

Firstfolio Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Firstfolio Limited
ABN:	43 002 612 991
Reporting period:	For the year ended 30 June 2014
Previous period:	For the year ended 30 June 2013

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	4.6% to	78,721
Loss from ordinary activities after tax attributable to the owners of Firstfolio Limited	down	414.0% to	(4,138)
Loss for the year attributable to the owners of Firstfolio Limited	down	414.0% to	(4,138)

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

Refer to the Directors' report for further commentary on 'review of operations'.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(0.60)</u>	<u>(0.53)</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Firstfolio Limited for the year ended 30 June 2014 is attached.

12. Signed



Signed _____

Date: 26 August 2014

Eric Dodd
Chairman
Sydney

Firstfolio Limited

ABN 43 002 612 991

Annual Report - 30 June 2014

Firstfolio Limited
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30 June 2014

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Firstfolio Limited
Corporate directory
30 June 2014

Directors	Eric Dodd (Chairman) Michael Hogg Gregory D. Pynt Anthony N. Wales
Company secretary	Dustine Pang
Registered office	Level 9 50 Bridge Street Sydney NSW 2000 Phone: 02 9240 8900
Principal place of business	Level 9 50 Bridge Street Sydney NSW 2000
Share register	Computershare Investor Services Pty Limited Level 4 60 Carrington Street Sydney NSW 2000 Phone: 1300 787 272
Auditor	Deloitte Touche Tohmatsu Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Allion Legal 123 Pitt Street Sydney NSW 2000
Bankers	Commonwealth Bank of Australia 48 Martin Place Sydney NSW 2000
Stock exchange listing	Firstfolio Limited shares are listed on the Australian Securities Exchange (ASX code: FFF)
Website	www.firstfolio.com.au

Firstfolio Limited
Directors' report
30 June 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Firstfolio Limited (ASX: FFF) (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2014.

Directors

The following persons were directors of Firstfolio Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Eric Dodd - Chairman

Michael Hogg

Gregory D. Pynt

Anthony N. Wales

David Walker - Alternate director for Anthony N Wales from 9 July 2013 to 7 September 2013; and

- Alternate director for Gregory D Pynt from 5 May 2014 to 16 June 2014

Principal activities

During the financial year the principal continuing activities of the consolidated entity consisted of:

- retailing, wholesaling, management and aggregation of mortgages in the home loan financing segment; and
- mortgage origination and securitisation of mortgages.

Features of the financial year

Firstfolio Limited's full year 2014 (FY14) results reflect a year of diverse challenges for the consolidated entity. During the year, management focussed on developing its brands and product offerings, and refining the consolidated entity's cost structure. Simultaneously, the consolidated entity pursued options to recapitalise its balance sheet placing the consolidated entity on a sound financial footing and in a position to take advantage of growth opportunities.

The structure of the statement of profit or loss and other comprehensive income has been refreshed to provide a more informative view of the results. The statement now highlights the components of the consolidated entity's gross margin and refines the classification of expenses.

Key features of the FY14 results include:

- Revenue decreased 4.2% to \$78.6 million
- Operating EBITDA¹ of \$5.4 million, down 47.4% on FY13
- Cash operating EBITDA² of \$11.2 million, down 25.7% on FY13
- Settlement volumes increased 15.0% over the prior year to \$3.2 billion
- Operating cash flow before tax \$7.8 million, down 22.5% on FY13
- Net debt of \$56.3 million at 30 June 2014, down \$5.7 million over the prior year
- Loan book declined by \$0.7 billion to \$18.2 billion
- Statutory result impacted by \$2.3 million intangibles impairment and \$1.9 million capital raising expenses
- Underlying cash net profit after tax³ of \$2.5 million, compared to \$6.0 million in FY13
- Net loss after tax of \$4.1 million, down \$5.5 million on FY13

The FY14 results reflect the application of the net present value ('NPV') methodology of accounting for trail commissions and expenses which was adopted in FY13 (refer Table 3). The methodology brings to account an NPV asset, which represents the net present value of future trail commission income, and an offsetting NPV liability, which represents the net present value of future trail expense. The movement in the offsetting NPV asset and NPV liability ('NPV net asset') during the year has a direct impact on the result of the consolidated entity. During FY14, the movement of the NPV net asset had an adverse non-cash impact of \$5.9 million (FY13: \$5.0 million).

The result also includes an intangibles impairment charge of \$2.3 million and the recognition of costs of capital raising of \$1.9 million. These abnormal items are excluded from the calculation of operating EBITDA. An analysis of the impairment of intangibles, including goodwill and software, is disclosed in note 13 to the financial statements. Testing for impairment in future periods may give rise to a reversal of the impairment of software to a maximum of \$1.5 million.

¹ Operating EBITDA represents operating Earnings Before Interest, Tax, Depreciation and Amortisation, and is adjusted for abnormal items including write-back for deferred consideration, share based payments, acquisition costs and restructuring costs.

² Cash operating EBITDA represents operating EBITDA adjusted for the movement in the NPV net asset.

³ Underlying cash net profit after tax is defined at Table 2.

Capital raising costs of \$1.9 million were recognised in the FY14 result, in accordance with the consolidated entity's accounting policy. These costs were associated with the proposed recapitalisation by IZN Investments ACE Management Pty Ltd, as trustee of the IZN Australian Capital Enterprise Trust ('IZN'), which was terminated during the year due to IZN failing to meet its contractual obligations.

Review of operations

The Board of directors has addressed strategic challenges during FY14 including changes in leadership; the termination of a significant equity transaction; refinancing of a senior debt facility; and the renegotiation of its warehouse facility. While the uncertainty created by these activities, and in particular the terminated IZN recapitalisation proposal, adversely impacted operations in the short term, the consolidated entity concluded the financial year with a much strengthened financing structure and is better placed to take advantage of growth opportunities.

Throughout this period, the consolidated entity continued to focus on its service delivery to customers, and improving the product offering of the eChoice and Folio brands.

The eChoice aggregation and broking business has delivered settlement volumes higher than the previous three years. eChoice continues to win accolades for its dynamic and innovative on-line approach to the mortgage business.

The delivery of new competitive products to satisfy demands of niche markets has been the focus of the Folio brand. The renewal of the Westpac warehouse facility should support growth of higher margin wholesale settlements volumes.

Settlement volumes in the mortgage origination business grew 15.0% over the prior year, primarily from higher aggregation and broking volumes. This compares to Australian market settlements growth of 20.1%⁴ in the twelve months to June 2014.

Aggregation and broking settlement growth was strong, and slightly above the market growth rate, at 23.1% over the prior year, while wholesale mortgage settlements declined by 42.0%. Consequently, aggregation and broking represented 92.4% of mortgage settlements (FY13: 86.4%), and wholesale settlements represent just 6.7% of total settlements for FY14. Firstfolio Capital represented the remaining 0.9% of settlement volume.

The wholesale business was most affected by market forces and the jostling for market share by major competitors in the market. Uncertainty around the capital raising, further combined to impact market perceptions leading to a noticeable decline in settlements immediately following the announcement of IZN breaching its contractual obligations and leadership change in February 2014. This also led to short term restrictions on the consolidated entity's ability to originate loans through its warehouse facilities, which compounded these uncertainties and exacerbated the impact on wholesale settlements.

Margins. Gross margin in FY14 decreased 18.4% to \$24.3 million, with the gross margin percentage falling from 36.2% of revenue to 30.9% of revenue. Gross margin was impacted by the \$5.9 million (FY13: \$5.0 million) non-cash NPV movement for future net trail commissions.

The movement in the NPV net asset is driven mainly by changes in the composition of the loan book, the rate of loan book run off, and the loan settlement mix. During FY14, established loan and settlement trends continued, with lower margin aggregation and broking loans and settlements growing faster than higher margin wholesale settlements.

Loan book. Total housing credit outstanding⁵ ('System') grew by 6.1% in the year to 30 June 2014, in line with the average for 5-year housing credit growth to June 2014, and a higher rate than the 4.5% recorded for the prior year. The rate remains below the ten-year average of 12.9%.

In line with expectations, the total loan book declined over FY14 to \$18.2 billion, due to run-off in both the active and inactive loan books. The active loan book of \$17.4 billion now comprises 96% of the total book.

⁴ ABS Table 11 Housing Finance Commitments to June 2014.

⁵ RBA D02 Lending and Credit Aggregates to June 2014.

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Run off of the loan book slowed to 3.7% during FY14, an improvement on FY13 run off of 4.9%. Of the run-off, 60% came from the active loan book and 40% from the inactive books which were acquired for run-off. The slowing of run off is due to improved settlement volumes associated with improved market conditions, and discrete management strategies to improve loan retention. The aggregation and broking book did not decline during the year, with the run off attributable to the wholesale and Firstfolio Capital books.

Overall, the average seasoning⁶ of loans increased from 51 months to 54 months during FY14.

Loan book composition reflects the change in origination mix from wholesale settlements to lower margin aggregation and broking settlements. At 30 June 2014, wholesale loans represented 19.5% of the book; aggregation and broking loans, 79.6%; and Firstfolio Capital contributed the remaining 0.9%.

Operating costs. Over the past two years, the consolidated entity has undertaken a cost reduction program targeting costs associated with employment, contractors, professional fees and occupancy. In FY14, the consolidated entity gained a full year benefit of a number of cost management initiatives, which resulted in significant savings in these expense categories.

Partly offsetting these cost reductions, the consolidated entity increased spending in areas such as advertising and technology, to build revenue streams by improving service delivery and product offering. Growth in advertising and promotion costs are associated with the launch of the Folio and eChoice brands, and the cost of building the eChoice lead generation business. Completion of the first stage of the Group's strategic IT platform, incorporating industrial grade cloud based technology, contributed to growth in IT and communication costs.

Overall, total operating expenses declined 3.4% to \$18.9 million from \$19.6 million in FY13.

Financial review

Revenue decreased by 4.2% to \$78.6 million in FY14. Commission and fee revenue increased to \$54.7 million from \$52.9 million in FY13. Growth in commission and fee revenue arising from increases in aggregation and broking settlement volumes, was more than offset by the reduction in interest income on loans and advances to customers, decreasing by \$5.7 million to \$12.6 million in FY14.

Reported EBITDA declined to \$2.7 million from \$9.1 million, reflecting the impact of the recognition of capital raising costs of \$1.9 million; a \$1.8 million decrease in net interest margin earned by Firstfolio Capital; an increase in the negative NPV movement of \$1.0 million over FY13; and other decreases in gross margin of \$2.7 million, offset by cost savings and movements in other income of \$1.0 million.

Operating EBITDA, which excludes one-offs, declined \$4.8 million or 47.4% to \$5.4 million. The operating EBITDA margin on revenue declined from 12.4% to 6.8%.

Net interest expense decreased by 5.4% to \$4.3 million due primarily to lower debt and interest rates. During FY14, debt repayments totalled \$4.9 million. During the year, Firstfolio reported a \$2.0 million tax benefit, compared to a tax expense of \$0.6 million in FY13.

⁶ Seasoning refers to the age of a loan at a specific date.

Table 1

Statutory reporting result⁽¹⁾ \$'000	Jun 14	Jun 13	Variance	Movement
Reported EBITDA	2,679	9,083	(6,404)	(70.5%)
Restructuring/non-recurring costs	-	895	(895)	
Share-based payments (non-cash)	10	130	(120)	
Other non-operating costs	2,661	414	2,247	
Write-back of deferred consideration	-	(353)	353	
Operating EBITDA	5,350	10,169	(4,819)	(47.4%)
Depreciation	(721)	(734)	13	
Amortisation	(1,471)	(1,664)	193	
Impairment of intangibles	(2,343)	-	(2,343)	
Net finance costs	(4,320)	(4,565)	245	
Underlying profit before income tax	(3,505)	3,205	(6,710)	(209.4%)
Reconciliation to NPAT				
Restructuring/non-recurring costs	-	(895)	895	
Share-based payments (non-cash)	(10)	(130)	120	
Other non-operating costs	(2,661)	(414)	(2,247)	
Write-back of deferred consideration	-	353	(353)	
Notional funding cost of deferred consideration	-	(168)	168	
Profit/(loss) before income tax	(6,176)	1,952	(8,128)	(416.4%)
Income tax expense	2,038	(634)	2,672	
Profit/(loss) after income tax	(4,138)	1,318	(5,456)	(414.0%)
EPS (basic and diluted)	(0.53)	0.17		

(1) Based on the audited financial statements.

Statement of financial position

During the financial year, the consolidated entity undertook a number of actions to restructure the balance sheet to address debt covenants and the refinancing of expiring debt. These actions included applying its strong cash flows from operations to repay senior debt, refinancing the senior loan and warehouse facilities, and pursuing a proposal to issue further equity to reduce gearing.

While the equity raising proposal did not proceed, due to the failure of the counterparty to meet its obligations, the consolidated entity successfully reduced its overall gearing levels and refinanced its senior debt. Following conclusion of the financial year, the consolidated entity and Westpac Banking Corporation ('Westpac') were in the process of finalising the terms for the renewal of the warehouse facility for a period of twelve months, which is also subject to finalisation of legal documentation.

On 25 June 2014, the consolidated entity announced the restructure of its senior debt facilities, with a director related entity, Welas Pty Limited ('Welas'), acquiring the Commonwealth Bank of Australia's ('CBA's') debt facility to become the sole senior debt provider to the consolidated entity in the amount of \$58.4 million. The debt facility restructure enabled the consolidated entity to extend the maturity of its senior debt facility, providing significantly improved financial flexibility and enhancing the ability to take advantage of growth opportunities when they arise.

The consolidated entity's strong cash flow from operations before income tax of \$7.8 million, was applied to the reduction of total borrowings to \$58.2 million at 30 June 2014, from \$63.7 million at the prior year. Net debt at balance date was \$56.3 million, compared to \$62.0 million in the prior year.

Cash based accounting

The accounting policy for future trail income and expenses impacts the statutory results for each reporting period and is reflected in both the reporting of financial performance and the measure of net assets.

On an equivalent basis, cash operating EBITDA declined 25.7% over FY13. Operating EBITDA margin declined to 12.8%, from 15.5% in FY13. Underlying cash net profit after tax was \$2.5 million (defined at point (2) in Table 2 below), compared to \$6.0 million in FY13.

The performance of the consolidated entity is presented on a cash basis in the following table:

Table 2

Cash reporting result ⁽¹⁾ \$'000	Jun 14	Jun 13	Variance	Movement
Reported EBITDA	8,563	14,035	(5,472)	(39.0%)
Restructuring/non-recurring costs	-	895	(895)	
Share-based payments (non-cash)	10	130	(120)	
Other non-operating costs	2,661	414	2,247	
Write-back of deferred consideration	-	(353)	353	
Operating EBITDA	11,234	15,120	(3,886)	(25.7%)
Depreciation	(721)	(734)	13	
Amortisation	(1,471)	(1,664)	193	
Impairment of intangibles	(2,343)	-	(2,343)	
Net finance costs	(4,320)	(4,565)	245	
Underlying profit before income tax ⁽²⁾	2,379	8,157	(5,778)	(70.8%)
Reconciliation to NPAT				
Restructuring/non-recurring costs	-	(895)	895	
Share-based payments (non-cash)	(10)	(130)	120	
Other non-operating costs	(2,661)	(414)	(2,247)	
Write-back of deferred consideration	-	353	(353)	
Notional funding cost of deferred consideration	-	(168)	168	
Profit before income tax	(292)	6,904	(7,196)	(104.2%)
Income tax expense ⁽²⁾	89	(2,120)	2,209	
Profit after income tax	(203)	4,784	(4,987)	(104.2%)
EPS (basic & diluted)	(0.03)	0.62		

(1) Based on the audited financial statements.

(2) Underlying cash net profit after income tax represents underlying profit before income tax offset by income tax expense or benefit.

The impact on the statement of profit or loss and other comprehensive income from changes in accounting, are reconciled below:

Table 3

Statement of profit or loss and other comprehensive income \$'000	Operating EBITDA		EBITDA		NPBT	
	2014	2013	2014	2013	2014	2013
Cash basis	11,234	15,121	8,563	14,035	(292)	6,904
Net present value accounting						
Net movement in NPV asset and liability	(9,949)	(9,685)	(9,949)	(9,685)	(9,949)	(9,685)
Discount unwind on NPV asset and liability	4,065	4,733	4,065	4,733	4,065	4,733
Statutory basis	5,350	10,169	2,679	9,083	(6,176)	1,952

Significant changes in the state of affairs

On 25 June 2014 the consolidated entity announced that it entered into binding documentation with Welas and CBA in relation to the acquisition by Welas of the consolidated entity's \$29 million senior debt facility from CBA. The acquisition was completed on 25 June 2014 and as a result, Welas was the consolidated entity's sole senior debt provider at 30 June 2014.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

The consolidated entity, through Firstfolio Capital, has a warehouse funding facility with Westpac, drawn to \$147.0 million at 30 June 2014 (30 June 2013: \$181.4 million). At the date of this report, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the warehouse facility for a period of twelve months, which is also subject to finalisation of legal documentation.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Settlement volumes in the Australian market are showing signs of improvement. However, the market remains highly competitive with pressure remaining on margins. In this environment the consolidated entity expects settlement volumes will continue to be weighted towards lower margin aggregation and broking business, with wholesale settlement volumes subdued.

The senior management team will continue to lead the operations of the consolidated entity, under the direction and oversight of the Board of directors, until such time as a Chief Executive Officer is appointed. The focus of the senior management team is to capitalise on its existing capabilities by extracting operational efficiencies, responding to new opportunities for organic growth, and continuing the effective control of costs.

eChoice's marketing and on line platform has been commended for its innovative approach to mortgage sales. The platform presents many opportunities for eChoice to expand its business to other markets, having already had some success in the lead generation market. eChoice will continue to explore opportunities to develop new businesses, working with reputable industry partners.

The renewal of the Westpac facility will allow the consolidated entity to develop highly competitive mortgage products, which will stimulate settlement volume growth.

The Board's primary focus remains the vetting of opportunities for recapitalisation and the optimisation of shareholder value.

Other information on likely developments in the operations of the consolidated entity and the expected results of operations has been included in this report.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name: Eric Dodd
Title: Non-Executive Director and Chairman
Qualifications: FCA, FAICD
Experience and expertise: Mr Dodd brings more than 30 years' experience in the insurance and financial services sectors to his Firstfolio Board role. He was Managing Director and Chief Executive Officer of MBF Australia for six years prior to its merger with BUPA Australia in 2008, before serving as Managing Director of the merged organisation. Previously Mr Dodd held a range of senior executive positions within the financial services sector, most notably Managing Director of NRMA Insurance and CEO of NRMA Ltd.

Other current directorships: Non-Executive Director of SFG Australia Limited, Chairman of Ambition Group Limited, Non-Executive Director of Credit Corp Group Limited

Former directorships (last 3 years): None

Special responsibilities: Chairman of the Audit and Compliance Committee and Chairman of the Remuneration Committee

Interests in shares: None

Interests in options: None

Name: Michael Hogg
Title: Non-Executive Director
Experience and expertise: Mr Hogg is a Director of the Cobra Group Pty Ltd, a direct sales organisation with over 10,000 sales representatives in 20 countries worldwide. He joined the Cobra Group Pty Ltd in March 2001.

Other current directorships: Non-Executive Director of Australian Power and Gas Company Limited, Non-Executive Director of BBX Minerals Limited

Former directorships (last 3 years): None

Special responsibilities: Member of the Audit and Compliance Committee and Member of the Remuneration Committee

Interests in shares: 5,000,001 ordinary shares

Interests in options: None

Name: Gregory D. Pynt
Title: Executive Director
Qualifications: B. Com., MBA
Experience and expertise: Mr Pynt has over 25 years' experience in general management and over 20 years' experience in investment banking and financial services and was involved in several significant equity capital markets transactions with Kleinwort Benson Australia, McIntosh Securities and Deutsche Bank.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Member of the Audit and Compliance Committee and Member of the Remuneration Committee

Interests in shares: None

Interests in options: None

Name: Anthony N. Wales
Title: Non-Executive Director
Qualifications: FCA, FCIS
Experience and expertise: Mr Wales was a Director of Computershare Limited from 1981 to 2010. He is a fellow of the Institute of Chartered Accountants in Australia.

Other current directorships: None

Former directorships (last 3 years): None

Special responsibilities: Member of the Audit and Compliance Committee and Member of the Remuneration Committee

Interests in shares: 125,818,881 ordinary shares

Interests in options: None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

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'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Mr Dustine Pang (ICAA, Fellow member of ICAEW) has over 20 years' experience in professional and financial services and held senior finance roles with the AIMS Financial Group, JP Morgan (formerly Ord Minnett Group Limited), BNP Paribas and Merrill Lynch HSBC. Mr Pang is a chartered accountant gaining his financial services audit experience with PwC and Deloitte.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2014, and the number of meetings attended by each director were:

	Full Board		Audit and Compliance	
	Attended	Held	Attended	Held
Eric Dodd	19	19	2	2
Michael Hogg	11	19	1	2
Gregory D. Pynt	18	18	2	2
Anthony N. Wales	17	17	1	1
David Walker (alternate for Anthony N. Wales and Gregory D. Pynt)	3	3	1	1

Held: represents the number of meetings held during the time the director held office.

The Remuneration Committee did not hold separate meetings. Its function was carried out as part of the full Board meetings.

Remuneration report (audited)

The remuneration report, which has been audited, outlines the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity. KMP other than the non-executive directors are classified as executives.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity and company depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity and company. The Board may use external remuneration consultants in structuring the remuneration (refer to the section 'Use of remuneration consultants' below).

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are dealt with separately.

Non-executive directors' remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board may take the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require that the aggregate non-executive directors remuneration shall be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 26 November 2012, where the shareholders approved an aggregate remuneration of \$500,000.

Executive remuneration

The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration, such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Board, based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remuneration.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional cost to the consolidated entity and provides additional value to the executive.

The Board considers factors such as the performance of the consolidated entity and the performance of the executive when determining short term incentives ('STI') payments.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increases in Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') and growth of the consolidated entity's loan book.

Consolidated entity performance and link to remuneration

The Board refers to the consolidated entity and executive performance when determining incentive payments.

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STI and LTI are based on measures such as increase in EBITDA and the consolidated entity's loan book size.

Use of remuneration consultants

During the financial year ended 30 June 2014, the consolidated entity did not use any remuneration consultants.

Voting and comments made at the company's 2013 Annual General Meeting ('AGM')

At the last AGM held on 27 November 2013, 86% of the shareholders voted to adopt the remuneration report for the year ended 30 June 2013. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

The KMP of the consolidated entity consisted of the directors of Firstfolio Limited and the following persons:

- Dustine Pang - Chief Financial Officer and Company Secretary
- Peter Andronicos - General Manager eChoice
- Linda Cooper - General Manager Human Resources
- Tim See - Acting General Manager Folio Mortgage and Finance (appointed 18 June 2014)
- Ward Horsnell - General Manager Folio Mortgage and Finance (resigned 18 June 2014)
- Mark Flack - Chief Executive Officer (appointed 1 July 2013 and resigned on 6 February 2014)

	Short-term benefits			Post-employment benefits	Share-based payments		Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Termination \$	Equity-settled \$	
2014							
<i>Non-Executive Directors:</i>							
Eric Dodd (Chairman)	137,300	-	-	12,700	-	-	150,000
Michael Hogg	52,680	-	-	-	-	-	52,680
Anthony N. Wales	46,115	-	-	4,266	-	-	50,381
David Walker (Alternate Director)	16,000	-	-	-	-	-	16,000
<i>Executive Directors:</i>							
Gregory D. Pynt (1)	169,577	-	-	13,198	-	-	182,775
<i>Other Key Management Personnel:</i>							
Dustine Pang	300,000	150,000	-	17,775	-	6,335	474,110
Peter Andronicos	300,000	115,000	-	17,775	-	2,111	434,886
Linda Cooper	175,000	30,000	-	16,249	-	1,057	222,306
Tim See (2)	10,385	-	-	961	-	-	11,346
Ward Horsnell (3)	288,462	55,000	-	17,091	87,881	-	448,434
Mark Flack (4)	256,670	-	-	-	-	-	256,670
	<u>1,752,189</u>	<u>350,000</u>	<u>-</u>	<u>100,015</u>	<u>87,881</u>	<u>9,503</u>	<u>2,299,588</u>

(1) Remuneration consists of \$48,500 in directors fees and \$121,077 in respect of additional executive duties performed.

(2) Remuneration from date of appointment on 18 June 2014.

(3) Remuneration to date of resignation on 18 June 2014.

(4) Remuneration from date of appointment on 1 July 2013 to date of resignation on 6 February 2014.

	Short-term benefits			Post-employment benefits	Termination	Share-based payments	Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$		Equity-settled \$	
2013							
<i>Non-Executive Directors:</i>							
Eric Dodd (Chairman)	150,000	-	-	-	-	-	150,000
Michael Hogg	52,689	-	-	-	-	-	52,689
Anthony N. Wales	54,500	-	-	4,905	-	-	59,405
Anthony B. Harris (1)	138,344	-	-	-	-	-	138,344
Gregory J. Paramor (2)	18,167	-	-	1,635	-	-	19,802
<i>Executive Directors:</i>							
Gregory D. Pynt (3)	131,109	-	-	11,800	-	-	142,909
<i>Other Key Management Personnel:</i>							
Dustine Pang (4)(5)	220,833	-	-	12,353	-	14,100	247,286
Peter Andronicos (4)	180,696	-	-	12,353	-	12,652	205,701
Linda Cooper (4)	127,083	-	-	11,437	-	2,350	140,870
Ward Horsnell (4)	237,500	-	-	12,353	-	19,582	269,435
David Hancock (6)	138,095	-	-	5,490	-	-	143,585
	<u>1,449,016</u>	<u>-</u>	<u>-</u>	<u>72,326</u>	<u>-</u>	<u>48,684</u>	<u>1,570,026</u>

(1) Remuneration to date of resignation on 27 March 2013 and includes an amount of \$97,469 in respect of executive duties performed from 16 October 2012 to 13 February 2013.

(2) Remuneration to date of resignation on 22 October 2012.

(3) Remuneration consists of \$54,500 in director fees and \$88,409 in respect of additional executive duties performed.

(4) Remuneration from 16 October 2012, when they became KMP.

(5) Not included in the table is a bonus of \$55,000 for the financial year 30 June 2012, that was paid in 2013.

(6) Remuneration to date of resignation on 16 October 2012.

Further details of share based payments are outlined in note 37 to the financial statements.

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Directors' report
30 June 2014

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2014	2013	2014	2013	2014	2013
<i>Non-Executive Directors:</i>						
Eric Dodd	100%	100%	-%	-%	-%	-%
Michael Hogg	100%	100%	-%	-%	-%	-%
Anthony N. Wales	100%	100%	-%	-%	-%	-%
David Walker	100%	100%	-%	-%	-%	-%
Anthony B. Harris	-%	100%	-%	-%	-%	-%
Gregory J. Paramor	-%	100%	-%	-%	-%	-%
<i>Executive Directors:</i>						
Gregory D. Pynt	100%	100%	-%	-%	-%	-%
<i>Other Key Management Personnel:</i>						
Dustine Pang	67%	94%	32%	-%	1%	6%
Peter Andronicos	73%	94%	26%	-%	1%	6%
Linda Cooper	86%	98%	13%	-%	1%	2%
Tim See	100%	-%	-%	-%	-%	-%
Ward Horsnell	88%	93%	12%	-%	-%	7%
David Hancock	-%	100%	-%	-%	-%	-%
Mark Flack	100%	-%	-%	-%	-%	-%

Service agreements

The remuneration of other KMP includes fixed remuneration consisting of base salary and superannuation as well as STI and LTI payments. STI for the other KMP is at the discretion of the Board with reference to the overall performance of the consolidated entity as well as the executive. LTI consists of share options as well as shares issued via a loan and held in FFF Remuneration Pty Ltd until release conditions are met and the loan repaid. The details of LTI for each other KMP are in the 'Share-based compensation' section below.

Other KMP have employment agreements setting out the terms and conditions of their employment. The agreements are not of a fixed duration and include three months' notice period on the part of both the employee and the consolidated entity.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2014.

During the year no ordinary shares were issued to FFF Remuneration Pty Limited.

Senior Executive Share Scheme

The Senior Executive Share Scheme (the 'Scheme') was approved by the shareholders in 2009.

The objectives of the Scheme are as follows:

- (a) to provide an incentive to senior executives of the consolidated entity to lift the performance of the consolidated entity and maximise the price of the parent entity's shares; and
- (b) to assist in attracting and retaining senior executives.

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Directors' report
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The Board may issue shares under the Scheme to any senior executive of the consolidated entity, including executive directors and non-executive directors.

Shares will be issued upon senior executives receiving a limited recourse interest-free loan from the consolidated entity for the purchase price of the shares. Shares financed by the loan are held in trust for the senior executives. The requirement for repayment of the loan generally arises only at the time of selling the shares or upon the senior executive's employment or engagement with the consolidated entity ends.

Senior executives are restricted from selling the shares in the first year following the issuance of the shares. After the first year, the shares will progressively become unrestricted over a three year period, subject to that senior executive's continuous employment with the consolidated entity. The shares cannot be sold until certain performance hurdles have been met.

Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2014.

There were no options over ordinary shares granted to or vested by directors and other key management personnel as part of compensation during the year ended 30 June 2014.

Additional disclosures relating to key management personnel

In accordance with Class Order 14/632 issued by the Australian Securities and Investments Commission, relating to 'Key management personnel equity instrument disclosures', the following disclosures relates only to equity instruments in the company or its subsidiaries.

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
<i>Ordinary shares</i>					
Michael Hogg	5,000,001	-	-	-	5,000,001
Anthony N Wales	125,818,881	-	-	-	125,818,881
Dustine Pang	3,000,000	-	-	-	3,000,000
Peter Andronicos	4,000,000	-	-	-	4,000,000
Linda Cooper	2,500,000	-	-	-	2,500,000
Ward Horsnell	3,000,000	-	-	(3,000,000)	-
	<u>143,318,882</u>	<u>-</u>	<u>-</u>	<u>(3,000,000)</u>	<u>140,318,882</u>

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Dustine Pang	3,000,000	-	-	-	3,000,000
	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Firstfolio Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
23 September 2010	9 August 2015	\$0.08	3,000,000
30 November 2011	30 November 2014	\$0.04	1,400,000
31 March 2012	31 March 2015	\$0.03	950,000
			<u>5,350,000</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of Firstfolio Limited issued on the exercise of options during the year ended 30 June 2014 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 28 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 28 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former audit partners of Deloitte Touche Tohmatsu

There are no officers of the company who are former audit partners of Deloitte Touche Tohmatsu.

Firstfolio Limited
Directors' report
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Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows this report.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Eric Dodd', is positioned above a horizontal line.

Eric Dodd
Chairman

26 August 2014
Sydney

The Board of Directors
Firstfolio Limited
Level 9, Bridge Street
Sydney, NSW 2000

26 August 2014

Dear Board Members

Firstfolio Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Firstfolio Limited.

As lead audit partner for the audit of the financial statements of Firstfolio Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) Any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Philip Hardy
Partner
Chartered Accountants

The Board of Directors ('the Board') of Firstfolio Limited ('Firstfolio' or the 'company') is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the company's compliance with the ASX Corporate Governance Council's Principles and Recommendations, 2nd Edition, in accordance with ASX Listing Rule 4.10.3.

Principles and Recommendations		Compliance	Comply
Principle 1 – Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	<p>The Board is dedicated to maximising performance, generating appropriate levels of shareholder value and financial return.</p> <p>The Board is therefore committed to ensure that the company is properly managed to protect and enhance shareholder interests and that the company and consolidated entity, its directors, officers and employees operate in an appropriate environment of corporate governance.</p> <p>The Board is responsible for, inter alia, development of strategy, oversight of management, risk management and compliance systems, and monitoring performance. The Board has established certain policies and protocols in relation to the company's operations, some of which are summarised in this statement.</p> <p>A statement as to the corporate governance policies adopted by the company and consolidated entity is available at the company's website.</p>	Complies.
1.2	Disclose the process for evaluating the performance of senior executives.	<p>The performance of the Board, individual directors and key executives is reviewed regularly, and has taken place during this reporting period.</p> <p>The company has established a Remuneration Committee as a subcommittee of the Board but not a Nomination Committee. The Board is responsible for determining and reviewing the remuneration of the directors and key executives, and accordingly, remuneration and nomination issues are discussed and resolved at Board meetings. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the company's and consolidated entity's operations. In making decisions regarding the appointment of directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board. The Board may also obtain information from, and consult with management and external advisers, as it considers appropriate.</p> <p>The remuneration policy for the directors is disclosed in the Directors' Report.</p>	Complies.

Principles and Recommendations		Compliance	Comply
1.3	Provide the information indicated in <i>Guide to reporting on Principle 1</i> .	<p>In accordance with the 'Guide to Reporting on Principle 1', the company provides the following information:</p> <ul style="list-style-type: none"> as at the date of this statement, the company is of the view that it has complied with each of the Recommendations under Principle 1; and the company has undertaken a performance evaluation for senior executives during the financial year in accordance with the process set out in Recommendation 1.2. 	Complies.
Principle 2 – Structure the Board to add value			
2.1	A majority of the Board should be independent directors.	At the date of this statement, the Board comprises four directors, as detailed in the Directors Report in this Annual Report. Mr Eric Dodd, Mr Michael Hogg and Mr Gregory Pynt are deemed independent as defined under the Board policy on director independence.	Complies.
2.2	The chair should be an independent director.	The Chairman, Mr Eric Dodd, is deemed an independent director as defined under the Board policy on director independence.	Complies.
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Mr Eric Dodd is the Chairman of the Board. The role of Chief Executive Officer is not filled at the time of this report. Mr Gregory Pynt fulfils some of the functions of a Chief Executive Officer in his capacity as executive director.	Complies.
2.4	The Board should establish a nomination committee.	Due to the small size of the Board and the company's current level of operations, the company does not have a separate Nomination Committee.	Does not comply due to the small size of the Board and the company's current level of operations.

Principles and Recommendations		Compliance	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	<p>The Board reviews and evaluates the performance of the Board and the Board committees. The process includes the assessment of all of the Board's key areas of responsibility. The Board's contribution as a whole is reviewed and areas where improvement can be made are noted. The performance evaluation process is as follows:</p> <ul style="list-style-type: none"> a) each director will periodically evaluate the effectiveness of the Board and its committees and submit observations to the Chairman; b) the Chairman of the Board will make a presentation incorporating his assessment of such observations to enable the Board to assess, and if necessary, take action; c) the Board will agree on development and actions required to improve performance; d) outcomes and actions will be minuted; and e) the Chairman will assess during the year the progress of the actions to be achieved. <p>This process aims to ensure that individual directors and the Board as a whole contribute effectively in satisfying the duties and responsibilities of the Board.</p>	Complies. The Board notes that a formal review in accordance with these procedures did not take place during this reporting period due to the small size of the Board, and the regularity with which the Board members met, consulted and were satisfied in how it discharged their duties during the reporting period.
2.6	Provide the information indicated in the <i>Guide to reporting on Principle 2</i> .	<p>The 'Guide to Reporting on Principle 2' provides that certain information should be included in the corporate governance section of the company's Annual Report or be made publicly available ideally on the company's website.</p> <p>In accordance with the 'Guide to Reporting on Principle 2', the company provides the following information:</p> <ul style="list-style-type: none"> a) The skills, experience and expertise relevant to the position held by each director as at the date of the Annual Report is detailed in the Directors' Report; b) As at the reporting date all of the directors were considered by the Board to be independent directors, with the exception of Mr Anthony Wales. In assessing whether a director is independent, the Board has regard to the standards it has adopted that reflect the independence requirements of applicable laws, rules and regulations, including the Principles; 	Complies except for a formal evaluation of the Board, its committees and directors in accordance with the Boards' procedures set out at section 2.5 above.

Principles and Recommendations	Compliance	Comply
2.6	<p>c) Whenever necessary, individual members of the Board may seek independent professional advice at the expense of the company in relation to fulfilling their duties as directors. All directors are encouraged to actively participate in all decision making processes and are given every opportunity to have their opinion heard and respected on all matters;</p> <p>d) The term of office held by each director as at the date of the Annual Report is detailed in the Directors' Report;</p> <p>e) Due to the small size of the Board, the company does not have a separate Nomination Committee and therefore a charter or an appointment policy has not been created, as set out in Recommendation 2.4;</p> <p>f) The Board has undertaken a review of the mix of skills and experience of the Board in light of the company's principal activities and direction, and has considered diversity in succession planning. The Board considers the current mix of skills and experience of members of the Board and its senior management is sufficient to meet the requirements of the company; and</p> <p>g) As at the date of this statement, the company is of the view that it has complied with each of the Recommendations under Principle 2, except for Recommendation 2.4. An explanation for the departure from Recommendation 2.4 is set out above.</p>	

Principles and Recommendations		Compliance	Comply
Principle 3 – Promote ethical and responsible decision making			
3.1	Establish a code of conduct and disclose the code or a summary of the code.	<p>The Board has established a Code of Conduct that provides a framework in which the company and its representatives conduct their business and activities in a fiscally efficient and socially responsible manner whilst seeking to maximise shareholder returns.</p> <p>The Code of Conduct outlines how the company expects directors, management and employees to behave and conduct business in a range of circumstances. In particular, the Operating Procedures and Policy Guidelines require awareness of and compliance with laws and regulations relevant to Firstfolio's operations including environmental laws and community concerns. All Board members are qualified professionals within their respective industries and accordingly are required to conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as directors.</p> <p>The Code of Conduct adopted by the company is available at the company's website.</p>	Complies.
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.	<p>The Board has adopted a Diversity Policy that outlines the objectives in relation to gender, age, ethnicity, religion, sexual orientation, cultural background and disability. At Firstfolio, diversity means embracing the contribution of all people and recognising that contribution based on merit. The Diversity Policy is aligned to the Firstfolio theme of "Connect-Share-Thrive", which advocates an environment of collaboration and understanding, and promoting the benefits of diversity. The responsibility of accepting and promoting diversity is shared by every staff member of Firstfolio, which translates positively into our interaction with customers, shareholders and other stakeholders. It also further reinforces our ability to attract, recruit, reward and promote talented people with diverse backgrounds, developing their skills and preparing them for Board and senior management positions.</p> <p>The Diversity Policy is available on the company's website.</p>	Complies.
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.	The Board is continuing to develop objectives for achieving gender diversity. Upon completion, the company will report in each annual report the measurable objectives for achieving gender diversity set by the Board.	Does not comply as the Board is developing the objectives.

Principles and Recommendations		Compliance	Comply						
3.4	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	<p>The proportion of Full Time Equivalent women employees in the consolidated entity as at 30 June 2014 are as follows:</p> <table><tr><td>Women on the board</td><td>0%</td></tr><tr><td>Women in senior executive positions</td><td>25%</td></tr><tr><td>Women in the organisation</td><td>42%</td></tr></table> <p>Also see 'Workplace Gender Equality Act 2012 – Reporting' below.</p>	Women on the board	0%	Women in senior executive positions	25%	Women in the organisation	42%	Complies.
Women on the board	0%								
Women in senior executive positions	25%								
Women in the organisation	42%								
3.5	Provide the information indicated in <i>Guide to reporting on Principle 3</i>	<p>In accordance to “Guide to Reporting on Principle 3”, the company provides the following information:</p> <p>a) the Code of Conduct has been disclosed on the company’s website and is summarised in this Corporate Governance Statement;</p> <p>b) the Diversity Policy has been disclosed on the company’s website and is summarised in this Corporate Governance Statement;</p> <p>c) as at the date of this statement, the company is of the view that it has complied with each of the Recommendations under Principle 3, except for Recommendation 3.3. An explanation for the departure from Recommendation 3.3 is set out above.</p>	Complies.						
Principle 4 – Safeguard integrity in financial reporting									
4.1	The Board should establish an audit committee.	<p>The Board has established an Audit and Compliance Committee. The composition of this committee and its effectiveness is reviewed on a regular basis. The Audit and Compliance Committee consists of the four directors of the company.</p> <p>The Audit and Compliance Committee monitors and reviews the effectiveness of the company’s controls in the areas of operational and balance sheet risk and financial reporting.</p> <p>Members of senior management and the company’s external auditors attend meetings of the Audit and Compliance Committee by invitation. The Audit and Compliance Committee may also have access to financial and legal advisers in accordance with the Board’s general policy.</p>	Complies.						

Principles and Recommendations		Compliance	Comply
4.2	The audit committee should be structured so that it: consists of only non-executive directors; consists of a majority of independent directors; is chaired by an independent chair, who is not chair of the Board; and have at least 3 members.	<p>The Audit and Compliance Committee currently consists of the four directors of the company. Mr Eric Dodd is Chairman of the Audit and Compliance Committee. The Board is currently of the view that:</p> <ul style="list-style-type: none"> • Mr Gregory Pynt, an executive director is part of the committee, however this is appropriate due to the expertise Mr Pynt brings to the committee; • whilst a majority of the directors are independent directors, Mr Eric Dodd is the appropriate Chairman for the Audit and Compliance Committee given his extensive industry experience; and • having regard to the company's level of operations and cash resources, the current composition of the Audit and Compliance Committee is adequate. 	Does not comply due to Mr Eric Dodd being both the Chair of the Board and the Audit and Compliance Committee and Mr Gregory Pynt, an executive director, being part of the Audit and Compliance Committee. However, the Board views this as appropriate given the size of the Company and the Board, and due to the extensive industry experience and expertise they bring to the committee.
4.3	The audit committee should have a formal charter.	<p>The Audit and Compliance Committee operates under a charter approved by the Board.</p> <p>It is the Board's responsibility to ensure that an effective internal control framework exists to examine the effectiveness and efficiency of significant business processes such as the safeguarding of assets, the maintenance of proper accounting records and the integrity of financial information, the implementation of quality assurance practices and procedures and ensuring compliance with regulations. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control mechanisms for the management of the company to the Audit and Compliance Committee.</p> <p>The Audit and Compliance Committee meets at least every six months and is responsible for:</p> <ul style="list-style-type: none"> • overseeing the implementation and the operation of the Code of Conduct; • administering continuous disclosure and compliance; • external financial reporting; • risk management, internal control structures and compliance with laws and regulations; and • assessment and administration of external auditors. 	Complies.

Principles and Recommendations		Compliance	Comply
4.4	Provide the information indicated in <i>Guide to reporting on Principle 4</i> .	<p>The 'Guide to Reporting on Principle 4' provides that certain information should be included in the corporate governance section of the company's Annual Report or be made publicly available ideally on the company's website.</p> <p>In accordance with the 'Guide to Reporting on Principle 4', the company provides the following information:</p> <ul style="list-style-type: none"> a) the qualifications of the Audit and Compliance Committee members are detailed in the Directors' Report; b) the Audit and Compliance Committee met twice throughout the year and those members of the Audit and Compliance Committee that were present at the meetings are detailed in the 'Meeting of directors' section of the Directors' Report in this Annual Report; c) the Audit and Compliance Committee Charter adopted by the company is available at the company's website; d) the company periodically puts to private tender the appointment of its external auditor. The company's external audit engagement partner is rotated in consultation with the external auditor, as required by Division 5 of the Corporations Act; and e) as at the date of this statement, the company is of the view that it has complied with each of the Recommendations under Principle 4, except for Recommendation 4.2. An explanation for the departure from Recommendation 4.2 is set out above. 	Complies.

Principles and Recommendations	Compliance	Comply
Principle 5 – Make timely and balanced disclosure		
5.1	<p>Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.</p> <p>The Board and senior management are aware of the continuous disclosure requirements of the ASX and have written policies and procedures in place, including a 'Continuous Disclosure and Compliance Policy' to disclose any information concerning the company that a reasonable person would expect to have a material effect on the price of the company's securities.</p> <p>The directors and senior management of Firstfolio acknowledge that they each have an obligation to immediately identify and immediately disclose information that may be regarded as material to the price or value of the company's securities.</p> <p>The Chief Executive Officer and Chairman are authorised to make statements and representations on the company's behalf. The Company Secretary is responsible for overseeing and coordinating the disclosure of information to the ASX, analysts, stockbrokers, shareholders, the media and the public. The Company Secretary must inform the directors, senior management and employees of the company's continuous disclosure obligations on a quarterly basis.</p> <p>The directors and senior management of Firstfolio ensure that the Company Secretary is aware of all information to be presented at briefings with analysts, stockbrokers, shareholders, the media and the public. Prior to being presented, information that has not already been the subject of disclosure to the market and is not generally available to the market is the subject of disclosure to the ASX. Only when confirmation of receipt of the disclosure and release to the market by the ASX is received may the information be presented.</p> <p>If information that would otherwise be disclosed comprises matters of supposition, or is insufficiently definite to warrant disclosure, or if the effect of a disclosure on the value or price of Firstfolio's securities is unknown, Firstfolio may request that the ASX grant a trading halt or suspend Firstfolio's securities from quotation. Management of Firstfolio may consult its external professional advisers and the ASX in relation to whether a trading halt or suspension is required.</p> <p>The written policies and procedures in relation to the company's continuous disclosure requirements with the ASX are available at the company's website.</p>	Complies.
5.2	<p>Provide the information indicated in the <i>Guide to reporting on Principle 5</i>.</p> <p>The company's Continuous Disclosure Policy is available on the company's website.</p>	Complies.

Principles and Recommendations		Compliance	Comply
Principle 6 – Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose that policy or a summary of that policy.	<p>The Board aims to ensure that in accordance with Recommendation 6.1, all shareholders are informed of major developments affecting the affairs of the company. Information is communicated to the shareholders through the annual and half year reports, disclosures made to the ASX, notices of meetings and letters to shareholders where appropriate.</p> <p>A description of the arrangements the company has to promote communications with shareholders is detailed in the Code of Conduct available at the company's website.</p>	Complies.
6.2	Provide the information indicated in the <i>Guide to reporting on Principle 6</i> .	In accordance with the 'Guide to Reporting on Principle 6', the company has made its Code of Conduct available on its website.	Complies.
Principle 7 – Recognise and manage risk			
7.1	Establish policies for the oversight and management and management of material business risks and disclose a summary of these policies.	<p>The Board has procedures in place to recognise and manage risk. Monthly reporting of financial performance is in place as are policies to manage credit and other business risks.</p> <p>The company is committed to the proper identification and management of risk. Firstfolio regularly undertakes reviews of its risk management procedures which include implementation of a system of internal sign-offs to ensure that Firstfolio complies with its legal obligations. The Board is satisfied that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.</p> <p>The Audit and Compliance Committee meets regularly to ensure, amongst other things, that the risk management, internal control structures and compliance with laws and regulations are operating effectively.</p> <p>The Code of Conduct sets out the company's commitment to maintaining the highest level of integrity and ethical standards in all business practices which is available at the company's website.</p>	Complies.

Principles and Recommendations		Compliance	Comply
7.2	The Board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	<p>The company's management is responsible for providing leadership and direction, for establishing a context which fosters a risk management culture and for ensuring business, financial and risk management approaches are integrated during the planning, implementation and reporting of major ventures at all levels within the organisation.</p> <p>The company regularly undertakes reviews of its risk management procedures, which include implementation of a system of internal approvals to ensure that it complies with its legal obligations. The Board is satisfied that an appropriate system of checks and balances is in place in those areas of the business that present financial or operating risks. As part of this risk management process, the company's management has reported to the Board in relation to its management of the company's material business risks.</p>	Complies.
7.3	The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	<p>Mr Gregory Pynt as the company's Executive Director, and Mr Dustine Pang, as the company's Chief Financial Officer have declared to the Board that the statement given to the Board regarding the Financial Reports (as discussed under Section 4 of this statement) is founded on a sound system of risk management, internal compliance and control which implements the policies adopted by the Board.</p> <p>Mr Gregory Pynt and Mr Dustine Pang have also declared to the Board that the company's risk management, internal compliance and control system is operating efficiently and effectively in all material respects.</p>	Complies.
7.4	Provide the information indicated in <i>Guide to reporting on Principle 7</i> .	<p>In accordance with the 'Guide to Reporting on Principle 7', the company provides the following information:</p> <ul style="list-style-type: none"> a) The company has not departed from Recommendations 7.1 to 7.4; b) The Board has received the report from management under Recommendation 7.2; and c) The Board has received assurance from Mr Gregory Pynt, as the company's Executive Director, and Mr Dustine Pang, as the company's Chief Financial Officer, under Recommendation 7.3 	Complies.

Principles and Recommendations		Compliance	Comply
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	<p>The Board has established a remuneration committee as a subcommittee of the Board.</p> <p>The Board is responsible for determining and reviewing the remuneration of the directors, the Chief Executive Officer and the executive officers of the company and reviewing the operation of the company's Employee Share and Option Plans. This process requires consideration of the levels and form of remuneration appropriate to securing, motivating and retaining executives with the skills to manage the company's operations. In making decisions regarding the appointment of directors, the Board as a whole periodically assesses the appropriate mix of skills and experience represented on the Board.</p> <p>It is the company's objective to provide maximum shareholder benefit from the retention of high quality Board members having regard to the company's level of operations and financial resources. Directors are remunerated with reference to market rates for comparable positions. Remuneration policies for non-executive director are disclosed in the Directors' Report.</p> <p>The Board may obtain information from, and consult with management and external advisers, as it considers appropriate.</p>	Complies.
8.2	The remuneration committee should be structured, so that it: consists of a majority of independent directors; is chaired by an independent director; and has at least three members.	The remuneration committee currently consists of the four directors of the company. Mr Eric Dodd is Chairman of the remuneration committee. The majority of directors are independent directors.	Complies.
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	The remuneration structure of non-executive directors and executives is disclosed in the director's report in this Annual Report. The remuneration of executives is dependent on the terms of the service agreement with those executives. The remuneration structure of non-executive directors and executives is clearly distinguishable as required by recommendation 8.3.	Complies.
8.4	Provide the information indicated in <i>the Guide to reporting on Principle 8</i> .	<p>In accordance with the 'Guide to Reporting on Principle 8', the company provides the following information:</p> <ul style="list-style-type: none"> a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the non-executive directors; b) as at the date of this statement, the company is of the view that it has complied with each of the Recommendations under Principle 8 	Complies.

Workplace Gender Equality Act 2012 – Reporting

The Workplace Gender Equality Act 2012 ('WGEA') prescribes that all non-public sector employers with 100 or more staff are to report to the Workplace Gender Equality Agency on an annual basis, and must continue to report until their workforce falls below 80 employees.

The company lodged its Workplace Gender Equality Report ('the Report') for 2013-14 and satisfied its requirements to inform employees and shareholders of its lodgement, and to provide access to the Report.

Employee notification and access was provided by means of the company intranet which is the normal means of communication with employees, and is acceptable under the guidelines. As the company operates in a non-unionised environment, it does not have any employee organisations to which to provide notice.

The Report is available under the 'Investor Centre' section of the company's website at www.firstfolio.com.au.

Firstfolio Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2014

	Note	Consolidated 2014 \$'000	2013 \$'000
Revenue			
Commission and fee revenue		54,740	52,918
Interest on loans and advances to customers		12,603	18,315
Discount unwind on net present value trail income		9,968	10,801
Other revenue		1,283	11
		<u>78,594</u>	<u>82,045</u>
Commission and fee expense		(40,627)	(34,557)
Interest on warehouse and other funding		(7,802)	(11,697)
Discount unwind on net present value trail expense		(5,902)	(6,068)
		<u>(54,331)</u>	<u>(52,322)</u>
Gross margin		<u>24,263</u>	<u>29,723</u>
Other income	5	127	479
Expenses			
Advertising and promotion		(1,580)	(1,327)
Contractors and outsourcing		(1,140)	(1,331)
Depreciation and amortisation	6	(4,535)	(2,398)
Employee benefits		(10,689)	(10,917)
Finance costs	6	(4,447)	(4,859)
Insurance and compliance		(650)	(807)
IT and communications		(1,582)	(1,257)
Management and professional fees		(1,546)	(1,723)
Occupancy		(1,209)	(1,376)
Restructuring costs		-	(895)
Non-operating expenses	6	(2,671)	(544)
Other expenses		<u>(517)</u>	<u>(816)</u>
Profit/(loss) before income tax (expense)/benefit		<u>(6,176)</u>	<u>1,952</u>
Income tax (expense)/benefit	7	<u>2,038</u>	<u>(634)</u>
Profit/(loss) after income tax expense for the year attributable to the owners of Firstfolio Limited	23	<u>(4,138)</u>	<u>1,318</u>
Other comprehensive income for the year, net of tax		<u>-</u>	<u>-</u>
Total comprehensive income for the year attributable to the owners of Firstfolio Limited		<u><u>(4,138)</u></u>	<u><u>1,318</u></u>
		Cents	Cents
Basic earnings per share	36	(0.53)	0.17
Diluted earnings per share	36	(0.53)	0.17

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Firstfolio Limited
Statement of financial position
As at 30 June 2014

	Note	Consolidated 2014 \$'000	2013 \$'000
Assets			
Cash and cash equivalents	8	10,217	9,565
Trade and other receivables	9	2,961	7,395
Loans and advances to customers	10	171,286	214,608
Net present value of trail commission income	11	142,438	150,116
Property, plant and equipment	12	891	1,140
Intangibles	13	40,567	44,187
Total assets		368,360	427,011
Liabilities			
Trade and other payables	14	5,813	7,193
Derivative financial instruments	15	-	180
Warehouse and other funding	16	172,062	215,671
Net present value of trail commission expense	17	86,039	87,833
Borrowings	18	58,154	63,709
Provisions	19	959	926
Deferred tax	20	9,404	11,442
Total liabilities		332,431	386,954
Net assets		35,929	40,057
Equity			
Issued capital	21	41,328	41,328
Reserves	22	917	907
Accumulated losses	23	(6,316)	(2,178)
Total equity		35,929	40,057

The above statement of financial position should be read in conjunction with the accompanying notes

Firstfolio Limited
Statement of changes in equity
For the year ended 30 June 2014

Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2012	41,328	2,988	(5,707)	38,609
Profit after income tax (expense)/benefit for the year	-	-	1,318	1,318
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	1,318	1,318
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments	-	130	-	130
Transfers	-	(2,211)	2,211	-
Balance at 30 June 2013	<u>41,328</u>	<u>907</u>	<u>(2,178)</u>	<u>40,057</u>
Consolidated	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2013	41,328	907	(2,178)	40,057
Loss after income tax (expense)/benefit for the year	-	-	(4,138)	(4,138)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive income for the year	-	-	(4,138)	(4,138)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 37)	-	10	-	10
Balance at 30 June 2014	<u>41,328</u>	<u>917</u>	<u>(6,316)</u>	<u>35,929</u>

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

Firstfolio Limited
Statement of cash flows
For the year ended 30 June 2014

		Consolidated	
	Note	2014 \$'000	2013 \$'000
Cash flows from operating activities			
Commissions and fees received		75,884	84,778
Commissions, salaries and other expenses paid		(68,603)	(78,082)
Interest received		127	423
Interest and other finance costs paid		(4,627)	(4,706)
Net warehouse interest		5,067	7,712
Income taxes refunded		-	1,344
Net cash from operating activities	35	7,848	11,469
Cash flows from investing activities			
Payments for property, plant and equipment	12	(308)	(583)
Payments for intangibles	13	(358)	(194)
Repayment of loans		-	83
Repayment of security deposits		4	18
Proceeds from sale of property, plant and equipment		-	12
Repayments of loans from borrowers		43,322	72,126
Net cash from investing activities		42,660	71,462
Cash flows from financing activities			
Proceeds from borrowings		34,458	-
Repayment of borrowings		(39,880)	(5,920)
Payment of deferred consideration		(83)	(3,854)
Repayment of warehouse facility (net)		(43,608)	(75,072)
Other financing costs		(743)	-
Net cash used in financing activities		(49,856)	(84,846)
Net increase/(decrease) in cash and cash equivalents		652	(1,915)
Cash and cash equivalents at the beginning of the financial year		9,565	11,480
Cash and cash equivalents at the end of the financial year	8	10,217	9,565

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

Note 1. General information

The financial statements cover Firstfolio Limited as a consolidated entity consisting of Firstfolio Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Firstfolio Limited's functional and presentation currency.

Firstfolio Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 9
50 Bridge Street
Sydney NSW 2000

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2014. The directors have the power to amend and reissue the financial statements.

Note 2. 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.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements

The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 11 Joint Arrangements

The consolidated entity has applied AASB 11 from 1 July 2013. The standard defines which entities qualify as joint arrangements and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets are accounted for using the equity method. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities, will account for its share of the assets, liabilities, revenues and expenses separately under the appropriate classifications.

AASB 12 Disclosure of Interests in Other Entities

The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

Note 2. Significant accounting policies (continued)

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13

The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)

The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months. Annual leave that is not expected to be wholly settled within 12 months is now discounted allowing for expected salary levels in the future period when the leave is expected to be taken.

AASB 127 Separate Financial Statements (Revised), AASB 128 Investments in Associates and Joint Ventures (Reissued) and AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards

The consolidated entity has applied AASB 127, AASB 128 and AASB 2011-7 from 1 July 2013. AASB 127 and AASB 128 have been modified to remove specific guidance that is now contained in AASB 10, AASB 11 and AASB 12 and AASB 2011-7 makes numerous consequential changes to a range of Australian Accounting Standards and Interpretations. AASB 128 has also been amended to include the application of the equity method to investments in joint ventures.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The consolidated entity has applied AASB 2012-5 from 1 July 2013. The amendments affect five Australian Accounting Standards as follows: Confirmation that repeat application of AASB 1 'First-time Adoption of Australian Accounting Standards' is permitted; Clarification of borrowing cost exemption in AASB 1; Clarification of the comparative information requirements when an entity provides an optional third column or is required to present a third statement of financial position in accordance with AASB 101 'Presentation of Financial Statements'; Clarification that servicing of equipment is covered by AASB 116 'Property, Plant and Equipment', if such equipment is used for more than one period; clarification that the tax effect of distributions to holders of equity instruments and equity transaction costs in AASB 132 'Financial Instruments: Presentation' should be accounted for in accordance with AASB 112 'Income Taxes'; and clarification of the financial reporting requirements in AASB 134 'Interim Financial Reporting' and the disclosure requirements of segment assets and liabilities.

AASB 2012-10 Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments

The consolidated entity has applied AASB 2012-10 amendments from 1 July 2013, which amends AASB 10 and related standards for the transition guidance relevant to the initial application of those standards. The amendments clarify the circumstances in which adjustments to an entity's previous accounting for its involvement with other entities are required and the timing of such adjustments.

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirement

The consolidated entity has applied 2011-4 from 1 July 2013, which amends AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). Corporations and Related Legislation Amendment Regulations 2013 and Corporations and Australian Securities and Investments Commission Amendment Regulation 2013 (No.1) now specify the KMP disclosure requirements to be included within the directors' report.

Note 2. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for certain items that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 32.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Firstfolio Limited ('company' or 'parent entity') as at 30 June 2014 and the results of all subsidiaries for the year then ended. Firstfolio Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Revenue and expense recognition

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Note 2. Significant accounting policies (continued)

Commission and fee revenue

Revenue from origination of loans 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. Origination commissions received are recognised as revenue on settlement of the loan.

Revenue from trail commissions earned from lenders on the settlement of loans is recognised at fair value being the net present value ('NPV') of the future trail commissions to be received. Correspondingly, trail commission expense is recognised at fair value being the NPV of the future trail commissions to be paid and subsequently measured at amortised cost.

The NPV of the future trail commissions on managed loans, where the consolidated entity provides ongoing service during the life of the loan, is adjusted by the fair value of providing that ongoing service.

Commissions may be "clawed back" by lenders at a later date as per their individual policies. All other fees are recognised each month on a due and payable basis.

Other commission and fee revenue (other than mortgage services)

Revenue from the provision of services to customers is recognised upon delivery of the service to the customer.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

The release of contingent and deferred consideration arises from the revised management estimates of the deferred consideration liability and any decrease in the net present value of the liability is recognised as revenue.

Other income is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses, and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- when the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- when the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Note 2. Significant accounting policies (continued)

Firstfolio Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'standalone' taxpayer approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own tax amounts, the head entity also recognises the 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 tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax consolidated group has entered a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their tax payable.

Presentation of assets and liabilities

The statement of financial position is presented on a liquidity basis which shows assets and liabilities in their order of liquidity.

Cash and cash equivalents

Cash at bank and in hand

Cash at bank and in hand includes cash on hand, deposits held at call with financial institutions, 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.

Trust collection account

Trust collection account includes deposits held with financial institutions on trust and is not available for general use of the consolidated entity.

Restricted cash

Restricted cash is held as cash collateral reserve for the warehouse facility and is not available for general use of the consolidated entity.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

Interest rate swap contracts

Interest rate swap contracts are used to mitigate the consolidated entity's exposure to variable interest rates in its borrowings as well as loans and advances to customers. Movements in the value of the swap contracts are recognised in profit or loss.

Note 2. Significant accounting policies (continued)

Investments and other financial assets

Investments and other financial assets are measured at either amortised cost or fair value depending on their classification. Classification is determined based on the purpose of the acquisition and subsequent reclassification to other categories is restricted. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. Objective evidence includes significant financial difficulty of the issuer or obligor; a breach of contract such as default or delinquency in payments; the lender granting to a borrower concessions due to economic or legal reasons that the lender would not otherwise do; it becomes probable that the borrower will enter bankruptcy or other financial reorganisation; the disappearance of an active market for the financial asset; or observable data indicating that there is a measurable decrease in estimated future cash flows.

The amount of the impairment allowance for financial assets carried at amortised cost is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. If there is a reversal of impairment, the reversal cannot exceed the amortised cost that would have been recognised had the impairment not been made and is reversed to profit or loss.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment over their expected useful lives as follows:

Plant and equipment	three to ten years
Plant and equipment under lease	two to five years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Note 2. Significant accounting policies (continued)

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Contract rights

Contract rights acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being their useful life of ten years.

Software and website

Significant costs associated with software and the development of the revenue generating aspects of the website, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their useful life of between three and ten years.

Intellectual property

Costs in relation to intellectual property are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life. Intellectual property is tested annually for impairment.

Other intangibles

Other intangibles costs are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life, instead they are tested annually for impairment.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 2. Significant accounting policies (continued)

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including:

- interest on short-term and long-term borrowings
- interest on finance leases
- unwinding of the discount on deferred cash consideration

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, 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, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Note 2. Significant accounting policies (continued)

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed each reporting date and transfers between levels are determined based on a reassessment of the lowest level input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Issued capital

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.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

Note 2. Significant accounting policies (continued)

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Firstfolio Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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 income 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 dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the 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 tax authority is included in other receivables or other payables in the statement of financial position.

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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Comparatives

Certain comparatives in the statement of profit or loss and other comprehensive income have been reclassified to align with the current year presentation. There has been no change to the net profit before tax, net profit after tax, statement of financial position, statement of changes in equity and statement of cash flows.

Note 2. Significant accounting policies (continued)

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets

These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2014-1 Amendments to Australian Accounting Standards

These amendments are in several parts. Part A makes various amendments to Australian Accounting Standards arising from the issuance of IASB's 'Annual Improvements to IFRSs 2010-2012 Cycle' and 'Annual Improvements to IFRSs 2011-2013 Cycle' (both described below). Part B makes amendments to AASB 119 'Employee in relation to the requirements for contributions from employees or third parties that are linked to service which arise from the issuance of IASB's 'Defined Benefit Plans – Employee Contributions (Amendments to IAS 19)'. Part C makes amendments to particular Australian Accounting Standards to delete their references to AASB 1031 'Materiality'. Part D makes consequential amendments arising from the issuance of AASB 14 'Regulatory Deferral Accounts'. Part E makes consequential amendments to numerous other Standards as a consequence of the introduction of hedge accounting requirements into AASB 9 'Financial Instruments' in December 2013. Amendments Part A to D are applicable to annual reporting periods beginning on or after 1 July 2014 or as specified in each Part. Amendments Part E are applicable to annual reporting periods beginning on or after 1 January 2015 or as specified in Part E.

Note 2. Significant accounting policies (continued)

Annual Improvements to IFRSs 2010-2012 Cycle

These amendments affect several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle

These amendments affect four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments will not have a material impact on the consolidated entity.

IFRS 15 Revenue from Contracts with Customers

This standard is expected to be applicable to annual reporting periods beginning on or after 1 January 2017. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard and the amendments from 1 July 2017 but the impact of its adoption is yet to be assessed by the consolidated entity.

Interpretation 21 Levies

This interpretation is applicable to annual reporting periods beginning on or after 1 January 2014. The Interpretation clarifies the circumstances under which a liability to pay a levy imposed by a government should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. The adoption of the interpretation from 1 July 2014 will not have a material impact on the consolidated entity.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtors financial position.

Provision for impairment of loans and advances to customers

The consolidated entity follows industry practice to consider mortgages in default when they are more than three months overdue. Further, no provision is made for these overdue mortgages if there is sufficient security against loans and advances as well as insurance taken out to cover losses. This assessment requires a degree of judgement in the value of the security as well as the effectiveness of the insurance in covering losses. Judgement is applied in determining whether specific or collective provisions are required. The judgement is based on assessment of historic loss analysis, forecast performance on existing loan portfolios and arrears and default analysis.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Analysis of the assumptions and judgements used, and the sensitivity of these assumptions are detailed in note 13.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets, other than goodwill and other indefinite life intangible assets, at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Costs of capital raising

Costs directly attributable to an equity transaction are held in the statement of financial position until the completion of the transaction. On completion, the costs will be applied against issued capital.

Costs associated with abandoned or sub-optimal equity transactions are recognised in the year the transaction is determined to no longer be viable under existing conditions. These costs are contained in non-operating expenses.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Net present value of trail commission income and expense

The consolidated entity receives trail commission income and pays out trail commission expenses for the life of the settled loans. In determining the net present value ("NPV") of the trail commission income and trail commission expense, there are a number of assumptions and judgements used by management, of which two are considered key assumptions in determining the value of the NPV of the trail commission income asset and NPV of the trail commission expense liability. These are the discount rates and run off rates.

The discount rates applied are dependent on the financial year of settlement of the loan and consist of three elements: a risk free rate, a counterparty risk premium and model risk premium. Determining the appropriate rates for each of these elements requires a high degree of judgement. The following discount rates were applied in calculating the NPV:

- Loans settled prior to 1 July 2011 - 7.45%
- Loans settled on or between 1 July 2011 and 30 June 2012 - 6.99%
- Loans settled on or between 1 July 2012 and 30 June 2013 - 5.62%
- Loans settled on or after 1 July 2013 - 5.85%

The impact on the statement of financial position of a change in discount rates for all vintages would be:

- A 10% increase in discount rates would decrease net assets by \$1,016,000 (2013: \$1,118,000). The net asset movement comprises a decrease in assets of \$2,549,000 (2013: \$2,655,000) and a decrease in liabilities of \$1,533,000 (2013: \$1,537,000).
- A 10% decrease in discount rates would increase net assets by \$1,054,000 (\$1,161,000). The net asset movement comprises an increase in assets of \$2,643,000 (2013: \$2,755,000) and an increase in liabilities of \$1,590,000 (2013: \$1,594,000).

Run off rates indicate the rate at which the loan book is diminishing, and are affected by many variables including the age of particular loans and market conditions. Historical run off rates are used as a base to which adjustments may be applied to take into account current and expected market conditions. Management has not made any adjustments to historical run off rates in the calculation of the NPV asset or liability. The run off rate applied was a weighted average of 19% per annum (2013: 20% per annum).

The impact on the statement of financial position of a change in run off rates would be:

- A 10% increase in the run off rates would decrease net assets by \$4,463,000 (2013: \$5,460,000). The net asset movement comprises a decrease in assets of \$10,664,000 (2013: \$12,180,000) and a decrease in liabilities of \$6,201,000 (2013: \$6,720,000).
- A 10% decrease in the run off rates would increase net assets by \$4,980,000 (2013: \$5,536,000). The net asset movement comprises an increase in assets of \$11,834,000 (2013: \$12,682,000) and an increase in liabilities of \$6,854,000 (2013: \$7,146,000).

Application of the consolidated entity's accounting policies

Judgements that management have made in applying the consolidated entity's accounting policies are not expected to have a material impact on the financial statements.

Note 4. Operating segments

Identification of reportable operating segments

Internal reports that are reviewed and used by the Chief Operating Decision Makers ('CODM') in assessing the performance of the consolidated entity and in decision making regarding resource allocation, identify two operating segments. The consolidated entity's CODMs are the Chief Executive Officer, together with the Board of Directors.

The information reported to the CODM is on at least a monthly basis.

Note 4. Operating segments (continued)

Reportable segments

The consolidated entity's reportable segments are distinguished by the nature of revenue generation and resourcing requirements and are:

Manufacturing	Covers the operations of Firstfolio Capital which comprise mortgage origination and the securitisation of mortgages through a bank funded warehouse.
Distribution	Encompasses all parts of the business relating to the sale of mortgages. This includes mortgages distributed in the aggregation, broking and wholesale arenas, and includes the distribution of ancillary products such as asset leasing. The key operating objective of this segment is the distribution of mortgages to the Australian market.

Geographical information

The consolidated entity operates in a single geographical segment, with revenues derived from customers in Australia, and all non-current assets being held in Australia.

Major customers

The consolidated entity has a number of customers to which it provides products and services via six (2013: six) main banks in Australia. The combined revenue from these six (2013: six) main banks amounted to 70% (2013: 67%) of the external revenue.

Operating segment information

	Manufacturing \$'000	Distribution \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 2014				
Revenue				
Sales to external customers	13,461	65,133	-	78,594
Other revenue	-	-	127	127
Total revenue	<u>13,461</u>	<u>65,133</u>	<u>127</u>	<u>78,721</u>
Segment result	<u>2,276</u>	<u>3,074</u>	<u>-</u>	<u>5,350</u>
Depreciation and amortisation				(4,535)
Interest revenue				127
Finance costs				(4,447)
Non-operating expenses				(2,671)
Loss before income tax benefit				<u>(6,176)</u>
Income tax benefit				2,038
Loss after income tax benefit				<u>(4,138)</u>
Assets				
Segment assets	185,490	182,870	-	368,360
Total assets				<u>368,360</u>
<i>Total assets includes:</i>				
Investments in associates	-	666	-	666
Liabilities				
Segment liabilities	172,062	91,852	-	263,914
<i>Unallocated liabilities:</i>				
Borrowings				58,154
Provisions				959
Tax related liabilities				9,404
Total liabilities				<u>332,431</u>

Note 4. Operating segments (continued)

	Manufacturing \$'000	Distribution \$'000	Intersegment eliminations/ unallocated \$'000	Total \$'000
Consolidated - 2013				
Revenue				
Sales to external customers	18,776	63,269	-	82,045
Other income	-	-	479	479
Total revenue	<u>18,776</u>	<u>63,269</u>	<u>479</u>	<u>82,524</u>
Segment result	<u>3,083</u>	<u>7,086</u>	<u>-</u>	10,169
Depreciation and amortisation				(2,398)
Interest revenue				126
Finance costs				(4,859)
Release of contingent and deferred consideration				353
Restructuring costs				(895)
Non-operating expenses				(544)
Profit before income tax expense				<u>1,952</u>
Income tax expense				(634)
Profit after income tax expense				<u>1,318</u>
Assets				
Segment assets	<u>233,166</u>	<u>193,845</u>	<u>-</u>	427,011
Total assets				<u>427,011</u>
Liabilities				
Segment liabilities	<u>217,661</u>	<u>93,036</u>	<u>-</u>	310,697
<i>Unallocated liabilities:</i>				
Borrowings				63,709
Provisions				926
Tax related liabilities				11,442
Derivative financial instruments				180
Total liabilities				<u>386,954</u>

Note 5. Other income

	Consolidated	
	2014	2013
	\$'000	\$'000
Release of contingent and deferred consideration	-	353
Other interest	<u>127</u>	<u>126</u>
Other income	<u><u>127</u></u>	<u><u>479</u></u>

Note 6. Expenses

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	372	668
Plant and equipment under lease	120	66
Total depreciation	492	734
<i>Amortisation</i>		
Contract rights	718	718
Software and websites	982	946
Impairment of intangible assets	2,343	-
Total amortisation	4,043	1,664
Total depreciation and amortisation	4,535	2,398
<i>Finance costs</i>		
Interest and finance charges paid/payable	4,447	4,691
Unwinding of the discount on deferred cash consideration	-	168
Finance costs expensed	4,447	4,859
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	982	1,012
<i>Superannuation expense</i>		
Defined contribution superannuation expense	759	767
<i>Non-operating expense</i>		
Costs of abandoned equity transaction	1,921	-
Amortisation of loan establishment cost	741	414
Share-based payments	9	130
Total non-operating expense	2,671	544

Note 7. Income tax expense/(benefit)

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Income tax expense/(benefit)</i>		
Current tax	-	160
Deferred tax - origination and reversal of temporary differences	(2,038)	659
Adjustment recognised for prior periods	-	(185)
	<u>(2,038)</u>	<u>634</u>
Aggregate income tax expense/(benefit)		
Deferred tax included in income tax expense/(benefit) comprises:		
Increase/(decrease) in deferred tax liabilities (note 20)	(2,038)	659
<i>Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax (expense)/benefit	(6,176)	1,952
Tax at the statutory tax rate of 30%	(1,853)	586
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill	268	-
Non-deductible expenses	23	284
Sundry items	(476)	(51)
	<u>(2,038)</u>	<u>819</u>
Adjustment recognised for prior periods	-	(185)
Income tax expense/(benefit)	<u>(2,038)</u>	<u>634</u>

Note 8. Cash and cash equivalents

	Consolidated	
	2014	2013
	\$'000	\$'000
Cash at bank and in hand	2,459	1,651
Trust collection account	7,124	7,611
Restricted cash	634	303
	<u>10,217</u>	<u>9,565</u>
Amount expected to be recovered within 12 months	<u>10,217</u>	<u>9,565</u>

'Trust collection account' is held on trust and is not available for general use of the consolidated entity.

'Restricted cash' represents credit support for the warehouse facility which is held as a cash reserve and not available for general use of the consolidated entity. Restricted cash is separate to the other credit support provided to the warehouse facility described in note 16 in the form of over-collateralisation.

Note 9. Trade and other receivables

	Consolidated	
	2014	2013
	\$'000	\$'000
Trade receivables	617	737
Other receivables	648	986
Accrued revenue	986	3,828
Prepayments	291	1,421
Bonds and deposits	419	423
	<u>2,961</u>	<u>7,395</u>
Amount expected to be recovered within 12 months	2,629	6,958
Amount expected to be recovered after more than 12 months	332	437
	<u>2,961</u>	<u>7,395</u>

Impairment of receivables

The consolidated entity has recognised a loss of \$nil (2013: \$nil) in profit or loss in respect of impairment of trade and other receivables for the year ended 30 June 2014.

Past due but not impaired

There were no receivables that were past due but not impaired.

Note 10. Loans and advances to customers

	Consolidated	
	2014	2013
	\$'000	\$'000
Mortgage advances and interest receivable	171,528	214,841
Provision for mortgage advances and interest receivable	(242)	(233)
	<u>171,286</u>	<u>214,608</u>
Amount expected to be recovered within 12 months	50,315	62,675
Amount expected to be recovered after more than 12 months	120,971	151,933
	<u>171,286</u>	<u>214,608</u>

The consolidated entity has recognised an individually assessed provision for loss of \$242,000 (2013: \$233,000) in respect of mortgage loans. The loans are all subject to lender mortgage insurance and no collective provision is considered necessary on the portfolio in addition to the individually assessed provision.

Mortgage advances are used as security for warehouse facility and bond fund. Refer to note 16.

Note 11. Net present value of trail commission income

	Consolidated	
	2014	2013
	\$'000	\$'000
Commissions receivable	142,438	150,116
Amount expected to be recovered within 12 months	30,294	33,499
Amount expected to be recovered after more than 12 months	112,144	116,617
	142,438	150,116

Note 12. Property, plant and equipment

	Consolidated	
	2014	2013
	\$'000	\$'000
Plant and equipment - at cost	2,344	2,658
Less: Accumulated depreciation	(1,675)	(1,853)
	669	805
Plant and equipment under lease	562	554
Less: Accumulated depreciation	(340)	(219)
	222	335
	891	1,140
Amount expected to be recovered after more than 12 months	891	1,140

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment \$'000	Plant under lease \$'000	Total \$'000
Balance at 1 July 2012	1,134	83	1,217
Additions	262	321	583
Disposals	(12)	-	(12)
Transfers in/(out)	89	(3)	86
Depreciation expense	(668)	(66)	(734)
Balance at 30 June 2013	805	335	1,140
Additions	301	7	308
Transfers in/(out)	(65)	-	(65)
Depreciation expense	(372)	(120)	(492)
Balance at 30 June 2014	669	222	891

Property, plant and equipment secured under finance leases

Refer to note 30 for further information on property, plant and equipment secured under finance leases.

Note 13. Intangibles

	Consolidated	
	2014	2013
	\$'000	\$'000
Goodwill - at carrying value	16,087	16,087
Less: Impairment	(893)	-
	<u>15,194</u>	<u>16,087</u>
Contract rights - at cost	7,181	7,181
Less: Accumulated amortisation	(1,855)	(1,137)
	<u>5,326</u>	<u>6,044</u>
Software and websites - at cost	9,111	8,223
Less: Accumulated amortisation	(7,358)	(5,826)
Less: Impairment	(1,450)	-
	<u>303</u>	<u>2,397</u>
Intellectual property - at carrying value	<u>19,190</u>	<u>19,190</u>
Other intangibles - at cost	<u>554</u>	<u>469</u>
	<u>40,567</u>	<u>44,187</u>
Amount expected to be recovered after more than 12 months	<u>40,567</u>	<u>44,187</u>

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill	Contract	Software and	Intellectual	Other	Total
	\$'000	rights	websites	property	intangibles	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2012	16,087	6,762	3,405	19,190	299	45,743
Additions	-	-	24	-	170	194
Transfers in/(out)	-	-	(86)	-	-	(86)
Amortisation expense	-	(718)	(946)	-	-	(1,664)
Balance at 30 June 2013	16,087	6,044	2,397	19,190	469	44,187
Additions	-	-	273	-	85	358
Impairment of assets	(893)	-	(1,450)	-	-	(2,343)
Transfers in/(out)	-	-	65	-	-	65
Amortisation expense	-	(718)	(982)	-	-	(1,700)
Balance at 30 June 2014	<u>15,194</u>	<u>5,326</u>	<u>303</u>	<u>19,190</u>	<u>554</u>	<u>40,567</u>

Note 13. Intangibles (continued)

Impairment tests for goodwill and indefinite life intangibles

Goodwill and indefinite life intangibles acquired through business combinations have been allocated to the following cash generating units ('CGUs'):

- (a) Distribution - encompassing all parts of the business relating to the sale of mortgages ('CGU1'); and
- (b) Manufacturing – encompassing the operations of Firstfolio Capital ('FFC') which comprise mortgage origination and securitisation through a bank funded warehouse ('CGU2').

	Consolidated	
	2014	2013
	\$'000	\$'000
Distribution	34,941	34,856
Manufacturing	-	893
Total goodwill and indefinite life intangibles	<u>34,941</u>	<u>35,749</u>

At 30 June 2014, the recoverable amount of the consolidated entity's indefinite life intangibles was determined as follows for each CGU.

CGU 1 Distribution

The recoverable amount was determined by a value in use calculation, using a discounted cash flow model. The model is based on a 10 year projection period approved by management, together with a terminal value.

The key assumptions used for the fair-value calculations:

Overall approach

Revenue projections are based on detailed plans and growth projections for the 12 months to 30 June 2015. The projections are extrapolated in future years based on knowledge and assumptions around the growth in revenue, determined using statistical market data, and the level of expense required to support it.

Loan settlements

The cash flow projections are influenced by the loan settlement forecast, which takes account of historical loan settlement volumes. Variable growth rates ranging from 10% to 5% are assumed for settlements for future years, reflecting current business performance, applied strategies and historical market performance.

Trail income

The settlement volumes noted above influence the future trail income estimates in association with loan products settled in the period. Trail income estimates are based on trail margins earned on the current loan book.

Loan discharge rates

Discharges rates of loans experienced over the preceding 12 months have been used. Newly settled loans are expected to have a lower discharge rate early in their lives with the rate increasing over time.

Overhead expenses

Overhead expenses have been projected in line with the current business structure and future growth expectations.

Discount rate

The discount rate applied to cash flow projections is 15.7% pre-tax. Discount rates applied reflect management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

Results:

No impairment charge was required for distribution CGU 1.

Note 13. Intangibles (continued)

Sensitivity:

The directors have made judgements and estimates in respect of impairment testing of goodwill and other intangible assets. Should these judgements and estimates not occur, the resulting carrying amounts of goodwill and intangibles may decrease. The sensitivities are as follows:

- (a) Settlement volumes across all categories would need to decrease by more than 3.1% for CGU 1 before the indefinite life intangibles would need to be impaired, with all other assumptions remaining constant.
- (b) Total revenue would need to decrease more than 1.8% for CGU 1 before the indefinite life intangibles would need to be impaired, with all other assumptions remaining constant.
- (c) Non mortgage related income would need to decrease more than 18.4% before the indefinite life intangibles would need to be impaired, with all other assumptions remaining constant.
- (d) The discount rate would be required to increase by more than 3.7% for CGU 1 before the indefinite life intangibles would need to be impaired, with all other assumptions remaining constant.

CGU 2 Manufacturing

The recoverable amount was determined by a value in use calculation, using a discounted cash flow model. The model is based on a five year projection period.

The key assumptions used for the value in use calculations:

Overall approach

The CGU's ability to originate loans is dependent on the warehouse funding line provided by the Westpac Banking Corporation ('Westpac'). The facility expired on 28 February 2014 and was extended until 7 July 2014 pending the completion of the consolidated entity's refinancing of its senior debt facility to Welas Pty Ltd. At 30 June 2014, negotiations with Westpac on the terms of the renewal of the warehouse funding line were incomplete. As a direct consequence, revenue projections exclude revenues from new originations in accordance with AASB 136 'Impairments of Assets'.

Following the senior debt refinancing, the warehouse facility was further extended pending finalisation of negotiations with Westpac. At the date of this report, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the warehouse facility for a period of 12 months.

The consolidated entity at its next reporting date will conduct an impairment assessment and include revenues from new originations in its projections, which may result in a reversal of an impairment loss not related to goodwill.

Trail income

Trail income estimates are based on trail margins earned on the current loan book.

Loan discharge rates

Discharges rates of loans experienced over the preceding 12 months have been used.

Overhead expenses

Overhead expenses have been projected in line with a business structure that would be adopted under the assumption of no new settlements.

Discount rate

The discount rate applied to cash flow projections is 14.3% pre-tax. Discount rates applied reflect management's estimate of the time value of money and the consolidated entity's weighted average cost of capital, the risk free rate and the volatility of the share price relative to market movements.

Results:

Based on the above, an impairment charge of \$2,343,000 has been applied as the carrying amount of goodwill and software intangibles for the manufacturing CGU 2 exceeded its recoverable amount.

Note 13. Intangibles (continued)

Sensitivity:

The directors have made judgements and estimates in respect of impairment testing of goodwill and other intangible assets. Should these judgements and estimates not occur, the resulting carrying amounts of goodwill and intangibles may decrease. The sensitivities are as follows:

- (a) A decrease in revenue of 2.0% for CGU 2 would result in further impairment of \$180,000, with all other assumptions remaining constant.
- (b) An increase in the discount rate of 1.0% would result in further impairment of \$233,000, with all other assumptions remaining constant.
- (c) An increase in expenses of 2.0% would result in further impairment of \$28,000, with all other assumptions remaining constant.

As detailed in note 34, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the facility for a period of twelve months.

If the warehouse facility is not renewed and the mortgages are not sold, this would give rise to a default. Consequently, 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.

If this were to occur the cash flow available to the consolidated entity from excess spread would be deferred until the facility is repaid in full. The warehouse facility is structured that in the unlikely event that it is not renewed there is only limited recourse to the consolidated entity. If the warehouse facility is not renewed and the related assets are liquidated, the primary impact for the consolidated entity would be the loss of future income streams from its spread, being the difference between the mortgage rate and the cost of funds, fee income and write-off of any unamortised balance of deferred transaction costs. If this were to occur, there is likely to be a material impairment impact to the carrying value of contract rights.

Note 14. Trade and other payables

	Consolidated	
	2014	2013
	\$'000	\$'000
Trade payables	616	95
Commission accrued	1,027	3,310
Other payables and accruals	4,170	3,788
	<u>5,813</u>	<u>7,193</u>
Amount expected to be settled within 12 months	<u>5,813</u>	<u>7,193</u>

Refer to note 25 for further information on financial instruments.

Note 15. Derivative financial instruments

	Consolidated	
	2014	2013
	\$'000	\$'000
Interest rate swap contracts	-	180
Amount expected to be settled within 12 months	-	180

Refer to note 25 for further information on financial instruments.

Refer to note 26 for further information on fair value measurement.

Note 16. Warehouse and other funding

	Consolidated	
	2014	2013
	\$'000	\$'000
Warehouse facility	147,012	181,442
Bond fund notes	25,050	34,229
	<u>172,062</u>	<u>215,671</u>
Amount expected to be settled within 12 months	172,062	191,456
Amount expected to be settled after more than 12 months	-	24,215
	<u>172,062</u>	<u>215,671</u>

The warehouse facility and bond fund notes are secured by the assets of the warehouse facility and bond fund (Westpac Warehouse Trust No. 2 and Calibre Fund No. 1). In addition, the warehouse facility is supported by a restricted cash collateral reserve, refer note 8, and a fixed and floating charge over the assets of Firstfolio Capital Pty Ltd and Firstfolio Capital Management Services Pty Ltd and \$5,000,000 (2013: \$5,000,000) is invested in the warehouse as an over-collateralisation of the warehouse notes. The warehouse facility is a revolving facility, and as detailed in note 34, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the facility for a period of twelve months.

Note 17. Net present value of trail commission expense

	Consolidated	
	2014	2013
	\$'000	\$'000
Commissions payable	<u>86,039</u>	<u>87,833</u>
Amount expected to be settled within 12 months	18,137	19,017
Amount expected to be settled after more than 12 months	67,902	68,816
	<u>86,039</u>	<u>87,833</u>

Note 18. Borrowings

	Consolidated	
	2014	2013
	\$'000	\$'000
Bank loans	-	32,750
Loans from director related entity	58,430	29,308
Deferred cash and contingent consideration	-	83
Other loans	-	1,199
Facility transaction costs	(575)	-
Lease liability	299	369
	<u>58,154</u>	<u>63,709</u>
Amount expected to be settled within 12 months	69	39,570
Amount expected to be settled after more than 12 months	58,085	24,139
	<u>58,154</u>	<u>63,709</u>

Refer to note 25 for further information on financial instruments.

Note 18. Borrowings (continued)

Total secured liabilities

The total secured liabilities are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Bank loans	-	32,750
Loans from director related entity	58,430	29,308
Lease liability	299	369
Prepaid facility costs	(575)	-
	<u>58,154</u>	<u>62,427</u>

Assets pledged as security

The loan from director related entity is secured by a fixed and floating charge over the assets of the consolidated entity, excluding the assets of Firstfolio Capital Pty Ltd and Firstfolio Capital Management Services Pty Ltd, Westpac Warehouse Trust No 2 and the Calibre Fund No. 1.

The lease liabilities are effectively secured as the rights to the leased assets, recognised in the statement of financial position, revert to the lessor in the event of default.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2014	2013
	\$'000	\$'000
Total facilities		
Bank loans	-	32,750
Loans from director related entity	58,430	29,308
	<u>58,430</u>	<u>62,058</u>
Used at the reporting date		
Bank loans	-	32,750
Loans from director related entity	58,430	29,308
	<u>58,430</u>	<u>62,058</u>
Unused at the reporting date		
Bank loans	-	-
Loans from director related entity	-	-
	<u>-</u>	<u>-</u>

On 25 June 2014, loans provided by Commonwealth Bank of Australia ('CBA') were repaid in full, and loans provided by director related entity, Welas Pty Ltd, were renegotiated. At the reporting date, Welas Pty Ltd was the sole senior debt provider with a loan amount of \$58,430,000 and a repayment date of 7 July 2016.

Note 19. Provisions

	Consolidated	
	2014	2013
	\$'000	\$'000
Employee benefits	882	825
Deferred lease incentives	51	75
Lease make good	26	26
	<u>959</u>	<u>926</u>
Amount expected to be settled within 12 months	572	590
Amount expected to be settled after more than 12 months	<u>387</u>	<u>336</u>
	<u>959</u>	<u>926</u>

Deferred lease incentives

The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the rent expense is recognised on a straight-line basis over the lease term.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Deferred lease incentives \$'000	Lease make good \$'000
Consolidated - 2014		
Carrying amount at the start of the year	75	26
Amounts used	<u>(24)</u>	<u>-</u>
Carrying amount at the end of the year	<u>51</u>	<u>26</u>

Note 20. Deferred tax

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Deferred tax liability comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Property, plant and equipment	(247)	617
Tax losses	(5,973)	(6,357)
Employee benefits	(323)	(252)
Accrued expenses	(627)	(503)
Rights to future income	(221)	(543)
Net present value of trail commissions (net)	16,922	18,686
Other	(127)	(206)
Deferred tax liability	<u>9,404</u>	<u>11,442</u>
Amount expected to be settled after more than 12 months	<u>9,404</u>	<u>11,442</u>
<i>Movements:</i>		
Opening balance	11,442	10,783
Credited/(charged) to profit or loss (note 7)	(2,038)	659
Closing balance	<u>9,404</u>	<u>11,442</u>

The deferred tax asset on carried forward unused tax losses are assessed as recoverable as the consolidated entity has sufficient taxable temporary differences which will result in taxable amounts against which the unused tax losses can be utilised before they expire. This assessment is reinforced by the review of the consolidated entity's discounted cash flows, forecast for 10 years for CGU 1, as detailed in note 13. The consolidated entity derived taxable income during the year and utilised a portion of the carried forward tax losses.

Note 21. Equity - issued capital

	Consolidated			
	2014	2013	2014	2013
	Shares	Shares	\$'000	\$'000
Ordinary shares - fully paid	<u>773,886,809</u>	<u>773,886,809</u>	<u>41,328</u>	<u>41,328</u>

The shares issued to FFF Remuneration Pty Limited were in relation to the Senior Executive Share Scheme (the Scheme). These shares are linked to limited recourse interest-free loans and as a result the amounts receivable and the related contributed equity are not recognised in the financial statements. When, or if, these loans are repaid to the consolidated entity, the shares will be transferred to the participants and the amounts repaid will be recognised in contributed equity. Refer to note 37 for further information on the Scheme.

There were 7,850,000 (2013: 11,350,000) unissued ordinary shares of Firstfolio Limited under option as at 30 June 2014.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Note 21. Equity - issued capital (continued)

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the consolidated entity may return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The capital risk management policy remains unchanged from the 2013 Annual Report.

Note 22. Equity - reserves

	Consolidated	
	2014	2013
	\$'000	\$'000
Capital profits reserve	25	25
Equity-settled benefits reserve	892	882
	<u>917</u>	<u>907</u>

Capital profits reserve

The reserve is used to quarantine capital profits from accumulated losses.

Equity-settled benefits reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Capital profits \$'000	Equity-settled benefits \$'000	Total \$'000
Balance at 1 July 2012	25	2,963	2,988
Share-based payments	-	130	130
Transfers to retained earnings	-	(2,211)	(2,211)
Balance at 30 June 2013	25	882	907
Share based payments	-	10	10
Balance at 30 June 2014	<u>25</u>	<u>892</u>	<u>917</u>

Note 23. Equity - accumulated losses

	Consolidated	
	2014	2013
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(2,178)	(5,707)
Profit/(loss) after income tax expense for the year	(4,138)	1,318
Transfer from equity-settled benefits reserve	-	2,211
	<u> </u>	<u> </u>
Accumulated losses at the end of the financial year	<u><u>(6,316)</u></u>	<u><u>(2,178)</u></u>

Note 24. Equity - dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Franking credits

	Consolidated	
	2014	2013
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u><u>8,167</u></u>	<u><u>10,205</u></u>

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 25. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The consolidated entity'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 consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk and ageing analysis for credit risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('Board'). Finance identifies and evaluates financial risks within the consolidated entity.

Market risk

Foreign currency risk

The consolidated entity is not exposed to foreign currency risk.

Price risk

The consolidated entity is exposed to price risk on revenue from lenders' commission rates and on payments through broker commission rates, and delivery rate on wholesale affects net interest margin.

Interest rate risk

The consolidated entity's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk. The consolidated entity, where necessary, enters into interest rate swaps to hedge against interest rate risk.

Note 25. Financial instruments (continued)

For the consolidated entity the interest bearing loans outstanding total \$230,492,000 (2013: \$278,928,000) and loans and advances to customers totalling \$171,286,000 (2013: \$214,608,000) that are subject to variable interest rates. An official change in interest rates of 100 basis points (2013: 100 basis points) would have an effect on profit of \$592,000 (2013: \$643,000) per annum. In the next 12 months expected minimum principal repayments of \$190,268,000 (2013: \$252,408,000) are due, of which \$147,012,000 (2013: \$181,442,000) represents the warehouse facility that is required to be rolled over. Refer to note 34 on the renewal of the facility.

Credit risk

Credit risk is managed on a consolidated entity basis. Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

Due to the nature of the industry in which the consolidated entity operates, it does have a recognised concentration of credit risk in relation to trade and other receivables, having entered into transactions with six (2013: six) main banks with high monthly account balances.

The consolidated entity's trade and other receivables from these six main banks as at 30 June 2014 amounted to \$446,000 (2013: \$3,327,000) i.e. approximately 13% (2013: 45%) of the total trade and other receivables balance.

The ageing of loans and advances to customers are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
0 to 1 month overdue	167,909	208,964
1 to 2 months overdue	1,150	1,044
2 to 3 months overdue	592	1,066
More than 3 months overdue	1,635	3,534
	<u>171,286</u>	<u>214,608</u>
Total loans and advances to customers	<u>171,286</u>	<u>214,608</u>

Loans and advances are individually assessed, and impairment loss is recognised in regard to mortgage loans where the mortgage balance exceeds total expected recoveries including claims under mortgage insurance policies. Instances where claims may not be paid by the mortgage insurer include shortfalls that constitute the fees and charges component of a mortgage balance (rather than principal or interest), cases involving fraud, fair wear and tear, misrepresentation or cases involving certain administrative errors. The consolidated entity has recognised individually assessed provisions for impairment at 30 June 2014 of \$242,000 (2013: \$233,000) in relation to expected un-claimable mortgage shortfalls. No collective provision is considered necessary on the portfolio in addition to the individually assessed provision.

The ratings of loans and receivables split by rating of the mortgage insurer are as follows:

	Consolidated	
	2014	2013
	\$'000	\$'000
Rated AA - (Standard and Poors)	<u>171,286</u>	<u>214,608</u>

Liquidity risk

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Note 25. Financial instruments (continued)

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Consolidated - 2014						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	616	-	-	-	616
Other payables	-%	4,170	-	-	-	4,170
Net present value trail commission payable	-%	18,137	15,469	29,917	22,516	86,039
<i>Interest-bearing - variable</i>						
Loans from director related entity (1)	7.17%	4,152	4,152	58,430	-	66,734
Warehouse notes (2)	4.24%	148,108	-	-	-	148,108
Bond fund notes (2)	3.71%	25,592	-	-	-	25,592
<i>Interest-bearing - fixed rate</i>						
Lease liability	1.00%	79	238	-	-	317
Total non-derivatives		200,854	19,859	88,347	22,516	331,576
Consolidated - 2013						
Non-derivatives						
<i>Non-interest bearing</i>						
Trade payables	-%	95	-	-	-	95
Other payables	-%	3,788	-	-	-	3,788
Deferred cash consideration	-%	83	-	-	-	83
Net present value trail commission payable	-%	24,971	20,406	38,863	22,289	106,529
<i>Interest-bearing - variable</i>						
Bank loans	6.20%	34,546	-	-	-	34,546
Other loans	6.83%	1,251	-	-	-	1,251
Loans from director related entity	6.88%	7,056	23,850	-	-	30,906
Warehouse notes	4.56%	186,257	-	-	-	186,257
Bond fund notes	3.80%	11,143	24,787	-	-	35,930
<i>Interest-bearing - fixed rate</i>						
Lease liability	4.51%	95	315	-	-	410
Total non-derivatives		269,285	69,358	38,863	22,289	399,795
Derivatives						
Interest rate swaps net settled	-%	180	-	-	-	180
Total derivatives		180	-	-	-	180

Note 25. Financial instruments (continued)

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

(1) The loan from director related entity is based on renegotiated terms on 25 June 2014 for a total loan amount of \$58,430,000. The loan becomes due and payable on 7 July 2016. The consolidated entity expects to meet its obligations from operating cash flows, proceeds of maturing financial assets and future refinancing activities.

(2) The consolidated entity has a warehouse funding line of \$147,000,000 with Westpac Banking Corporation ('Westpac'). The Westpac funding line is a revolving facility for the warehouse notes. As detailed in note 34, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the facility for a period of twelve months. The consolidated entity engages and discusses the on-going performance of the loan pool in the normal course of business, as well as likely future utilisation, maturity and potential terms for a renewal at the expiry of the facility. If the warehouse facility is not renewed and the mortgages are not sold, this would give rise to a default. Consequently, 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. If this were to occur the cash flow available to the consolidated entity from excess spread would be deferred until the facility is repaid in full.

Note 26. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

There were no fair value measurements in 2014.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Consolidated - 2013				
<i>Liabilities</i>				
Interest rate swap contracts	-	180	-	180
Total liabilities	-	180	-	180

There were no transfers between levels during the financial year.

Note 27. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2014	2013
	\$	\$
Short-term employee benefits	2,102,189	1,449,016
Post-employment benefits	100,015	72,326
Termination benefits	87,881	-
Share-based payments	9,503	48,684
	<u>2,299,588</u>	<u>1,570,026</u>

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company:

	Consolidated	
	2014	2013
	\$	\$
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	296,069	252,000
<i>Other services - Deloitte Touche Tohmatsu</i>		
IFRS accounting services	-	42,000
Taxation compliance services	104,526	102,275
Strategy advice	-	207,050
Actuarial and consulting advice	71,250	50,000
	175,776	401,325
	471,845	653,325

Note 29. Contingent liabilities

	Consolidated	
	2014	2013
	\$'000	\$'000
Bank guarantees	382	424

The bank guarantees are for lease premises.

Note 30. Commitments

	Consolidated	
	2014	2013
	\$'000	\$'000
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	984	933
One to five years	932	1,916
	1,916	2,849
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	79	95
One to five years	238	315
Total commitment	317	410
Less: Future finance charges	(18)	(41)
Net commitment recognised as liabilities	299	369
Representing:		
Lease liability (note 18)	299	369

Note 30. Commitments (continued)

Operating lease commitments includes contracted amounts for various offices and plant and equipment under non-cancellable operating leases expiring within one to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The consolidated entity has provided lease guarantees as detailed in note 29.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$222,000 (2013: \$335,000) under finance leases expiring within one to five years. Under the terms of the leases, the consolidated entity has the option to acquire the leased assets for predetermined residual values on the expiry of the leases.

Note 31. Related party transactions

Parent entity

Firstfolio Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2014	2013
	\$	\$
Payment for goods and services:		
Commissions paid to L J Hooker (an entity related to the director Gregory Paramor)	-	254,865
Other transactions:		
Interest paid on loan from Welas Pty Limited (an entity related to the director Anthony Wales)	1,970,039	2,167,386

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

The following balances are outstanding at the reporting date in relation to loans with related parties:

	Consolidated	
	2014	2013
	\$	\$
Current borrowings:		
Loan from Welas Pty Limited (an entity related to the director Anthony Wales)	-	5,457,662
Non-current borrowings:		
Loan from Welas Pty Limited (an entity related to the director Anthony Wales) - Refer Note 18	58,429,865	23,850,000

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 32. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2014	2013
	\$'000	\$'000
Profit after income tax	3,357	1,477
Total comprehensive income	3,357	1,477

Statement of financial position

	Parent	
	2014	2013
	\$'000	\$'000
Total current assets	2,458	2,311
Total assets	108,815	108,739
Total current liabilities	2,238	40,318
Total liabilities	99,764	103,055
Equity		
Issued capital	41,328	41,328
Capital profits reserve	25	25
Equity-settled benefits reserve	892	882
Accumulated losses	(33,194)	(36,551)
Total equity	9,051	5,684

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has provided bank guarantees of \$322,000 for lease premises (2013: \$327,000).

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2014 and 30 June 2013.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for the purchase of property, plant and equipment at as 30 June 2014 and 30 June 2013.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Firstfolio Limited
Notes to the financial statements
30 June 2014

Note 33. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2014 %	2013 %
Apple Loans Pty Limited	Australia	100.00%	100.00%
Aptura Developments Pty Limited	Australia	100.00%	100.00%
Bloom Platform Pty Limited	Australia	100.00%	100.00%
Bricks and Mortar Securities Pty Limited	Australia	100.00%	100.00%
Club Financial Services Holdings Pty Limited	Australia	100.00%	100.00%
Club Financial Services Pty Limited	Australia	100.00%	100.00%
Club Promotional Pty Limited	Australia	100.00%	100.00%
Domain Financial Services Loan Company Pty Limited	Australia	100.00%	100.00%
eChoice Home Loans Pty Limited	Australia	100.00%	100.00%
eChoice Insurance Services Pty Limited	Australia	100.00%	100.00%
eChoice Pty Limited	Australia	100.00%	100.00%
eChoice Securities Pty Limited	Australia	100.00%	100.00%
Fee Slayer Home Loans Pty Limited	Australia	100.00%	100.00%
FFF Remuneration Pty Limited	Australia	100.00%	100.00%
First Chartered Capital Card Services Pty Limited	Australia	100.00%	100.00%
First Chartered Capital Corporation Pty Limited	Australia	100.00%	100.00%
First Chartered Capital Operations Pty Limited	Australia	100.00%	100.00%
First Chartered Capital Services Pty Limited	Australia	100.00%	100.00%
Firstfolio Capital Pty Ltd	Australia	100.00%	100.00%
Firstfolio Capital Management Services Pty Ltd	Australia	100.00%	100.00%
Firstfolio One Pty Limited	Australia	100.00%	100.00%
Firstfolio Services Pty Limited	Australia	100.00%	100.00%
Folio Financial Services Pty Ltd (1)	Australia	100.00%	100.00%
Folio Loan Services Australia Pty Ltd (2)	Australia	100.00%	100.00%
Folio Loans Australia Pty Ltd (3)	Australia	100.00%	100.00%
Folio Mortgage & Finance Pty Ltd (4)	Australia	100.00%	100.00%
Folio Wholesale Pty Ltd (5)	Australia	100.00%	100.00%
Folio Franchising Pty Ltd (6)	Australia	100.00%	100.00%
Folio Leasing Pty Limited (7)	Australia	100.00%	100.00%
Lawfund Asset Finance Pty Limited	Australia	100.00%	100.00%
Lawrealty Victoria Pty Limited	Australia	100.00%	100.00%
Linkloan Services Pty Ltd	Australia	100.00%	100.00%
Probitas Group Pty Limited	Australia	100.00%	100.00%
Property Giant Pty Limited	Australia	100.00%	100.00%
Quicksmart Online Pty Limited	Australia	100.00%	100.00%
Rate Slayer Home Loans Pty Limited	Australia	100.00%	100.00%
Xplore Capital (NZ) Limited	New Zealand	100.00%	100.00%
Xplore Capital Pty Limited	Australia	100.00%	100.00%

(1) change of name from Domain Financial Services Pty Limited on 18 July 2013

(2) change of name from Loan Services Australia Pty Limited on 18 July 2013

(3) change of name from New-Loan Australia Pty Limited on 18 July 2013

(4) change of name from National Finance Club Pty Limited on 8 August 2013

(5) change of name from Firstfolio Wholesale Pty Limited on 18 July 2013

(6) change of name from Club FS Pty Limited on 3 March 2014

(7) change of name from LeaseChoice Pty Limited on 21 November 2013

The consolidated entity has also consolidated its 100% interest in The Club Financial Services Unit Trust, National Finance Club Unit Trust as well as the residual interest of Calibre Fund No. 1 and Firstfolio Capital Westpac Warehouse Trust No. 2.

Note 34. Events after the reporting period

The consolidated entity, through Firstfolio Capital, has a warehouse funding facility with Westpac, drawn to \$147.0 million at 30 June 2014 (30 June 2013: \$181.4 million). At the date of this report, the consolidated entity and Westpac are in the process of finalising the terms for the renewal of the warehouse facility for a period of twelve months, which is also subject to finalisation of legal documentation.

No other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 35. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit/(loss) after income tax expense for the year	(4,138)	1,318
Adjustments for:		
Depreciation and amortisation	4,535	2,398
Share-based payments	9	130
Unwinding of the discount on provisions	-	168
Write back of contingent and deferred consideration	1,251	(353)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	8,138	2,971
Decrease in income tax refund due	-	1,320
Decrease in accrued revenue	-	4,952
Decrease in derivative assets	-	28
Decrease/(increase) in prepayments	1,130	(311)
Decrease in trade and other payables	(1,274)	(2,035)
Decrease in derivative liabilities	(180)	(64)
Increase/(decrease) in deferred tax liabilities	(2,038)	659
Increase in employee benefits	57	120
Increase in other provisions	358	168
Net cash from operating activities	<u>7,848</u>	<u>11,469</u>

Note 36. Earnings per share

	Consolidated	
	2014	2013
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Firstfolio Limited	<u>(4,138)</u>	<u>1,318</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>773,886,809</u>	<u>773,886,809</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>773,886,809</u>	<u>773,886,809</u>
	Cents	Cents
Basic earnings per share	(0.53)	0.17
Diluted earnings per share	(0.53)	0.17

Note 37. Share-based payments

Senior Executive Share Scheme

The Senior Executive Share Scheme (the Scheme) was approved by the shareholders in 2009.

During the year nil (2013: nil) shares were issued to FFF Remuneration Pty Limited, a subsidiary that acts as trustee and holds the shares in trust for the Scheme.

The objectives of the Scheme are as follows:

- (a) to provide an incentive to senior executives of the consolidated entity to lift the performance of the consolidated entity and maximise the price of the parent entity's shares; and
- (b) to assist in attracting and retaining senior executives.

The Board may issue shares under the Scheme to any senior executive of the consolidated entity, including executive directors and non-executive directors.

Shares will be issued upon senior executives receiving a limited recourse interest-free loan from the consolidated entity for the purchase price of the shares. Shares financed by the loan are held in trust for the senior executives. The requirement for repayment of the loan generally arises only at the time of selling the shares or upon the senior executive's employment or engagement with the consolidated entity ends.

The shares cannot be sold until certain performance hurdles have been met. Each share issue is linked to performance hurdles, which consist of various operating Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') targets over a 12 to 13 month period.

At 30 June 2014 FFF Remuneration Pty Limited held 45,250,000 (2013: 45,250,000) shares in trust under the Scheme, on behalf of various key management personnel. At 30 June 2014 limited recourse interest-free loans totalling \$500,000 (2013: \$950,000) were provided to participants of the Scheme for these shares.

For the year ended 30 June 2014 a share-based payment expense of \$10,000 (2013: \$100,000) has been recognised in relation to the Scheme.

Options

For the year ended 30 June 2014 a share-based payment expense of \$nil (2013: \$30,000) has been recognised in relation to options.

Set out below are summaries of shares and options granted under the plans:

2014

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
18/08/2009	17/08/2014	\$0.03	8,000,000	-	-	(6,000,000)	2,000,000
04/03/2010	03/03/2015	\$0.06	3,000,000	-	-	-	3,000,000
31/10/2010	30/10/2015	\$0.06	4,500,000	-	-	-	4,500,000
14/12/2011	12/12/2016	\$0.04	3,750,000	-	-	(3,750,000)	-
31/03/2012	30/03/2017	\$0.03	3,000,000	-	-	(3,000,000)	-
16/08/2010	16/08/2014	\$0.07	3,400,000	-	-	(1,000,000)	2,400,000
23/09/2010	09/08/2015	\$0.08	3,000,000	-	-	-	3,000,000
24/05/2011	24/05/2014	\$0.60	500,000	-	-	(500,000)	-
12/07/2011	12/07/2014	\$0.05	100,000	-	-	-	100,000
30/11/2011	30/11/2014	\$0.04	3,400,000	-	-	(2,000,000)	1,400,000
31/03/2012	31/05/2015	\$0.03	950,000	-	-	-	950,000
			33,600,000	-	-	(16,250,000)	17,350,000

Note 37. Share-based payments (continued)

2013

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
18/08/2009	17/08/2014	\$0.03	8,000,000	-	-	-	8,000,000
04/03/2010	03/03/2015	\$0.06	3,000,000	-	-	-	3,000,000
31/10/2010	30/10/2015	\$0.06	4,500,000	-	-	-	4,500,000
14/12/2011	12/12/2016	\$0.04	3,750,000	-	-	-	3,750,000
31/03/2012	30/03/2017	\$0.03	3,000,000	-	-	-	3,000,000
16/08/2010	16/08/2014	\$0.07	3,400,000	-	-	-	3,400,000
23/09/2010	09/08/2015	\$0.08	3,000,000	-	-	-	3,000,000
24/05/2011	24/05/2014	\$0.60	500,000	-	-	-	500,000
12/07/2011	12/07/2014	\$0.05	100,000	-	-	-	100,000
30/11/2011	30/11/2014	\$0.04	3,400,000	-	-	-	3,400,000
31/03/2012	31/05/2015	\$0.03	950,000	-	-	-	950,000
			<u>33,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,600,000</u>

Grant date - Performance criteria under the share plan

18/08/2009 - Operating EBITDA for any 13 month period is \$12 million or greater and total book is \$16 billion or greater

04/03/2010 - Operating EBITDA for any 13 month period is \$12 million or greater

31/10/2010 - Operating EBITDA for any 12 month period is \$17.5 million or greater

14/12/2011 - Not applicable

31/03/2012 - Operating EBITDA for any 12 month period is \$19 million or greater

In addition to the above, 35,750,000 (2013: 23,000,000) shares in the Senior Executive Share Scheme remain unallocated and are held in the warehouse.

The weighted average share price during the financial year was \$0.018 (2013: \$0.018).

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.63 years (2013: 2.19 years).

Firstfolio Limited
Directors' declaration
30 June 2014

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Eric Dodd
Chairman

26 August 2014
Sydney

Independent Auditor's Report to the Members of Firstfolio Limited

Report on the Financial Report

We have audited the accompanying financial report of Firstfolio Limited, which comprises the statement of financial position as at 30 June 2014, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 32 to 75.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated 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. Those 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 company's preparation of the financial report that gives a true and fair view, 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 company'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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Firstfolio Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- (a) the financial report of Firstfolio Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 15 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion the Remuneration Report of Firstfolio Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



Philip Hardy
Partner
Chartered Accountants
Sydney, 26 August 2014

Firstfolio Limited
Shareholder information
30 June 2014

The shareholder information set out below was applicable as at 1 August 2014.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	273	-
1,001 to 5,000	401	-
5,001 to 10,000	115	-
10,001 to 100,000	446	1
100,001 and over	393	10
	<u>1,628</u>	<u>11</u>
Holding less than a marketable parcel	<u>1,025</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares % of total shares issued
Number held	
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	146,273,108 18.90
FFF REMUNERATION PTY LTD (FF SENIOR EXEC S/PLAN A/C)	50,250,000 6.49
MR JOHN BARLOW	36,000,000 4.65
RESIMAC LIMITED	30,806,743 3.98
NBT PTY LIMITED (ASTOR SUPER FUND A/C)	27,937,363 3.61
MR MARK KEVIN FLACK	25,036,774 3.24
MR MAXWELL THOMAS QUIRK	18,765,311 2.42
COBRA INVESTMENTS BV	17,250,000 2.23
MRS FELICITY CLINTON HARTIGAN + MR HUGH CLINTON HARTIGAN (HARTIGAN SUPER FUND A/C)	12,774,852 1.65
JESTAR PTY LIMITED (VAGG FAMILY SUPER FUND A/C)	10,850,000 1.40
MR LEO HOOGSTAD + MRS VALERIE HOOGSTAD (HOOGSTAD FAMILY SUPER A/C)	10,500,000 1.36
NPN INVESTMENTS PTY LTD (AYIAZONI A/C)	10,134,000 1.31
BELL POTTER NOMINEES LTD (BB NOMINEES A/C)	10,000,000 1.29
MR RONALD LANGLEY + MRS RHONDA LANGLEY	9,527,739 1.23
G J P INVESTMENTS PTY LTD (THE LANGHAM A/C)	8,700,000 1.12
THE TRUST COMPANY (SUPERANNUATION) LTD (GPMSF2-BAL GROWTH A/C)	8,500,000 1.10
CITICORP NOMINEES PTY LIMITED	8,424,943 1.09
KATDAN INVESTMENTS PTY LTD (SUPER FUND A/C)	8,148,617 1.05
MR WILSON EDUARDO FERNANDEZ	7,698,013 0.99
TAVETOR PTY LIMITED (SMOuha FAMILY NO 1 UNIT A/C)	7,475,000 0.97
	<u>465,052,463 60.08</u>

Firstfolio Limited
Shareholder information
30 June 2014

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares	7,750,000	11

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares % of total shares issued
Number held	
WELAS PTY LIMITED	125,818,881 16.26
SOMERS LIMITED	112,972,946 14.60
FFF REMUNERATION PTY LTD (FF SENIOR EXEC S/PLAN A/C)	50,250,000 6.49

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.