

Share Thrive

 **Annual Report 2010**

Connect

 Thrive

# Connect Share Thrive

These three simple words encapsulate the strategy driving one of Australia's fastest growing and most innovative financial services companies.

By identifying and **connecting** with new channels and opportunities and **sharing** a wealth of innovative products and services, Firstfolio is able to **thrive** together with its clients, partners, staff and shareholders.



# Overview

Firstfolio is a leading mortgage and financial services company. In essence, the company is a distribution platform which facilitates the delivery of bank / non-bank financial institution products (primarily home loan products) to borrowers. Therefore, it acts as an intermediary in the loan process.

**Firstfolio's services fall into three categories:**

## 1. Mortgage Broking

Primarily via eChoice, Firstfolio's online mortgage broker. eChoice ascertains the borrowing needs and ability of prospective borrowers, selects a loan suited to their circumstances and manages the loan application process to settlement.

## 2. Aggregation (Mortgage Broker Platform)

Firstfolio provides services (including access to loan products, compliance and IT) which enable small mortgage brokers to provide a full professional service to borrowers.

## 3. Mortgage Wholesaling & Management

Firstfolio arranges loan products from wholesale funders (primarily ING and Bendigo and Adelaide Bank) for:

- (a) businesses wanting to provide loans to their customers under their own branding; and
- (b) Firstfolio's three wholesale loan brands - "New-Loan", "WDirect" and "Xplore"

Loan management services (both pre and post loan settlement) are provided for these wholesale loans.

## Industry leading IT platform

Firstfolio's services are underpinned by its wholly owned, industry leading IT platform which houses:

- 1. an advanced enquiry generation, qualification, management, loan matching and selection platform; and
- 2. a complete wholesale loan submission and work flow management system.

Moreover, the IT platform is an integral component of Firstfolio's overall service offering to clients and partners as it provides full visibility of the loan process from the initial enquiry through to settlement.

## Enquiry fulfilment services

Firstfolio also provides enquiry fulfilment services to wholesale clients and partners wanting to outsource loan enquiry handling, qualification and processing. This enables Firstfolio to fully leverage the capacity and capabilities of its internal call centre.

# Connect



Firstfolio believes in the power of strong and interactive **connections**.

Our clients include home loan customers, mortgage brokers, online loan businesses and business partners from related industries such as real estate. Banks and non-bank financial institutions supply the products which we distribute.

To further enhance our service offering to clients, we have continued to build a distribution platform, known as “Bloom”, which incorporates advanced customer relationship management technology and processes such as enquiry filtering, product matching and selection and application processing. The platform can be tailored to suit our clients’ specific requirements for relationship management with their own customers. The platform is also integral to eChoice, Firstfolio’s online based mortgage broking service.

The other key element of Firstfolio’s distribution platform is the product offering which comprises a multitude of home loan products, as well as comprehensive offerings in the insurance and asset finance (operating lease) segments. Moreover, there is scope to extend our product offering into other areas of financial services and further leverage the Bloom platform.

We connect with end consumers, either directly or indirectly (via our clients and partners), through various means including face-to-face meetings, telephone interviews via our internal call centre, the internet or some combination thereof.

We have expanded our connections over the past year with the acquisitions of Loan Services Australia, LeaseChoice, First Chartered Capital Corporation, Apple Group and Xplore Capital.

# Share

Firstfolio acts as an intermediary to provide clients and partners with access to mortgage and financial services products.

These products include:

- Hundreds of home loan products from around 25 bank and non-bank financial institutions
  - “White labelled” home loan products supplied by wholesale funders (primarily ING and Bendigo and Adelaide Bank) which are subsequently branded per client requirements
  - Firstfolio’s wholesale home loan products, namely “New Loan”, “WDirect” and “Xplore”
  - Asset finance for operating leases
  - Insurance
- Improved pricing and economics through increased scale: The acquisition of Loan Services Australia, a sizeable mortgage wholesaling and management business, is a key example.
  - New financial services products and new relationships: The LeaseChoice business acquisition provides Firstfolio with an asset finance (operating lease) offering.

In turn, we are now able to share these benefits with clients.

We utilise our industry leading IT platform and work processes to share these mortgage and financial services products with our clients and partners.

Acquisitions have formed a key element of Firstfolio’s development over the past year. These acquisitions have provided us with:

The launch of an innovative Partner Program in 2009 highlights Firstfolio’s ability to share its distribution platform and processes with businesses in related industries and tailor home loan offerings. LJ Hooker recently joined the Partner Program to facilitate the re-launch of its house branded mortgage product (with Firstfolio providing various services including mortgage wholesaling and management).

# Thrive

We endeavour to ensure that Firstfolio **thrives** in conjunction with our clients, partners, staff and shareholders.

## Clients and Partners

We receive commission revenue from banks and non-bank financial institutions for the products which we distribute – both upfront upon settlement and throughout their life. In turn, we pay a share of this commission revenue to our clients and contractors which enables them to "thrive". The division of commission is prefaced on various factors including the nature of Firstfolio's relationship with the end user/customer (direct or indirect such as via mortgage broker clients), the nature of the product and Firstfolio's provision of services.

## Staff

Firstfolio strives to provide its employees with a quality work environment, training and market competitive remuneration. We aim to be viewed as an employer of choice in the mortgage and financial services industry.

## Shareholders

Firstfolio delivered FY2010 operating earnings before interest, tax, depreciation and amortisation ("Operating EBITDA") of \$10.5 million which represented an increase of 89% on the previous corresponding period. This growth was primarily attributable to contributions from acquisitions.

Diluted earnings per share rose 22% in FY2010 (to 0.78 cents) on an expanded capital base following the \$12 million rights issue in December 2009.

The directors and management of Firstfolio are committed to generating shareholder value. We expect to produce Operating EBITDA of \$15-\$16 million in FY2011.

**Firstfolio Limited**

**ABN 43 002 612 991**

**Annual Report - 30 June 2010**



**Firstfolio Limited**  
**Chairman's report**  
**30 June 2010**

I am pleased to present Firstfolio Limited's 2010 Annual Report.

Throughout the 2010 financial year, Firstfolio has continued its rapid development as a dynamic national distribution platform for the delivery of financial products and services.

The company further strengthened its business with the acquisition of all of the issued capital in Loan Services Australia Pty Limited, First Chartered Capital Pty Limited and Xplore Capital Limited, together with the purchase of the key assets of Leasechoice Pty Limited. These acquisitions have enhanced Firstfolio's distribution footprint, in terms of both geography and market segments, and further expanded the range of financial offerings for the entire network.

In late 2009, Firstfolio successfully completed a \$12 million rights issue and secured a new \$25 million long term funding facility. In combination, they provided the requisite funding for the aforementioned acquisition initiatives. I acknowledge the support of the shareholders who participated in the rights issue and the commitment of Welas Pty Limited, a company associated with Non-Executive Director Anthony Wales, which took up its rights and also provided the new funding facility.

The acquisitions of the past two years combined with efficient management of the fixed cost base generated a substantial 79% increase in Firstfolio's FY2010 net profit after tax to \$4.9 million. The company's FY2010 operational and financial performance are outlined in detail in the Chief Executive Officer's report.

The benefits of Firstfolio's growth strategy in terms of earnings, scale and efficiencies became increasingly obvious over the course of FY2010. This is testament to the professionalism and commitment of the senior management team under the leadership of Chief Executive Officer, Mark Forsyth, and I would like to thank them for their efforts. To the Board, I also offer my appreciation for their ongoing oversight of the company's strategy.

As we move further into the FY2011 financial year, I believe Firstfolio is well positioned to maintain its momentum. The company plans to explore further potential strategic acquisitions. Concurrently, it will focus on leveraging its scalable operation, national distribution network and competitive products and services to drive organic growth with initiatives such as the BLOOM B2B e-platform.

On behalf of the Board, I welcome all shareholders to attend this year's Annual General Meeting on Tuesday 16<sup>th</sup> of November. In addition to discussing the FY2010 financial results and some more recent activities, we intend to provide an update on our strategy for delivering sustained growth.

Finally, I thank you for your continued support and interest as we work to realise Firstfolio's outstanding potential.



Thomas J. Hartigan  
Chairman

23 August 2010  
Sydney

**Firstfolio Limited**  
**Chief Executive Officer's report**  
**30 June 2010**

The financial year ended 30 June 2010 was a milestone year for Firstfolio. The company continued to improve its financial and operating performance, despite the backdrop of events arising from the 'GFC' – particularly tightening credit availability in 2009.

The group continued the execution of its strategy to:

- Generate economic leverage through a larger mortgage book;
- Expand distribution; and
- Continue to diversify its financial product offering.

**Key highlights from the 2010 financial year**

- Profit before tax of \$4.812 million
- Operating EBITDA increased by \$5.154 million (84%) to \$10.545 million
- Mortgage portfolio now in excess of \$18 billion, an increase of \$6 billion over the previous year
- The successful acquisition and integration of Loan Services Australia Pty Ltd, First Chartered Capital Pty Ltd, and Xplore Capital Ltd
- A major step in product diversification through the acquisition of asset finance business Leasechoice.

**Financials**

Strong revenue growth of 38.4% to \$65.616 million, focused economies of scale and cost synergies helped deliver an Operating EBITDA of \$10.545 million. This is an excellent result, and reflects the sustained momentum that is being established as the Company continues to grow from strength to strength as a leading independent financial product and services distribution group.

**Underlying profit**

During the financial year there were a number of material one-off financial transactions (in particular costs associated with acquisition activities) that impacted earnings before interest, tax, depreciation and amortisation (EBITDA). These are noted in the table below:

<b>Firstfolio Limited</b>	<b>\$000's</b>
<b>30 June 2010</b>	
<b>Operating EBITDA</b>	<b>10,545</b>
Acquisition costs <sup>(1)</sup>	(1,235)
Loss on Disposal of Assets	(78)
Share Based Payments	(84)
<b>EBITDA</b>	<b>9,148</b>
Depreciation and Amortisation	(1,263)
Finance Costs – Actual Cash Payments	(1,294)
<b>Underlying Profit before Income Tax</b>	<b>6,591</b>
Finance Costs Deemed interest relating to discount of deferred acquisition payments – Non Cash	(1,779)
<b>Reported Profit Before Income Tax</b>	<b>4,812</b>

**Acquisitions**

Firstfolio has a clear acquisition strategy focused on four key areas:

1. Economic leverage – acquire mortgage books for their income stream to gain leverage from our platform e.g. Loan Services Australia Pty Ltd;
2. Geographic distribution e.g. First Chartered Capital's presence in Queensland;
3. New distribution channels e.g. Xplore Capital's rights to distribute to the Amway channel; and
4. New skills/products or services e.g. Leasechoice's skills in the area of asset finance and operating leases.

All of the businesses we have acquired in this period were clearly identified to fit into one of these areas and are clearly in line with our strategy. All acquisitions during the year have been earnings accretive in year one.

**Firstfolio Limited**  
**Chief Executive Officer's report**  
**30 June 2010**

**Growth in our partner program and Bloom B2B**

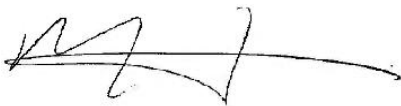
Our 'Bloom' B2B process and platform has gained significant traction. Bloom utilises cutting edge technology, innovative business processes and a national sales force to fulfill the sale of a suite of market leading products and services. It provides partners with the opportunity to provide financial services products to their customers with full visibility of the process and progress of resulting engagements with their customers. Firstfolio gains access to potential customers without the significant marketing spend required otherwise. We began FY 2011 with the announced partnership with LJ Hooker and already have a number of future partnering options we are currently considering for further expansion of the 'Bloom' network.

**Outlook**

We envisage that FY2011 will be another year of solid growth for Firstfolio and have provided guidance for operating EBITDA of \$15-16 million. During the year ahead, our focus will be to:

1. Further leverage and consolidate acquisitions to date;
2. Continue our organic growth through all distribution channels;
3. Develop and expand financial products and services; and
4. Be opportunistic with any potential acquisitions that would further enhance our business.

We believe that Firstfolio has now gained sufficient scale and momentum to be a key player in the financial services market, and management is focused clearly on generating attractive long-term shareholder growth.



Mark Forsyth  
Chief Executive Officer

23 August 2010  
Sydney

- (1) One off acquisition costs cover legal fees, consulting fees and stamp duty (now expensed under AASB3 Business Combinations, these costs are charged to profit and loss, but were previously capitalised.)

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

The directors present their report on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Firstfolio Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled for the year ended 30 June 2010.

**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:

Thomas J. Hartigan  
Anthony N. Wales  
Anthony Harris  
Michael Hogg  
Mark K. Flack  
Gregory J. Paramor (appointed on 29 July 2010)  
Mark Forsyth (appointed on 29 July 2010)

**Principal activities**

During the financial year the principal continuing activities of the consolidated entity consisted of the retailing, wholesaling, management and aggregation of mortgages in the home loan financing segment.

**Dividends**

There were no dividends paid during the current or previous financial year to the owners of Firstfolio Limited.

**Review of operations**

The profit for the consolidated entity after providing for income tax amounted to \$4,812,000 (30 June 2009: \$2,688,000).

Further information is contained in the Chairman's report and the Chief Executive Officer's report.

**Significant changes in the state of affairs**

*Loan Services Australia Pty Limited*

On 1 December 2009 Firstfolio Limited acquired 100% of the ordinary shares of Loan Services Australia Pty Limited, a subsidiary, for \$15,318,000. The principal activity of Loan Services Australia Pty Limited is the wholesaling and management of mortgages in the home loan financing segment.

*First Chartered Capital Corporation Pty Limited*

On 1 December 2009 Firstfolio Limited acquired 100% of the ordinary shares of First Chartered Capital Corporation Pty Limited, a subsidiary, for \$1,735,000. The principal activity of First Chartered Capital Corporation Pty Limited is the management and aggregation of mortgages in the home loan financing segment.

*Leasechoice*

On 1 April 2010 Firstfolio Limited acquired part of the business of Leasechoice for \$2,400,000. The principal activity of Leasechoice is asset finance.

*Xplore Capital Limited*

Between 10 April 2010 and 30 June 2010 Firstfolio Limited acquired 100% of the ordinary shares of Xplore Capital Limited, a subsidiary, for \$3,113,000. The principal activity of Xplore Capital Limited is the management and aggregation of mortgages in the home loan financing segment.

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

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

**Matters subsequent to the end of the financial year**

On 1 July 2010 Firstfolio Limited acquired 100% of the ordinary shares of Apple Loans Pty Limited, a subsidiary, for \$4,250,000. The principal activity of Apple Loans Pty Limited is processing and aggregation of mortgages in the home loan financing segment.

No other matter or circumstance has arisen since 30 June 2010 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**

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

**Environmental regulation**

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

**Information on directors**

Name: Thomas J. Hartigan  
Title: Chairman  
Age: 66  
Qualifications: B.Com, CA  
Experience and expertise: Mr Hartigan is a member of the Institute of Chartered Accountants in Australia and has more than 35 years experience as a Director of public companies.  
Other current directorships: Chairman of Medical Australia Limited  
Former directorships (in the last 3 years): Former Non-Executive Director of Eiffel Technologies Limited  
Special responsibilities: Chairman of the Audit Committee  
Interests in shares: 13,274,852 ordinary shares  
Interests in options: None

Name: Anthony N. Wales  
Title: Non-Executive Director  
Age: 66  
Qualifications: FCA, FCIS  
Experience and expertise: Mr Wales is a Non-Executive Director of Computershare Limited, having been a Director since 1981. He is a fellow of the Institute of Chartered Accountants in Australia.  
Other current directorships: Non-Executive Director of Computershare Limited  
Former directorships (in the last 3 years): None  
Special responsibilities: Member of the Audit Committee  
Interests in shares: 125,818,881 ordinary shares  
Interests in options: None

**Firstfolio Limited**  
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Name: Anthony B Harris  
Title: Non-Executive Director  
Age: 55  
Qualifications: B.App.Sc, AAPI, SAFin  
Experience and expertise: Mr Harris was the founder of The Money Store and has over 15 years involvement in the mortgage and finance industry.

Other current directorships: None  
Former directorships (in the last 3 years): None  
Special responsibilities: Member of the Audit Committee  
Interests in shares: 2,839,470 ordinary shares  
Interests in options: None

Name: Michael Hogg  
Title: Non-Executive Director  
Age: 50  
Qualifications:  
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  
Former directorships (in the last 3 years): None  
Special responsibilities: Member of the Audit Committee  
Interests in shares: 6,250,001 ordinary shares  
Interests in options: None

Name: Mark K. Flack  
Title: Executive Director  
Age: 45  
Qualifications: B.Bus  
Experience and expertise: Mr Flack consults to companies in the areas of marketing, business development and strategy. He is an associate of the Australian Society of Certified Practising Accountants.

Other current directorships: None  
Former directorships (in the last 3 years): None  
Special responsibilities: Member of the Audit Committee  
Interests in shares: 31,972,258  
Interests in options: None

**Firstfolio Limited**  
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Name: Gregory J. Paramor (appointed on 29 July 2010)  
Title: Non-Executive Director  
Age: 60  
Qualifications: FAPI, FRICS, FAICD  
Experience and expertise: Mr Paramor has been involved in the real estate and funds management industry for more than 35 years. He was the co-founder of Equity Real Estate Partners, Growth Equities Mutual, Paladin Australia and the James Fielding Group, and served as CEO of Mirvac between 2004 and 2008. Mr Paramor is a director of several not-for-profit organisations, including the Garvan Institute and the National Breast Cancer Foundation, and he sits on the Board of the Sydney Swans and LJ Hooker.

Other current directorships: Non-Executive Director of Folkestone Limited  
Former directorships (in the last 3 years): Former Executive Director of Mirvac Group  
Special responsibilities: None  
Interests in shares: 8,700,000 ordinary shares  
Interests in options: None

Name: Mark Forsyth (appointed on 29 July 2010)  
Title: Executive Director and Chief Executive Officer  
Age: 49  
Qualifications: ACMA, AAICD  
Experience and expertise: Mr Forsyth has had a 25 year international career working as CFO, COO and CEO in the UK, Europe, Middle East, Africa, USA and Asia. Commencing his international career with DHL Worldwide Express, Mark spent thirteen years in corporate finance and general management and then 7 years consulting to various Australian companies on entering the Asian market. His main areas of focus being market penetration, business development, corporate restructure and mergers and acquisitions.

Other current directorships: None  
Former directorships (in the last 3 years): None  
Special responsibilities: None  
Interests in shares: 35,087,500 ordinary shares  
Interests in options: None

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

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

**Company secretary**

Robert Dews is employed as the Company Secretary on a contractual basis.

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

**Meetings of directors**

The numbers of meetings of the company's Board of Directors and of each board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	Full Board		Audit Committee	
	Attended	Held	Attended	Held
Thomas J. Hartigan	7	7	2	2
Anthony N. Wales	5	7	1	2
Anthony Harris	7	7	2	2
Michael Hogg	6	7	2	2
Mark K. Flack	7	7	2	2

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

**Remuneration report (audited)**

The remuneration report, which has been audited, outlines the director and executive remuneration arrangements for the consolidated entity and the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

**A Principles used to determine the nature and amount of remuneration**

The objective of the consolidated entity's and company'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 the 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.

In consultation with external remuneration consultants, the Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity and company.

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
- attracts and retains high calibre executives

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

Alignment to program participants' interests:

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

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

*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 has also agreed to 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 requires 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 27 November 2009, where the shareholders approved an aggregate remuneration of \$360,000.

*Executive remuneration*

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation

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

*Consolidated entity performance and link to remuneration*

The consolidated entity's performance is not directly linked to remuneration. Bonus and incentive payments are at the discretion of the Board.

**B Details of remuneration**

*Amounts of remuneration*

Details of the remuneration of the directors, other key management personnel (defined as those who have the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity) and specified executives of Firstfolio Limited are set out in the following tables.

The key management personnel of the consolidated entity consisted of the directors of Firstfolio Limited and the following executives:

- Mark Forsyth - Chief Executive Officer
- Andrew Russell - General Manager - Third Party and Product Distribution
- Brett Mansfield - General Manager - eChoice and Wholesale Lending (resigned on 6 January 2010)

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

2010 Name	Short-term benefits			Post-employment benefits	Termination	Share-based payments	Total
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Termination \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
Thomas J. Hartigan (Chairman)	81,750	-	-	-	-	-	81,750
Anthony N. Wales	81,750	-	-	-	-	-	81,750
Anthony Harris	54,500	-	-	-	-	-	54,500
Michael Hogg	54,500	-	-	-	-	-	54,500
<i>Executive Directors:</i>							
Mark K. Flack	50,000	-	-	4,500	-	12,603	67,103
<i>Other Key Management Personnel:</i>							
Mark Forsyth	348,624	114,000	2,467	38,150	-	25,205	528,446
Andrew Russell	183,486	12,000	-	17,594	-	7,562	220,642
Brett Mansfield (resigned on 6 January 2010)	96,923	-	-	12,639	45,872	-	155,434

Anthony N. Wales payments include a back payment of directors fees from 1 January 2009 of \$27,250.

**Firstfolio Limited**  
**Directors' report**  
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2009 Name	Short-term benefits			Post-employment benefits	Termination	Share-based payments	Total \$
	Cash salary and fees \$	Bonus \$	Non-monetary \$	Super-annuation \$	Termination \$	Equity-settled \$	
<i>Non-Executive Directors:</i>							
Thomas J. Hartigan (Chairman)	70,305	-	-	-	-	-	70,305
Anthony Harris	42,250	-	-	-	-	-	42,250
Michael Hogg	42,250	-	-	-	-	-	42,250
<i>Executive Directors:</i>							
Mark K. Flack	72,000	-	-	6,480	-	-	78,480
<i>Other Key Management Personnel:</i>							
Mark Forsyth	441,559	57,500	28,111	51,551	-	-	578,721
Warren Nichols (resigned on 30 June 2009)	219,696	-	2,998	-	-	-	222,694
Andrew Russell (appointed on 1 May 2009)	30,581	-	-	2,752	-	-	33,333
Brett Mansfield (appointed on 3 June 2009)	12,586	-	-	1,133	-	-	13,719

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2010	2009	2010	2009	2010	2009
<i>Non-Executive Directors:</i>						
Thomas J. Hartigan	100%	100%	- %	- %	- %	- %
Anthony N. Wales	100%	100%	- %	- %	- %	- %
Anthony Harris	100%	100%	- %	- %	- %	- %
<i>Executive Directors:</i>						
Mark K. Flack	100%	100%	- %	- %	- %	- %
<i>Other Key Management Personnel:</i>						
Mark Forsyth	92%	90%	8%	10%	- %	- %
Warren Nichols	- %	100%	- %	- %	- %	- %
Andrew Russell	94%	100%	6%	- %	- %	- %
Brett Mansfield	100%	100%	- %	- %	- %	- %

**C Service agreements**

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Thomas J. Hartigan  
Title: Chairman  
Agreement commenced: 30 October 2002  
Term of agreement: Indefinite  
Details: Mr Hartigan is paid a fixed monthly retainer plus fees for additional services that may from time to time be warranted based on additional work required - such as capital raising activities.

Name: Mark Forsyth  
Title: Chief Executive Officer  
Agreement commenced: 1 July 2009  
Term of agreement: 3 years  
Details: Mr Forsyth's salary package is \$380,000 per annum including superannuation. Mr Forsyth is also entitled to a bonus component up to the value of \$114,000 plus superannuation in the form of cash and is payable on achievement of key performance indicators determined by the Board.

Name: Andrew Russell  
Title: General Manager - Third Party and Product Distribution  
Agreement commenced: 1 May 2009  
Term of agreement: Indefinite  
Details: Mr Russell's salary package is \$200,000 per annum including superannuation and a half-yearly performance based bonus up to the value of \$50,000 plus superannuation. The notice period for termination of the contract is three months, with no termination amount payable.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

**D 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 2010, other than the 28,000,000 ordinary shares issued to FFF Remuneration Pty Limited as described in note 23 to the financial statements.

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

*Options*

The terms and conditions of each grant of options affecting remuneration in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
27 June 2006	31 December 2006	31 March 2011	\$0.04	\$0.03
13 November 2006	21 December 2007	31 December 2010	\$0.10	\$0.02
13 November 2006	20 December 2008	31 December 2011	\$0.12	\$0.02

Options granted carry no dividend or voting rights.

Details of options over ordinary shares issued to directors and other key management personnel during the year ended 30 June 2010 are set out below:

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
Michael Hogg	-	-	-	3,750,000
Mark Forsyth	-	-	-	7,500,000
Warren Nichols	-	-	-	250,000

***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
27 June 2006	31 March 2011	\$0.04	750,000
13 November 2006	31 December 2010	\$0.10	15,000,000
13 November 2006	31 December 2011	\$0.12	15,000,000
14 November 2006	27 August 2013	\$0.06	50,000
19 December 2007	30 October 2012	\$0.06	1,050,000
4 February 2008	1 October 2010	\$0.06	100,000
4 February 2008	16 December 2010	\$0.06	1,000,000
15 April 2008	1 December 2012	\$0.06	70,000
15 April 2008	1 December 2012	\$0.07	175,000
28 May 2008	1 May 2011	\$0.03	6,191,000
16 April 2010	16 April 2013	\$0.06	500,000
16 April 2010	16 April 2013	\$0.07	6,200,000

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

**Shares issued on the exercise of options**

The following ordinary shares of Firstfolio Limited were issued during the year ended 30 June 2010 on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
10 August 2006	\$0.04	3,750,000
10 August 2006	\$0.04	3,750,000
27 June 2006	\$0.04	3,000,000
27 June 2006	\$0.04	3,750,000
28 May 2008	\$0.03	60,000

**Indemnity and insurance of officers**

The company has indemnified the directors of the company for costs incurred, in their capacity as a director, 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 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 otherwise, during or since 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**

There were no non-audit services provided during the financial year by the auditor.

**Officers of the company who are former audit partners of Pitcher Partners**

There are no officers of the company who are former audit partners of Pitcher Partners.

**Firstfolio Limited**  
**Directors' report**  
**30 June 2010**

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on the following page.

**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**

Pitcher Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

On behalf of the directors



---

Thomas J. Hartigan  
Chairman

23 August 2010  
Sydney



# PITCHER PARTNERS

ACCOUNTANTS AUDITORS & ADVISORS

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19 Martin Place  
Sydney NSW 2000  
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Pitcher Partners, including Johnston Rorke,  
is an association of independent firms  
Melbourne | Sydney | Perth | Adelaide | Brisbane

## AUDITORS' INDEPENDENCE DECLARATION

To the Directors of Firstfolio Limited

In relation to the independent audit of Firstfolio Limited for the year ended 30 June 2010, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001*; and
- (ii) no contravention of any applicable code of professional conduct.

M A GODLEWSKI  
Partner

PITCHER PARTNERS

23 August 2010

**Firstfolio Limited**  
**Corporate Governance Statement**  
**30 June 2010**

The Board of Directors of Firstfolio Limited (*Firstfolio* or *the Company*) is responsible for the corporate governance of the Company. 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.

In accordance with the ASX Corporate Governance Council's **Corporate Governance Principles and Recommendations: 2<sup>nd</sup> Edition (Revised Principles)** (*the Principles*), the corporate governance statement reports on the Company's adoption of the Principles on an exception basis. This statement provides specific information whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted. Firstfolio's corporate governance principles and policies are therefore structured with reference to the Principles, which are as follows:

- 1: Lay solid foundations for management and oversight.
- 2: Structure the board to add value.
- 3: Promote ethical and responsible decision making.
- 4: Safeguard integrity in financial reporting.
- 5: Make timely and balanced disclosure.
- 6: Respect the rights of shareholders.
- 7: Recognise and manage risk.
- 8: Remunerate fairly and responsibly.

**1. Lay Solid Foundations for Management and Oversight**

***Recommendation 1.1: Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.***

The Board is committed to maximising performance, generating appropriate levels of shareholder value and financial return.

The Board is therefore concerned to ensure that the Company is properly managed to protect and enhance shareholder interests and that the Company, its Directors, officers and employees operate in an appropriate environment of corporate governance.

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.

A statement as to the corporate governance policies adopted by the Company is available at the Company's website.

***Recommendation 1.2: Companies should disclose the process for evaluating the performance of senior executives.***

The performance of the Board, individual Directors and key executives is reviewed regularly, and has taken place during this reporting period.

The Company has not established a Remuneration or Nomination Committee as subcommittees of the Board. Remuneration and nomination issues are discussed and resolved at Board meetings and accordingly, the Board is responsible for determining and reviewing the remuneration of the Directors. 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. The Board may also obtain information from, and consult with management and external advisers, as it considers appropriate.

The remuneration policy for the Directors is disclosed in the Directors' Report.

***Recommendation 1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.***

In accordance with the 'Guide to Reporting on Principle 1', the Company provides the following information:

- 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.

**2. Structure the Board to Add Value**

***Recommendation 2.1: A majority of the board should be independent directors***

At the date of this statement, the Board comprises of seven Directors, four of which, Mr Tom Hartigan, Mr Michael Hogg, Mr Tony Harris and Mr Greg Paramor are deemed as independent Directors as defined under the Board policy on Director independence.

***Recommendation 2.2: The chair should be an independent director***

The Chairman, Mr Tom Hartigan, is deemed as an independent Director as defined under the Board policy on Director independence.

***Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual***

Mr Tom Hartigan is the Chairman of the Board, and Mr Mark Forsyth is the Chief Executive Officer.

***Recommendation 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.

***Recommendation 2.5: Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.***

The Board reviews and evaluates the performance of the Board and the Board committees. The process is to involve 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:

- (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.

This process aims to ensure that individual Directors and the Board as a whole contribute effectively in achieving the duties and responsibilities of the Board. The performance of the Board, individual Directors and key executives has taken place during this reporting period in accordance with the process set out above.

***Recommendation 2.6: Provide the information indicated in Guide to Reporting on Principle 2***

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.

In accordance with the 'Guide to Reporting on Principle 2', the Company provides the following information:

- (a) The skills, experience and expertise relevant to the position of Director held by each Director as at the date of the Annual Report is detailed in the Director's Report.
- (b) Mr Tom Hartigan, Mr Michael Hogg, Mr Tony Harris and Mr Greg Paramor are considered by the Board to constitute independent Directors. 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.
- (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.
- (d) The term of office held by each Director as at the date of the Annual Report is detailed in the Director's Report.
- (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.
- (f) The performance of the Board, individual Directors and key executives has taken place during the reporting period in accordance with the process set out in Recommendation 2.5.
- (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.

**3. Promote Ethical and Responsible Decision-making**

***Recommendation 3.1: Companies should establish a code of conduct and disclose the code or a summary of the code as to:***

- ***the practices necessary to maintain confidence in the company's integrity***
- ***the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders***
- ***the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.***

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.

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 conduct themselves in a professional and ethical manner in both their normal commercial activities and the discharge of their responsibilities as Directors.

The Code of Conduct adopted by the Company is available at the Company's website.

***Recommendation 3.2: Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.***

The Company has a policy concerning trading in the Company's securities by Directors, management and staff that is set out in the Company's 'Code of Conduct'. The main terms of the Code of Conduct are summarised below.

Any Director or employee wishing to buy or sell securities in the Company must advise the Chairman (in the case of Directors) or the Chief Executive Officer (in the case of an employee) of their intention beforehand. This applies to any dealings in the Company's securities by family members and other associates of Directors and employees, as well as to personal dealings by the Directors and employees.

Directors and employees must not buy or sell the Company's securities until approval has been given by the Chairman or Chief Executive Officer as the case requires.

The ASX Listing Rules require a director to notify the ASX within five (5) business days after any dealing in the Company's securities that results in a change in the relevant interests of the Director in the Company's securities.

Investment or divestment in other entities by management or staff is not permitted if it is known that the Company has commenced a programme to buy or sell investments in that entity.

***Recommendation 3.3: Companies should provide the information indicated in the Guide to reporting on Principle 3.***

In accordance with the 'Guide to Reporting on Principle 3', the Company has made its Code of Conduct available on its website.

#### **4. Safeguard Integrity in Financial Reporting**

***Recommendation 4.1: The board should establish an audit committee.***

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 comprises of the seven directors of the Company. Invitations to executives to attend meetings is extended where appropriate.

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.

Members of the 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.

***Recommendation 4.2: The audit committee should be structured so that it:***

- ***consists only of non-executive directors***
- ***consists of a majority of independent directors***
- ***is chaired by an independent chair, who is not chair of the board***
- ***has at least three members.***

The Audit and Compliance Committee currently consists of the five Directors of the Company. Mr Hartigan is chairman of the Audit and Compliance Committee. The Board is currently of the view that:

- in order to carry out the function of the Audit and Compliance Committee efficiently and effectively, the Audit and Compliance Committee is to comprise of all seven Directors of the Company;
- whilst Mr Michael Hogg, Mr Tony Harris and Mr Greg Paramor are independent directors, Mr Hartigan 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.

***Recommendation 4.3: The audit committee should have a formal charter***

The Audit and Compliance Committee operates under a charter approved by the Board.

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.

The Audit and Compliance Committee meets at least every six months and is responsible for:

- 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
- administering external audit activities.

***Recommendation 4.4: Companies should provide the information indicated in the Guide to reporting on Principle 4.***

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.

In accordance with the 'Guide to Reporting on Principle 4', the Company provides the following information:

- (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 four members of the Audit and Compliance Committee were present at both meetings;
- (c) the Audit and compliance Committee Charter adopted by the Company is available at the Company's website; and
- (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.

## 5. Make Timely and Balanced Disclosure

***Recommendation 5.1: Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.***

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.

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.

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.

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.

If information that would otherwise be disclosed comprises of 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 Firstfolio's external professional advisers and the ASX in relation to whether a trading halt or suspension is required.

The written policies and procedures in relation to the Company's continuous disclosure requirements with the ASX is available at the Company's website.

***Recommendation 5.2: Companies should provide the information indicated in the Guide to reporting on Principle 5.***

In accordance with the 'Guide to Reporting on Principle 5', the Company has made its Continuous Disclosure and Compliance Policy available on its website.

## 6. Respect the Rights of Shareholders

***Recommendation 6.1: Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.***

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.

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.

***Recommendation 6.2: Companies should provide the information indicated in the Guide to reporting on Principle 6.***

In accordance with the 'Guide to Reporting on Principle 6', the Company has made its Code of Conduct available on its website.

**7. Recognise and Manage Risk**

***Recommendation 7.1: Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.***

The Board has procedures in place to recognise and manage risk in accordance with Recommendation 7.1. Monthly reporting of financial performance is in place as are policies to manage credit, foreign exchange and other business risks.

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 not only that Firstfolio complies with its legal obligations, but that the Board and ultimately shareholders can take comfort that an appropriate system of checks and balances is in place regarding those areas of the business which present financial or operating risks.

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.

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.

***Recommendation 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.***

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.

The Company regularly undertakes reviews of its risk management procedures, which include implementation of a system of internal approvals to ensure not only that it complies with its legal obligations, but that the Board and shareholders can take comfort 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.

***Recommendation 7.3: The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the 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 effectively in all material respects in relation to financial reporting risks.***

Mr Mark Forsyth, as the Company's Chief Executive Officer, 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.

Mr Mark Forsyth 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.

***Recommendation 7.4: Companies should provide the information indicated in the Guide to reporting on Principle 7.***

In accordance with the 'Guide to Reporting on Principle 7', the Company provides the following information:

- (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.
- (c) The Board has received assurance from Mr Mark Forsyth, as the Company's Chief Executive Officer, and Mr Dustine Pang, as the Company's Chief Financial Officer, under Recommendation 7.3

**8. Remunerate Fairly and Responsibly**

***Recommendation 8.1: The board should establish a remuneration committee***

Due to the size of the Company and its current level of operations, the Company has not established a Remuneration Committee as a subcommittee of the Board.

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 executive 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.

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 each Non-Executive Director are disclosed in the Directors' Report.

The Board may obtain information from, and consult with management and external advisers, as it considers appropriate.

***Recommendation 8.2: Companies should 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 8.2.

***Recommendation 8.3: Companies should provide the information indicated in the Guide to reporting on Principle 8.***

In accordance with the 'Guide to Reporting on Principle 8', the Company provides the following information:

- (a) there are no schemes for retirement benefits, other than statutory superannuation, in existence for the Non-Executive Directors;
- (b) due to size of the Company and its current level of operations, the Company does not have a separate Remuneration Committee and therefore a charter or an appointment policy has not been created; and
- (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 8, except for Recommendation 8.1. An explanation for the departure from Recommendation 8.1 is set out above.

**Firstfolio Limited**  
**Financial report**  
**For the year ended 30 June 2010**

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**General information**

The financial report covers Firstfolio Limited as a consolidated entity consisting of Firstfolio Limited and the entities it controlled. The financial report is presented in Australian Dollars, which is Firstfolio Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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 report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 23 August 2010. The directors have the power to amend and reissue the financial report.

**Firstfolio Limited**  
**Statement of comprehensive income**  
**For the year ended 30 June 2010**

	Note	Consolidated 2010 \$'000	2009 \$'000
<b>Revenue</b>	5	65,616	47,398
Other income	6	101	66
<b>Expenses</b>	7		
Commission expenses		(37,537)	(29,482)
Valuation and title fees		(1,045)	(512)
Management fees		(300)	(275)
Employee benefits expense		(8,143)	(4,857)
Depreciation and amortisation expense		(1,263)	(898)
Operating lease rentals		(122)	(150)
Rent and occupancy		(1,078)	(733)
Telephone and communications charges		(600)	(408)
Travelling expenses		(481)	(359)
Contractor and consultants expenses		(1,348)	(1,749)
Audit fees		(143)	(134)
Advertising and promotion		(2,380)	(1,573)
Acquisition costs		(1,235)	-
Other expenses		(2,157)	(1,840)
Finance costs	7	(3,073)	(1,806)
<b>Profit before income tax expense</b>		4,812	2,688
Income tax expense	8	-	-
<b>Profit after income tax expense for the year attributable to the owners of Firstfolio Limited</b>	25	4,812	2,688
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year attributable to the owners of Firstfolio Limited</b>		<u>4,812</u>	<u>2,688</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	40	0.80	0.64
Diluted earnings per share	40	0.78	0.64

Refer to note 3 for detailed information on restatement of comparatives.

*The above statement of comprehensive income should be read in conjunction with the accompanying notes*

**Firstfolio Limited**  
**Statement of financial position**  
**As at 30 June 2010**

	Note	Consolidated	
		2010 \$'000	2009 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	2,472	704
Trade and other receivables	10	8,460	5,140
Other	11	1,950	-
Total current assets		<u>12,882</u>	<u>5,844</u>
<b>Non-current assets</b>			
Receivables	12	657	737
Other financial assets	13	336	336
Property, plant and equipment	14	552	315
Intangibles	15	65,232	40,960
Deferred tax	16	685	685
Total non-current assets		<u>67,462</u>	<u>43,033</u>
<b>Total assets</b>		<u>80,344</u>	<u>48,877</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	17	8,217	4,773
Borrowings	18	9,516	15,721
Income tax	19	207	247
Provisions	20	678	290
Total current liabilities		<u>18,618</u>	<u>21,031</u>
<b>Non-current liabilities</b>			
Borrowings	21	33,516	17,493
Provisions	22	240	62
Total non-current liabilities		<u>33,756</u>	<u>17,555</u>
<b>Total liabilities</b>		<u>52,374</u>	<u>38,586</u>
<b>Net assets</b>		<u>27,970</u>	<u>10,291</u>
<b>Equity</b>			
Contributed equity	23	39,932	27,149
Reserves	24	2,746	2,662
Accumulated losses	25	(14,708)	(19,520)
<b>Total equity</b>		<u>27,970</u>	<u>10,291</u>

Refer to note 3 for detailed information on restatement of comparatives.

*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 2010**

	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>				
Balance at 1 July 2008	25,334	2,481	(22,208)	5,607
Total comprehensive income for the year	-	-	2,688	2,688
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	1,815	-	-	1,815
Share-based payments	-	181	-	181
	<u>27,149</u>	<u>2,662</u>	<u>(19,520)</u>	<u>10,291</u>
Balance at 30 June 2009	<u>27,149</u>	<u>2,662</u>	<u>(19,520)</u>	<u>10,291</u>
	Contributed equity \$'000	Reserves \$'000	Accumulated losses \$'000	Total equity \$'000
<b>Consolidated</b>				
Balance at 1 July 2009	27,149	2,662	(19,520)	10,291
Total comprehensive income for the year	-	-	4,812	4,812
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	12,783	-	-	12,783
Share-based payments	-	84	-	84
	<u>39,932</u>	<u>2,746</u>	<u>(14,708)</u>	<u>27,970</u>
Balance at 30 June 2010	<u>39,932</u>	<u>2,746</u>	<u>(14,708)</u>	<u>27,970</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 2010**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2010</b>	<b>2009</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		72,543	52,693
Payments to suppliers (inclusive of GST)		<u>(62,862)</u>	<u>(47,777)</u>
		9,681	4,916
Interest received		90	62
Interest and other finance costs paid		(998)	(1,307)
Income taxes paid		<u>(370)</u>	<u>(258)</u>
Net cash from operating activities	38	<u>8,403</u>	<u>3,413</u>
<b>Cash flows from investing activities</b>			
Payment for purchase of business, net of cash acquired	34	(25,199)	(2,753)
Payments for property, plant and equipment		(378)	(138)
Payments for security deposits		-	(5)
Loans to other entities		-	(130)
Payments for intangibles		(23)	-
Payments for deposit for purchase of business		(1,950)	-
Proceeds from sale of property, plant and equipment		5	-
Proceeds from release of security deposits		<u>87</u>	<u>-</u>
Net cash used in investing activities		<u>(27,458)</u>	<u>(3,026)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		12,241	-
Proceeds from borrowings		23,350	500
Repayment of borrowings		<u>(14,528)</u>	<u>(551)</u>
Net cash from/(used in) financing activities		<u>21,063</u>	<u>(51)</u>
Net increase in cash and cash equivalents		2,008	336
Cash and cash equivalents at the beginning of the financial year		<u>464</u>	<u>128</u>
Cash and cash equivalents at the end of the financial year	9	<u><u>2,472</u></u>	<u><u>464</u></u>

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

**Note 1. 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 Standards and Interpretations**

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

Any significant impact on the accounting policies of the consolidated entity from the adoption of these accounting standards and interpretations are disclosed in the relevant accounting policy.

The adoption of these Standards and Interpretations did not have any impact on the financial performance or position of the consolidated entity. The following Standards and Interpretations are most relevant to the consolidated entity:

*AASB 101 Presentation of Financial Statements ('AASB 101')*

The consolidated entity has applied the revised AASB 101 from 1 July 2009 and now presents a statement of comprehensive income, which incorporates the income statement and all non-owner changes in equity. As a result, the consolidated entity now presents all owner changes in the statement of changes in equity. The balance sheet is now referred to as the statement of financial position. There is a requirement to present a third statement of financial position if there is restatement of comparatives through either a correction of error, change in accounting policy or a reclassification. The cash flow statement is now referred to as the statement of cash flows.

*AASB 3 Business Combinations ('AASB 3')*

The consolidated entity has applied the revised AASB 3 for all new business combinations acquired on or after 1 July 2009. As well as the expensing of transaction costs and minority interest now being referred to as non-controlling interest, there are a number of significant changes - refer to the 'business combinations' accounting policy for further details.

*AASB 127 Consolidated and Separate Financial Statements ('AASB 127')*

The consolidated entity has applied the revised AASB 127 from 1 July 2009. The revised standard requires changes in ownership interest of a subsidiary without a change in control to be accounted for as a transaction with owners in their capacity as owners. It also changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary - refer to the 'principles of consolidation' accounting policy for further details.

*AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

This amendment is applicable from 1 July 2009 and removes references to the cost method. The distinction between pre and post acquisition profits is no longer relevant as all dividends are now recognised in profit or loss - refer to the 'principles of consolidation' accounting policy for further details.

*AASB 7 Financial Instruments: Disclosure ('AASB 7')*

This amended standard is applicable from 1 July 2009 and requires additional disclosure about fair value measurement of financial instruments, using a three level fair value hierarchy. The amendments also clarify the disclosure requirements about liquidity risks for derivative transactions and assets used for liquidity management.

*AASB 8 Operating Segments ('AASB 8')*

The consolidated entity has applied AASB 8, which replaces AASB 114 'Segment Reporting', from 1 July 2009. AASB 8 requires a management approach to segment reporting based on the information reported internally. Refer to note 3.

**Note 1. Significant accounting policies (continued)**

**Going concern**

The consolidated entity has prepared the financial report on a going concern basis.

The net cash inflow from operating activities for the financial year ended 30 June 2010 was \$8,403,000 and based on current forecasts the consolidated entity is expected to remain cash flow positive in the foreseeable future. The cash generated from future operating activities will be largely utilised to repay deferred cash consideration to the eChoice, Domain, Loan Services Australia and First Chartered Capital Corporation vendors. These vendor repayments are linked on a monthly basis to a proportion of net Gross Margin from the respective businesses and based on the calculations will not result in a net cash outflow from the individual businesses.

At 30 June 2010 the consolidated entity had net assets of \$27,970,000, net tangible asset deficiency (excluding intangible assets) of \$37,262,000 and a net current asset deficiency of \$5,736,000. The net current asset deficiency is largely made up of deferred cash consideration to the eChoice, Domain, Loan Services Australia and First Chartered Capital Corporation vendors of \$7,983,000 (refer above).

No adjustments have been made relating to recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern. Notwithstanding the above the directors' have prepared the financial report on a going concern basis as they regularly monitor the consolidated entity's cash position and, on an on-going basis, consider a number of strategic and operation plans and initiatives to ensure that adequate funding continues to be available for the consolidated entity to meet its objectives and financial obligations.

**Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. 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.

*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 2.

**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 33.

**Note 1. Significant accounting policies (continued)**

**Principles of consolidation**

The consolidated financial statements incorporates the assets and liabilities of all subsidiaries of Firstfolio Limited ('company' or 'parent entity') as at 30 June 2010 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 the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. 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.

*Change in accounting policy from 1 July 2009*

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for as 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.

The change in accounting policy has been applied prospectively.

*Accounting policy up to 30 June 2009*

The acquisition of subsidiaries is accounted for using the purchase method of accounting. Refer to the 'business combinations' accounting policy for further details. A change in ownership interest, without the loss of control, is accounted for using the parent entity extension method, where the difference between the consideration paid and the book value of the share of net assets acquired is recognised in goodwill.

Where the consolidated entity loses control over a subsidiary, the consolidated entity recognises a gain or loss directly to the income statement, being the difference between the consideration received and the share of the net assets disposed of. Any investment retained is accounted for at its proportionate share of net asset value at the date control is lost.

**Operating segments**

*Change in accounting policy from 1 July 2009*

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.

*Accounting policy up to 30 June 2009*

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

**Note 1. Significant accounting policies (continued)**

**Revenue recognition**

*Origination and loan management (managed funds)*

Origination commissions are recognised as revenue in the month the loan is settled, where the consolidated entity has no further requirement to perform services.

Loan management revenue in respect of settled loans is recognised each month on a due and payable basis.

*Rendering of services (other than origination and loan management)*

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*

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

**Note 1. Significant accounting policies (continued)**

**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 and unused tax losses and under and over provision in 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 investments in subsidiaries, associates or interests in 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 entity's which intend to settle simultaneously.

Firstfolio Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits which are immediately assumed by the parent entity. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right. The current tax liability of each group entity is then subsequently assumed by the parent entity. In addition to its own current and deferred tax amounts, Firstfolio Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax credits assumed from subsidiaries 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.

**Cash and cash equivalents**

Cash and cash equivalents 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. For the statement of cash flows presentation purposes, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in current liabilities on the statement of financial position.

**Note 1. Significant accounting policies (continued)**

**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.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible 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.

**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. The fair values of quoted investments are based on current bid prices. For unlisted investments, the consolidated entity establishes fair value by using valuation techniques. These include the use of recent arms 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 loans and receivables 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 can not exceed the amortised cost that would have been had the impairment not been recognised and is reversed to profit or loss.

**Note 1. Significant accounting policies (continued)**

**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	3-10 years
Plant and equipment under lease	2-5 years

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

Leasehold improvements and 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 dependant 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.

Finance leases are capitalised. A lease asset and liability are established at 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 is 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.

**Note 1. Significant accounting policies (continued)**

**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. 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 an intangible asset is measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangibles are reviewed annually. Changes in expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

*Goodwill*

Where an entity or operation is acquired in a business combination, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of the acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill. 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.

*Website*

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

*Software*

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of between 3 and 10 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.

*Distribution agreements*

Costs in relation to distribution agreements are capitalised as an asset. These costs are not subsequently amortised as they have an indefinite useful life.

**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 to sell 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.

**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 not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Note 1. Significant accounting policies (continued)**

**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.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**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 the bank overdraft
- 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**

*Wages and salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

*Long service leave*

The liability for long service leave is recognised in current and non-current liabilities, depending on the unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The liability 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.

**Note 1. Significant accounting policies (continued)**

*Share-based payments*

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or 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 accumulative 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 charge to profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already charged in previous periods.

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The accumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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.

**Contributed equity**

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.

**Note 1. Significant accounting policies (continued)**

**Business combinations**

*Change in accounting policy from 1 July 2009*

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.

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.

The change in accounting policy has been applied prospectively.

**Note 1. Significant accounting policies (continued)**

*Accounting policy up to 30 June 2009*

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

Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

All identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially recognised at their fair values at the acquisition-date, irrespective of the extent of any minority interest. The excess of the cost of the acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the consolidated entity's share of the fair value of the identifiable net assets acquired, the difference is recognised as a gain directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. The unwinding of the discount on deferred cash consideration is expensed to profit or loss as a finance cost. Contingent consideration is recognised when probable. Subsequent changes to contingent consideration is recognised as goodwill.

Business combinations are initially accounted for on a provisional basis until either the earlier of (i) 12 months from the date of the acquisition or (ii) the finalisation of fair values.

**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.

**Note 1. 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 Standards and Interpretations not yet effective**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The consolidated entity's assessment of the impact of these new standards and interpretations, most relevant to and not early adopted by the consolidated entity, are set out below.

*AASB 2009-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2010. These amendments result in some accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The main change is the removal of specific guidance on classifying land as a lease in AASB 117 'Leases', which may result in more land leases being classified as finance leases. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

*AASB 2009-8 Amendments to AASB 2 - Group Cash-settled Share-based Payment Transactions*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2010. These amendments clarify the scope of AASB 2 'Share-Based Payment' by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the consolidated entity settles the transaction, and no matter whether the transaction is settled in shares or cash. These amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by these amendments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

*AASB 2009-10 Amendments to AASB 132 – Classification of Rights Issues*

These amendments are applicable to annual reporting periods beginning on or after 1 February 2010. These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The adoption of these amendments from 1 July 2010 will not have a material impact on the consolidated entity.

*AASB 2009-12 Amendments to Australian Accounting Standards*

These amendments are applicable to annual reporting periods beginning on or after 1 January 2011. These amendments make numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, which have no major impact on the requirements of the amended pronouncements. The main amendment is to AASB 8 'Operating Segments' and requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The adoption of these amendments from 1 July 2011 will not have a material impact on the consolidated entity.

*AASB 9 Financial Instruments and 2009-11 Amendments Australian Accounting Standards arising from AASB 9*

This standard and consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013. This standard introduces new classification and measurement models for financial assets as part of phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). It uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. The standard also removes the impairment requirements for financial assets held at fair value. The accounting for financial liabilities has not been amended by the IASB and continues to be classified and measured in accordance with AASB 139. The consolidated entity will adopt this standard from 1 July 2011 but the impact of its adoption is yet to be assessed by the consolidated entity.

**Note 2. 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 within the next financial year are discussed below.

*Share-based payment transactions*

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

*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.

*Estimation of useful lives of assets*

The consolidated entity's management determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and definite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. Management will increase the depreciation and amortisation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

*Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. 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 cash flows.

*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 to sell or value-in-use calculations, which incorporate a number of key estimates and assumptions.

*Recovery of deferred tax assets*

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*Long service leave provision*

As discussed in note 1, the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

*Deferred consideration*

The deferred consideration liability is the difference between the total purchase consideration, usually on an acquisition of a business combination, and the amounts paid or settled up to the reporting date, discounted to net present value. The consolidated entity applies provisional accounting for any business combination. Any reassessment of the liability during the earlier of the finalisation of the provisional accounting or 12 months from acquisition-date is adjusted for retrospectively as part of the provisional accounting rules in accordance with AASB 3 'Business Combinations'. Thereafter, at each reporting date, the deferred consideration liability is reassessed against revised management estimates and any increase or decrease in the net present value of the liability will result in a corresponding gain or loss to profit or loss. The increase in the liability resulting from the passage of time is recognised as a finance cost.

*Lease make good provision*

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting both the expense or asset, if applicable, and provision.

*Business combinations*

As discussed in note 1, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by management taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

**Note 3. Restatement of comparatives**

*Reclassification*

As the values identified in relation to the acquisition of eChoice Pty Limited have now been finalised, it was necessary to restate the 30 June 2009 comparatives due to \$584,000 of accumulated amortisation being recognised in relation to \$3,000,000 of identified software.

**Firstfolio Limited**  
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**Note 3. Restatement of comparatives (continued)**

*Statement of comprehensive income*

	<b>2009</b>	<b>Consolidated</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Reported</b>	<b>Adjustment</b>	<b>Restated</b>
<b>Revenue</b>	47,398	-	47,398
Other income	66	-	66
<b>Expenses</b>			
Commission expenses	(29,482)	-	(29,482)
Valuation and title fees	(512)	-	(512)
Management fees	(275)	-	(275)
Employee benefits expense	(4,857)	-	(4,857)
Depreciation and amortisation expense	(314)	(584)	(898)
Operating lease rentals	(150)	-	(150)
Rent and occupancy	(733)	-	(733)
Telephone and communications charges	(408)	-	(408)
Travelling expenses	(359)	-	(359)
Contractor and consultants expenses	(1,749)	-	(1,749)
Audit fees	(134)	-	(134)
Advertising and promotion	(1,573)	-	(1,573)
Acquisition costs	-	-	-
Other expenses	(1,840)	-	(1,840)
Finance costs	(1,806)	-	(1,806)
<b>Profit before income tax expense</b>	3,272	(584)	2,688
Income tax expense	-	-	-
<b>Profit after income tax expense for the year attributable to the owners of Firstfolio Limited</b>	3,272	(584)	2,688
Other comprehensive income for the year, net of tax	-	-	-
<b>Total comprehensive income for the year attributable to the owners of Firstfolio Limited</b>	3,272	(584)	2,688

*Statement of financial position at the beginning of the earliest comparative period*

When there is a restatement of comparatives, it is mandatory to provide a third statement of financial position at the beginning of the earliest comparative period, being 1 July 2008. However, as there were no adjustments made as at 1 July 2008, the consolidated entity has elected not to show the 1 July 2008 statement of financial position.

**Firstfolio Limited**  
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**Note 3. Restatement of comparatives (continued)**

*Statement of financial position at the end of the earliest comparative period*

	<b>2009</b>	<b>Consolidated</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
	<b>Reported</b>	<b>Adjustment</b>	<b>Restated</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	704	-	704
Trade and other receivables	5,140	-	5,140
Other	-	-	-
Total current assets	<u>5,844</u>	<u>-</u>	<u>5,844</u>
<b>Non-current assets</b>			
Receivables	737	-	737
Other financial assets	336	-	336
Property, plant and equipment	315	-	315
Intangibles	41,544	(584)	40,960
Deferred tax	685	-	685
Total non-current assets	<u>43,617</u>	<u>(584)</u>	<u>43,033</u>
<b>Total assets</b>	<u>49,461</u>	<u>(584)</u>	<u>48,877</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	4,773	-	4,773
Borrowings	15,721	-	15,721
Income tax	247	-	247
Provisions	290	-	290
Total current liabilities	<u>21,031</u>	<u>-</u>	<u>21,031</u>
<b>Non-current liabilities</b>			
Borrowings	17,493	-	17,493
Provisions	62	-	62
Total non-current liabilities	<u>17,555</u>	<u>-</u>	<u>17,555</u>
<b>Total liabilities</b>	<u>38,586</u>	<u>-</u>	<u>38,586</u>
<b>Net assets</b>	<u>10,875</u>	<u>(584)</u>	<u>10,291</u>
<b>Equity</b>			
Contributed equity	27,149	-	27,149
Reserves	2,662	-	2,662
Accumulated losses	(18,936)	(584)	(19,520)
<b>Total equity</b>	<u>10,875</u>	<u>(584)</u>	<u>10,291</u>

**Firstfolio Limited**  
**Notes to the financial statements**  
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**Note 4. Operating segments**

*Identification of reportable operating segments*

The consolidated entity has identified that there is one operating segment based on the internal reports that are reviewed and used by the Chief Executive Officer and the Board of Directors (collectively referred to as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

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

*Types of products and services*

The consolidated entity operates principally in the home loan financing segment within Australia.

*Major customers*

The consolidated entity has a number of customers to which it provides products and services via six main banks in Australia. The combined revenue from these six main banks amounted to 82% (2009: 79%) of the external revenue.

**Note 5. Revenue**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Sales revenue</i>		
Services revenue	65,526	47,336
	<hr/>	<hr/>
<i>Other revenue</i>		
Interest	90	62
	<hr/>	<hr/>
Revenue	<u>65,616</u>	<u>47,398</u>

**Note 6. Other income**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Other income	101	66
	<hr/>	<hr/>

**Firstfolio Limited**  
**Notes to the financial statements**  
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**Note 7. Expenses**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable	1,294	905
Unwinding of the discount on deferred cash consideration	<u>1,779</u>	<u>901</u>
Finance costs expensed	<u>3,073</u>	<u>1,806</u>
<i>Net loss on disposal</i>		
Net loss on disposal of property, plant and equipment	<u>78</u>	<u>21</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>927</u>	<u>682</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	<u>651</u>	<u>391</u>
<i>Share-based payments expense</i>		
Share-based payments expense	<u>84</u>	<u>181</u>

**Firstfolio Limited**  
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**Note 8. Income tax expense**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Numerical reconciliation of income tax expense to prima facie tax payable</i>		
Profit before income tax expense	4,812	2,688
Tax at the Australian tax rate of 30%	1,444	806
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible amortisation of software	301	176
Non-deductible acquisition costs	371	-
Non-deductible expenses	23	25
	<u>2,139</u>	<u>1,007</u>
Prior year tax losses not recognised now recouped	(2,139)	(1,007)
Income tax expense	<u>-</u>	<u>-</u>
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	<u>20,154</u>	<u>28,618</u>
Potential tax benefit @ 30%	<u>6,046</u>	<u>8,585</u>

The above potential tax benefit for tax losses has not been recognised in the statement of financial position. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

**Note 9. Current assets - cash and cash equivalents**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	2,059	619
Cash on deposit	413	85
	<u>2,472</u>	<u>704</u>
<i>Reconciliation to cash and cash equivalents at the end of the financial year</i>		
The above figures are reconciled to cash and cash equivalents at the end of the financial year as shown in the statement of cash flows as follows:		
Balances as above	2,472	704
Bank overdraft (note 18)	-	(240)
Balance as per statement of cash flows	<u>2,472</u>	<u>464</u>

**Firstfolio Limited**  
**Notes to the financial statements**  
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**Note 10. Current assets - trade and other receivables**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	2,642	1,346
Less: Provision for impairment of receivables	(53)	(24)
	<u>2,589</u>	<u>1,322</u>
Other receivables	1,513	520
Accrued revenue	3,874	2,942
Other financial instruments	-	89
Prepayments	400	121
Bonds and deposits	84	146
	<u>8,460</u>	<u>5,140</u>

*Impairment of receivables*

The consolidated entity has recognised a loss of \$66,000 (2009: \$27,000) in the profit or loss in respect of impairment of receivables for the year ended 30 June 2010.

The ageing of the impaired receivables recognised above are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Over 6 months overdue	<u>53</u>	<u>24</u>

Movements in the provision for impairment of receivables are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	24	-
Additional provisions recognised	66	27
Receivables written off during the year as uncollectible	(37)	(3)
	<u>53</u>	<u>24</u>

**Firstfolio Limited**  
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**Note 10. Current assets - trade and other receivables (continued)**

*Past due but not impaired*

Customers with balances past due but without provision for impairment of receivables amount to \$35,000 at 30 June 2010 (\$21,000 at 30 June 2009). Management did not consider a credit risk on the aggregate balances after reviewing agency credit information and credit terms of customers based on recent collection practices.

The ageing of the past due but not impaired receivables are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
1 to 3 months overdue	15	1
3 to 6 months overdue	15	5
Over 6 months overdue	5	15
	<u>35</u>	<u>21</u>

**Note 11. Current assets - other**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Deposit for Apple Loans purchase	<u>1,950</u>	<u>-</u>

**Note 12. Non-current assets - receivables**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Other receivables	<u>657</u>	<u>737</u>

**Note 13. Non-current assets - other financial assets**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Loans - other	<u>336</u>	<u>336</u>

**Firstfolio Limited**  
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**Note 14. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment - at cost	1,345	1,590
Less: Accumulated depreciation	(798)	(1,293)
	<u>547</u>	<u>297</u>
Plant and equipment under lease	57	57
Less: Accumulated depreciation	(52)	(39)
	<u>5</u>	<u>18</u>
	<u><u>552</u></u>	<u><u>315</u></u>

*Reconciliations*

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

	Plant and equipment \$'000	Plant under lease \$'000	Total \$'000
<b>Consolidated</b>			
Balance at 1 July 2008	248	32	280
Additions	161	18	179
Additions through business combinations (note 34)	87	-	87
Disposals	(21)	-	(21)
Depreciation expense	(178)	(32)	(210)
	<u>297</u>	<u>18</u>	<u>315</u>
Balance at 30 June 2009	297	18	315
Additions	404	-	404
Additions through business combinations (note 34)	106	-	106
Disposals	(83)	-	(83)
Depreciation expense	(177)	(13)	(190)
	<u>547</u>	<u>5</u>	<u>552</u>
Balance at 30 June 2010	<u><u>547</u></u>	<u><u>5</u></u>	<u><u>552</u></u>

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**Note 15. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Goodwill - at cost	52,021	26,699
Less: Impairment	(170)	(170)
	<u>51,851</u>	<u>26,529</u>
Website - at cost	59	36
Less: Accumulated amortisation	(47)	(36)
	<u>12</u>	<u>-</u>
Software - at cost	3,131	3,131
Less: Accumulated amortisation	(1,714)	(652)
	<u>1,417</u>	<u>2,479</u>
Intellectual property - at cost	12,200	12,200
Less: Impairment	(500)	(500)
	<u>11,700</u>	<u>11,700</u>
Distribution agreements - at cost	252	252
	<u>252</u>	<u>252</u>
	<u>65,232</u>	<u>40,960</u>

*Reconciliations*

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

	Goodwill \$'000	Website \$'000	Software \$'000	Intellectual property \$'000	Distribution agreements \$'000	Total \$'000
<b>Consolidated</b>						
Balance at 1 July 2008	15,865	36	-	-	252	16,153
Additions through business combinations (note 34)	10,664	-	3,131	11,700	-	25,495
Amortisation expense	-	(36)	(652)	-	-	(688)
	<u>26,529</u>	<u>-</u>	<u>2,479</u>	<u>11,700</u>	<u>252</u>	<u>40,960</u>
Balance at 30 June 2009	26,529	-	2,479	11,700	252	40,960
Additions	-	23	-	-	-	23
Additions through business combinations (note 34)	25,322	-	-	-	-	25,322
Amortisation expense	-	(11)	(1,062)	-	-	(1,073)
	<u>51,851</u>	<u>12</u>	<u>1,417</u>	<u>11,700</u>	<u>252</u>	<u>65,232</u>
Balance at 30 June 2010	<u>51,851</u>	<u>12</u>	<u>1,417</u>	<u>11,700</u>	<u>252</u>	<u>65,232</u>

**Note 15. Non-current assets - intangibles (continued)**

*Impairment tests for goodwill*

Goodwill acquired through business combinations is allocated to the single cash generating unit (CGU), being the home financing segment within Australia.

The recoverable amount of the single CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below.

*Key assumptions used for value-in-use calculations*

Discount rate:

The discount rate applied to cash flow projections is 17.50% pre-tax (2009: 19.25% 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.

Overall approach:

Revenue projections are based on detailed plans for the year ending 30 June 2011 and growth projections based on the key drivers in the current business. Commissions and other expenses are based on detailed knowledge of the business, historic activity, weighted average inflation rates and detailed plans for the year ending 30 June 2011. This has been extrapolated in future years based on knowledge and assumptions around the growth in revenue and the level of expense required to support this.

Loan settlements:

The cash flow projections are influenced by the loan settlement forecast. This forecast takes account of historical loan settlement volumes. Management considers the growth rate from this base of approximately 7% (2009: 8%), excluding any future acquisitions, to be conservative. A growth rate of 3% (2009: 3%) or less is assumed for new settlements in the following years.

Trail income:

The settlement volumes noted above influence the trail income estimates in the year ending 30 June 2011 and following financial years in association with the estimates relating to the types and frequency of loan products settled in the period. Management believes that the estimate is reasonable given current market circumstances and business growth plans. The projection of trail income is less sensitive to loan settlements in the short term due to the overriding influence of the trail commissions from the current loan book.

Loan discharge rates:

Discharges of current loans are forecast to be within the prior 12 to 24 months experience. Newly settled loans are expected to have a lower discharge rate early in their lives with the rate increasing over time.

Gross margins:

Gross margin has been calculated with reference to the actual commission rates currently in place. The rates used are differentiated depending on when the loan settled as new settlements are commissioned at a lower rate due to changes in the commission rate structure from the lenders.

**Note 15. Non-current assets - intangibles (continued)**

Overhead expenses:

Overhead costs have been contained through taking advantage of operational synergies with acquired entities. In addition, the creation of a new centralised head office function has allowed the consolidated entity to move existing and recently acquired business overheads into head office. Further synergies are expected to be realised over the coming 12 months as the newly acquired businesses are integrated into the consolidated entity. Overhead expenses for the year ending 30 June 2011 have been projected in line with the current business structure and future growth expectations.

*Sensitivity*

As disclosed in note 2, the Directors have made judgements and estimates in respect of impairment testing of goodwill. Should these judgements and estimates not occur the resulting goodwill may vary in carrying value. The points noted below are sensitivities of these estimates:

- a. Revenue would need to decrease by more than 1% before goodwill would need to be impaired, with all other assumptions remaining constant.
- b. Settlements would need to decline by more than 3% before goodwill would need to be impaired, with all other assumptions remaining constant.
- c. The discount rate would be required to increase by 1.25% before goodwill would need to be impaired, with all other assumptions remaining constant.

Management believes that any reasonable change in the key assumptions on which the recoverable amount of the single CGU is based would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

**Note 16. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>The balance comprises temporary differences attributable to:</i>		
Amounts recognised in the statement of comprehensive income:		
Tax losses	685	685
Deferred tax asset	685	685

**Note 17. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	872	989
Commission accrued	4,582	2,486
Other payables	2,763	1,298
	8,217	4,773

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**Note 18. Current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	-	240
Bank loans	1,519	1,287
Deferred cash consideration	7,983	7,664
Loan from other entities	9	18
Loan from director related entities	-	6,493
Lease liability	5	19
	<u>9,516</u>	<u>15,721</u>

Refer to note 21 for further information on assets pledged as security and financing arrangements and note 27 for detailed information on financial instruments.

**Note 19. Current liabilities - income tax**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Provision for income tax	<u>207</u>	<u>247</u>

**Note 20. Current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	662	290
Deferred lease incentives	16	-
	<u>678</u>	<u>290</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.

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**Note 20. Current liabilities - provisions (continued)**

*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
<b>Consolidated - 2010</b>	
Carrying amount at the start of the year	-
Additional provisions recognised	16
	<hr/>
Carrying amount at the end of the year	16
	<hr/> <hr/>

*Amounts not expected to be settled within the next 12 months*

The current provision for employee benefits includes annual leave and long service leave.

For annual leave, the entire obligation is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued leave within the next 12 months.

For long service leave, this includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the consolidated entity does not have an unconditional right to defer settlement. However, based on past experience, the consolidated entity does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Annual leave expected to be settled after 12 months	186	89
Long service leave obligation expected to be settled after 12 months	113	29
	<hr/>	<hr/>
Total obligations expected to be settled after 12 months	299	118
	<hr/> <hr/>	<hr/> <hr/>

**Note 21. Non-current liabilities - borrowings**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank loans	860	2,169
Deferred cash consideration	9,304	12,287
Loan from director related entities	23,350	3,030
Lease liability	2	7
	<hr/>	<hr/>
	33,516	17,493
	<hr/> <hr/>	<hr/> <hr/>

**Firstfolio Limited**  
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**Note 21. Non-current liabilities - borrowings (continued)**

*Total secured liabilities*

The total secured liabilities (current and non-current) are as follows:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	-	240
Bank loans	2,379	3,456
Lease liability	7	26
	<u>2,386</u>	<u>3,722</u>

*Assets pledged as security*

The loan from ING is secured by a fixed and floating charge over the assets and uncalled capital of Firstfolio Wholesale Pty Limited and a specific registered charge over Firstfolio Wholesale Pty Limited's management fee income from ING.

The loan from Adelaide Bank is secured by a fixed and floating charge of the assets of Domain Financial Services Pty Limited including any money collected in connection with book debts, plus a guarantee by Firstfolio Limited.

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:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Total facilities</b>		
Bank overdraft	-	400
Bank loans	2,379	3,456
Loans from director related entities	25,000	-
	<u>27,379</u>	<u>3,856</u>
<b>Used at the reporting date</b>		
Bank overdraft	-	240
Bank loans	2,379	3,456
Loans from director related entities	23,350	-
	<u>25,729</u>	<u>3,696</u>
<b>Unused at the reporting date</b>		
Bank overdraft	-	160
Bank loans	-	-
Loans from director related entities	1,650	-
	<u>1,650</u>	<u>160</u>

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**Note 22. Non-current liabilities - provisions**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	105	36
Deferred lease incentives	78	-
Lease make good	57	26
	<u>240</u>	<u>62</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
<b>Consolidated - 2010</b>		
Carrying amount at the start of the year	-	26
Additional provisions recognised	78	26
Additions through business combinations (note 34)	-	85
Amounts used	-	(80)
Carrying amount at the end of the year	<u>78</u>	<u>57</u>

**Note 23. Equity - contributed**

	<b>Consolidated</b>		<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$'000</b>	<b>\$'000</b>
Ordinary shares - fully paid	<u>732,396,174</u>	<u>440,201,118</u>	<u>39,932</u>	<u>27,149</u>

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**Note 23. Equity - contributed (continued)**

*Movements in ordinary share capital*

<b>Details</b>	<b>Date</b>	<b>No of shares</b>	<b>Issue price</b>	<b>\$'000</b>
Balance	1 July 2008	379,701,118		25,334
Shares issued on acquisition of eChoice Pty Limited	31 October 2008	40,000,000	\$0.03	1,200
Shares issued on acquisition of eChoice Pty Limited	22 December 2008	20,000,000	\$0.03	600
Shares issued to consultants as consideration for services	30 June 2009	<u>500,000</u>	\$0.03	<u>15</u>
Balance	30 June 2009	440,201,118		27,149
Shares issued to FFF Remuneration Pty Limited	18 August 2009	28,000,000	\$0.00	-
Exercise of options	27 November 2009	7,500,000	\$0.04	300
Exercise of options	2 December 2009	6,750,000	\$0.04	270
1 for 2 rights issue	18 December 2009	241,225,668	\$0.05	12,061
Rights issue transaction costs	18 December 2009			(392)
Shares issued on acquisition of First Chartered Capital Corporation Pty Limited	21 December 2009	5,000,000	\$0.05	250
Exercise of options	22 December 2009	60,000	\$0.03	2
Shares issued on acquisition of Xplore Capital Limited	15 June 2010	137,712	\$0.07	10
Shares issued on acquisition of Xplore Capital Limited	30 June 2010	<u>3,521,676</u>	\$0.08	<u>282</u>
Balance	30 June 2010	<u>732,396,174</u>		<u>39,932</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 41 for further information on the Scheme.

*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.

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.

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**Note 23. Equity - contributed (continued)**

*Share buy-back*

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

*Capital risk management*

The consolidated entity's objectives when managing capital are to safeguard its ability to continue as a going concern, so that they 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 parent entity's share price at the time of the investment.

The Board retains an active commitment to capital risk management and the overall strategy remains unchanged from the 30 June 2009 Annual Report.

**Note 24. Equity - reserves**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Capital profits reserve	25	25
Equity-settled benefits reserve	2,714	2,630
Options reserve	7	7
	<u>2,746</u>	<u>2,662</u>

	Capital profits \$'000	Equity-settled benefits \$'000	Options \$'000	Total \$'000
<b>Consolidated</b>				
Balance at 1 July 2008	25	2,449	7	2,481
Share-based payments	-	181	-	181
	<u>25</u>	<u>2,630</u>	<u>7</u>	<u>2,662</u>
Balance at 30 June 2009	25	2,630	7	2,662
Share-based payments	-	84	-	84
	<u>25</u>	<u>2,714</u>	<u>7</u>	<u>2,746</u>
Balance at 30 June 2010	<u>25</u>	<u>2,714</u>	<u>7</u>	<u>2,746</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.

*Options reserve*

The reserve was used to recognise the fair value of options issued. This reserve is no longer used and has been replaced by the equity-settled benefits reserve.

**Note 25. Equity - accumulated losses**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Accumulated losses at the beginning of the financial year	(19,520)	(22,208)
Profit after income tax expense for the year	4,812	2,688
	<u>(14,708)</u>	<u>(19,520)</u>

**Note 26. Equity - dividends**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>7,928</u>	<u>7,598</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 27. 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. 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 not exposed to price risk.

*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 has not entered into any interest rate swap agreements.

For the consolidated entity the interest bearing loans outstanding total \$25,729,000 and are all subject to variable interest rates. An official increase/decrease in interest rates of one percentage point would have an adverse/positive affect on profit of \$2,573,000 per annum. In the next 12 months minimum principal repayments of \$1,519,000 are due.

**Note 27. Financial instruments (continued)**

***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.

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 main banks with high monthly account balances.

The consolidated entity's trade and other receivables from these six main banks as at 30 June 2010 comprises \$5,496,000 (i.e. approximately 60% of the total receivables balance) (30 June 2009: \$3,477,000 (i.e. approximately 59% of the total receivables balance)).

***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.

***Financing arrangements***

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank overdraft	-	160
Loans from director related entities	1,650	-
	<u>1,650</u>	<u>160</u>

The director related loan facility may be drawn at any time and has an average maturity of 4 years.

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**Note 27. 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.

<b>Consolidated - 2010</b>	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	872	-	-	-	872
Other payables	-	2,763	-	-	-	2,763
Deferred cash consideration	-	9,044	6,703	3,273	-	19,020
Loan from other entities	-	9	-	-	-	9
<i>Interest-bearing - variable rate</i>						
Bank loans	6.57	1,625	888	-	-	2,513
Loan from director related entities	8.30	1,938	1,938	26,257	-	30,133
<i>Interest-bearing - fixed rate</i>						
Lease liability	8.00	5	3	-	-	8
<b>Total non-derivatives</b>		<b>16,256</b>	<b>9,532</b>	<b>29,530</b>	<b>-</b>	<b>55,318</b>

<b>Consolidated - 2009</b>	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
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade payables	-	989	-	-	-	989
Other payables	-	1,298	-	-	-	1,298
Deferred cash consideration	-	8,954	5,534	8,122	-	22,610
Loan from other entities	-	18	-	-	-	18
<i>Interest-bearing - variable rate</i>						
Bank overdraft	10.49	253	-	-	-	253
Bank loans	5.54	1,443	1,545	730	-	3,718
Loan from director related entities	4.00	2,346	-	-	-	2,346
<i>Interest-bearing - fixed rate</i>						
Lease liability	8.00	22	8	-	-	30
Loan from director related entities	7.45	4,575	3,143	-	-	7,718
<b>Total non-derivatives</b>		<b>19,898</b>	<b>10,230</b>	<b>8,852</b>	<b>-</b>	<b>38,980</b>

**Fair value of financial instruments**

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**Note 27. Financial instruments (continued)**

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of trade receivables and trade payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

**Note 28. Key management personnel disclosures**

*Directors*

The following persons were directors of Firstfolio Limited during the financial year:

Thomas J. Hartigan	Chairman
Anthony N. Wales	Non-Executive Director
Anthony Harris	Non-Executive Director
Michael Hogg	Non-Executive Director
Mark K. Flack	Executive Director

*Other key management personnel*

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mark Forsyth	Chief Executive Office
Andrew Russell	General Manager - Third Party and Product Distribution
Brett Mansfield (resigned on 6 January 2010)	General Manager - eChoice and Wholesale Lending

*Compensation*

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

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	1,080,000	1,019,836
Post-employment benefits	72,883	61,916
Termination benefits	45,872	-
Share-based payments	45,370	-
	<u>1,244,125</u>	<u>1,081,752</u>

*Shareholding*

The number of shares in the parent entity 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	Balance at the end of the year
<b>2010</b>					
<i>Ordinary shares</i>					
Thomas J. Hartigan	8,425,819	-	4,849,033	-	13,274,852
Anthony N. Wales	55,935,683	-	69,883,198	-	125,818,881
Anthony Harris	1,892,980	-	946,490	-	2,839,470
Michael Hogg	5,166,667	-	5,083,334	(4,000,000)	6,250,001
Mark K. Flack	16,960,000	-	15,012,258	-	31,972,258
Mark Forsyth	6,058,333	-	30,362,500	(1,333,333)	35,087,500
Andrew Russell	-	-	3,500,000	-	3,500,000

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**Note 28. Key management personnel disclosures (continued)**

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals	Balance at the end of the year
<b>2009</b>					
<i>Ordinary shares</i>					
Thomas J. Hartigan	6,191,520	-	2,234,299	-	8,425,819
Anthony N. Wales	55,935,683	-	-	-	55,935,683
Anthony Harris	1,892,980	-	-	-	1,892,980
Michael Hogg	7,166,667	-	-	(2,000,000)	5,166,667
Mark K. Flack	16,960,000	-	-	-	16,960,000
Mark Forsyth	1,333,333	-	4,725,000	-	6,058,333
Warren Nichols *	1,355,902	-	-	(1,355,902)	-

\* Ceased being a key management personnel and disposals represents shareholding at the date of cessation (but not disposed of at that time).

*Option holding*

The number of options over ordinary shares in the parent entity 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	Balance at the end of the year
<b>2010</b>					
<i>Ordinary shares</i>					
Michael Hogg	14,250,000	-	(3,000,000)	(3,750,000)	7,500,000
Mark Forsyth	30,000,000	-	(7,500,000)	(7,500,000)	15,000,000

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited	Balance at the end of the year
<b>2009</b>					
<i>Ordinary shares</i>					
Michael Hogg	14,250,000	-	-	-	14,250,000
Mark Forsyth	30,000,000	-	-	-	30,000,000
Warren Nichols *	1,000,000	-	-	(1,000,000)	-
Michael Keating *	100,000	-	-	(100,000)	-

\* Ceased being a key management personnel and expired represents option holding at the date of cessation (not expired or forfeited).

*Related party transactions*

Related party transactions are set out in note 32.

**Note 29. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by Pitcher Partners, the auditor of the company, and its related practices:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - Pitcher Partners</i>		
Audit or review of the financial report	140,285	136,491

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 30. Contingent liabilities**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Bank guarantees	453	201

At 30 June 2010 the majority of the bank guarantees are secured by cash on deposit of \$413,000 (2009: \$85,000).

**Note 31. Commitments for expenditure**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	1,079	379
One to five years	3,194	556
More than five years	461	-
	<u>4,734</u>	<u>935</u>
<i>Lease commitments - finance</i>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	5	22
One to five years	3	8
	<u>8</u>	<u>30</u>
Total commitment	8	30
Less: Future finance charges	(1)	(4)
	<u>7</u>	<u>26</u>
Net commitment recognised as liabilities	<u>7</u>	<u>26</u>
Representing:		
Lease liability - current (note 18)	5	19
Lease liability - non-current (note 21)	2	7
	<u>7</u>	<u>26</u>

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.

Finance lease commitments includes contracted amounts for various plant and equipment with a written down value of \$5,000 (2009: \$18,000) 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.

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 32. Related party transactions**

*Parent entity*

Firstfolio Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 35.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 28 and the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Business acquisition and related services from Peak Partners (an entity related to the director Mark Flack)	300,000	245,609
Other transactions:		
Interest capitalised on loan from Welas Pty Limited (an entity related to the director Anthony Wales)	180,660	281,761
Interest paid on loan from Welas Pty Limited (an entity related to the director Anthony Wales)	746,137	-
Interest capitalised on preference shares issued to Welas Pty Limited (an entity related to the director Anthony Wales)	115,576	217,422
Interest paid on convertible notes issued to The Cobra Group Pty Limited (an entity related to the director Michael Hogg)	53,610	151,216

*Receivable from and payable to related parties*

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

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 32. Related party transactions (continued)**

*Loans to/from related parties*

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

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Current borrowings:		
Loan from Welas Pty Limited (an entity related to the director Anthony Wales)	-	4,193,083
Convertible notes issued to The Cobra Group Pty Limited (an entity related to the director Michael Hogg)	-	2,300,000
Non-current borrowings:		
Preference shares issued to Welas Pty Limited (an entity related to the director Anthony Wales)	-	3,029,555
Loan from Welas Pty Limited (an entity related to the director Anthony Wales)	23,350,000	-

*Terms and conditions*

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

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 33. Parent entity information**

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

*Statement of comprehensive income*

	<b>Parent</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) after income tax	2,137	(4,920)
Total comprehensive income	2,137	(4,920)

*Statement of financial position*

	<b>Parent</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	2,614	322
Total assets	57,238	31,705
Total current liabilities	10,495	16,153
Total liabilities	43,783	33,254
Equity		
Contributed equity	39,933	27,149
Reserves	2,745	2,662
Accumulated losses	(29,223)	(31,360)
Total equity/(deficiency)	13,455	(1,549)

*Contingent liabilities*

The parent entity had no contingent liabilities at 30 June 2010 and 30 June 2009.

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment.

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations**

*eChoice Pty Limited (prior period acquisition)*

On 1 November 2008 Firstfolio Limited acquired 100% of the ordinary shares of eChoice Pty Limited, a subsidiary, for \$19,204,000. The principal activity of eChoice Pty Limited is the processing, wholesaling, management and aggregation of mortgages in the home loan financing segment. The values identified in relation to the acquisition of eChoice Pty Limited are final at 30 June 2010.

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
Cash equivalents	1,493	1,493
Other receivables	91	91
Prepayments	46	46
Plant and equipment	57	57
Trademarks and domain names	-	2,600
Customer contracts	-	9,100
Software	10	3,010
Trade payables	(456)	(456)
Other payables	(538)	(538)
Employee benefits	(752)	(752)
	<hr/>	<hr/>
Net assets/(liabilities) acquired	(49)	14,651
Goodwill		4,553
		<hr/>
Total purchase consideration		<u>19,204</u>
Representing:		
Cash paid or payable to vendor		16,886
Firstfolio Limited shares issued to vendor		1,800
Direct costs paid relating to the acquisition		518
		<hr/>
		<u>19,204</u>
		<hr/>
	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Total purchase consideration	-	19,204
Add: payments made for prior period acquisition	5,711	-
Less: cash equivalents	-	(1,493)
Less: payments to be made in future periods	-	(14,657)
Less: 60,000,000 ordinary shares of \$0.03 each issued by Firstfolio Limited as part of consideration	-	(1,800)
	<hr/>	<hr/>
Net cash used	<u>5,711</u>	<u>1,254</u>

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations (continued)**

*Domain Financial Services Pty Limited (prior period acquisition)*

On 1 November 2008 Firstfolio Limited acquired 100% of the ordinary shares of Domain Financial Services Pty Limited, a subsidiary, for \$6,760,000. The principal activity of Domain Financial Services Pty Limited is the wholesaling and management of mortgages in the home loan financing segment. The values identified in relation to the acquisition of Domain Financial Services Pty Limited are final at 30 June 2010.

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
Trade receivables	429	429
Other receivables	1,283	1,283
Prepayments	14	14
Plant and equipment	30	30
Software	121	121
Trade payables	(101)	(101)
Other payables	(33)	(33)
Provision for income tax	(311)	(311)
Employee benefits	(150)	(150)
Bank overdraft	(66)	(66)
Bank loans	(600)	(600)
	<hr/>	<hr/>
Net assets acquired	616	616
Goodwill		<hr/> 6,144
		<hr/>
Total purchase consideration		<hr/> <hr/> 6,760
		<hr/>
Representing:		
Cash paid or payable to vendor		6,615
Direct costs paid relating to the acquisition		<hr/> 145
		<hr/> <hr/> 6,760
		<hr/>
	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Total purchase consideration	-	6,760
Add: bank overdraft	-	66
Add: payments made for prior period acquisition	2,611	-
Less: payments to be made in future periods	<hr/> -	<hr/> (6,133)
	<hr/>	<hr/>
Net cash used	<hr/> <hr/> 2,611	<hr/> <hr/> 693

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations (continued)**

*Loan Services Australia Pty Limited*

On 1 December 2009 Firstfolio Limited acquired 100% of the ordinary shares of Loan Services Australia Pty Limited, a subsidiary, for \$15,318,000. The principal activity of Loan Services Australia Pty Limited is the wholesaling and management of mortgages in the home loan financing segment. The acquired subsidiary contributed since acquisition revenues of \$9,308,000 and net profit of \$3,428,000 to the consolidated entity for the year ended 30 June 2010. If the acquisition had occurred on 1 July 2009, contributed total revenue for the year ended 30 June 2010 would have been \$15,361,000. Due to the significant integration changes within the consolidated entity, the cost allocation cannot be made to give a meaningful entire year profit attributable to the consolidated entity. The values identified in relation to the acquisition of Loan Services Australia Pty Limited are provisional at 30 June 2010. In accordance with AASB 3 Business Combinations there is 12 months to finalise the values and this business combination will be finalised in the 30 June 2011 Annual Report.

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
Cash equivalents	21	21
Trade receivables	1,123	1,123
Other receivables	556	556
Prepayments	7	7
Trade payables	(711)	(711)
Other payables	(490)	(490)
Provision for income tax	(330)	(330)
Employee benefits	(166)	(166)
	<hr/>	<hr/>
Net assets acquired	10	10
Goodwill		15,308
		<hr/>
Acquisition-date fair value of the total consideration transferred		15,318
		<hr/> <hr/>
Representing:		
Cash paid or payable to vendor		15,318
		<hr/> <hr/>

	<b>Consolidated</b>	
	<b>2010 \$'000</b>	<b>2009 \$'000</b>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	15,318	-
Less: cash equivalents	(21)	-
Less: payments to be made in future periods	(2,791)	-
	<hr/>	<hr/>
Net cash used	12,506	-
	<hr/> <hr/>	<hr/> <hr/>

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations (continued)**

*First Chartered Capital Corporation Pty Limited*

On 1 December 2009 Firstfolio Limited acquired 100% of the ordinary shares of First Chartered Capital Corporation Pty Limited, a subsidiary, for \$1,735,000. The principal activity of First Chartered Capital Corporation Pty Limited is the management and aggregation of mortgages in the home loan financing segment. The acquired subsidiary contributed since acquisition revenues of \$6,044,000 and net profit of \$538,000 to the consolidated entity for the year ended 30 June 2010. If the acquisition had occurred on 1 July 2009, contributed total revenue for the year ended 30 June 2010 would have been \$11,819,000. Due to the significant integration changes within the consolidated entity, the cost allocation cannot be made to give a meaningful entire full-year profit attributable to the consolidated entity. The values identified in relation to the acquisition of First Chartered Capital Corporation Pty Limited are provisional at 30 June 2010. In accordance with AASB 3 Business Combinations there is 12 months to finalise the values and this business combination will be finalised in the 30 June 2011 Annual Report.

Details of the acquisition are as follows:

	Acquiree's carrying amount \$'000	Fair value \$'000
Cash equivalents	25	25
Trade receivables	876	876
Other receivables	40	367
Prepayments	50	50
Bonds and deposits	25	25
Plant and equipment	88	88
Deferred tax asset	42	-
Trade payables	(17)	(17)
Other payables	(640)	(1,739)
Employee benefits	(108)	(108)
Other loans	(3,570)	(3,570)
	<u>(3,189)</u>	<u>(4,003)</u>
Net liabilities acquired		5,738
Goodwill		
Acquisition-date fair value of the total consideration transferred		<u><u>1,735</u></u>
Representing:		
Cash paid or payable to vendor		1,485
Firstfolio Limited shares issued to vendor		<u>250</u>
		<u><u>1,735</u></u>
		<b>Consolidated</b>
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	1,735	-
Less: cash equivalents	(25)	-
Less: payments to be made in future periods	(839)	-
Less: 5,000,000 ordinary shares \$0.05 each issued by Firstfolio Limited as part of consideration	(250)	-
	<u>(250)</u>	<u>-</u>
Net cash used	<u>621</u>	<u>-</u>

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations (continued)**

*Leasechoice*

On 1 April 2010 Firstfolio Limited acquired part of the business of Leasechoice for \$2,400,000. The principal activity of Leasechoice is asset finance. The acquired business contributed since acquisition revenues of \$239,000 and net profit of \$82,000 to the consolidated entity for the year ended 30 June 2010. Due to the significant integration changes within the consolidated entity, full-year revenues or the cost allocation cannot be made to give a meaningful entire full-year profit attributable to the consolidated entity. The values identified in relation to the acquisition of LeaseChoice are provisional at 30 June 2010. In accordance with AASB 3 Business Combinations there is 12 months to finalise the values and this business combination will be finalised in the 30 June 2011 Annual Report.

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
Employee benefits	(121)	(121)
Net liabilities acquired	(121)	(121)
Goodwill		2,521
Acquisition-date fair value of the total consideration transferred		<u>2,400</u>
Representing:		
Cash paid or payable to vendor		2,150
Contingent consideration		250
		<u>2,400</u>
		<u>2,400</u>
	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	2,400	-
Less: payments to be made in future periods	(250)	-
Net cash used	<u>2,150</u>	<u>-</u>

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 34. Business combinations (continued)**

*Xplore Capital Limited*

Between 10 April 2010 and 30 June 2010 Firstfolio Limited acquired 100% of the ordinary shares of Xplore Capital Limited, a subsidiary, for \$3,113,000. The principal activity of Xplore Capital Limited is the management and aggregation of mortgages in the home loan financing segment. The acquired subsidiary contributed since acquisition revenues of \$420,000 and net profit of \$151,000 to the consolidated entity for the year ended 30 June 2010. If the acquisition had occurred on 1 July 2009, contributed total revenue for the year ended 30 June 2010 would have been \$2,009,000. Due to the significant integration changes within the consolidated entity, the cost allocation cannot be made to give a meaningful entire full year profit attributable to the consolidated entity. The values identified in relation to the acquisition of Xplore Capital Limited are provisional as at 30 June 2010. In accordance with AASB 3 Business Combinations there is 12 months to finalise the values and this business combination will be finalised in the 30 June 2011 Annual Report.

Details of the acquisition are as follows:

	<b>Acquiree's carrying amount \$'000</b>	<b>Fair value \$'000</b>
Cash equivalents	1,221	1,221
Trade receivables	140	140
Other receivables	324	324
Prepayments	21	21
Plant and equipment	18	18
Deferred tax asset	398	-
Trade payables	(80)	(80)
Other payables	(20)	(20)
Employee benefits	(233)	(233)
	<hr/>	<hr/>
Net assets acquired	1,789	1,391
Goodwill		1,722
		<hr/>
Acquisition-date fair value of the total consideration transferred		3,113
		<hr/> <hr/>
Representing:		
Cash paid or payable to vendor		2,822
Firstfolio Limited shares issued to vendor		291
		<hr/>
		3,113
		<hr/> <hr/>
	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash used to acquire business, net of cash acquired:		
Acquisition-date fair value of the total consideration transferred	3,113	-
Less: cash equivalents	(1,221)	-
Less: 137,712 shares at \$0.07 and 3,521,676 shares at \$0.08 issued by Firstfolio Limited as part of consideration	(292)	-
	<hr/>	<hr/>
Net cash used	1,600	-
	<hr/> <hr/>	<hr/> <hr/>

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 35. Subsidiaries**

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	Country of incorporation	Equity holding	
		2010 %	2009 %
New-Loan Australia Pty Limited	Australia	100.00	100.00
Firstfolio Services Pty Limited	Australia	100.00	100.00
Firstfolio Wholesale Pty Limited	Australia	100.00	100.00
Aptura Developments Pty Limited	Australia	100.00	100.00
Probitas Group Pty Limited	Australia	100.00	100.00
Lawrealty Victoria Pty Limited	Australia	100.00	100.00
Firstfolio Aggregation Pty Limited *	Australia	100.00	100.00
Lawfund Asset Finance Pty Limited	Australia	100.00	100.00
Leasechoice Pty Limited **	Australia	100.00	100.00
FFF Remuneration Pty Limited	Australia	100.00	100.00
Bricks and Mortar Securities Pty Limited	Australia	100.00	100.00
eChoice Pty Limited	Australia	100.00	100.00
eChoice Insurance Services Pty Limited	Australia	100.00	100.00
eChoice Securities 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
Domain Financial Services Pty Limited	Australia	100.00	100.00
Domain Financial Services Loan Company Pty Limited	Australia	100.00	100.00
Bloom Platform Pty Limited	Australia	100.00	-
Firstfolio One Pty Limited	Australia	100.00	-
Loan Services Australia Pty Limited	Australia	100.00	-
First Chartered Capital Corporation Pty Limited	Australia	100.00	-
First Chartered Capital Services Pty Limited	Australia	100.00	-
First Chartered Capital Card Services Pty Limited	Australia	100.00	-
First Chartered Capital Operations Services Pty Limited	Australia	100.00	-
Xplore Capital Limited	Australia	100.00	-
Xplore Financial Planning Pty Limited	Australia	100.00	-
Xplore Capital (NZ) Limited	New Zealand	100.00	-

\* Lawfund Australia Pty Limited changed its name to Firstfolio Aggregation Pty Limited on 24 May 2010

\*\* Lawfund West Pty Limited changed its name to LeaseChoice Pty Limited on 15 May 2010

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 36. Economic dependency**

The consolidated entity has commercial arrangements with ING Bank, Adelaide Bank, and the Commonwealth Bank in relation to its Mortgage wholesale and aggregation business.

**Note 37. Events occurring after the reporting date**

On 1 July 2010 Firstfolio Limited acquired 100% of the ordinary shares of Apple Loans Pty Limited, a subsidiary, for \$4,250,000. The principal activity of Apple Loans Pty Limited is processing and aggregation of mortgages in the home loan financing segment.

No other matter or circumstance has arisen since 30 June 2010 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 38. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	4,812	2,688
Adjustments for:		
Depreciation and amortisation	1,263	898
Net loss on disposal of non-current assets	78	21
Share-based payments	84	181
Finance costs - non-cash	2,075	499
Other costs - non-cash	-	15
Change in operating assets and liabilities:		
Decrease in trade and other receivables	363	557
(Increase)/decrease in prepayments	(201)	56
Increase/(decrease) in trade and other payables	387	(463)
Decrease in provision for income tax	(370)	(258)
Decrease in employee benefits	(187)	(781)
Increase in other provisions	99	-
Net cash from operating activities	8,403	3,413

**Firstfolio Limited**  
**Notes to the financial statements**  
**30 June 2010**

**Note 39. Non-cash investing and financing activities**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Acquisition of plant and equipment by means of finance leases	-	18
Shares issued in relation to business combinations	542	1,800
Shares issued to consultant as consideration for services	-	15
	<u>542</u>	<u>1,833</u>

**Note 40. Earnings per share**

	<b>Consolidated</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax attributable to the owners of Firstfolio Limited	<u>4,812</u>	<u>2,688</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	604,410,543	416,798,377
Adjustments for calculation of diluted earnings per share:		
Options	<u>12,897,192</u>	<u>-</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>617,307,735</u>	<u>416,798,377</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	0.80	0.64
Diluted earnings per share	0.78	0.64

**Note 41. Share-based payments**

*Senior Executive Share Scheme*

On 27 November 2009 shareholders approved the introduction of the Senior Executive Share Scheme (the Scheme).

On 18 August 2009 the parent entity issued 28,000,000 shares at 3.294 cents per share to FFF Remuneration Pty Limited, a subsidiary that will act as trustee and will hold 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 ending.

Senior executives are restricted from selling the shares in the first year following issuing of the shares. Following 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.

At 30 June 2010 FFF Remuneration Pty Limited held 28,000,000 (2009: nil) shares in trust under the Scheme, on behalf of one (2009: nil) executive director and six (2009: nil) executives. At 30 June 2010 limited recourse interest-free loans totalling \$922,000 (2009: \$nil) were provided to participants of the Scheme for these shares.

For the year ended 30 June 2010 a share-based payment expense of \$71,000 (2009: nil) has been recognised in relation to the Scheme.

*Options*

For the year ended 30 June 2010 a share-based payment expense of \$13,000 (2009: \$181,000) has been recognised in relation to options.

**Firstfolio Limited**  
**Directors' declaration**

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;
- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2010 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) of the Corporations Act 2001.

On behalf of the directors



---

Thomas J. Hartigan  
Chairman

23 August 2010  
Sydney



# PITCHER PARTNERS

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Pitcher Partners, including Johnston Rorke,  
is an association of independent firms  
Melbourne | Sydney | Perth | Adelaide | Brisbane

## **FIRSTFOLIO LIMITED AND CONTROLLED ENTITIES**

### **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF FIRSTFOLIO LIMITED**

We have audited the accompanying financial report of Firstfolio Limited and controlled entities (the consolidated entity). The financial report comprises the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian Accounting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 entity's preparation and fair presentation of the financial report 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 entity'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.

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Audit 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 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report complies with International Financial Reporting Standards as disclosed in Note 1.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. 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.

### *Auditor's Opinion*

In our opinion the Remuneration Report of Firstfolio Limited and its controlled entities for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



M A GODLEWSKI

Partner

23 August 2010



PITCHER PARTNERS

SYDNEY

**Firstfolio Limited**  
**Shareholder information**  
**30 June 2010**

The shareholder information set out below was applicable as at 16 July 2010.

**Distribution of equitable securities**

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

	<b>Ordinary shares</b>
1 to 1,000	248
1,001 to 5,000	415
5,001 to 10,000	136
10,001 to 100,000	537
100,001 and over	396
	<u>1,732</u>
Holding less than a marketable parcel	<u>747</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:

	<b>Ordinary shares</b>	
	<b>Number held</b>	<b>% of total shares issued</b>
Welas Pty Limited	124,280,358	16.97
Citicorp Nominees Pty Limited	49,689,220	6.78
Mr John Barlow	36,000,000	4.92
FFF Remuneration Pty Limited	33,000,000	4.51
Rosanne Investments Limited	17,250,000	2.36
Bell Potter Nominees Ltd	17,214,292	2.35
Mr Maxwell Thomas Quirk	14,565,311	1.99
Mr Mark Kevin Flack (holding no 1)	13,000,000	1.77
NPN Investments Pty Limited	12,900,000	1.76
Mr Mark Kevin Flack (holding no 2)	12,036,774	1.64
Eyemouth Pty Ltd	11,250,000	1.54
Mr Leo Hoogstad + Mrs Valerie Hoogstad	9,400,000	1.28
Lost Ark Nominees Pty Limited	9,282,435	1.27
A & B Asset Management Limited Fund III	9,189,342	1.25
Mr Thomas Joseph Hartigan + Mrs Felicity Clinton Hartigan - Hartigan Super Fund	8,784,797	1.20
GJP Investments Pty Ltd	8,700,000	1.19
Katdan Investments Pty Ltd	8,148,617	1.11
Mr Wilson Eduardo Fernandez	7,698,013	1.05
A & B Asset Management Limited Fund I	7,439,255	1.02
Merrill Lynch (Australia) Nominees Pty Limited	7,300,000	1.00
	<u>417,128,414</u>	<u>56.96</u>

*Unquoted equity securities*

	<b>Number on issue</b>	<b>Number of holders</b>
Options over ordinary shares issued	46,086,000	90

**Firstfolio Limited**  
**Shareholder information**  
**30 June 2010**

**Substantial holders**

Substantial holders in the company are set out below:

	<b>Ordinary shares</b>	
		<b>% of total</b>
	<b>Number held</b>	<b>shares</b>
		<b>issued</b>
Welas Pty Limited	125,818,881	17.18
Citicorp Nominees Pty Limited	49,689,220	6.78

**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.

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# Sharo

## Corporate Directory

### Contact us

#### Firstfolio ASX – FFF

Phone 61 2 9240 8900

Fax 61 2 9240 8994

Email [info@firstfolio.com.au](mailto:info@firstfolio.com.au)

[www.firstfolio.com.au](http://www.firstfolio.com.au)

### Directors

Tom Hartigan

(Non-executive Chairman)

Mark Forsyth

(Chief Executive Officer & Director)

Mark Flack

(Executive Director)

Anthony Harris

(Non-executive Director)

Michael Hogg

(Non-executive Director)

Greg Paramor

(Non-executive Director)

Anthony Wales

(Non-executive Director)

### Legal Advisers

#### Tress Cox Lawyers

Level 9, 469 La Trobe Street

Melbourne VIC 3000

Phone 61 3 9602 9444

Fax 61 3 9642 0382

Email [contact\\_us@tresscox.com.au](mailto:contact_us@tresscox.com.au)

[www.tresscox.com.au](http://www.tresscox.com.au)

### Media

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Sydney NSW Australia 2010

Phone 61 2 8920 0700

Fax 61 2 9299 9549

Email [hshanahan@sefiani.com.au](mailto:hshanahan@sefiani.com.au)

[www.sefiani.com.au](http://www.sefiani.com.au)

### Auditors

#### Pitcher Partners

Level 22, MLC Centre

19 Martin Place

Sydney NSW 2000

Phone 61 2 9221 2099

Fax 61 2 9223 1762

Email [partners@pitcher-nsw.com.au](mailto:partners@pitcher-nsw.com.au)

[www.pitcher.com.au](http://www.pitcher.com.au)

### Bankers

#### Commonwealth Bank of Australia

48 Martin Place

Sydney NSW 1155

Phone 61 2 8292 4240

Fax + 61 2 8292 5047

[www.commbank.com.au](http://www.commbank.com.au)

### Share Registry

#### Computershare Share Registry

Level 3 60 Carrington Street

Sydney NSW 2000

Phone 61 2 8234 5000

Fax 61 (0)2 8235 8150

[www-au.computershare.com](http://www-au.computershare.com)

### Advisory

#### Southern Cross Equities

Level 32 Aurora Place

88 Phillip Street

Sydney NSW 2000

Phone 61 (0)2 9231 0880

Fax 61 (0)2 9231 0588

Email [general@sceq.com.au](mailto:general@sceq.com.au)

[www.sceq.com.au](http://www.sceq.com.au)

### Company Secretary

Bob Dews

[bdews@firstfolio.com.au](mailto:bdews@firstfolio.com.au)

# Connect

# Trade

