Firstfolio Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Firstfolio Limited
ABN:	43 002 612 991
Reporting period:	For the half-year ended 31 December 2014
Previous period:	For the half-year ended 31 December 2013

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	6.5%	to	35,103
Loss from ordinary activities after tax attributable to the owners of Firstfolio Limited	up	799.7%	to	(2,645)
Loss for the half-year attributable to the owners of Firstfolio Limited	up	799.7%	to	(2,645)

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

Comments
The loss for the consolidated entity after providing for income tax amounted to $2,645,000 (31 December 2013: $294,000).

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	(0.87)	(0.51)

4. Control gained over entities

Name of entities (or group of entities)	Not Applicable
Date control gained	

	$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)	-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) for the whole of the previous period (where material)	-

5. Loss of control over entities

Name of entities (or group of entities)	Not Applicable	
Date control lost		
		$'000
Contribution of such entities to the reporting entity's profit/(loss) from ordinary activities before income tax during the period (where material)		-
Profit/(loss) from ordinary activities before income tax of the controlled entity (or group of entities) whilst controlled during the whole of the previous period (where material)		-

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 were subject to a review by the auditors and the review report is attached as part of the Interim Report .

11. Attachments

Details of attachments (if any):

The Interim Report of Firstfolio Limited for the half-year ended 31 December 2014 is attached.

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12. Signed

Signed ______________________________ Date: 24 February 2015

Eric Dodd
Chairman
Sydney

Firstfolio Limited

ABN 43 002 612 991

Interim Report - 31 December 2014

Contents

Directors	Eric Dodd (Chairman) Michael Hogg Anthony N. Wales David Walker
Chief executive officer	Peter Andronicos
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
31 December 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'group') 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 half-year ended 31 December 2014 (referred to hereafter as the 'financial half-year' or 'financial period').

Directors

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

Eric Dodd	Chairman
Michael Hogg	
Gregory D. Pynt	Resigned 17 October 2014
Anthony N. Wales	
David Walker	Appointed 21 October 2014

Principal activities

During the financial period the continuing principal 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 half-year

Firstfolio Limited's financial half-year 2014 (1H15) results reflect a period of consolidation and transition. At the Annual General Meeting in November 2014, a new strategy was announced that focuses efforts on the online space in areas where the directors see significant growth opportunities, leveraging the market position, eChoice brand and technology platforms.

In October 2014, the Board of directors (the 'Board') appointed then eChoice General Manager, Mr Peter Andronicos, as Chief Executive Officer ('CEO') of the group to develop and implement this strategy. The management team, led by Peter Andronicos, has been focussed on building the group's strong brands and product offering and improving the cost structure, in line with the strategy.

The group has invested in its operating capability to leverage eChoice's market position and online distribution technology to ultimately improve lead generation and sales performance across the business. This has included further investments in technology, bolstering strategic partnerships and the establishment of a Broker Academy which provides new entrants to the mortgage broking industry with tools, skills and business leads to become successful mortgage brokers and business partners. The group has also pursued operational synergies between the eChoice and wholesale and manufacturing businesses to provide niche products and services.

As GM of eChoice, Peter Andronicos implemented a growth strategy that delivered a 22% lift in the value of average monthly aggregation and broking settlements over the last 18 months, compared to the average of the preceding 18 months. The group is now focussed on implementing this successful strategy across the business.

A number of initiatives delivered significant operating cost savings in the last 12 months and these efforts were renewed in 1H15 with the expectation of further material savings in the next 12 months. In addition, restructuring and non-recurring costs of $1.2 million affected 1H15 results.

Key features of the financial half-year results include:

- Total settlement volume steady on the prior corresponding period ('pcp') at $1.6 billion
- Aggregation and broking volumes maintaining improved levels
- Underlying cash net profit after tax[1] of $2.3 million, compared to $2.5 million in pcp
- Cash operating EBITDA[2] of $5.5 million, down 16.3% on pcp
- Loan book declined by $0.5 billion to $17.7 billion
- Revenue down 6.4% to $35.1 million
- Operating EBITDA[3] of $0.6 million, down 81.2% on pcp. Net loss after tax of $2.6 million, down $2.4 million on pcp, due to impact of NPV adjustment and one-off items

[1] Underlying cash net profit after tax is defined at Table 2.

[2] Cash operating EBITDA (Earnings before interest, taxation, depreciation and amortisation) represents operating EBITDA adjusted for the movement in the NPV net asset.

[3] 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.

The 1H15 results include the impact of net present value ('NPV') methodology of accounting for trail commissions and expenses. The movement of the NPV net asset had an adverse non-cash impact of $4.9 million (1H14: $3.5 million).

Review of operations
During 1H15, the group's service delivery to customers, consolidation of operations and capitalising on existing assets, were key priorities while targeting growth through the provision of innovative and unique products and services.

The forging of new partnerships and re-signing of a critical existing partnership agreement were significant achievements in the period.

The group's cost structure was further improved with a reduction of overall staffing numbers and a realignment of the organisational structure, with further savings to be delivered over the next 12 months.

A number of one-off items related to the restructure and transaction costs significantly impacted 1H15 results. While the bulk of these expenses are of a non-recurring nature, the group will continue to incur restructuring and other non-recurring costs through the rest of this financial year under the implementation of the new strategy.

Settlement volumes in the mortgage origination business remained flat on pcp at $1.57 billion. Aggregation and broking settlements grew by 1.6% in 1H15 on the very strong 1H14, in which the business had delivered 22.0% growth on pcp.

The growth in aggregation and broking settlements, particularly those in eChoice's broking business, were offset by the decline in wholesale mortgage settlements of 18.6% on pcp.

The change in business mix continued in 1H15 with aggregation and broking volumes contributing 94.9% of settlements (1H14: 93.3%), wholesale settlements representing 5.0% (1H14: 6.2%), with Firstfolio Capital representing the remaining 0.1% (1H14: 0.5%) of settlement volume.

Australian market settlements in the 12 months to December 2014 grew 16.1%[4]. The comparable growth in the group's total settlements over this period was 9.5%.

The business, particularly in the wholesale sector, continued to be affected by market forces, experiencing strong competition for market share, and residual perceptions of uncertainty regarding the group's capital structure. The renewed financing arrangements, appointment of a CEO, and communication provided to the industry and market in respect of the revised strategy are expected to address these concerns.

Margins. Gross margin in 1H15 decreased 24.1% to $9.2 million, with the gross margin percentage falling from 32.4% of revenue to 26.2% of revenue. As foreshadowed, the gross margin was impacted by the non-cash NPV movement for future net trail commissions, which totalled $4.9 million in the period (1H14: $3.5 million).

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. The established loan and settlement trends continued during 1H15, with lower margin aggregation and broking loans and settlements at greater volumes than higher margin wholesale settlements. Given the composition of the group's business, this trend and consequential impact on the NPV movement in future net trail commissions is expected to continue in the coming year.

Loan book. Total housing credit outstanding[5] ('System') grew by 6.8% in the 12 months to 31 December 2014, being higher than the rate of 6.1% recorded for the year to 30 June 2014. The rate remains below the ten-year average of 12.8%, but higher than the five-year housing credit growth to December 2014 of 5.9%,

In line with expectations, the total loan book declined 2.8% (1H14: 1.9%) over 1H15 to $17.7 billion. Of the run-off, 15% was attributable the aggregation and broking book, with the balance attributable to the wholesale and Firstfolio Capital books.

The composition of the group's loan book reflects the continued change in origination mix from wholesale settlements to lower margin aggregation and broking settlements. At 31 December 2014, wholesale loans represented 17.8% of the book (30 June 2014: 19.5%); aggregation and broking loans at 81.4% (30 June 2014: 79.6%); and Firstfolio Capital contributed the remaining 0.8% (30 June 2014: 0.9%).

[4] ABS Table 11 Housing Finance Commitments to December 2014.
[5] RBA D02 Lending and Credit Aggregates to December 2014.

Operating costs. The group's cost reduction program continues to deliver benefits from previous initiatives, which resulted in a further decrease of operating expenses of $0.5 million on pcp. This program will continue as an integral part of the revised strategy, and is expected to deliver savings into future reporting periods.

Savings were made predominantly in the areas of employee benefits, contractors and outsourcing, and advertising and promotion. Overall, total operating expenses declined 5.1% to $8.6 million from $9.1 million in 1H15.

Financial review

Revenue decreased by 6.4% to $35.1 million in 1H15. Commission and fee revenue decreased 4.0% to $24.1 million from $25.1 million in 1H14. The ongoing trend in settlement mix, has resulted in the reduction of commission and fee revenue, despite settlement volumes being in line with the pcp.

Reported EBITDA declined $3.7 million to a loss of $1.0 million, reflecting the impact of restructuring and non-recurring costs of $1.2 million; a $0.6 million decrease in net interest margin earned by Firstfolio Capital; an increase in the negative NPV movement of $1.4 million over pcp; and other decreases in gross margin of $0.9 million, offset by cost savings and movements in other income of $0.4 million.

Operating EBITDA, which excludes one-offs, declined $2.5 million to $0.6 million. The operating EBITDA margin on revenue declined from 8.1% to 1.6%.

Net finance costs increased 2.1% to $2.1 million due primarily to a decrease in interest income.

Net loss after tax of $2.6 million was recorded, an increase in loss of $2.4 million on pcp.

Table 1

Statutory reporting result(1) $'000	Dec 14	Dec 13	Variance	Movement
Reported EBITDA	**(975)**	**2,720**	(3,695)	(135.8%)
Restructuring/non-recurring costs	1,182	-	1,182	
Share-based payments (non-cash)	129	20	109	
Other non-operating costs	233	287	(54)	
Operating EBITDA	**569**	**3,027**	(2,458)	(81.2%)
Depreciation	(308)	(394)	86	
Amortisation	(370)	(742)	372	
Net finance costs	(2,066)	(2,023)	(43)	
Underlying profit/(loss) before income tax	**(2,175)**	**(132)**	(2,043)	1,547.7%
Reconciliation to NPAT				
Restructuring/non-recurring costs	(1,182)	-	(1,182)	
Share-based payments (non-cash)	(129)	(20)	(109)	
Other non-operating costs	(233)	(287)	54	
Profit/(loss) before income tax	**(3,719)**	**(439)**	(3,280)	747.2%
Income tax expense	1,074	145	929	
Profit/(loss) after income tax	**(2,645)**	**(294)**	(2,351)	(799.7%)
EPS (basic and diluted)	(0.34)	(0.04)		

(1) Based on the auditor reviewed interim financial statements.

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 16.3% over pcp. Operating EBITDA margin declined to 13.1%, from 14.7% in the pcp. Underlying cash net profit after income tax was $2.3 million (defined at point (2) in Table 2 below), compared to $2.5 million in the pcp.

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

Table 2

Cash reporting result (1) $'000	Dec 14	Dec 13	Variance	Movement
Reported EBITDA	**3,910**	**6,207**	(2,297)	(37.0%)
Restructuring/non-recurring costs	1,182	-	1,182	
Share-based payments (non-cash)	129	20	109	
Other non-operating costs	233	287	(54)	
Operating EBITDA	**5,454**	**6,514**	(1,060)	(16.3%)
Depreciation	(308)	(394)	86	
Amortisation	(370)	(742)	372	
Net finance costs	(2,066)	(2,023)	(43)	
Underlying profit before income tax (2)	**2,710**	**3,355**	(645)	(19.2%)
Reconciliation to NPAT				
Restructuring/non-recurring costs	(1,182)	-	(1,182)	
Share-based payments (non-cash)	(129)	(20)	(109)	
Other non-operating costs	(233)	(287)	54	
Profit before income tax	**1,166**	**3,048**	(1,882)	(61.8%)
Income tax expense (2)	(392)	(904)	512	
Profit after income tax	**774**	**2,144**	(1,370)	(63.9%)
EPS (basic & diluted)	0.10	0.28		

(1) Based on the auditor reviewed interim 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 movements in the net NPV asset for future trail income and expenses, are reconciled below:

Table 3

Statement of profit or loss and other comprehensive income	Operating EBITDA		EBITDA		NPBT	
$'000	1H15	1H14	1H15	1H14	1H15	1H14
Cash basis	**5,454**	**6,514**	**3,910**	**6,207**	**1,166**	**3048**
Net present value accounting						
Net movement in NPV asset and liability	(6,755)	(5,561)	(6,755)	(5,561)	(6,755)	(5,561)
Discount unwind on NPV asset and liability	1,870	2,074	1,870	2,074	1,870	2,074
Statutory basis	**569**	**3,027**	**(975)**	**2,720**	**(3,719)**	**(439)**

Significant changes in the state of affairs

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

Likely developments and expected results of operations

Settlement volumes in the Australian market continue to be strong, although the growth rate is slowing. The reduction in the number of loans being settled[6] is more than offset by the growth in loan size[7], resulting in the increase in System[8] to 6.8%. The market remains highly competitive with pressure remaining on margins. In this environment, and in line with the group's new strategy, settlement volumes are expected to continue to be weighted towards lower margin aggregation and broking business, whilst wholesale settlement volumes grow slowly.

The appointment of Peter Andronicos as CEO signified a turning point in the direction of the group. The appointment, coupled with the refinancing of debt in June 2014, has regained market and customer confidence in the group and its ability to recover from a protracted period of uncertainty. The growth strategy communicated to the market draws on the innovative and unique resources of the group. The senior management team appointments in early 2015 will support the strategic drive for volume, competitive products and excellent customer service, reflecting some of the pillars of the Group's strategy.

The Board will seek shareholder approval to change the name of the company to eChoice Limited, as an integral part of the new strategy. Documentation regarding the change of name and the related Notice of Meeting will be provided to shareholders in the near future.

The Board's primary focus remains the optimisation of shareholder value, being the driving force behind the recent appointments and new business strategy.

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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Eric Dodd
Chairman

24 February 2015
Sydney

[6] ABS Table 13a Housing Finance Commitments to December 2014
[7] ABS Table 13c Housing Finance Commitments to December 2014
[8] RBA D02 Lending and Credit Aggregates to December 2014.

Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Firstfolio Limited
50 Bridge Street
Sydney NSW 2000

24 February 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 review of the financial statements of Firstfolio Limited for the half-year ended 31 December 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants

Firstfolio Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 31 Dec 2013 $'000
Revenue			
Commission and fee revenue		24,106	25,120
Interest on loans and advances to customers		5,273	6,752
Discount unwind on net present value trail income		4,682	5,107
Other revenue		1,006	471
		35,067	37,450
Commission and fee expense		(19,778)	(18,152)
Interest on warehouse and other funding		(3,272)	(4,134)
Discount unwind on net present value trail expense		(2,812)	(3,033)
		(25,862)	(25,319)
Gross margin		9,205	12,131
Other income	4	36	75
Expenses			
Advertising and promotion		(736)	(804)
Contractors and outsourcing		(421)	(602)
Depreciation and amortisation		(678)	(1,136)
Employee benefits		(4,744)	(5,046)
Finance costs	5	(2,102)	(2,098)
Insurance and compliance		(332)	(336)
IT and communications		(767)	(636)
Management and professional fees		(730)	(763)
Occupancy		(567)	(598)
Restructuring costs		(446)	-
Non-operating expenses		(1,098)	(307)
Other expenses		(339)	(319)
Loss before income tax benefit		(3,719)	(439)
Income tax benefit		1,074	145
Loss after income tax benefit for the half-year attributable to the owners of Firstfolio Limited		(2,645)	(294)
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income for the half-year attributable to the owners of Firstfolio Limited		(2,645)	(294)
		Cents	**Cents**
Basic earnings per share	16	(0.34)	(0.04)
Diluted earnings per share	16	(0.34)	(0.04)

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 31 December 2014

	Note	Consolidated 31 Dec 2014 $'000	Consolidated 30 Jun 2014 $'000
Assets			
Cash and cash equivalents	6	6,298	10,217
Trade and other receivables	7	3,175	2,961
Loans and advances to customers		149,823	171,286
Net present value of trail commission income		135,090	142,438
Property, plant and equipment		689	891
Intangibles	8	40,130	40,567
Total assets		335,205	368,360
Liabilities			
Trade and other payables		3,720	5,813
Warehouse and other funding	9	147,188	172,062
Net present value of trail commission expense		83,577	86,039
Borrowings	10	58,170	58,154
Provisions		807	959
Deferred tax		8,330	9,404
Total liabilities		301,792	332,431
Net assets		33,413	35,929
Equity			
Issued capital		41,328	41,328
Reserves		1,046	917
Accumulated losses		(8,961)	(6,316)
Total equity		33,413	35,929

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

Firstfolio Limited
Statement of changes in equity
For the half-year ended 31 December 2014

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 benefit for the half-year	-	-	(294)	(294)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(294)	(294)
Transactions with owners in their capacity as owners:				
Share-based payments	-	20	-	20
Balance at 31 December 2013	41,328	927	(2,472)	39,783

Consolidated	**Issued capital $'000**	**Reserves $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2014	41,328	917	(6,316)	35,929
Loss after income tax benefit for the half-year	-	-	(2,645)	(2,645)
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	(2,645)	(2,645)
Transactions with owners in their capacity as owners:				
Share-based payments	-	129	-	129
Balance at 31 December 2014	41,328	1,046	(8,961)	33,413

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

Firstfolio Limited
Statement of cash flows
For the half-year ended 31 December 2014

	Consolidated	
	31 Dec 2014 $'000	**31 Dec 2013 $'000**
Cash flows from operating activities		
Commissions and fees received	33,348	36,913
Commissions, salaries and other expenses paid	(31,674)	(33,186)
Interest received	91	128
Interest and other finance costs paid	(2,559)	(2,074)
Net warehouse interest	1,025	2,248
Net cash from operating activities	231	4,029
Cash flows from investing activities		
Payments for property, plant and equipment	(30)	(160)
Payments for intangibles	(9)	(317)
Payments of security deposits	(138)	-
Repayments of security deposits	26	5
Repayments of loans from borrowers	21,524	28,364
Net cash from investing activities	21,373	27,892
Cash flows from financing activities		
Proceeds from borrowings	463	-
Repayment of borrowings	(244)	(3,104)
Payment of deferred consideration	-	(83)
Repayment of warehouse facility (net)	(24,874)	(32,259)
Other financing costs	(868)	(644)
Net cash used in financing activities	(25,523)	(36,090)
Net decrease in cash and cash equivalents	(3,919)	(4,169)
Cash and cash equivalents at the beginning of the financial half-year	10,217	9,565
Cash and cash equivalents at the end of the financial half-year	6,298	5,396

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 24 February 2015. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2014 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2014 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, 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.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity during the financial half-year ended 31 December 2014 and are not expected to have any significant impact for the full financial year ending 30 June 2015. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Note 3. Operating segments

Identification of reportable operating segments

Internal reports that are reviewed and used by the Chief Operating Decision Makers (‘CODMs’) 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 CODMs is on at least a monthly basis.

Note 3. 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.

Operating segment information

Consolidated - 31 Dec 2014	Manufacturing $'000	Distribution $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	6,107	28,960	-	35,067
Other revenue	-	-	36	36
Total revenue	6,107	28,960	36	35,103
Segment result	922	(353)	-	569
Depreciation and amortisation				(678)
Interest revenue				36
Finance costs				(2,102)
Non-operating expenses				(1,098)
Restructuring costs				(446)
Loss before income tax benefit				(3,719)
Income tax benefit				1,074
Loss after income tax benefit				(2,645)
Assets				
Segment assets	159,106	176,099	-	335,205
Total assets				335,205
Liabilities				
Segment liabilities	147,188	87,297	-	234,485
Unallocated liabilities:				
Borrowings				58,170
Provisions				807
Tax related liabilities				8,330
Total liabilities				301,792

Note 3. Operating segments (continued)

Consolidated - 31 Dec 2013	Manufacturing $'000	Distribution $'000	Intersegment eliminations/ unallocated $'000	Total $'000
Revenue				
Sales to external customers	6,983	30,467	-	37,450
Other revenue	-	-	75	75
Total revenue	6,983	30,467	75	37,525
Segment result	1,063	1,964	-	3,027
Depreciation and amortisation				(1,136)
Interest revenue				75
Finance costs				(2,098)
Non-operating expenses				(307)
Loss before income tax benefit				(439)
Income tax benefit				145
Loss after income tax benefit				(294)
Consolidated - 30 Jun 2014				
Assets				
Segment assets	185,490	182,870	-	368,360
Total assets				368,360
Liabilities				
Segment liabilities	172,062	91,852	-	263,914
Unallocated liabilities:				
Borrowings				58,154
Provisions				959
Tax related liabilities				9,404
Total liabilities				332,431

Note 4. Other income

	Consolidated	
	31 Dec 2014 $'000	**31 Dec 2013 $'000**
Other interest	36	75

Note 5. Expenses

	Consolidated	
	31 Dec 2014 $'000	**31 Dec 2013 $'000**
Loss before income tax includes the following specific expenses:		
Finance costs		
Interest and finance charges paid/payable	1,927	2,098
Unwinding of transaction costs	175	-
Finance costs expensed	2,102	2,098

Note 6. Cash and cash equivalents

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Cash at bank and in hand	2,367	2,459
Trust collection account	3,226	7,124
Restricted cash	705	634
	6,298	10,217

'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 9 in the form of over-collateralisation.

Note 7. Trade and other receivables

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Trade receivables	691	617
Other receivables	524	648
Accrued revenue	813	986
Prepayments	616	291
Bonds and deposits	531	419
	3,175	2,961

Note 8. Intangibles

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Goodwill - at carrying value	15,194	15,194
Contract rights - at cost	7,181	7,181
Less: Accumulated amortisation	(2,214)	(1,855)
	4,967	5,326
Software and websites - at carrying value	7,792	7,661
Less: Accumulated amortisation	(7,445)	(7,358)
	347	303
Intellectual property - at carrying value	19,202	19,190
Distribution agreements - at cost	420	554
	40,130	40,567

Note 8. Intangibles (continued)

Impairment tests for goodwill, indefinite life intangibles and contract rights
Goodwill, indefinite life intangibles and contract rights 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	
	31 Dec 2014 $'000	**30 Jun 2014 $'000**
Distribution - CGU 1 (goodwill and indefinite life intangibles)	34,816	34,938
Manufacturing - CGU 2 (contract rights)	4,967	5,326
	39,783	40,264

The carrying value of Manufacturing CGU 2 goodwill and infinite life intangibles was $nil (30 June 2014: $nil).

At 31 December 2014, the recoverable amount of the consolidated entity's 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 ten year projection period approved by management, together with a terminal value.

The key assumptions used for the value in use calculations:

Overall approach
Revenue projections are based detailed plans and projects for the 12 months to 31 December 2015, relying on observed results for the financial half-year to 31 December 2014. 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 14.8% 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 8. 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 0.2% 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 0.2% 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 1.1% 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 0.5% for CGU 1 before the indefinite life intangibles would need to be impaired, with all other assumptions remaining constant.

CGU 2 Manufacturing
The remaining indefinite life intangibles for CGU 2, comprising goodwill of $893,000, was impaired as a result of the impairment test conducted at the prior reporting date of 30 June 2014. As part of that testing, it was further determined that the value of software intangibles of $1,450,000 would also be impaired.

The remaining intangible asset of CGU 2 is finite life contract rights with an amortised value of $4,967,000 at 31 December 2014. The impairment test methodology was used to assess the recoverable amount of the intangible asset of contract rights.

The recoverable amount was determined by a value in use calculation, using a discounted cash flow model. The model is based on a three 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 was renewed on 21 November 2014 and was extended until 24 July 2015.

Notwithstanding the renewal of the facility, management has adopted a conservative position and not factored new originations into the impairment model. This approach was adopted due to the immaterial historical settlement data which did not provide observable settlement growth rates for CGU2.

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 12.8% 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 Manufacturing CGU 2.

Note 8. 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) Total revenue would need to decrease more than 2.7% for CGU 2 before the intangibles would need to be impaired, with all other assumptions remaining constant.
(b) Total expenses would need to increase by more than 17.2% for CGU 2 before the intangibles would need to be impaired, with all other assumptions remaining constant.
(c) The discount rate would be required to increase by more than 7.8% for CGU 2 before the intangibles would need to be impaired, with all other assumptions remaining constant.

Note 9. Warehouse and other funding

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Warehouse facility	126,398	147,012
Bond fund notes	20,790	25,050
	147,188	172,062

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 6, and a fixed and floating charge over the assets of Firstfolio Capital Pty Ltd and Firstfolio Capital Management Pty Ltd and $5,350,000 (30 June 2014: $5,000,000) is invested in the warehouse as an overcollateralisation of the warehouse notes. The warehouse facility is a revolving facility, that has been renegotiated until 24 July 2015.

Note 10. Borrowings

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Loans from director related entity	58,430	58,430
Facility transaction costs	(525)	(575)
Lease liability	265	299
	58,170	58,154

Total secured liabilities
The total secured liabilities are as follows:

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Loans from director related entity	58,430	58,430
Lease liability	265	299
	58,695	58,729

Note 10. Borrowings (continued)

Assets pledged as security
The loan from the 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 Pty Ltd, Westpac Warehouse Trust No. 2 and the Calibre Fund No. 1. The loan has a repayment date of 7 July 2016.

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.

Note 11. Equity - dividends

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

Note 12. Fair value measurement

The carrying values of financial assets and financial liabilities presented represent a reasonable approximation of fair value.

Note 13. Contingent liabilities

	Consolidated	
	31 Dec 2014 $'000	30 Jun 2014 $'000
Bank guarantees	517	382

Note 14. Related party transactions

Parent entity
Firstfolio Limited is the parent entity.

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	31 Dec 2014 $	31 Dec 2013 $
Payment for other expenses:		
Interest paid on loan from Welas Pty Limited	1,912,417	991,767
Non-cash transaction costs expensed to profit or loss	175,081	-

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	
	31 Dec 2014 $	30 Jun 2014 $
Non-current borrowings:		
Loan from Welas Pty Limited	58,429,865	58,429,865

Welas Pty Limited is an entity related to the director Anthony Wales. Refer to note 10 for details of the loan repayment date and loan security.

Note 14. Related party transactions (continued)

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

Note 15. Events after the reporting period

No matter or circumstance has arisen since 31 December 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 16. Earnings per share

	Consolidated	
	31 Dec 2014 $'000	31 Dec 2013 $'000
Loss after income tax attributable to the owners of Firstfolio Limited	(2,645)	(294)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	773,886,809	773,886,809
Weighted average number of ordinary shares used in calculating diluted earnings per share	773,886,809	773,886,809
	Cents	**Cents**
Basic earnings per share	(0.34)	(0.04)
Diluted earnings per share	(0.34)	(0.04)

Firstfolio Limited
Directors' declaration
31 December 2014

In the directors' opinion:

- the attached financial statements and notes thereto comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Eric Dodd
Chairman

24 February 2015
Sydney

Deloitte.

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Independent Auditor's Review Report to the Members of Firstfolio Limited

We have reviewed the accompanying half-year financial report of Firstfolio Limited, which comprises the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Firstfolio Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Deloitte.

Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Firstfolio Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Philip Hardy
Partner
Chartered Accountants
Sydney, 24 February 2015