

MORTGAGE CHOICE LIMITED

ABN 57 009 161 979

Appendix 4E Preliminary Final Report for the year ended 30 June 2014

Lodged with the ASX under Listing Rule 4.3A on 21 August 2014

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Audit/Review

This report is based on the consolidated financial statements which have been audited by Deloitte Touche Tohmatsu.

Results for announcement to market

Comparison to previous corresponding period

	To 30 June 2013		30 June 2014	
		% change		A\$'000
Revenue from ordinary activities:				
- continuing operations				178,464
- discontinued operations:				1,994
Total	up	15.5%	to	181,458
Profit from ordinary activities after tax attributable to members				
- continuing operations				18,547
- discontinued operations:				1,252
Total	up	5.8%	to	19,799
Net profit for the period attributable to members	up	5.8%	to	19,799
Earnings per share	up	5.3%	to	16 cents

Dividends

Details of dividends/distributions declared or paid during the year ended 30 June 2014 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
2 September 2013	16 September 2013	Final	7.0 cents	\$8,640,000	7.0 cents	-
7 March 2014	24 March 2014	Interim	7.5 cents	\$9,284,000	7.5 cents	-

A fully franked final dividend of 8.0 cents per share in respect of the year ended 30 June 2014 was declared on 21 August 2014 and is expected to be paid on 15 September 2014. The record date for determining entitlement to this dividend will be 1 September 2014.

Sale of Beagle Finance Pty Limited (LoanKit)

On 30 September 2013 Mortgage Choice sold 100% of the issued shares in Beagle Finance Pty Limited, owner of the LoanKit mortgage brokerage aggregation business. Including the gain on sale, this contributed \$1.252m to the Group's profit (2013 – a loss of \$0.320m).

Discussion and analysis of financial results

Best financial results ever

We have embraced the opportunities that this year's strong market presented us to deliver our best financial results to date across the business. Highlights include a strong growth in underlying statutory revenue and profit, record loan settlements, our highest cash result to date and a new high annual dividend of 15.5 cents. We achieved one of our best underlying statutory results, before the recognition of balance sheet revaluation adjustments to the valuation of the loan book. Underlying statutory revenue and profit before tax from continuing operations compared to last year was up 17 per cent on revenue and 23 per cent on profit before tax.

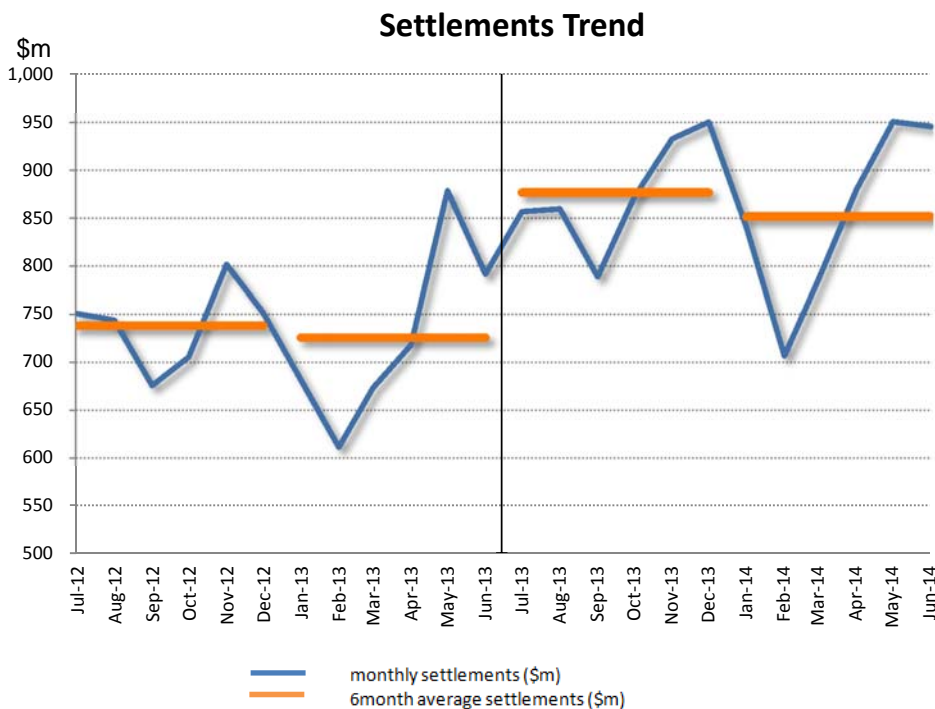
Underlying Statutory Results

Continuing operations	2014	2013
	\$'000	\$'000
<u>Operating revenue</u>		
Underlying operating revenue	175,055	149,516
Adjustment to valuation of loan book receivable	3,409	5,883
Total operating revenue	178,464	155,399
<u>Profit before tax</u>		
Underlying result before tax	28,434	23,068
Adjustment to valuation to net loan book receivable	(1,638)	4,325
Total profit before tax	26,796	27,393

However, the realignment of valuation assumptions to reflect changing economic factors resulted in a negative valuation adjustment at the end of the year. Increased run-off was experienced across the industry due in part to customers paying more off their principle in the low interest rate environment. A second factor was the high number of customers who refinanced or upgraded their homes, contributing to Mortgage Choice's record growth in loan settlements. Increased settlement volumes also led to higher commission payments to Mortgage Choice franchisees, which affected our net margin. The combination of these factors resulted in a write down of 1 per cent of the ending value of the Company's loan book.

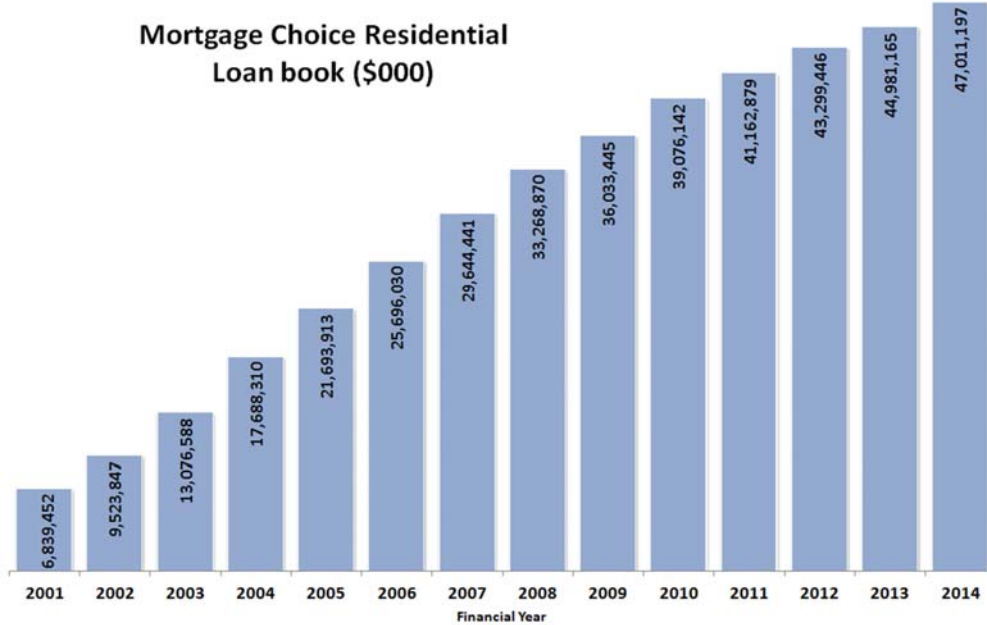
The Market and our Settlements reached new levels

The market for home loans was buoyant this past year. We achieved the highest settlement figures ever, settling \$10,370 million in loans in FY 2014, 18.1 per cent more than last year.



Upfront bank commission rates increased to an average of 63.3bp for the year, up from 60.8bp, reflecting the increased competition amongst mortgage providers. This naturally provided a boost to Mortgage Choice revenues as well as the entire mortgage broking industry. And this wasn't the only pleasing news for the industry as a whole as, according to data from the Mortgage and Finance Association of Australia, broker market share climbed from an average of 44 per cent in FY 2013 to 50 per cent by the end of the June 2014 quarter.

Mortgage Choice's loan book continued to keep pace with the boost in settlements and in spite of the increased rate of run-off.



The residential loan book, excluding the LoanKit business, grew 4.5 per cent during the year from \$45 billion to \$47 billion.

Growth in Diversified revenues as well as Cash Profits

We experienced strong growth in revenue from diversified sources across Mortgage Choice Financial Planning, Help Me Choose and the sale of other diversified products through our mortgage brokers. Earnings from these business lines grew by approximately 71 per cent from \$7.7 million last year to \$13.2 million this year. This equates to a 40 per cent increase in their contribution to the overall business - from 5 per cent to 7 per cent of total revenues.

In addition, we recognised our highest ever cash profit results, increasing by 18 per cent from \$15.8 million last year to \$18.7 million before the sale of the LoanKit business and a 27 per cent increase including LoanKit. Given the strong financial returns we enjoyed this year, we have again achieved attractive earnings per share, which is reflected in the increase in our dividend from 13 cents to 15.5 cents or 19 per cent increase.

Preliminary consolidated income statement

For the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Revenue			
Origination commission		63,014	51,965
Trailing commission excluding discount unwind		74,958	66,914
Trailing commission discount unwind		23,577	25,586
Diversified products commission		5,691	3,777
Help Me Choose income excluding discount unwind		4,468	3,767
Help Me Choose income discount unwind		119	58
Financial Planning income		2,896	113
Franchise income		1,522	1,192
Interest		538	533
Other income		1,681	1,494
		<u>178,464</u>	<u>155,399</u>
Direct costs			
Origination commission		(45,777)	(37,375)
Trailing commission excluding discount unwind		(47,712)	(37,023)
Trailing commission discount unwind – finance costs		(14,129)	(15,470)
Diversified products commission		(4,483)	(2,944)
Help Me Choose direct costs		(1,277)	(1,249)
Financial Planning commission		(2,341)	(95)
		<u>62,745</u>	<u>61,243</u>
Gross profit			
		62,745	61,243
Operating Expenses			
	1		
Sales		(13,938)	(12,983)
Technology		(5,185)	(5,344)
Marketing		(8,675)	(8,060)
Finance		(2,094)	(2,009)
Corporate		(6,057)	(5,454)
		<u>26,796</u>	<u>27,393</u>
Profit before income tax			
		26,796	27,393
Income tax expense		(8,249)	(8,359)
		<u>18,547</u>	<u>19,034</u>
Discontinued operation			
Profit/(loss) for the period from discontinued operation		1,252	(320)
		<u>1,252</u>	<u>(320)</u>
Net profit attributable to the owners of Mortgage Choice Limited			
		<u>19,799</u>	<u>18,714</u>

		Cents	Cents
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share	5	16.0	15.2
Diluted earnings per share	5	16.0	15.2
From continuing operations			
Basic earnings per share	5	15.0	15.5
Diluted earnings per share	5	15.0	15.5

Preliminary consolidated balance sheet

As at 30 June 2014

	Notes	Consolidated	
		2014 \$'000	2013 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		12,445	10,953
Trade and other receivables		98,876	95,310
Total current assets		<u>111,321</u>	<u>106,263</u>
Non-current assets			
Receivables		238,244	227,567
Property, plant and equipment		907	692
Deferred tax assets		-	-
Intangible assets		2,349	2,287
Total non-current assets		<u>241,500</u>	<u>230,546</u>
Total assets		<u>352,821</u>	<u>336,809</u>
LIABILITIES			
Current liabilities			
Trade and other payables		66,702	63,118
Current tax liabilities		2,418	2,017
Provisions		1,103	993
Total current liabilities		<u>70,223</u>	<u>66,128</u>
Non-current liabilities			
Payables		142,900	134,938
Deferred tax liabilities		36,605	36,085
Provisions		762	526
Total non-current liabilities		<u>180,267</u>	<u>171,549</u>
Total liabilities		<u>250,490</u>	<u>237,677</u>
Net assets		<u>102,331</u>	<u>99,132</u>
EQUITY			
Contributed equity	3	4,604	4,018
Reserves	4	2,210	1,472
Retained profits	4	95,517	93,642
Total equity		<u>102,331</u>	<u>99,132</u>
		Cents	Cents
Net tangible assets per share		80.8	78.5

Preliminary statements of changes in equity

As at 30 June 2014

	Contribute equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2012	1,558	1,260	90,801	93,619
Total comprehensive income for the year as reported in the 2012 financial statements	-	-	18,714	18,714
Transactions with equity holders in their capacity as owners:				
Contributions of equity net of transaction costs	2,460	(560)	-	1,900
Dividends paid	-	-	(15,873)	(15,873)
Employee share options – value of employee services	-	772	-	772
	<u>2,460</u>	<u>212</u>	<u>(15,873)</u>	<u>(13,201)</u>
Balance at 30 June 2013	4,018	1,472	93,642	99,132
Total comprehensive income for the year as reported in the 2013 financial statements	-	-	19,799	19,799
Transactions with equity holders in their capacity as owners:				
Contributions of equity net of transaction costs	586	(586)	-	-
Dividends paid	-	-	(17,924)	(17,924)
Employee share options – value of employee services	-	1,324	-	1,324
	<u>586</u>	<u>738</u>	<u>(17,924)</u>	<u>(16,600)</u>
Balance at 30 June 2014	4,604	2,210	95,517	102,331

Preliminary cash flow statement

For the year ended 30 June 2014

	Notes	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		180,722	162,405
Payments to suppliers and employees (inclusive of goods and service tax)		<u>(154,018)</u>	<u>(139,303)</u>
		26,704	23,102
Income taxes paid		<u>(7,612)</u>	<u>(7,968)</u>
Net cash inflow from operating activities	7	<u>19,092</u>	<u>15,134</u>
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		(1,909)	(1,406)
Proceeds from sale of LoanKit net of selling costs		1,695	-
Interest received		538	536
Net cash inflow/(outflow) from investing activities		<u>324</u>	<u>(870)</u>
Cash flows from financing activities			
Proceeds from sale of shares		-	1,900
Dividends paid to company's shareholders		(17,924)	(15,873)
Net cash (outflow) from financing activities		<u>(17,924)</u>	<u>(13,973)</u>
Net increase/(decrease) in cash and cash equivalents		1,492	291
Cash and cash equivalents at the beginning of the financial year		<u>10,953</u>	<u>10,662</u>
Cash and cash equivalents at the end of year		<u>12,445</u>	<u>10,953</u>

Note 1 Expenses

	2014	2013
	\$'000	\$'000
Profit from ordinary activities before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges (note (a))	14,129	15,470
<i>Net loss on disposal of property, plant and equipment</i>	-	-
<i>Depreciation</i>		
Plant and equipment	354	376
<i>Amortisation</i>		
Leasehold improvements	60	168
Computer software	1,189	1,216
<i>Other provisions</i>		
Employee entitlements	195	147
<i>Rental expense relating to operating leases</i>	1,125	1,075
<i>Defined contribution superannuation expense</i>	1,259	1,146
<i>Termination benefits</i>	47	47

(a) Interest and finance charges

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

Note 2 Segment information**(a) Description of segments**

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

The Chief Executive Officer considers the business from both a product and cash versus IFRS presentation of the results. Therefore the management has identified four reportable product segments, Mortgage Choice franchised mortgage broking (MOC), Help Me Choose health fund and mortgage comparison website (HMC), Mortgage Choice Financial Planning (MCFP) and LoanKit aggregation mortgage broking (LoanKit) (discontinued). The Group operates only in Australia.

(b) Information provided to the senior executive

Information provided to the Chief Executive Officer for the year ended 30 June 2014 is as follows:

Product Segments

2014	Total	MOC	HMC	MCFP	LoanKit
	\$'000	\$'000	\$'000	\$'000	(discontinued)
					\$'000
Revenue	178,793	170,841	4,646	2,977	329
Gross Profit (IFRS)	63,074	58,740	3,369	636	329
Gross profit (cash)	61,545	57,261	3,319	636	329
Depreciation and amortisation	1,603	1,392	129	54	28
Income tax expense	8,210	8,488	92	(331)	(39)
NPAT (IFRS)	18,455	19,106	214	(773)	(92)
NPAT (cash)	18,708	19,342	203	(739)	(98)
NPAT (IFRS) incl sale of LoanKit	19,799	20,450	214	(773)	(92)
NPAT (cash) incl sale of LoanKit	20,052	20,686	203	(739)	(98)
2013	Total	MOC	HMC	MCFP	LoanKit
	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	156,534	151,459	3,827	113	1,135
Gross Profit (IFRS)	62,378	58,647	2,578	18	1,135
Gross profit (cash)	57,073	54,031	1,889	18	1,135
Depreciation and amortisation	1,760	1,496	154	-	110
Income tax expense	8,222	8,748	30	(419)	(137)
NPAT (IFRS)	18,714	19,944	69	(979)	(320)
NPAT (cash)	15,774	17,410	(402)	(951)	(283)

Note 2 Segment information (continued)**Cash versus IFRS**

	2014	2013	%		2014	2013	%
	Cash*				IFRS***		
	\$000	\$000	change		\$000	\$000	change
Origination commission income	63,014	51,965	21%		63,014	51,965	21%
Trailing commission income**	87,407	86,680	1%		98,535	92,500	7%
	150,421	138,645	8%		161,549	144,465	12%
Origination commission paid	45,777	37,375	22%		45,777	37,375	22%
Trailing commission paid**	52,192	51,289	2%		61,841	52,493	18%
	97,969	88,664	10%		107,618	89,868	20%
Net core commissions	52,452	49,981	5%		53,931	54,597	(1%)
Diversified products net revenue	1,208	833	45%		1,208	833	45%
HMC, LoanKit and Financial Planning net revenue	4,125	2,967	39%		4,175	3,656	14%
Other income	3,760	3,292	14%		3,760	3,292	14%
Gross Profit	61,545	57,073	8%		63,074	62,378	1%
Operating Expenses	35,085	34,670	1%		35,085	34,670	1%
Share based remuneration	-	-			1,324	772	72%
Net profit before tax	26,460	22,403	18%		26,665	26,936	(1%)
Net profit after tax	18,708	15,774	19%		18,455	18,714	(1%)
After tax gain on sale of LoanKit	1,344	-	-		1,344	-	-
NPAT including gain on sale of LoanKit	20,052	15,774	27%		19,799	18,714	6%

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

** Trailing commission income and trailing commission paid include discount unwind as itemised in the consolidated income statement.

*** IFRS income and expenses include trading results to 30 September 2013 in the discontinued operation (LoanKit). Refer note 5 for further details.

Note 2 Segment information (continued)

The following provides additional detail to assist in reconciliation of the above table to the consolidated income statement:

	2014	2013	%		2014	2013	%
	Cash				IFRS		
	\$000	\$000	change		\$000	\$000	change
Diversified products commissions	5,691	3,777	51%		5,691	3,777	51%
Diversified products direct costs	4,483	2,944	52%		4,483	2,944	52%
Diversified products net income	1,208	833	45%		1,208	833	45%
Help Me Choose commissions*	4,537	3,136	45%		4,587	3,825	20%
Help Me Choose direct costs	1,277	1,249	2%		1,277	1,249	2%
Help Me Choose net income	3,260	1,887	73%		3,310	2,576	28%
Financial Planning revenue	2,896	113	2463%		2,896	113	2463%
Financial Planning direct costs	2,341	95	2364%		2,341	95	2364%
Financial Planning net revenue	555	18	2983%		555	18	2983%
LoanKit service fees	310	1,062	(71%)		310	1,062	(71%)
Help Me Choose and LoanKit net income	4,125	2,967	39%		4,175	3,656	14%
Franchise income	1,522	1,192	28%		1,522	1,192	28%
Interest	538	536	0%		538	536	0%
Other Income	1,700	1,564	9%		1,700	1,564	9%
Other income	3,760	3,292	14%		3,760	3,292	14%

* Help Me Choose cash income is based on accruals accounting and excludes the net present value of future trailing commissions' receivable on health policies written during the year.

(c) Other information*(i) Operating income*

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

(ii) Net profit after tax

The cash net profit after tax (as shown above) reconciles to the reported profit after tax as follows:

	2014 \$000's	2013 \$000's
Cash Net profit after tax	20,052	15,774
NPV future trails on new loans originated, net of payout	19,934	16,956
Less net cash from trail previously recognised under IFRS	(18,134)	(16,989)
Plus adjustments to loan book assumptions	(1,146)	3,027
Plus gain on prepayment of trail liability	184	40
Plus reversal of amortisation of trail liability*	198	196
NPV future trails on Help Me Choose policies written	413	577
Less net cash from trail previously recognised under IFRS	(378)	(95)
Less share based payments expense	(1,324)	(772)
Net IFRS after tax profit for the year	19,799	18,714

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

Note 2 Segment information (continued)*(iii) Gross profit and net core commissions*

The cash gross profit and net core commissions reconcile to their IFRS equivalents as follows:

	Gross Profit		Net Core Commissions	
	2014 \$000's	2013 \$000's	2014 \$000's	2013 \$000's
Cash	61,545	57,073	52,452	49,981
NPV future trails on new loans originated, net of payout	28,476	24,222	28,476	24,222
Less net cash from trail previously recognised under IFRS	(25,906)	(24,270)	(25,906)	(24,270)
Plus adjustments to loan book assumptions	(1,638)	4,325	(1,638)	4,325
Plus gain on prepayment of trail liability	264	58	264	58
Plus reversal of amortisation of trail liability*	283	281	283	281
NPV future trails on Help Me Choose policies written	590	825	-	-
Less net cash from trail previously recognised under IFRS	(540)	(136)	-	-
IFRS	63,074	62,378	53,931	54,597

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

Note 3 Contributed equity**Movements in ordinary share capital**

Date	Details	Number of shares	\$'000
30 June 2012	Balance	118,798,655	1,558
31 August 2012	Exercise of options	650,000	514
31 August 2012	Treasury shares issues under the Performance Share Plan to employees	169,333	201
3 September 2012	Treasury shares issues under the Performance Share Plan to employees	189,699	220
10 September 2012	Exercise of options	250,000	197
12 September 2012	Exercise of options	800,000	632
19 September 2012	Exercise of options	248,794	197
20 September 2012	Exercise of options	551,206	435
14 September 2012	Treasury shares issues under the Performance Share Plan to employees	51,097	64
14 September 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	611,710	-
16 February 2013	Held as treasury shares	(611,710)	-
30 June 2013	Balance	121,708,784	4,018
31 August 2013	Treasury shares issues under the Performance Share Plan to employees	169,333	210
3 September 2013	Treasury shares issues under the Performance Share Plan to employees	189,699	223
13 September 2013	Treasury shares issues under the Performance Share Plan to employees	102,080	153
31 October 2013	Shares issued to the Mortgage Choice Performance Share Plan Trust	349,105	-
31 October 2013	Held as treasury shares	(349,105)	-
30 June 2014	Balance	<u>122,169,896</u>	<u>4,604</u>

Note 4 Reserves and retained profits**(a) Reserves**

	2014	2013
	\$'000	\$'000
Share-based payments reserve	<u>2,210</u>	1,472
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	1,472	1,260
Options and performance shares expensed/(reversed)	1,324	772
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	(586)	(560)
Balance 30 June	<u>2,210</u>	1,472

(b) Retained profits

	2014	2013
	\$'000	\$'000
Balance 1 July	93,642	90,801
Net profit for period	19,799	18,714
Dividends	(17,924)	(15,873)
Balance 30 June	<u>95,517</u>	93,642

(c) Nature and purpose of reserves*Share-based payments reserve*

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

Note 5 Earnings per share

	Consolidated	
	2014	2013
	Cents	Cents
(a) Basic earnings per share		
From continuing operations	15.0	15.2
From discontinued operation	1.0	0.3
Total basic earnings per share	<u>16.0</u>	15.5
(b) Diluted earnings per share		
From continuing operations	15.0	15.2
From discontinued operation	1.0	0.3
Total diluted earnings per share	<u>16.0</u>	15.5
	\$'000	\$'000
Earnings used in calculating earnings per share		
Profit from continuing operations	18,547	19,034
Profit from discontinued operations	1,252	(320)
Profit for the year attributable to owners of the Company	<u>19,799</u>	18,714

	2014 Number	2013 Number
Weighted average number of shares used as the denominator		
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	123,663,700	122,747,895
Adjustments for calculation of diluted earnings per share:		
Options	-	203,385
Share rights	330,305	-
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	123,994,005	122,951,280

Note 6 Events occurring after the balance sheet date

(a) Dividend payment

A final ordinary dividend of \$9,910,000 (8.0 cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2014 on 21 August 2014 to be paid on 15 September 2014.

Note 7 Reconciliation of profit after income tax to net cash inflow from operating activities

	2014 \$'000	2013 \$'000
Profit for the year	19,799	18,714
Depreciation and amortisation	1,603	1,760
Change in net present value of future trailing inflows	(11,177)	(6,643)
Change in net present value of future trailing outflows	9,932	1,621
Employee expense benefits – share-based payments	1,324	772
Interest received	(538)	(536)
Net loss/(gain) on sale of LoanKit	(1,666)	-
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(3,014)	(1,371)
(Increase)/decrease in other operating assets	(51)	(379)
Increase/(decrease) in trade payables	847	293
Increase/(decrease) in other operating liabilities	766	502
Increase/(decrease) in provision for income taxes payable	401	(918)
Increase/(decrease) in deferred tax liability	520	1,173
Increase/(decrease) in other provisions	346	146
Net cash inflow from operating activities	19,092	15,134