(4,872)	-	-
Loan loss provision – collectively assessed	(2,080)	-	-	-
Interest rate swap hedges fair value adjustment	6,169	32,353	-	-
Deferred transaction costs	14,339	34,593	-	-
	5,094,340	7,748,430	-	-

(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 an individually assessed provision for loss of \$4,872,229 (2009: \$4,872,673) in respect of mortgage loans. The Group has also recognised a collective provision of \$2,080,061 (2009: \$Nil) in respect of mortgage loans. AASB 139 allows for a collective provision to be created in respect of Groups of receivables with similar credit risk characteristics. The provisions expense has been included in 'Impairment' expenses in the statement of comprehensive income.

(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 11).

(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.

11. Derivative financial instruments

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

	Consolidated 2010		Parent entity 2010	
	Notional principal \$'000	Net fair value \$'000	Notional principal \$'000	Net fair value \$'000
Derivative financial assets				
Basis swaps	155,285	30	-	-
	155,285	30	-	-
Derivative financial liabilities				
Interest rate swaps	416,646	6,264	-	-
Cross currency swaps	567,433	77,952	-	-
	984,079	84,216	-	-

	Consolidated 2009		Parent entity 2009	
	Notional principal \$'000	Net fair value \$'000	Notional principal \$'000	Net fair value \$'000
Derivative financial assets				
Basis swaps	267,096	209	-	-
Cross currency swaps	583,446	39,407	-	-
	850,542	39,616	-	-
Derivative financial liabilities				
Interest rate swaps	921,437	32,351	-	-
Cross currency swaps	261,125	16,767	-	-
	1,182,562	49,118	-	-

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 10,15).

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.

12. Other assets

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Receivables	965	1,139	-	-
Security deposits	3,992	5,157	-	-
Rental bonds	345	345	-	-
Prepayments	111	98	-	-
Sundry debtors	21,388	509	-	-
	26,801	7,248	-	-

At the reporting date, the Receivables balance represents accrued interest of \$949,274 on deposit with banks rated A1 or higher and the balance is with unrated entities (2009: \$1,072,268 represents accrued interest on deposits with banks rated A1 and the balance with unrated entities). At the reporting date Security deposits and Rental bonds are with banks rated AA (2009: AA). Sundry debtors includes \$21,179,380 received from the ATO in July 2010 from an amendment to the 2008 tax return.

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

13. Investments in controlled entities

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'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
	-	-	21,275	21,275

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

14. Plant and equipment

Consolidated	Furniture and equipment \$'000	Total \$'000
At 30 June 2008		
Cost	328	328
Accumulated depreciation	(142)	(142)
Net book amount	186	186
Year ended 30 June 2009		
Opening net book amount	186	186
Additions	22	22
Depreciation	(88)	(88)
Closing net book amount	120	120
At 30 June 2009		
Cost	350	350
Accumulated depreciation	(230)	(230)
Net book amount	120	120
Year ended 30 June 2010		
Opening net book amount	120	120
Additions	45	45
Depreciation	(85)	(85)
Closing net book amount	80	80
At 30 June 2010		
Cost	395	395
Accumulated depreciation	(315)	(315)
Net book amount	80	80

15. Debt issued at amortised cost

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Term bonds payable	1,681,737	2,411,182	-	-
Cross currency swap hedges fair value adjustment	(78,028)	22,333	-	-
Warehouse facilities	3,525,495	5,501,986	-	-
Deferred transaction costs – debt issues	(876)	(1,653)	-	-
Total debt issued at amortised cost	5,128,328	7,933,848	-	-

The above debts are secured against the assets of the Group's SPEs.

Term bonds payable

Term bonds payable are residential mortgage backed securities issued by the Group's SPEs. 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 and Interest rate swaps fair value adjustment.

The cross currency 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 11).

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 at the funder's option. The balance of warehouse facilities at reporting date includes one warehouse facility of \$246 million (2009: \$400 million) which has been structured as a 32 year pass through security.

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

(a) Assets pledged as security

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
The carrying amounts of assets pledged as security are				
Cash and cash equivalents	230,876	328,735	-	-
Other assets	1,153	2,264	-	-
Derivative financial assets	30	39,616	-	-
Mortgages	5,069,302	7,662,026	-	-
Total assets pledged as security	5,301,361	8,032,641	-	-

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	
	2010	2009
	\$'000	\$'000
Warehouse facilities		
Used at balance date	3,279,664	5,101,886

16. Financial liabilities at amortised cost

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Trail commission liability	15,969	21,854	-	-

Liability is recognised for the future trail commissions payable to mortgage brokers 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.

17. Other liabilities

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Interest accruals due to bond holders and warehouses providers	12,885	14,011	-	-
Trade and other creditors	3,314	3,027	-	-
	16,199	17,038	-	-

18. Provisions

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Employee entitlements	964	813	-	-
Lease costs	114	79	-	-
Other	290	293	-	-
Income tax provision	35,836	38,468	35,836	38,468
	37,204	39,653	35,836	38,468

(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:

	Lease costs	Other	Income tax	Total
	\$'000	\$'000	\$'000	\$'000
Consolidated – 2010				
Carrying amount at 1 July 2009	79	293	38,468	38,840
Additional provision	35	515	35,835	36,385
Refund of instalments	-	-	18,878	18,878
Utilisation / release of provisions	-	(518)	(57,345)	(57,863)
Carrying amount at 30 June 2010	114	290	35,836	36,240
Parent – 2010				
Carrying amount at 1 July 2009	-	-	38,468	38,468
Additional provision	-	-	35,835	35,835
Refund of instalments	-	-	18,878	18,878
Utilisation of provisions	-	-	(57,345)	(57,345)
Carrying amount at 30 June 2010	-	-	35,836	35,836

19. Deferred tax assets/liabilities

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to: <i>Amounts recognised in profit and loss</i>				
Deferred tax assets				
Mortgage insurance	332	509	-	-
Depreciation and amortisation	19	62	-	-
Trail commission liability	4,791	6,556	-	-
Provisions and accruals	2,868	2,073	-	-
Effective interest rate revenue adjustments	711	1,262	-	-
Total deferred tax assets	8,721	10,462	-	-
Deferred tax liabilities				
Deferred transaction costs	(4,565)	(10,874)	-	-
Deferred tax liability	(4,565)	(10,874)	-	-
Net deferred tax (liability)/asset	4,156	(412)	-	-
Movements:				
Opening balance at 1 July	(412)	(5,166)	-	-
Movement for the year	4,568	4,754	-	-
Closing balance at 30 June	4,156	(412)	-	-

20. Contributed equity

(a) Share capital	2010	2010	2009	2009
	Shares	\$'000	Shares	\$'000
Ordinary shares Fully paid	305,647,887	4,169	323,454,370	18,475
Total	305,647,887	4,169	323,454,370	18,475

(b) Movements in ordinary share capital

Date	Details	Number of shares	Average price	\$'000
1 July 2009	Opening balance	323,454,370		18,475
30 June 2009	Balance	323,454,370		18,475
	Shares bought back on market and cancelled	(23,806,483)	0.62477	(14,873)
	Buy-back transaction costs		0.00138	(33)
	Exercised options	6,000,000	0.10000	600
30 June 2010	Closing balance	305,647,887		4,169

(c) Share buy-back

The Company, as part of its capital management strategy, participated in its second on-market share buy-back arrangement during the financial year. On the 19 November 2009, the Company, in accordance with regulatory requirements and the Corporations Act, announced to the market its intention to proceed with a share buy-back arrangement. The Company's intention is to buy up to 10% of its issued shares over the 12 months from November 2009. At close of business on the 30 June 2010 the Company had purchased and cancelled 23,466,666 shares (71.3% of the share buy back limit) on market with an average all in price of 62.99 cents. The total cost of \$14,735,282 was deducted from equity. At 30 June 2010, the maximum remaining number of shares that RHG Limited was permitted to purchase under the share buy-back was 9,444,789. The Company also completed the first on-market share buy-back in July 2009 purchasing and cancelling 339,817 shares for a total cost of \$171,078.

(d) Capital risk management

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.

In November 2009 the Group announced its second on market share buy-back of up to 10% of the Parent Entity's share capital over the twelve months from November 2009.

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.

(e) Options

Information relating to options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year is set out in note 35.

21. Retained profits / (accumulated losses)

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Movements in retained profits/ (accumulated losses) were as follows:				
Balance 1 July	210,592	90,632	169	169
Net profit for the year	93,982	119,960	1	-
Balance at 30 June	304,574	210,592	170	169

22. Dividends

Franked dividends

The directors do not recommend payment of a dividend in relation to the 2010 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 entity	
	2010	2009
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009: 30%)	65,186	47,898

The above available amounts are based on the balance of the dividend franking account at year-end. The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

23. Reserves

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Movements in share-based payments reserve were as follows:				
Balance 1 July	146	-	-	-
Option expense	40	146	-	-
Balance 30 June	186	146	-	-

The share based payments reserve is used to recognise the fair value of options issued to employees.

24. Maturity Analysis of Assets and Liabilities

The following table contains a breakdown of the balance sheet according to when the assets and liabilities are expected to be recovered or settled.

	Due within one year \$'000	Greater than one year \$'000	No specific maturity \$'000	Total \$'000
Consolidated 2010				
Assets:				
Cash and cash equivalents	439,989	25,449	-	465,438
Loan assets held at amortised cost	1,736,487	3,357,853	-	5,094,340
Derivative financial assets	30	-	-	30
Other assets	23,726	2,345	730	26,801
Plant and equipment	-	80	-	80
Deferred tax assets	49	4,107	-	4,156
Total assets	2,200,281	3,389,834	730	5,590,845
Liabilities:				
Debt issued at amortised cost	3,593,904	1,534,424	-	5,128,328
Derivative financial liabilities	84,216	-	-	84,216
Financial liabilities at amortised cost	7,359	8,610	-	15,969
Other liabilities	15,802	397	-	16,199
Provisions	36,981	223	-	37,204
Total liabilities	3,738,262	1,543,654	-	5,281,916
Consolidated 2009				
Assets:				
Cash and cash equivalents	463,912	31,810	-	495,722
Loan assets held at amortised cost	2,926,681	4,821,749	-	7,748,430
Derivative financial assets	24,316	15,300	-	39,616
Other assets	3,025	2,543	1,680	7,248
Plant and equipment	-	120	-	120
Total assets	3,417,934	4,871,522	1,680	8,291,136
Liabilities:				
Debt issued at amortised cost	5,124,723	2,809,125	-	7,933,848
Derivative financial liabilities	26,287	22,831	-	49,118
Financial liabilities at amortised cost	10,247	11,607	-	21,854
Other liabilities	16,641	397	-	17,038
Provisions	39,378	275	-	39,653
Deferred tax liabilities	2,263	(1,851)	-	412
Total liabilities	5,219,539	2,842,384	-	8,061,923
Parent Entity 2010				
Assets:				
Cash and cash equivalents	51	-	-	51
Investments in controlled entities	-	-	21,275	21,275
Due from related parties	35,832	-	-	35,832
Total assets	35,883	-	21,275	57,158
Liabilities:				
Provisions	35,835	-	-	35,835
Due to related parties	16,984	-	-	16,984
Total liabilities	52,819	-	-	52,819

	Due within one year	Greater than one year	No specific maturity	Total
	\$'000	\$'000	\$'000	\$'000
Parent Entity 2009				
Assets:				
Cash and cash equivalents	41	-	-	41
Investments in controlled entities	-	-	21,275	21,275
Due from related parties	38,474	-	-	38,474
Total assets	38,515	-	21,275	59,790
Liabilities:				
Provisions	38,468	-	-	38,468
Due to related parties	2,678	-	-	2,678
Total liabilities	41,146	-	-	41,146

25. 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
 JV McGuigan

(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
GW Goddard	Chief executive 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 2010.

(c) Key management personnel compensation

	Consolidated		Parent entity	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employee benefits	1,251,989	1,283,039	-	-
Post-employment benefits	100,015	114,137	-	-
Long-term benefits	20,805	28,185	-	-
Termination benefits	-	113,698	-	-
Share-based payments	39,587	146,362	-	-
Total	1,412,396	1,685,421	-	-

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 4 to 8.

(d) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report. During the year 6,000,000 shares have been issued on exercise of options.

(ii) *Option holdings*

No directors of RHG Limited have or are entitled to options over RHG Limited. The CEO of RHG Limited was granted options in July 2008 as part of his remuneration package. The options are over common stock and have a strike price of 10.0 cents. Of the 10 million options granted, as at the end of the financial year 8 million options have vested with 2 million due to vest on 30 June 2011 in line with his conditions of employment. On the 25 September the CEO exercised 6,000,000 options.

(iii) *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.

2010	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Non executive directors				
JA Kinghorn	35,384,574	-	-	35,384,574
GK Jones	4,962,990	-	(2,962,990)	2,000,000
JV McGuigan	80,000	-	-	80,000
Key management personnel				
GW Goddard	60,000	6,000,000	-	6,060,000
WG Williams	2,000	-	-	2,000
Total	40,489,564	6,000,000	(2,962,990)	43,526,574
2009	Balance at start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at end of the year
Non executive directors				
JA Kinghorn	35,384,574	-	-	35,384,574
GK Jones	4,962,990	-	-	4,962,990
DR Coe	750,000	-	(750,000)	-
JV McGuigan	80,000	-	-	80,000
Key management personnel				
GW Goddard	60,000	-	-	60,000
WG Williams	2,000	-	-	2,000
Total	41,239,564		(750,000)	40,489,564

26. 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	
	2010	2009	2010	2009
	\$	\$	\$	\$
Audit services				
Half year review of the financial reports.	145,000	160,490	-	-
Full year audit of the financial reports.	370,000	372,635	146,000	142,520
Total remuneration for audit services	515,000	533,125	146,000	142,520
Other assurance services				
Agreed upon review procedures	49,500	20,000	-	-
Total other assurance services	49,500	20,000	-	-
Total remuneration of auditors	564,500	553,125	146,000	142,520

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 Treasury Services Pty Limited and RHG Mortgage Securities Pty Limited. All fees for the Group are paid by RHG Home Loans Pty Limited.

27. Business combination

On the 30 April 2010, the Company purchased 100% of the shares in Prime Insurance Group Limited ("PIGL") for one dollar and recapitalised the business, with an investment of \$600,000, so as to meet the capital requirements of the business. This purchase was a defensive move as the previous owner was looking to exit the business. PIGL has been in wind down for a number of years and RHG plans to leave the business in wind down.

Details of the purchase consideration, net assets acquired and goodwill are as follows:

Purchase consideration	\$
Cash paid	<u>1</u>
The assets and liabilities recognised as result of the acquisition are as follows:	
Assets	10,134
Liabilities	<u>(109,976)</u>
Net identifiable liabilities acquired	<u>(99,842)</u>

No contingent liabilities were recognised at the time of acquisition. The goodwill was assessed and written off in the current financial period.

28. Contingencies

Contingent Assets

As disclosed in the 2009 financial statements an individual pool of loans in one of the Group's SPE continues to be excluded from the financial accounts at 30 June 2010. It should be noted that if the pool of loans were able to be refinanced for a value equivalent to the face value of the mortgages, the trapped spread (being \$11.3m) would be brought back to account as income at that time.

Contingent Liabilities

(i) 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.

(ii) 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.

(iii) 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.

Consolidated		Parent entity	
2010	2009	2010	2009
\$'000	\$'000	\$'000	\$'000

29. Commitments

(a) Lease expenditure commitments:

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

	2010	2009		
	\$'000	\$'000		
Not later than one year	332	336	-	-
Later than one year but not later than five years	525	904	-	-
	857	1,240	-	-

(b) Outsourcing agreements

The Group has maintained an outsourcing agreement with a third party under which various services are provided to the Group. If the Group terminates this agreement the following fees are payable to the service provider:

- between 1 January 2010 and 31 December 2010 – fee payable \$2 million; and
- between 1 January 2011 and 31 December 2011 – fee payable \$1 million.

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
- JV McGuigan

(c) Key management personnel compensation

Key management personnel compensation for the years ended 30 June 2010 and 2009 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	
	2010	2009	2010	2009
	\$	\$	\$	\$
Short-term employee benefits	1,251,989	1,283,039	-	-
Post-employment benefits	100,015	114,137	-	-
Long-term benefits	20,805	28,185	-	-
Termination benefits	-	113,698	-	-
Share based payments	39,587	146,362	-	-
Total	1,412,396	1,685,421	-	-

(d) 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	Parent entity	
		2010	2009
		\$	\$
Current year tax payable assumed from wholly owned tax consolidated entities	Controlled entities	35,835,264	57,342,156

(e) 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	
	2010	2009	2010	2009
	\$	\$	\$	\$
Current receivable from/(payable to) RHG Home Loans Pty Limited (tax funding agreement)	-	-	35,831,098	38,465,431
Current receivable from RHG Treasury Services Pty Limited (tax funding agreement)	-	-	1,107	8,445
Current (payable)/receivable from RHG Home Loans Pty	-	-	(17,583,979)	(2,677,618)
	-	-	18,248,226	35,796,258

31. Interests in controlled entities

Name of entity	Country of incorporation	Class of shares/units	Equity holding	
			2010	2009
			%	%
Controlled entities				
RHG Home Loans Pty Limited	Aust	Ordinary	100	100
Receivables Services Pty Limited	Aust	Ordinary	100	100
RHG Treasury Services Pty Limited	Aust	Ordinary	100	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

32. Events occurring after balance sheet date

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 could ultimately 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.

The Company continues to buy-back shares on market and as at mid August has purchased 511,710 shares at a total cost of \$347,501 which has been deducted from equity.

Subsequently to year end, a warehouse has rolled with a face value of \$446 million (as at roll date) in the normal course of business for a period of 12 months.

33. Reconciliation of profit after income tax to net cash inflow from operating activities

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit/(loss) for the year after income tax	93,982	119,960	1	-
Depreciation and amortisation – fixed assets	85	88	-	-
Non cash employee benefit	39	146	-	-
Amortisation – loan assets	20,254	30,171	-	-
Amortisation – securitisation costs	1,161	1,871	-	-
Other non cash movement	-	2,600	-	-
Change in operating assets and liabilities:				
(Increase)/decrease in intercompany receivables	-	-	2,642	9,556
(Increase)/decrease in future income tax benefit	(4,568)	(4,754)	-	-
(Increase)/decrease in other assets	(19,549)	16,605	-	-
Increase/(decrease) in operating liabilities	(839)	(23,043)	-	-
Increase/(decrease) in provisions	(2,450)	9,275	(2,633)	(9,556)
Increase/(decrease) in financial liabilities	(5,885)	(14,063)	-	-
Net cash inflow/(outflows) from operating activities	82,230	138,856	10	-

34. Earnings per share

Consolidated
 2010 2009
 \$'000 \$'000

(a) Reconciliation of earnings used in calculating earnings per share

Net profit after tax per statement of comprehensive income from continuing operations	93,982	119,960
Profit from continuing operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	93,982	119,960

(b) Weighted average number of shares

Consolidated

	2010	2009
Weighted average number of ordinary shares used in the denominator in calculating the basic earnings per share	321,434,838	337,745,211
Adjustment in regard to options	4,000,000	9,808,219
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating the diluted earnings per share	325,434,838	347,553,430

(c) Information concerning the classification of securities

Employee share options are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 35.

35. Share-based payments

(a) Employee options

The options granted to the CEO (Mr GW Goddard) are designed to provide long-term incentives regarding the delivery of long-term shareholder returns. The awarding of options is at the Board's discretion and other than the options noted below, no individual has a contractual right to the award of options. The options are over common stock and have a strike price of 10.0 cents. 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

The options have been granted in accordance with Mr GW Goddard's remuneration agreement and have been granted for no consideration. The options granted carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

Other key terms attaching to the options include:

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

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2009 was 2.022 cents per option. The fair value at grant date is determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

- (a) options are granted for no consideration and each tranche vests as documented above
- (b) exercise price: 10.0 cents
- (c) grant date: July 2008
- (d) expected life (years):

Tranche 1:	2.5
Tranche 2:	3.0
Tranche 3:	3.5
Tranche 4:	4.0

- (e) share price at grant date: 7.0 cents
- (f) assumed price volatility of the Company's shares: 50%
- (g) assumed dividend yield: 0%
- (h) risk-free interest rate: 6.6% - 6.7%

The expected price volatility is based on the historic volatility of RHG Limited and similar financial institutions for a period similar to the expected life of the options. The expected life of the options are based on the results of external studies that demonstrate that employee share options are likely to be exercised mid way between their vesting date and expiry date. The assumptions used are not necessarily indicative of exercise patterns that may occur.

It has been assumed that all options granted will become exercisable.

(b) Expenses arising from share-based payment transactions

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

	Consolidated		Parent entity	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Options issued under employee option plan	40	146	-	-

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 17 to 51 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 2010 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 4 to 8 in the directors' report comply with the Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.
- (d) note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

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

JA Kinghorn
Chairman

25 August 2010

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 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both RHG Limited and 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 the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

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



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 2010 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.

Report on the Remuneration Report

We have audited the remuneration report included in pages 4 to 8 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

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

PricewaterhouseCoopers

Chris Cooper
Partner

Sydney
25 August 2010