

Results for announcement to the market

Appendix 4E

For the year ended 30 June 2010

RHG LIMITED ABN 22 055 136 564

1. Reporting Period

Reporting Period: Year ended 30 June 2010

Previous Corresponding Period: Year ended 30 June 2009

2. Results for announcement to the market

		%		\$'m
Revenues from ordinary activities	Down	29.8	To	141.97
Profit from ordinary activities after tax attributable to members	Down	21.7	To	93.98
Net profit for the period attributable to members	Down	21.7	To	93.98

The consolidated profit after income tax attributable to members, for the year ended 30 June 2010 was \$94.0 million (2009: \$120.0 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.

Audited Accounts

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

The audited accounts have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Annual General Meeting

The Annual General Meeting is scheduled for 11 November 2010.

3. Commentary on the results for the period

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 profit and loss. 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 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.

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

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.

4. Statement of comprehensive income

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

5. Balance sheet

	Consolidated	
	2010	2009
	\$'000	\$'000
Assets		
Cash and cash equivalents	465,438	495,722
Loan assets held at amortised cost	5,094,340	7,748,430
Derivative financial assets	30	39,616
Other assets	26,801	7,248
Plant and equipment	80	120
Deferred tax assets	4,156	-
Total assets	5,590,845	8,291,136
Liabilities		
Debt issued at amortised cost	5,128,328	7,933,848
Derivative financial liabilities	84,216	49,118
Financial liabilities at amortised cost	15,969	21,854
Other liabilities	16,199	17,038
Provisions	37,204	39,653
Deferred tax liabilities	-	412
Total liabilities	5,281,916	8,061,923
Net assets	308,929	229,213
Equity		
Contributed equity	4,169	18,475
Retained profits	304,574	210,592
Reserves	186	146
Total equity	308,929	229,213

6. Statement of cash flows

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash flows from operating activities		
Interest received	479,842	794,185
Interest paid and other costs of finance	(339,699)	(616,434)
Receipts from customers	15,608	39,295
Payments to suppliers	(35,053)	(30,404)
Tax refund/(paid)	(38,468)	(47,786)
Net cash inflow from operating activities	82,230	138,856
Cash flows from investing activities		
Payments for plant and equipment and intangibles	(46)	(22)
Sale of subsidiaries/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 buyback	(14,906)	(5,597)
Net proceeds 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 held	(30,284)	90,712
Cash and cash equivalents at the beginning of the financial year	495,722	405,010
Cash and cash equivalents at the end of the financial year	465,438	495,722

7. Dividends

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

8. Dividend reinvestment plans

Not applicable.

9. Statement of retained earnings

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

10. Net tangible assets per security

	Consolidated	
	2010	2009
	Cents	Cents
Net tangible assets per security*	101.9	72.2

* Including deferred mortgage and debt transaction costs

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

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.

11. Accounting standards for foreign entities

The accounts for foreign entities have been prepared in accordance with Australian Accounting Standards.

12. Results commentary

(a) Earnings per share

Consolidated	
2010	2009
\$'000	\$'000

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
Weighted average number of ordinary shares used in the denominator in calculating the basic earnings per share	321,434,838	337,745,211
Weighted average number of ordinary shares used in the denominator in calculating the diluted earnings per share (dilution relates to share options)	325,434,838	347,553,430

(b) Segment information

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

(c) Events occurring after balance sheet date

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 a further 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.