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MORTGAGE CHOICE LIMITED

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Appendix 4E Preliminary Final Report 30 June 2013

Lodged with the ASX under Listing Rule 4.3A on 22 August 2013

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Audit/Review

This report is based on accounts which have been audited.

Results for announcement to market

Comparison to previous corresponding period

	To 30 June 2012		30 June 2013	
		% change		A\$'000
Revenue from ordinary activities	down	0.3%	to	156,534
Profit from ordinary activities after tax attributable to members	up	1.4%	to	18,714
Net profit for the period attributable to members	up	1.4%	to	18,714

Dividends

Details of dividends/distributions declared or paid during the year ended 30 June 2013 are as follows:

Record date	Payment date	Type	Amount per security	Total dividend	Franked amount per security	Foreign sourced dividend amount per security
3 September 2012	18 September 2012	Final	7.0 cents	\$8,467,000	7.0 cents	-
4 March 2013	19 March 2013	Interim	6.0 cents	\$7,406,000	6.0 cents	-

A fully franked final dividend of 7.0 cents per share in respect of the year ended 30 June 2013 was declared on 22 August 2013 and is expected to be paid on 16 September 2013. The record date for determining entitlement to this dividend will be 2 September 2013.

Discussion and analysis of financial results

Settlements for the year were \$8.8 billion, up 0.7% on FY2012. The Group's loan book at 30 June 2013 has increased to \$47.7 billion. Revenue for the year totalled \$156.5 million, 0.3% lower than the previous year.

The annual review of the historical trail book found that the run-off over the past year was as expected, however, the run-off assumptions used to value the future trailing commissions on the balance sheet were changed to reflect an extension of the current economic environment. These changes resulted in a \$5.9 million adjustment to revenue and a \$4.3 million adjustment before tax to the Group's profit for FY13.

Earnings per share for the period are 15.2 cents, 1.3% lower than the previous year (15.4 cents).

Net assets at 30 June 2013 were \$99.1 million up from \$93.6 million as at 30 June 2012. The balance sheet is underpinned by \$11.0 million in cash on hand (2012 - \$10.7 million).

Cash flow from operating activities during the year was \$15.1 million as compared to \$17.0 million in the previous year. Net cash inflow was \$0.3 million after capital expenditure of \$1.4 million and dividend payments of \$15.9 million.

The Group also presents its cash results, which are included in Note 2 on Segment reporting. Cash commission revenue has increased 2% on last year, and cash profits of \$15.8 million are up 5% on the prior year.

Preliminary consolidated income statement

For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Revenue			
Origination commission		51,965	51,062
Trailing commission excluding discount unwind		66,914	70,373
Trailing commission discount unwind		25,586	26,571
Diversified products commission		3,777	2,617
LoanKit service fees		1,062	713
Help Me Choose income excluding discount unwind		3,767	2,958
Help Me Choose income discount unwind		58	-
Financial Planning income		113	-
Franchise income		1,192	1,019
Interest		536	612
Other income		1,564	1,123
		156,534	157,048
Direct costs			
Origination commission		(37,375)	(36,380)
Trailing commission excluding discount unwind		(37,023)	(41,711)
Trailing commission discount unwind – finance costs		(15,470)	(16,040)
Diversified products commission		(2,944)	(2,047)
Help Me Choose direct costs		(1,249)	(1,422)
Financial Planning commission		(95)	-
		62,378	59,448
Gross profit			
Operating Expenses			
	1		
Sales		(14,435)	(12,802)
Technology		(5,344)	(5,433)
Marketing		(8,201)	(7,730)
Finance		(2,009)	(1,952)
Corporate		(5,454)	(4,855)
		26,936	26,676
Profit before income tax		26,936	26,676
Income tax expense		(8,222)	(8,221)
Net profit attributable to the owners of Mortgage Choice Limited		18,714	18,455
		Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	5	15.2	15.4
Diluted earnings per share	5	15.2	15.2

Preliminary consolidated balance sheet

As at 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents		10,953	10,662
Trade and other receivables		95,310	92,683
Total current assets		<u>106,263</u>	<u>103,345</u>
Non-current assets			
Receivables		227,567	221,801
Property, plant and equipment		692	1,125
Deferred tax assets		-	-
Intangible assets		2,287	2,208
Total non-current assets		<u>230,546</u>	<u>225,134</u>
Total assets		<u>336,809</u>	<u>328,479</u>
LIABILITIES			
Current liabilities			
Trade and other payables		63,118	61,968
Current tax liabilities		2,017	2,935
Provisions		993	889
Total current liabilities		<u>66,128</u>	<u>65,792</u>
Non-current liabilities			
Payables		134,938	133,672
Deferred tax liabilities		36,085	34,913
Provisions		526	483
Total non-current liabilities		<u>171,549</u>	<u>169,068</u>
Total liabilities		<u>237,677</u>	<u>234,860</u>
Net assets		<u><u>99,132</u></u>	<u><u>93,619</u></u>
EQUITY			
Contributed equity	3	4,018	1,558
Reserves	4	1,472	1,260
Retained profits	4	93,642	90,801
Total equity		<u>99,132</u>	<u>93,619</u>
		Cents	Cents
Net tangible assets per share		78.5	76.0

Preliminary statements of changes in equity

As at 30 June 2013

	Contribute equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000
Balance at 30 June 2011	1,207	1,141	87,962	90,310
Total comprehensive income for the year as reported in the 2012 financial statements	-	-	18,455	18,455
Transactions with equity holders in their capacity as owners:				
Contributions of equity net of transaction costs	351	(351)	-	-
Dividends paid	-	-	(15,616)	(15,616)
Employee share options – value of employee services	-	470	-	470
	351	119	(15,616)	(15,146)
Balance at 30 June 2012	1,558	1,260	90,801	93,619
Total comprehensive income for the year as reported in the 2013 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
	2,460	212	(15,873)	(13,201)
Balance at 30 June 2013	4,018	1,472	93,642	99,132

Preliminary cash flow statement

For the year ended 30 June 2013

	Notes	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		136,819	130,037
Payments to suppliers and employees (inclusive of goods and services tax)		(123,833)	(117,437)
		12,986	12,600
Interest received from trailing commissions		25,586	26,590
Interest paid on trailing commissions		(15,470)	(16,040)
Income taxes paid		(7,968)	(6,129)
Net cash inflow from operating activities	7	15,134	17,021
Cash flows from investing activities			
Payments for property, plant, equipment and intangibles		(1,406)	(382)
Interest received		536	612
Net cash inflow/(outflow) from investing activities		(870)	230
Cash flows from financing activities			
Proceeds from sale of shares		1,900	-
Dividends paid to company's shareholders		(15,873)	(15,616)
Net cash (outflow) from financing activities		(13,973)	(15,616)
Net increase/(decrease) in cash and cash equivalents		291	1,635
Cash and cash equivalents at the beginning of the financial year		10,662	9,027
Cash and cash equivalents at the end of year		10,953	10,662

Note 1 Expenses

	2012	2011
	\$'000	\$'000
Profit from ordinary activities before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges (note (a))	15,470	16,040
<i>Net loss on disposal of property, plant and equipment</i>	-	27
<i>Depreciation</i>		
Plant and equipment	376	364
<i>Amortisation</i>		
Leasehold improvements	168	143
Computer software	1,216	1,157
<i>Other provisions</i>		
Employee entitlements	147	219
<i>Rental expense relating to operating leases</i>	1,075	1,059
<i>Defined contribution superannuation expense</i>	1,146	1,141
<i>Termination benefits</i>	47	38

(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), LoanKit aggregation mortgage broking (LoanKit) and Mortgage Choice Financial Planning (MCFP). 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 2013 is as follows:

Product Segments

2013	Total \$'000	MOC \$'000	HMC \$'000	LoanKit \$'000	MCFP \$'000
Revenue	156,534	151,459	3,827	1,135	113
Gross Profit (IFRS)	62,378	58,647	2,578	1,135	18
Gross profit (cash)	57,073	54,031	1,889	1,135	18
Depreciation and amortisation	1,760	1,496	154	110	-
Income tax expense	8,222	8,748	30	(137)	(419)
NPAT (IFRS)	18,714	19,944	69	(320)	(979)
NPAT (cash)	15,774	17,410	(402)	(283)	(951)
2012	Total \$'000	MOC \$'000	HMC \$'000	LoanKit \$'000	MCFP \$'000
Revenue	157,048	153,289	2,961	798	-
Gross Profit (IFRS)	59,448	57,111	1,539	798	-
Gross profit (cash)	54,002	52,293	911	798	-
Depreciation and amortisation	1,664	1,413	142	109	-
Income tax expense	8,221	8,679	(250)	(208)	-
NPAT (IFRS)	18,455	19,780	(585)	(601)	(139)
NPAT (cash)	15,022	16,761	(1,025)	(575)	(139)

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

	2013	2012	%		2013	2012	%
	Cash*				IFRS		
	\$000's	\$000's	change		\$000's	\$000's	change
Origination commission income	51,965	51,062	2%		51,965	51,062	2%
Trailing commission income**	86,680	84,448	3%		92,500	96,944	(5%)
	138,645	135,510	2%		144,465	148,006	(2%)
Origination commission paid	37,375	36,380	3%		37,375	36,380	3%
Trailing commission paid**	51,289	50,073	2%		52,493	57,751	(9%)
	88,664	86,453	3%		89,868	94,131	(5%)
Net core commissions	49,981	49,057	2%		54,597	53,875	1%
Diversified products net revenue	833	570	46%		833	570	46%
HMC, LoanKit and Financial Planning net revenue	2,967	1,621	83%		3,656	2,249	63%
Other income	3,292	2,754	20%		3,292	2,754	20%
Gross Profit	57,073	54,002	6%		62,378	59,448	5%
Operating Expenses	34,670	32,302	7%		34,670	32,302	7%
Share based remuneration	-	-			772	470	64%
Net profit before tax	22,403	21,700	3%		26,936	26,676	1%
Net profit after tax	15,774	15,022	5%		18,714	18,455	1%

* 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

Note 2 Segment information (continued)

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

	2013	2012	%		2013	2012	%
	Cash				IFRS		
	\$000's	\$000's	change		\$000's	\$000's	change
Diversified products commissions	3,777	2,617	44%		3,777	2,617	44%
Diversified products direct costs	2,944	2,047	44%		2,944	2,047	44%
Diversified products net income	833	570	46%		833	570	46%
Help Me Choose commissions*	3,136	2,330	35%		3,825	2,958	29%
Help Me Choose direct costs	1,249	1,422	(12%)		1,249	1,422	(12%)
Help Me Choose net income	1,887	908	108%		2,576	1,536	68%
Financial Planning revenue	113				113		
Financial Planning direct costs	95				95		
Financial Planning net revenue	18				18		
LoanKit service fees	1,062	713	49%		1,062	713	49%
Help Me Choose and LoanKit net income	2,967	1,621	83%		3,656	2,249	63%
Franchise income	1,192	1,019	17%		1,192	1,019	17%
Interest	536	612	(12%)		536	612	(12%)
Other Income	1,564	1,123	39%		1,564	1,123	39%
Other income	3,292	2,754	20%		3,292	2,754	20%

* 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:

	2013	2012
	\$000's	\$000's
Cash Net profit after tax	15,774	15,022
NPV future trails on new loans originated, net of payout	16,956	15,596
Less net cash from trail previously recognised under IFRS	(16,989)	(16,549)
Plus adjustments to loan book assumptions	3,027	4,112
Plus gain on prepayment of trail liability	40	-
Plus reversal of amortisation of trail liability*	196	304
NPV future trails on Help Me Choose policies written	577	440
Less net cash from trail previously recognised under IFRS	(95)	-
Less share based payments expense	(772)	(470)
Net IFRS after tax profit for the year	18,714	18,455

* 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	
	2013 \$000's	2012 \$000's	2013 \$000's	2012 \$000's
Cash	57,073	54,002	49,981	49,057
NPV future trails on new loans originated, net of payout	24,222	22,281	24,222	22,281
Less net cash from trail previously recognised under IFRS	(24,270)	(23,642)	(24,270)	(23,642)
Plus adjustments to loan book assumptions	4,325	5,875	4,325	5,875
Plus gain on prepayment of trail liability	58	-	58	-
Plus reversal of amortisation of trail liability*	281	304	281	304
NPV future trails on Help Me Choose policies written	825	628	-	-
Less net cash from trail previously recognised under IFRS	(136)	-	-	-
IFRS	62,378	59,448	54,597	53,875

* 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 2011	Balance	118,437,905	1,207
31 August 2011	Treasury shares issues under the Performance Share Plan to employees	340,750	324
1 December 2011	Treasury shares issues under the Performance Share Plan to employees	20,000	27
16 February 2012	Shares issued to the Mortgage Choice Performance Share Plan Trust	371,317	-
16 February 2012	Held as treasury shares	(371,317)	-
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	<u>121,708,784</u>	<u>4,018</u>

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

	2013	2012
	\$'000	\$'000
Share-based payments reserve	1,472	1,260
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	1,260	1,141
Options and performance shares expensed/(reversed)	772	470
Vesting of shares held by the Mortgage Choice Performance Share Plan Trust to employees	(560)	(351)
Balance 30 June	1,472	1,260

(b) Retained profits

	2013	2012
	\$'000	\$'000
Balance 1 July	90,801	87,962
Net profit for period	18,714	18,455
Dividends	(15,873)	(15,616)
Balance 30 June	93,642	90,801

(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	
	2013	2012
	Cents	Cents
Basic earnings per share	15.2	15.4
Diluted earnings per share	15.2	15.2
	\$'000	\$'000
Earnings used in calculating earnings per share – profit from continuing operations	18,714	18,455
	2013	2012
	Number	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>	122,747,895	120,081,158
Adjustments for calculation of diluted earnings per share:		
Rights and options	203,385	1,032,768
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	122,951,280	121,113,926

Note 6 Events occurring after the balance sheet date**(a) Dividend payment**

A final ordinary dividend of \$8,640,000 (7.0cents per fully paid share) was declared out of profits of the Company for the year ended 30 June 2013 on 22 August 2013 to be paid on 16 September 2013.

(b) Sale of Beagle Finance Pty Limited (LoanKit)

On 21 August 2013 the Group agreed to a binding offer to sell 100% of the issued shares in Beagle Finance Pty Limited, owner of the LoanKit mortgage brokerage aggregation business. The anticipated completion date is 30 September 2013 and the after tax impact is estimated to be \$1.2 million.

The operations of Beagle Finance Pty Limited are reported as the LoanKit operating segment in Note 2.

The financial effects of the above transaction have not been brought to account at 30 June 2013.

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

	2013	2012
	\$'000	\$'000
Profit for the year	18,714	18,455
Depreciation and amortisation	1,760	1,664
Change in net present value of future trailing inflows	(6,643)	(13,124)
Change in net present value of future trailing outflows	1,621	7,982
Employee expense benefits – share-based payments	772	470
Interest received	(536)	(612)
Net loss/(gain) on sale of non-current assets	-	78
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,371)	(718)
Decrease/(increase) in deferred tax asset	-	847
(Increase)/decrease in other operating assets	(379)	(298)
Increase/(decrease) in trade payables	293	253
Increase/(decrease) in other operating liabilities	502	611
Increase/(decrease) in provision for income taxes payable	(918)	1,036
Increase/(decrease) in deferred tax liability	1,173	209
Increase/(decrease) in other provisions	146	168
Net cash inflow from operating activities	15,134	17,021