

**realestate.com.au Limited**

**ABN 54 068 349 066**

## **Annual Financial Report**

**for the year ended 30 June 2004**

## realestate.com.au Limited - Corporate Information

ABN 54 068 349 066

### Directors

Mr John D McGrath (Chairman)  
Mr Stephen P Rue (Non-executive director)  
Mr Martin P U Hoffman (Non-executive director)  
Mr Sam R White (Non-executive director)  
Mr Alasdair MacLeod (Non-executive director)

### Company Secretary

Mr Nicholas J V Geddes (Australian Company Secretaries Pty Limited)

### Registered Office

C/o Australian Company Secretaries Pty Limited  
Level 5, 255 George Street  
Sydney, NSW 2000  
Tel: (02) 9252 1933  
Fax: (02) 9252 2487

### Solicitors

Moores Legal

### Bankers

National Australia Bank Limited

### Share Register

Computershare Registry Services Pty Limited  
Yarra Falls  
452 Johnson Street  
Abbotsford, Victoria 3067 Australia  
Ph: +61 3 9415 5000  
Fax: +61 3 9473 2500

### Auditors

Ernst & Young

### Internet Address

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

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## Directors' report

Your directors submit their report for the year ended 30 June 2004.

### DIRECTORS

The names and details of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

#### Names, qualifications, experience and special responsibilities

Mr John D McGrath, Age 41  
(Chairman)

Mr McGrath started McGrath Estate Agents in 1989, which is now Australia's largest privately owned real estate group with 305 staff and sales in excess of \$2.0 billion last year. McGrath Estate Agents also run McGrath Total Real Estate Training that provides cutting-edge training programs for anyone involved in the Real Estate business, and Oxygen Home Loans, its mortgage broking business. Mr McGrath is a Director of McGrath Group of Companies and the Rawson Group. Recent awards and achievements include ranking No. 40 in BRW's Australia's Fastest Growing Companies List (2000) and winner of Ernst & Young's Entrepreneur of the Year for Australia's Eastern Region in 2002.

Mr Martin P U Hoffman, Age 39

Mr Hoffman is CEO of ninemsn, Australia's largest consumer internet portal and 50:50 joint venture between Microsoft and Publishing and Broadcasting Limited. Prior to taking up this role in February 2003, he held senior magazine and online management positions with John Fairfax Holdings Limited between 1999 and 2002. Mr Hoffman has previous experience at Optus Communications, Potter Warburg Limited, and PA Consulting Group in both Australia and Asia. He is a director of the Garvan Institute of Medical Research. Mr Hoffman holds Bachelor of Economics (Sydney) and Master of App Finance (Macquarie) degrees, as well as an MBA (Hons) from the Institute for Management Development (IMD) in Lausanne, Switzerland.

Mr Stephen P Rue, Age 38  
*Appointed 29 August 2003*

Mr Rue is the Chief Financial Officer of News Limited, the Australian arm of News Corporation Limited. Prior to being appointed to his current position, he was the company's Group Finance Manager. Stephen first joined News Limited in 1996 and moved into the role of Treasurer and Special Projects Manager prior to being appointed Group Finance Manager. Mr Rue's experience includes 8 years at Arthur Andersen where he held the position of Senior Manager in their Audit and Business Advisory Division. Mr Rue is a Chartered Accountant and holds a Bachelor of Business Studies and a Diploma in Professional Accounting. He was born and educated in Dublin, Ireland. Mr Rue is a director of News Limited and AAP Information Services Pty Limited.

Mr Alasdair MacLeod, Age 43

Mr MacLeod has been Managing Director of News Limited's Community Newspapers since November 2002. He relocated to Australia after thirteen years with News International in the UK where he held a number of senior positions including Managing Director of News Network (News International's internet arm) and General Manager of Times Newspapers, the publisher of London's Times and Sunday Times. Prior to joining the News Group, Mr MacLeod worked with Citibank Limited in Sydney and in Hong Kong.

Mr Sam R White, Age 33

Mr White was appointed to the Board of Ray White Real Estate in 1998 and later as Deputy Chairman of the Group. He joined Ray White Real Estate in 1991, initially in its research department, moving through a number of areas in the company including residential sales and home loan consultancy. In 1995, he moved to Sydney to begin Ray White Financial Services in NSW. Mr White currently oversees all areas of the Group, including its agency operations as well as its finance and insurance businesses. Mr White has a Bachelor of Commerce and a Bachelor of Law from the University of Queensland.

Mr Martin P Howell

Resigned 13 November 2003

Mr Mark A Webster

Resigned 29 August 2003

**Company Secretary**

Mr Nicholas Geddes FCA FCIS

Mr Geddes is the principal of Australian Company Secretaries Pty Limited, a company secretarial practice, which he formed in 1993. Mr Geddes is a member of the National Council of Chartered Secretaries Australia and Vice President of the NSW Branch of that Institute. His previous experience as a Chartered Accountant and Company Secretary includes investment banking, development and venture capital in Europe, Africa, the Middle East and Asia.

**Interests in the shares and options of the company and related bodies corporate**

As at the date of this report, the interests of the directors in the shares and options of the company and related bodies corporate were:

	realestate.com.au Limited	
	Ordinary Shares <i>fully paid</i>	Options over Ordinary Shares
John D McGrath	2,039,086	-
Alasdair MacLeod	-	-
Stephen P Rue	-	-
Martin P U Hoffman	-	-
Sam R White	14,568,817	-

**PRINCIPAL ACTIVITIES**

The principal activities during the year of entities within the consolidated entity were the provision of:

- Online advertising of residential properties for sale and rent through the market leading realestate.com.au portal
- Online advertising of commercial properties for sale and rent through the market leading realcommercial.com.au portal
- Provision of web site development services to the Australian real estate industry

There have been no significant changes in the nature of those activities during the year.

**EARNINGS PER SHARE**

	2004 cents	2003 cents
Basic earnings per share	2.6	(1.7)
Diluted earnings per share	2.4	(1.7)

**DIVIDENDS**

No dividend has been paid or recommended in the current or prior year.

**CORPORATE INFORMATION**

**Corporate structure**

realestate.com.au Limited is a company limited by shares that is incorporated and domiciled in Australia. realestate.com.au Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

The ultimate parent entity is realestate.com.au Limited. It has two wholly-owned subsidiaries;

- Netwide Solutions Pty Limited,
- Property.com.au Pty Limited.

**Employees**

The consolidated entity employed 103 employees as at 30 June 2004 (2003: 60 employees).

## REVIEW AND RESULTS OF OPERATIONS

During the financial year ended 30 June 2004, realestate.com.au Limited delivered significant financial growth, highlighted by its first full year of profitability.

The key financial highlights included:

- Consolidated profit for the year of \$2.5 million,
- Revenues increased by 100.7 percent to \$19.1 million,
- Total expenses (operating plus depreciation & amortisation) increased by 50.4 percent
- The purchase of Australia's third largest real estate advertising portal property.com.au for the issue of 8,000,000 shares at 75 cents each. The transaction also included the repayment of a third party loan of \$3.0 million on behalf of property.com.au Limited, and
- Closing cash position increased by 17.8 percent to \$2.6 million after allowing for the purchase of property.com.au.

### Revenue

During the financial year, realestate.com.au Limited increased revenue by 100.7 percent to \$19.1 million. This increase was due to:

- A 64 percent increase in subscribing agents from 3,173 at 30 June 2003 to 5,207 at 30 June 2004, including 673 acquired through the purchase of property.com.au. Approximately 65 percent of Australian real estate agents subscribed to realestate.com.au as at the end of June 2004. The number of agents subscribing to realestate.com.au had increased to 5,453 as at 31 August 2004.
- 42 percent of the residential agent subscribers purchasing a platinum subscription as at 30 June 2004. This is compared to 23 percent as at 30 June 2003.
- Continued strong growth in additional advertising revenue from residential and commercial agents. Additional advertising revenue is generated from sales of banner advertising, feature properties, eBrochures, and Feature Agent advertising products.
- Continued strong growth in advertising revenue from the Property Developer segment.
- Better than projected display advertising revenue from 3rd parties. These 3rd parties include Westpac, ANZ and Aussie Home Loans.
- Emergence of the realcommercial.com.au portal as the leader in online commercial real estate advertising.

### Expenses

While revenues increased by 100.7 percent over the year, total expenses (operating expenses plus depreciation and amortisation) increased by only 50.4 percent to \$16.7 million. This was achieved through continued effective cost management and continuous improvement.

The key driver of total expenses continues to be employees with realestate.com.au Limited increasing its staff from 60 at the end of June 2003 to 103 at the end of June 2004. The majority of new staff members were employed in sales and marketing positions allowing realestate.com.au and realcommercial.com.au to continue to sign up new agents while providing market leading service to the growing customer base.

### Cash Flow

During the financial year, realestate.com.au Limited delivered \$4.5 million in operating cash flow. This represents a 337% increase over the previous financial year.

The purchase of property.com.au Pty Limited utilised \$3.2 million of the operating cash flow, through the repayment of loans, legal and accounting costs and stamp duty. Overall the business generated a positive cash flow of \$390,090.

### Visitors to realestate.com.au

The realestate.com.au and realcommercial.com.au portals continue to be the market leaders in online real estate advertising in Australia. According to independent auditors Nielsen/Netratings (formerly Red Sheriff), the annual Australian readership (measured in Unique Browsers) of realestate.com.au increased by 42 percent between FY 2003 to FY 2004. This number is significantly more than realestate.com.au's major competitors.

In August 2004, realestate.com.au had its first million Australia visitor month with Australian readership increasing to 1,011,786.

This continued growth in readership has been primarily driven by realestate.com.au's strong market branding, offline print-media marketing relationships with News Limited and its online marketing relationships with News Interactive and nineMSN Pty Limited. In addition, realestate.com.au had an overseas readership of approximately 92,000 in June 2004.

Also according to Nielsen/Netratings, the number of pages of information (page impressions) viewed by these Australian readers increased by 48.9 percent from 45.5 million in June 2003 to 67.8 million in June 2004 - that is, each Australian customer viewed an average of 80 pages of real estate information in June 2004.

### The next twelve months

The objective for realestate.com.au Limited over the next twelve months is to continue to build its lead over the competitors, while delivering strong revenue growth and remaining profitable. The top priorities for the 2005 financial year continue to be:

- Increase revenue from residential and commercial agents through:
  - Increasing the number of agents subscribing to realestate.com.au and realcommercial.com.au
  - Increasing the average monthly spend of residential and commercial agents through the development and sale of additional advertising products and services
- Significantly increase the number of Australian and overseas readers of realestate.com.au through continued strong advertising of the realestate.com.au offerings in electronic and print media and through content distribution deals
- Increase the revenue captured from the property developer segment
- Continuing to expand the adoption by real estate agents of web sites built and powered by realestate.com.au

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the year, the company purchased domain name and business of property.com.au from RP Data Limited. This acquisition was predominately realised through the issue of 8,000,000 shares (at 75 cents) in realestate.com.au. No other significant changes in the state of affairs of realestate.com.au were noted during the financial period.

### SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Subsequent to 30 June 2004, and up until the date of this report, there have been no events of a significant nature.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Directors consider that over the next 12 months, realestate.com.au Limited will continue to deliver strong revenue growth, will be operationally cash flow positive and will be profitable.

### ENVIRONMENTAL REGULATION AND PERFORMANCE

The company is not subject to any particular or significant environmental regulations.

### SHARE OPTIONS

#### Unissued shares

As at 30 June 2004 and at the date of this report, there were 12,491,500 unissued ordinary shares under options as follows:

- News Limited – 10,000,000 options exercisable at \$0.20 each
- Staff Options – 2,491,500 options exercisable at \$0.15 each

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate or interest in any other registered scheme.

#### Shares issued as a result of the exercise of options

During the financial year, employees have exercised options to acquire 146,000 fully paid ordinary shares in realestate.com.au Limited at 15 cents per share.

During the financial year, the Chief Executive Officer, Mr Simon Baker, exercised options to acquire 800,000 fully paid ordinary shares in realestate.com.au Limited at 10 cents per share.

No options have been exercised since the end of the financial year.

### INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the company paid premiums totalling \$19,212 in respect of a contract insuring all the directors of realestate.com.au Limited against costs incurred in defending proceedings for conduct involving:

- (a) a wilful breach of duty; or
- (b) a contravention of Sections 182 or 183 of the Corporations Law, as permitted by section 199B of the Corporations Law.

## DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

### Remuneration Policy

The Remuneration and Nomination Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

To assist in achieving these objectives, the board links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers (this includes Martin Howell) of the company and the consolidated entity receiving the highest emolument for the financial year are as follows:

	Annual Emoluments			Long Term Emoluments					
	Base Fee	Bonus	Other	Termination and Similar Payments	Options			Superannuation	Other
					Number Granted	\$ Amortised Cost	% of Remuneration		
\$	\$	\$	\$				\$	\$	
John D McGrath	100,000	-	-	-	-	-	-	9,000	-
Martin P Howell	138,000	17,500	-	-	-	6,047	3.4	13,995	-

Directors' fees are paid only to independent or executive directors. All other directors, not being independent, did not receive any director's fees during the financial period.

For purposes of the Directors' Report, Martin Howell has been included as a specified director. Mr Howell resigned as a director on 13 November 2003, and remains an executive of the company. The amounts received by Mr Howell relate solely to his employment as an executive of the company.

### Emoluments of the five most highly paid executive officers of the company and consolidated entity.

	Annual Emoluments			Long Term Emoluments				
	Base Fee	Bonus	Other	Termination and Similar Payments	Options		Super-annuation	Other
					Number Granted	\$ Amortised Cost		
\$	\$	\$	\$			\$	\$	
Simon Baker	311,881	113,940	60,680	-	-	-	18,716	-
Shaun DiGregorio	87,083	46,200	-	-	-	3,626	11,996	-
William Spring	120,000	24,600	-	-	-	6,047	13,014	-
Christine Vulovic	123,771	27,500	-	-	-	-	13,614	-
Martin Howell	See Directors above							

The terms 'director' and 'officer' have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of the cost to the company and the consolidated entity.

## DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

	Directors' Meetings		Audit Risk and Compliance Committee Meetings		Remuneration and Nomination Committee Meetings	
	Number of Meetings Held while a Director	Number of Meetings Attended	Number of Meetings Held while a Director	Number of Meetings Attended	Number of Meetings Held while a Director	Number of Meetings Attended
John D McGrath	19	18	3	2	3	3
Martin P U Hoffman	19	17	3	3	-	-
Alasdair MacLeod	19	14	1	1	2	2
Stephen P Rue (appointed 29 August 2003)	16	13	2	2	-	-
Sam R White	19	19	-	-	3	2
Martin P Howell (resigned 13 November 2003)	8	8	-	-	-	-
Mark A Webster (resigned 29 August 2003)	3	3	-	-	1	0

The current members of each committee are;

Audit Risk and Compliance Committee: Mr McGrath (Chairman), Mr Rue, Mr Hoffman

Remuneration and Nomination Committee: Mr McGrath (Chairman), Mr MacLeod, Mr White

## TAX CONSOLIDATION

Following advice from tax advisers, the Board has decided not to enter into tax consolidation at this time.

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of realestate.com.au Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of this annual report.

Signed in accordance with a resolution of the directors.

Mr John D McGrath  
Chairman

Sydney, 29 September 2004

## Statement of Financial Performance

YEAR ENDED 30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>REVENUE FROM ORDINARY ACTIVITIES</b>	2	<b>19,144,851</b>	9,539,690	<b>2,507,425</b>	-
Depreciation and amortisation expenses	3	(368,657)	(2,689,544)	-	-
Borrowing costs expense	3	(21,074)	(46,667)	-	-
Salaries and employee benefits expense		(6,741,225)	(3,712,276)	-	-
Sales commissions	20	(1,986,182)	(495,092)	-	-
Marketing expense		(3,913,999)	(941,540)	-	-
Administration costs		(1,079,528)	(615,384)	-	-
Expenses from ordinary activities	3	(2,556,702)	(2,578,889)	-	(1,539,702)
<b>TOTAL EXPENSE FROM ORDINARY ACTIVITIES</b>		<b>(16,667,367)</b>	(11,079,392)	-	(1,539,702)
<b>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
Income tax attributable to ordinary activities	4	-	-	-	-
<b>PROFIT/(LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE</b>		<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
<b>NET PROFIT/(LOSS)</b>		<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF REALESTATE.COM.AU LIMITED</b>	18	<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF REALESTATE.COM.AU LIMITED</b>		<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
Basic earnings (loss) per share (cents per share)	24	2.6	(1.7)		
Diluted earnings (loss) per share (cents per share)	24	2.4	(1.7)		

The Statement of Financial Performance is to be read in conjunction with the notes to the financial statements.

## Statement of Financial Position

AT 30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets		2,580,857	2,190,767	-	-
Receivables	5	3,185,639	1,488,219	-	-
Other	6	191,601	396,136	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>5,958,097</b>	<b>4,075,122</b>	<b>-</b>	<b>-</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	7	-	-	4,981,226	1,527,660
Other financial assets	8	-	-	6,205,832	20,002
Property, plant and equipment	10	1,049,403	353,445	-	-
Intangible assets	11	9,155,886	-	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,205,289</b>	<b>353,445</b>	<b>11,187,058</b>	<b>1,547,662</b>
<b>TOTAL ASSETS</b>		<b>16,163,386</b>	<b>4,428,567</b>	<b>11,187,058</b>	<b>1,547,662</b>
<b>CURRENT LIABILITIES</b>					
Payables	12	2,186,902	798,538	-	-
Provisions	13	315,037	238,940	-	-
Other	14	2,419,672	1,060,047	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>4,921,611</b>	<b>2,097,525</b>	<b>-</b>	<b>-</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities	15	-	750,000	-	-
Provisions	16	84,658	33,380	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>84,658</b>	<b>783,380</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>5,006,269</b>	<b>2,880,905</b>	<b>-</b>	<b>-</b>
<b>NET ASSETS</b>		<b>11,157,117</b>	<b>1,547,662</b>	<b>11,187,058</b>	<b>1,547,662</b>
<b>EQUITY</b>					
Parent entity interest					
Contributed equity	17	28,815,534	21,683,563	28,815,534	21,683,563
Accumulated losses	18	(17,658,417)	(20,135,901)	(17,628,476)	(20,135,901)
Total parent entity interest in equity		11,157,117	1,547,662	11,187,058	1,547,662
<b>TOTAL EQUITY</b>		<b>11,157,117</b>	<b>1,547,662</b>	<b>11,187,058</b>	<b>1,547,662</b>

The Statement of Financial Position is to be read in conjunction with the notes to the financial statements.

## Statement of Cash Flows

YEAR ENDED 30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers		19,682,537	9,682,364	-	-
Payments to suppliers and employees		(15,292,196)	(8,668,457)	-	-
Interest received		143,771	55,501	-	-
Borrowing costs		(21,074)	(36,876)	-	-
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	19	4,513,038	1,032,532	-	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		(1,043,225)	(277,648)	-	-
Payments of acquisition costs for purchase of controlled entity		(185,829)	-	-	-
Repayment of loan on acquisition of controlled entity		(3,000,000)	-	-	-
Proceeds from sale of non-current assets		4,206	342,434	-	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		(4,224,848)	64,786	-	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of ordinary shares		101,900	-	-	-
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		101,900	-	-	-
NET INCREASE IN CASH HELD		390,090	1,097,318	-	-
Add opening cash brought forward		2,190,767	1,093,449	-	-
<b>CLOSING CASH CARRIED FORWARD</b>	19	<b>2,580,857</b>	<b>2,190,767</b>	-	-

The Statement of Cash Flows is to be read in conjunction with the notes to the financial statements.

## Notes to the Financial Statements

30 JUNE 2004

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of accounting

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001 that includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been compiled with.

The financial report has been prepared in accordance with the historical cost convention.

#### (b) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous year except for the accounting policy with respect to commissions paid to sales staff.

From 1 July 2003, sales commissions are deemed to be incurred and expensed upon signing of the sales contracts. Prior to 1 July 2003, sales commissions were deferred in the Statement of Financial Position and recognised over the life of the related sales contracts. The effect of the revised policy has been to decrease current period profits by \$368,000 and decrease other current assets by \$368,000. See Note 20 for the effect of this change on the current year results.

#### (c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising realestate.com.au Limited (the parent entity) and all entities which realestate.com.au Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

#### (d) Foreign currencies

##### *Translation of foreign currency transactions*

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in contract) are translated using the spot rate at the end of the financial year. All resulting exchange differences arising on settlement or re-statement are brought to account in determining the profit or loss for the financial year.

#### (e) Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

#### (f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

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**(g) Investments**

Investments in controlled entities are carried at the lower of cost and recoverable amount in the consolidated financial report.

**(h) Recoverable Amount**

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount assets are written down.

**(i) Property, plant and equipment***Cost and valuation*

All classes of property, plant and equipment are measured at cost.

*Depreciation*

Depreciation is provided on a straight line basis on all property, plant and equipment, other than freehold land.

	2004	2003
Major depreciation periods are:		
Leasehold improvements:	The lease term	The lease term
Office Furniture:	2 to 6 years	2 to 6 years

**(j) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

**(k) Other non-current assets***Prepaid advertising expenditure*

Expenditure carried forward consists of prepaid advertising expenditure representing advertising services contributed to the company by shareholders as part consideration for shares issued. This is being amortised over the period that the services are to be provided to the company.

**(l) Trade and other payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**(m) Loans and borrowings**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

**(n) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

**(o) Contributed Equity**

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

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## **(p) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### *Rendering of Services*

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured.

### *Interest*

Control of the right to receive the interest payment.

## **(q) Taxes**

### *Income Taxes*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of Financial Position

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

## **(r) Employee benefits**

Provision is made for employee entitlement benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities that have terms to maturity approximating the terms of the related liability, are used.

Employee entitlements expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
- other types of employee entitlements

are charged against profits on a net basis in their respective categories.

The value of the employee share incentive scheme described in note 22 is not being charged as an employee entitlement expense.

## **(s) Earnings per share**

Basic EPS is calculated as net profit (loss) attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit (loss) attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
  - the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
  - other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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**(t) Intangibles****Goodwill**

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. This is taken as twenty years.

**(u) Deferred Revenue**

Each month, the company invoices subscribers for the following month's subscription. At the end of the financial year, since this invoicing relates to services to be provided in the next financial year, this amount is not recognised as revenue in the current financial year and is taken up as deferred revenue in the Statement of Financial Position.

**(v) Intellectual Property**

Intellectual property includes domain names stated at the lower of cost or recoverable amount. No amortisation is provided against these assets since, in the opinion of the Directors, the lives of the domain names are indefinite.

**(w) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

## Notes continued

30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>					
<b>Revenues from operating activities</b>					
Revenue from services		18,996,874	9,140,356	-	-
Total revenues from operating activities		18,996,874	9,140,356	-	-
<b>Revenues from non-operating activities</b>					
Interest					
Other persons/corporations		143,771	56,900	-	-
Total interest		143,771	56,900	-	-
Writeback of bad/doubtful debts - intercompany		-	-	2,507,425	-
Proceeds from sale of non-current assets		4,206	342,434	-	-
Total revenues from non-operating activities		147,977	399,334	2,507,425	-
<b>Total revenues from ordinary activities</b>		<b>19,144,851</b>	<b>9,539,690</b>	<b>2,507,425</b>	-
<b>3. EXPENSES AND LOSSES/(GAINS)</b>					
<b>(a) Expenses</b>					
Depreciation of non-current assets					
Office furniture and equipment		338,716	210,376	-	-
Total depreciation of non-current assets		338,716	210,376	-	-
Amortisation of current assets					
Advertising expenditure carried forward		-	2,479,168	-	-
Amortisation of goodwill		29,941	-	-	-
Total amortisation of current assets		29,941	2,479,168	-	-
<b>Total depreciation and amortisation expenses</b>		<b>368,657</b>	<b>2,689,544</b>	-	-
Borrowing costs expensed					
Interest expense – other related party		21,031	44,234	-	-
Interest expense – other parties		43	2,433	-	-
Total borrowing costs		21,074	46,667	-	-
<b>Total borrowing costs expensed</b>		<b>21,074</b>	<b>46,667</b>	-	-
Bad and doubtful debts - intercompany		-	-	-	1,539,702
Bad and doubtful debts - trade debtors		72,287	24,647	-	-
Consultancy expense		350,529	947,794	-	-
Operating lease expenses		328,234	293,048	-	-
Non current asset sold during the year		8,551	342,434	-	-
Technology expense		448,256	414,731	-	-
All other expenses		1,348,845	556,235	-	-
		<b>2,556,702</b>	<b>2,578,889</b>	-	<b>1,539,702</b>

During the year, the accounting policy for the recognition of sales commission was changed. The effect of this change has been to increase commission expense by \$368,000 in the current financial year. Note 20 illustrates the effect of this change.

## Notes continued

30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$

### 3. EXPENSES AND LOSSES/(GAINS) cont'd

#### (b) Losses/(Gains)

Net loss on disposal of property, plant and equipment		4,345	-	-	-
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### 4. INCOME TAX

The prima facie tax, using tax rates applicable in the country of operation, on profit and extraordinary items differs from the income tax provided in the financial statements as follows:

Prima facie tax on Profit/(loss) from ordinary activities		743,245	(461,911)	752,228	(461,911)
Tax effect of permanent differences					
Amortisation of prepaid advertising		-	743,750	-	-
Other items (net)		24,144	19,214	(752,228)	461,911
Prior Years Tax Losses recouped		(767,389)	(301,053)	-	-
Income tax expense attributable to ordinary activities		-	-	-	-

#### (a) Income tax losses

Future income tax benefit arising from tax losses of a controlled entity not brought to account at reporting date as realisation of the benefit is not regarded as virtually certain

		4,375,326	2,617,470	-	-
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This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

#### Tax Consolidation

Following advice from tax advisers, the Board has decided not to enter into tax consolidation at this time

### 5. RECEIVABLES (CURRENT)

Trade debtors	5(a)	3,285,339	1,538,119	-	-
Provision for doubtful debts		(100,000)	(60,000)	-	-
		3,185,339	1,478,119	-	-
Sundry debtors	5(a)	300	10,100	-	-
		3,185,639	1,488,219	-	-

#### (a) Terms and conditions

- Trade debtors are non-interest bearing and generally on 30 day terms.
- Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

## Notes continued

30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>6. OTHER CURRENT ASSETS</b>					
Prepayments		61,547	266,084	-	-
Other current assets	6(a)	130,054	130,052	-	-
		<b>191,601</b>	<b>396,136</b>	<b>-</b>	<b>-</b>

(a) Other current assets consist of a security deposit held by Macquarie Bank

### 7. RECEIVABLES (NON-CURRENT)

Related party receivables	Notes	2004	2003	2004	2003
Wholly-owned group	7(a)				
- Controlled entities	28	-	-	21,394,170	20,448,029
Provision for doubtful debts		-	-	(16,412,944)	(18,920,369)
		-	-	<b>4,981,226</b>	<b>1,527,660</b>

(a) Related party receivables are non-interest bearing and have no fixed maturity date.

### 8. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investments at fair value comprise:

Shares

Controlled entities - unlisted	9	-	-	6,205,832	20,002
		-	-	<b>6,205,832</b>	<b>20,002</b>

### 9. INTERESTS IN SUBSIDIARIES

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2004	2003	2004	2003
		%	%	\$	\$
Netwide Solutions Pty Limited	Australia	100	100	20,002	20,002
property.com.au Pty Limited (note 17(e))	Australia	100	-	6,185,830	-
				<b>6,205,832</b>	<b>20,002</b>

## Notes continued

30 JUNE 2004

	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$

### 10. PROPERTY, PLANT AND EQUIPMENT

Office equipment					
At cost		1,707,281	865,892	-	-
Accumulated depreciation		(791,428)	(515,239)	-	-
	10(a)	915,853	350,653	-	-
Improvements					
At cost		184,567	37,469	-	-
Accumulated depreciation		(51,017)	(34,677)	-	-
	10(a)	133,550	2,792	-	-
Total plant and equipment		1,049,403	353,445	-	-
Total property, plant and equipment					
Cost		1,891,848	903,361	-	-
Accumulated depreciation and amortisation		(842,445)	(549,916)	-	-
Total written down amount		1,049,403	353,445	-	-

	Consolidated	realestate.com.au Limited
	2004	2004
	\$	\$

#### (a) Reconciliations

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the current financial year.

#### *Plant and equipment*

Carrying amount at beginning	350,653	-
Additions	896,127	-
Disposals	(8,551)	-
Depreciation expense	(322,376)	-
	915,853	-

#### *Leasehold improvements*

Carrying amount at beginning	2,792	-
Additions	147,098	-
Depreciation expense	(16,340)	-
	133,550	-

## Notes continued

30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>11. INTANGIBLE ASSETS</b>					
Intellectual property assets		2,000,000	-	-	-
Goodwill		7,185,827	-	-	-
Amortisation of goodwill		(29,941)	-	-	-
		<u>9,155,886</u>	-	-	-
<b>12. PAYABLES (CURRENT)</b>					
Trade creditors	12(a)	840,039	212,255	-	-
Other creditors	12(a)	831,349	399,490	-	-
Government taxes including GST		515,514	186,793	-	-
		<u>2,186,902</u>	<u>798,538</u>	-	-
(a) Trade Creditors and Other Creditors are non-interest bearing and are normally settled on 30 day terms					
<b>13. PROVISIONS (CURRENT)</b>					
Employee entitlements	22	315,037	238,940	-	-
		<u>315,037</u>	<u>238,940</u>	-	-
<b>14. OTHER CURRENT LIABILITIES</b>					
Deferred revenue		2,419,672	939,622	-	-
Executive consultancy liability	14(a)	-	120,425	-	-
		<u>2,419,672</u>	<u>1,060,047</u>	-	-
(a) In accordance with the now-concluded consultancy agreement between the company and the Chief Executive Officer, the Chief Executive Officer was entitled to be paid part of his consideration in the form of shares in the company (or cash to the value thereof). These shares were earned on a monthly basis, at a rate equal to the average share price paid during that month. The number of shares earned was based on the number of days worked, and on the financial performance of the company. The liability for the twelve months to 30 June 2003 amount represents the value of 446,500 shares earned during the period 1 January 2003 and 30 June 2003. These shares were issued during the current financial year. A further 375,000 shares were issued pursuant to this consultancy agreement in the current financial year. The consultancy agreement expired on 31 October 2003, at which time the Chief Executive Officer became a fulltime employee of the company.					
<b>15. INTEREST-BEARING LIABILITIES (NON-CURRENT)</b>					
Other related parties		-	750,000	-	-
On 22 December 2003, the balance on this loan owing to News Limited was converted to shares in realestate.com.au Limited at the option of News Limited, as specified in the loan document. Refer to note 17(b).					
<b>16. PROVISIONS (NON-CURRENT)</b>					
Provision for long service leave	22	84,658	33,380	-	-

## Notes continued

30 JUNE 2004	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$

### 17. CONTRIBUTED EQUITY

#### (a) Issued and paid up capital

Ordinary shares fully paid	<b>28,815,534</b>	21,683,563	<b>28,815,534</b>	21,683,563
	<b>28,815,534</b>	21,683,563	<b>28,815,534</b>	21,683,563

#### (b) Movements in shares on issue

	2004		2003	
	Number of shares	\$	Number of shares	\$
Beginning of the financial year	92,980,784	21,683,563	91,500,784	21,460,723
– Issue of shares to STB Holdings (Simon Baker, CEO)	803,500	280,071	1,480,000	222,840
– Options exercised by CEO (Simon Baker)	800,000	80,000	-	-
– Options exercised under Staff Share Option scheme	146,000	21,900	-	-
– Issue of shares to RPData for purchase of property.com.au and related assets	8,000,000	6,000,000	-	-
– Issue of shares through conversion of News Limited loan	3,694,581	750,000	-	-
End of the financial year	<b>106,424,865</b>	<b>28,815,534</b>	92,980,784	21,683,563

#### (c) Share Options

At the end of the financial year, and up until the date of this report, there were 12,491,500 (2003: 13,670,000) unissued ordinary shares in respect of which options were outstanding.

On 8 February 2001, 10,000,000 options were issued to News Limited, each exercisable at 20 cents into fully paid ordinary shares on a one-for-one basis. These options expire on 8 February 2006. As at balance date, none of these options had lapsed or been exercised.

On 24 July 2002, 2,840,000 staff options over ordinary shares were issued with an exercise price of 15c each and an expiry date of 24 July 2007, and 80,000 staff options expiring on 11 November 2004. At 30 June 2004, 2,491,500 staff options were remaining to be exercised.

##### Staff Options issued 24 July 2002

Vesting Date	Balance 24 July 2002	Lapsed in year to 30 June 2003	Balance 1 July 2003	Exercised in		Closing 30 June 2004
				year to 30 June 2004	Lapsed during year	
24 July 2003	852,000	15,000	837,000	136,000	22,500	678,500
24 July 2004	852,000	15,000	837,000	-	90,000	747,000
24 July 2005	1,136,000	20,000	1,116,000	-	120,000	996,000
	2,840,000	50,000	2,790,000	136,000	232,500	2,421,500
<i>Staff Options issued on 11 November 1999</i>						
Already Vested	80,000	-	80,000	10,000	-	70,000
<b>TOTAL STAFF OPTIONS</b>	<b>2,920,000</b>	<b>50,000</b>	<b>2,870,000</b>	<b>146,000</b>	<b>232,500</b>	<b>2,491,500</b>

At the 2001 Annual General Meeting, shareholders approved the issue of 800,000 options over ordinary shares exercisable on a one-for-one basis at 10 cents per share to the CEO, Mr Simon Baker. These options were exercised during the financial year.

## Notes continued

30 JUNE 2004

	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$

### (d) Terms and conditions of contributed equity

#### Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote per share, either in person or by proxy, at a meeting of the company.

### (e) Acquisition of Controlled Entity

On 2 June 2004, realestate.com.au Limited acquired 100 percent of the share capital of property.com.au Pty Limited.

(i) The components of the acquisition cost were:

#### Consideration

- Shares issued	6,000,000
- Costs of Acquisition	185,829
	<u>6,185,829</u>

(ii) Fair value of assets of property.com.au Pty Limited at 2 June 2004 were;

Intellectual Property	2,000,000
Loan to Third Party	(3,000,000)
Cash	2
Goodwill arising on Acquisition	7,185,827
	<u>6,185,829</u>

The purchase consideration for property.com.au Pty Limited included the issue of 8,000,000 shares at a price of 75 cents each. The ASX price of shares in realestate.com.au Limited was 80 cents on the date of issue of the shares. The company has included the purchase at the lower price, as allowed for in the Urgent Issued Group Abstract 41, paragraph 5(b). This states that, if equity is used as purchase consideration, a notional price which shares can be placed on the share market may be used if this is a better indicator of value than the market price of the shares. Due to the size of the issue of shares relative to the total issued equity at the time of the issue, directors have formed the view that the lower price would be a better indication of the fair value of shares issued in this purchase.

Upon the acquisition of property.com.au Pty Limited, the loan to a third party was immediately settled by realestate.com.au Limited.

## 18. ACCUMULATED LOSSES

Accumulated losses	18(a)	<b>(17,658,417)</b>	(20,135,901)	<b>(17,628,476)</b>	(20,135,901)
(a) Accumulated losses					
Balance at the beginning of year		<b>(20,135,901)</b>	(18,596,199)	<b>(20,135,901)</b>	(18,596,199)
Net profit/(loss) attributable to members of realestate.com.au Limited		<b>2,477,484</b>	(1,539,702)	<b>2,507,425</b>	(1,539,702)
Balance at end of year		<b>(17,658,417)</b>	(20,135,901)	<b>(17,628,476)</b>	(20,135,901)

## 19. STATEMENT OF CASH FLOWS

### (a) Reconciliation of the net profit/(loss) after tax to the net cash flows from operations

Profit/(Loss) from ordinary activities after tax	<b>2,477,484</b>	(1,539,702)	<b>2,505,425</b>	(1,539,702)
<b>Non-Cash Items</b>				
Depreciation of non-current assets	<b>338,716</b>	210,376	-	-
Amortisation of intangible assets	<b>29,941</b>	2,479,168	-	-
Net loss on disposal of property, plant and equipment	<b>4,345</b>	-	-	-

## Notes continued

30 JUNE 2004

	Notes	Consolidated		realestate.com.au Limited	
		2004	2003	2004	2003
		\$	\$	\$	\$
<b>Changes in assets and liabilities</b>					
(Increase)/decrease in related party receivables			-	(2,505,425)	1,539,702
(Increase)/decrease in trade and other receivables		(1,697,420)	(701,885)	-	-
(Increase)/decrease in prepayments		204,537	(195,267)	-	-
(Decrease)/increase in trade and other creditors		1,599,288	131,233	-	-
(Decrease)/increase in deferred revenue		1,480,050	569,622	-	-
(Decrease)/increase in employee entitlements		76,097	78,987	-	-
Net cash flow from operating activities		4,513,038	1,032,532	-	-
<b>(b) Reconciliation of cash</b>					
Cash balance comprises:					
- cash on hand		2,580,857	2,190,767	-	-
Closing cash balance		2,580,857	2,190,767	-	-
<b>(c) Financing facilities available</b>					
At balance date, the following financing facilities had been negotiated and were available:					
Total facilities					
- related party loan facility		-	1,550,000	-	-
Facilities used at balance date					
- related party loan facility		-	750,000	-	-
Facilities unused at balance date					
- related party loan facility		-	800,000	-	-
<b>(d) Bank guarantee</b>					
Total facility available		230,000	-	-	-
Facility used at balance date		204,850	-	-	-
Facility unused at balance date		25,150	-	-	-

## Notes continued

30 JUNE 2004

### 20. EFFECT OF CHANGE IN ACCOUNTING POLICIES

From 1 July 2003, sales commissions are deemed to be incurred and expensed upon the signing of the sale contracts. Prior to 1 July 2003, sales commissions were deferred in the Statement of Financial Position and recognised over the life of the related sales contracts.

The effect of the change in accounting policy has been to reduce retained earnings as at 30 June 2004 by \$368,000 being commissions expensed in the current year that under the previous policy would have been capitalised and expensed in the following financial year.

Had the new policy been effective from 1 July 2002, losses from ordinary activities for the year ended 30 June 2003 would have been \$1,764,243 as commissions capitalised in that year amounting to \$224,541 would have been expensed in full. Further, the current year net profit from ordinary activities would not have included the expense of \$224,541, being amortisation of the 2003 capitalised commissions.

The changes to accounting policies have affected only the accounts of the consolidated entity and have had no effect on the holding company.

### 21. EXPENDITURE COMMITMENTS

	2004 \$	2003 \$	2004 \$	2003 \$
<b>Lease expenditure commitments</b>				
<i>Operating leases (non-cancellable):</i>				
Minimum lease payments				
- not later than one year	571,247	219,389	-	-
- later than one year and not later than five years	1,147,174	293,479	-	-
- aggregate lease expenditure contracted for at balance date	<u>1,718,421</u>	<u>512,868</u>	-	-

These amounts represent amounts contracted for, but for which no liability is recognised in the financial statements.

### 22. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	2004 \$	2003 \$	2004 \$	2003 \$
<b>Employee benefits</b>				
The aggregate employee benefit liability is comprised of:				
Provisions (current)	315,037	238,940	-	-
Provisions (non-current)	84,658	33,380	-	-
	<u>399,695</u>	<u>272,320</u>	-	-

#### (a) Superannuation Commitments

Contributions by the entity of 9% for the 2003/2004 year of employees' wages and salaries are legally required in Australia. Contributions are made to accumulation funds of the employees' choice or, where a choice has not been made, to the employer's default fund.

## Notes continued

30 JUNE 2004

### (b) Share Options

Options over ordinary shares:

#### *Employee Share Plan*

An employee share plan has been established where employees of the consolidated entity who have served the company for a minimum aggregate period of two months are eligible to be issued shares in the company to the value of \$1,000 in any one year period. The Plan allows the Company to issue shares to employees in a manner determined by the Board in its absolute discretion. All shares issued under the plan are escrowed for a period of three years.

#### *Employee Option Scheme*

Prior to listing, an employee option scheme was established where the Board may from time to time determine who is entitled to participate in the scheme and may grant options in accordance with certain terms and conditions. The total number of options on issue under the Option Scheme must not exceed five percent of the total number of ordinary shares on issue at that time.

The options expire five years from issue date or one month after the Options Holder ceases to be an employee of the company or its subsidiaries. The exercise price of any new options issued under this scheme is to be based on the weighted average market price of the share five trading days prior to the issue date.

At the Annual General Meeting for the year ended 30 June 2001, shareholders approved an amendment to the scheme, whereby, for future option issues, the minimum price of staff options is to be \$0.15. A total of 2,840,000 staff options were issued in July 2002 with an exercise price of \$0.15 each. A total of 282,500 of these options have lapsed, including 232,500 during the year. Additionally, 136,000 options were exercised during the year.

At the Annual General Meeting for the year ended 30 June 2001, shareholders approved an amendment to the scheme, whereby, for options with an expiry date of 11 November 2004, the exercise price of the outstanding 80,000 options was reduced from \$0.50 to \$0.15 each. None of these options have lapsed since the meeting. Additionally, 10,000 options were exercised during the year.

No other equities in any of the entities within the consolidated entity were acquired by or issued to employees during the year in relation to any other ownership-based remuneration schemes.

## 23. SUBSEQUENT EVENTS

No significant events occurred between 30 June 2004 and the date of this report.

## 24. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	2004	2003
	\$	\$
Net profit/(loss)	2,477,484	(1,539,702)
Earnings used in calculating basic and diluted earnings per share	<u>2,477,484</u>	<u>(1,539,702)</u>
	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	96,664,664	92,264,084
Effect of dilutive securities:		
Share options	<u>7,204,414</u>	-
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>103,869,078</u>	92,264,084

## Notes continued

30 JUNE 2004

### 25. DIRECTOR AND EXECUTIVE DISCLOSURES

#### (a) Details of Specified Directors and Executives

##### (i) Specified directors

John D McGrath	Chairman (non-executive)
Martin PU Hoffman	Director (non-executive)
Martin P Howell	Director and Chief Technical Officer – resigned as Director on 13 November 2003
Alasdair Macleod	Director (non-executive)
Stephen Rue	Director (non-executive) – appointed 29 August 2003
Sam R White	Director (non-executive)
Mark A Webster	Director (non-executive) – resigned 29 August 2003

##### (ii) Specified executives

Simon Baker	Chief Executive Officer
Shaun DiGregorio	National Sales Manager
Christine Vulovic	Chief Information Officer
William Spring	Chief Financial Officer

#### (b) Remuneration of Specified Directors and Executives

##### (i) Remuneration Policy

The Remuneration and Nomination Committee of the Board of Directors of realestate.com.au Limited is responsible for determining and reviewing compensation arrangements for the directors, the chief executive office and the executive team. The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market place conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

To assist in achieving these objectives, the Remuneration and Nomination Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

In addition, all executives are entitled to annual bonuses payable upon the achievement of annual corporate profitability measures.

The current employment agreement with the Chief Executive Officer has a three month written notice period. If the company terminates the agreement, the company will pay the Chief Executive Officer amount of bonus earned up until the date of departure.

## Notes continued

30 JUNE 2004

### (c) Remuneration of Specified Directors and Specified Executives

		Primary		Post Employment	Equity	Total
		Salary & Fees	Cash Bonus	Superannuation	Options	
<b>Specified Directors</b>						
John D McGrath						
	2004	100,000	-	9,000	-	109,000
	2003	27,500	-	2,475	-	29,975
Martin P Howell						
	2004	138,000	17,500	13,995	6,047	175,542
	2003	127,500	11,160	12,479	10,919	162,058
TOTAL						
	2004	238,000	17,500	22,995	6,047	284,542
	2003	155,000	11,160	14,954	10,919	192,033

Directors' fees are paid only to independent or executive directors. All other directors, not being independent, did not receive any director's fees during the financial period or the corresponding comparative period.

For purposes of the Directors' Report, Martin Howell has been included as a specified director. Mr Howell resigned as a director on 13 November 2003, and remains an executive of the company. The amounts received by Mr Howell relate solely to his employment as an executive of the company.

		Primary		Other Monetary	Post Employment	Equity		Total
		Salary & Fees	Cash Bonus	Benefits	Superannuation	Options	Shares	
<b>Specified Executives</b>								
Simon Baker - Chief Executive Officer								
	2004	311,881	-	15,104	18,716	-	159,516	505,217
	2003	258,000	-	-	-	-	218,335	476,335
Shaun Di Gregorio - National Sales Manager								
	2004	87,083	46,200	-	11,996	3,626	-	148,905
	2003	80,000	31,833	-	10,065	6,549	-	128,447
William Spring - Chief Financial Officer								
	2004	120,000	24,600	-	13,014	6,047	-	163,661
	2003	103,750	13,375	-	10,541	10,919	-	138,585
Christine Vulovic - Chief Information Officer								
	2004	123,771	27,500	-	13,614	-	-	164,885
	2003	-	-	-	-	-	-	-
TOTAL								
	2004	642,735	98,300	15,104	57,340	9,673	159,516	982,668
	2003	441,750	45,208	-	20,606	17,468	218,335	743,367

## Notes continued

30 JUNE 2004

### (d) Option Holdings of specified directors and specified executives

	Balance at beginning of period	Granted as Remuneration	Options Exercised	Balance at end of period	As at 30 June 2004
	1 July 2003			30 June 2004	Vested and Exercisable
<b>Specified Directors</b>					
Martin P Howell	250,000	-	-	250,000	75,000
	<b>250,000</b>	<b>-</b>	<b>-</b>	<b>250,000</b>	<b>75,000</b>
<b>Specified Executives</b>					
Simon Baker	800,000	-	(800,000)	-	-
Shaun DiGregorio	150,000	-	-	150,000	45,000
William Spring	250,000	-	-	250,000	75,000
<b>TOTAL</b>	<b>1,200,000</b>	<b>-</b>	<b>(800,000)</b>	<b>400,000</b>	<b>120,000</b>

### (e) Shareholdings of Specified Directors and Specified Executives

Shares held in realestate.com.au Limited (number)	Balance 1 July 2003	Granted as Remuneration	On Exercise of Options	Net Other Change	Balance 30 June 2004
<b>Specified Directors</b>					
John D McGrath	2,039,086	-	-	-	2,039,086
Sam R White	14,628,817	-	-	(60,000)	14,568,817
<b>Specified Executives</b>					
Simon Baker	2,080,000	803,500	800,000	(45,000)	3,638,500
Martin P Howell	3,103,906	-	-	(857,047)	2,246,859
<b>TOTAL</b>	<b>21,851,809</b>	<b>803,500</b>	<b>800,000</b>	<b>(962,047)</b>	<b>22,493,262</b>

Unless listed above, directors or specified executives do not hold shares or options in the company.

26. AUDITORS' REMUNERATION	Consolidated		realestate.com.au Limited	
	2004	2003	2004	2003
Amounts received or due and receivable by Ernst & Young for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	65,040	53,500	-	-
- other assurance services	44,475	-	-	-
- other services in relation to the entity and any other entity in the consolidated entity	45,800	4,200	-	-
	<b>155,315</b>	<b>57,700</b>	<b>-</b>	<b>-</b>

The fees paid to the auditors for assurance services relate to due diligence and tax advice on the purchase of property.com.au Pty Limited. Other services relates to tax advice.

## Notes continued

30 JUNE 2004

### 27. IMPACT OF ADOPTING AASB EQUIVALENT TO IASB STANDARDS (AASB 1047)

The company has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources to conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As a result of this review, the company has graded impact areas as being either medium or low. As the company has a 30 June 2004 year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future and is required when the company prepares its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of the company. At this stage, the company has not been able to reliably quantify the impacts on the financial report.

#### **Goodwill**

Under AASB 3 *Business Combination* goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 20 years. Under the new policy, amortisation will no longer be charged. Goodwill will be written down to the extent it is impaired. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

#### **Impairment of Assets**

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher value less costs to sell and value in use. This will result in a change in the group's current accounting policy that determines the recoverable amount of an asset. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known.

#### **Share based payments**

Under AASB 2 *Share based Payment*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity-based remuneration. It applies to all share-based payments issued after 7 November 2002, which have not vested as at 1 January 2005. Where the company has share based payment in future, this will result in the recognition of an expense. Reliable estimation of the future financial effects of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

#### **Income taxes**

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method, which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet.

## Notes continued

30 JUNE 2004

### 28. RELATED PARTY DISCLOSURES

#### Directors

The directors of realestate.com.au Limited during the financial year were:

Mr Alasdair MacLeod

Mr Martin P Howell

Mr John D McGrath

Mr Mark A Webster

Mr Martin P U Hoffman

Mr Sam R White

Mr Stephen P Rue

#### Wholly-owned group transactions

##### Loans

During the financial year, the company was repaid \$2,053,857 (2003: borrowed \$565,274) of the interest free loan funding made to its wholly owned subsidiary Netwide Solutions Pty Limited. The balance of this loan at 30 June 2004 was \$18,394,172 (2003: \$20,448,029). A provision of \$16,412,944 (2003: \$18,920,369) has been raised against this intercompany loan.

During the year, the company purchased the shares of property.com.au Pty Limited through the issue of 8 million shares at 75 cents each. As part of the transaction, a loan of \$3,000,000 was repaid and costs associated with the acquisition of \$185,828 were paid.

#### Other related party transactions

##### Purchases

During the year, the company utilised advertising services of News Limited to the value of \$1,163,635 (2003: \$211,423) on normal commercial terms and conditions. In addition the company paid commission to News Limited and its related entities to the value of \$713,995 (2003: \$266,630).

During the year, the company utilised the services of Ninemsn Pty Limited to the value of \$699,000 (2003: \$Nil) on normal commercial terms and conditions.

##### Loans

At the start of the financial year, News Limited, an associate of realestate.com.au Limited, was owed an amount of \$750,000 by realestate.com.au Limited. This amount was subject to interest at the 30 day bank bill rate plus one percent. During the year realestate.com.au Limited paid interest of \$21,031 (2003: \$44,234) to News Limited in relation to this loan. This loan was converted to equity at the option of the lender, as specified in the loan document.

#### Director transactions

During the year the directors incurred expenses in connection with carrying out their duties as directors. Where these expenses were reasonable and business related, the company reimbursed them in full.

#### Ultimate parent

The ultimate parent entity is realestate.com.au Limited.

## Notes continued

30 JUNE 2004

### 29. FINANCIAL INSTRUMENTS

#### (a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Floating interest rate		Fixed interest rate maturing in:						Non-interest bearing		Total carrying amount as per the statement of financial position		Weighted average effective interest rate	
			1 year or less		Over 1 to 5 years		More than 5 years							
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>(i) Financial assets</i>														
Cash	2,580,857	2,190,767	-	-	-	-	-	-	-	-	2,580,857	2,190,767	4.09	3.69
Trade and other receivables	-	-	-	-	-	-	-	-	3,185,639	1,488,219	3,185,639	1,488,219	N/A	N/A
Total financial assets	2,580,857	2,190,767	-	-	-	-	-	-	3,185,639	1,488,219	5,766,496	3,678,986		
<i>(ii) Financial liabilities</i>														
Trade creditors	-	-	-	-	-	-	-	-	840,039	212,255	840,039	212,255	N/A	N/A
Other creditors	-	-	-	-	-	-	-	-	831,349	399,490	831,349	399,490	N/A	N/A
Payable - other related parties	-	750,000	-	-	-	-	-	-	-	-	-	750,000	N/A	5.86
Total financial liabilities	-	750,000	-	-	-	-	-	-	1,671,388	611,745	1,671,388	1,361,745		

## Notes continued

30 JUNE 2004

### 29. FINANCIAL INSTRUMENTS (cont'd)

#### (b) Net fair values

All financial assets and liabilities are stated at their carrying amounts that are not materially different from their fair values.

*(i) The following methods and assumptions are used to determine the net fair values of financial assets and liabilities*

#### Recognised financial instruments

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short-term to maturity.

*Trade receivables, trade creditors and dividends receivable:* The carrying amount approximates fair value.

*Short-term borrowings:* The carrying amount approximates fair value because of their short-term to maturity.

*Long-term bank borrowings and debentures:* The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

#### (c) Credit risk exposures

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

#### *Concentrations of credit risk*

The company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers.

### 30. SEGMENT INFORMATION

The company predominately operates in one business segment, providing media services to the real estate related industries. These activities are conducted entirely within Australia.

### 31. CONTINGENT LIABILITIES

Various claims arise in the ordinary course of business against realestate.com.au Limited and its subsidiaries. The amount of the liability (if any) at 30 June 2004 cannot be ascertained, and the parent entity believes that any resulting liability would not materially affect the financial position of the group.

## Directors' Declaration

In accordance with a resolution of the directors of realestate.com.au Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

Mr John D McGrath  
Director

Sydney, 29 September 2004

# Independent Audit Report

## Independent audit report to members of realestate.com.au Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for realestate.com.au Limited and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

### Audit opinion

In our opinion, the financial report of realestate.com.au Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of realestate.com.au Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Don Brumley  
Partner  
Melbourne

Date

2004

## ASX Additional Information

(a) Statement of shareholdings as at 21 September 2004

Holding range	Name of 20 largest shareholders	Ordinary Shares		
		Fully paid		
		No. of holders	No. of shares held	% held
<b>100,001 or more (Top 20)</b>	News Limited		43,694,581	41.06
	Songpan Pty Limited		14,568,817	13.69
	RP Data Limited		8,000,000	7.52
	Ninemsn Pty Limited		5,165,000	4.85
	Mr Simon Timothy Baker		2,312,000	2.17
	Sabreguard Pty Limited		2,183,475	2.05
	Merrill Lynch (Australia) Nominees Ltd		2,181,255	2.05
	Highland Endeavours Pty Limited		2,096,859	1.97
	Fondorru Pty Limited		1,999,086	1.88
	Invia Custodian Pty Limited (Black A/c)		1,889,442	1.78
	Westpac Custodian Nominees Limited		1,852,781	1.74
	National Ski Pty Limited		1,465,906	1.38
	STB Holdings Pty Limited		1,036,500	0.97
	Clarke Computers Pty Limited		1,000,000	0.94
	Andrew Peter Jamson		1,000,000	0.94
	Sanben Superannuation Pty Limited		818,750	0.77
	Equity Trustees Limited		771,100	0.72
	Effie Holdings Pty Limited		750,000	0.70
	JFT Investments Pty Limited		660,505	0.62
	Deadline Group Pty Ltd (Coulson Super Fund A/c)		307,870	0.29
<b>100,001 or more</b>		<b>36</b>	<b>96,693,324</b>	
<b>10,001 – 100,000</b>		<b>230</b>	<b>6,727,048</b>	
<b>5,001 – 10,000</b>		<b>207</b>	<b>1,806,886</b>	
<b>1,001 – 5,000</b>		<b>353</b>	<b>1,118,956</b>	
<b>1 – 1,000</b>		<b>95</b>	<b>78,651</b>	
<b>Total</b>		<b>921</b>	<b>106,424,865</b>	
Number of shareholders holding less than a marketable parcel		18	3,904	

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

## Corporate Governance Statement

The directors in office at the date of this statement are:

Name	Position	Period in Office at 30 June 2004
Mr John D McGrath	Chairman, Non-executive	3 years, 9 months
Mr Martin P U Hoffman	Non-executive director	1 year, 3 months
Mr Stephen P Rue	Non-executive director	10 months
Mr Sam R White	Non-executive director	1 year, 10 months
Mr Alasdair MacLeod	Non-executive director	1 year, 4 months

### Corporate Governance and Best Practices

The Board of Directors of realestate.com.au Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of realestate.com.au Limited in behalf of the shareholders by whom they are elected and to whom they are accountable.

In March 2003, the Australian Stock Exchange released the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the ASX Listing Rules (Rule 4.10.3), the Corporate Governance Statement must report on the company's adoption of the Council's best practice Recommendations on an exception basis, 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. realestate.com.au Limited's corporate governance practices, based on the ASX Recommendations, have been developed during the last financial year. By June 2004 these practices were operating in the management of the company for all practical purposes, with the exceptions noted below. Formal adoption of these Recommendations by the directors of was made immediately following the end of the reporting period.

realestate.com.au Limited complies with 25 of the 28 recommendations laid down in the Recommendations.

The three Recommendations that company has not adopted (the reasons why are explained below) are:

Recommendation 2.1 A majority of the board should be independent directors.

Recommendation 4.3 The Audit Committee should comprise a majority of independent directors and should be chaired independently, not by the Board Chairman.

Recommendation 8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

### Structure of the Board

The primary objective of the Board of Directors Board of realestate.com.au Limited is to build long-term shareholder value with due regard to other stakeholder interests. It does this by setting strategic direction and context, such as the company's mission, vision and values, and focusing on issues critical for its successful execution such as staffing, performance, and risk management. The Board is also responsible for overseeing the company's corporate governance framework.

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report on page 3. Directors of realestate.com.au Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than five percent of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than ten percent of the appropriate base amount. Qualitative factors considered to include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, Mr John McGrath, Chairman of realestate.com.au Limited is considered to be independent.

The Council's Recommendation 2.1 requires a majority of the board to be independent directors. Due to the size of the company, and the strategic relationships, the directors have determined that it is inappropriate to increase the number of directors to the size where there can be a majority of independent directors. However, this decision does not limit the size of the board, nor preclude the appointment of additional independent directors in the future.

The Company has no formal board /committee/director evaluation process at present.

The Board considers the appointment or retirement of directors, where appropriate, and with regard to the size of the Company. Each director has the right to seek independent professional advice at the Company's expense. The Board's prior consent to obtaining such advice is required. The director concerned does not participate in the decision. The Board has two formally constituted committees, the Audit Risk and Compliance Committee and the Remuneration and Nomination Committee.

### **Audit Risk and Compliance Committee**

The Board has established an Audit Risk and Compliance Committee that operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information as well as non-financial considerations such as benchmarking of operational key performance indicators. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the consolidated entity to the Audit Risk and Compliance Committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in all financial reports. All members of the Audit Risk and Compliance Committee are non-executive directors. It is not possible, with the present composition of the Board, to have a majority of independent directors comprising membership of the Audit, Risk and Compliance Committee. The Chairman is the sole independent director and consequently has been elected to chair the Committee

The members of the Audit Risk and Compliance Committee during the year were:

Mr John D McGrath - Chairman

Mr Martin P U Hoffman

Mr Stephen P Rue (appointed 29 August 2003)

Mr Alasdair MacLeod (ceased 29 August 2003)

#### *Qualifications of Audit Risk and Compliance Committee members*

Mr John D McGrath is one of Australia's leading real estate agents, having considerable experience in the real estate industry. He started McGrath Estate Agents in 1989, now Australia's largest privately owned real estate group.

Mr Stephen P Rue, the Chief Financial Officer of News Limited, has extensive financial experience in financial aspects of the media industry and the accounting profession.

Mr Alasdair MacLeod has held senior management positions in Australia and, before that, in the UK in internet related media and city and community newspapers.

Mr Martin P U Hoffman has held senior magazine and online media management positions currently as the Chief Executive Officer of ninemsn Pty Limited and before that at John Fairfax Holdings Limited.

For details of the number of meetings of the Audit Risk and Compliance Committee held during the year, and the attendees at those meetings, refer to page 8 of the Directors' Report.

The company, at least annually, meets with the external auditors to discuss the results of their work, fee arrangements and other work performed. To ensure that the auditor remains independent at all times, all non audit work is authorized by the Audit Risk and Compliance Committee.

### **Remuneration and Nomination Committee**

The Board has established a Remuneration and Nomination Committee, which meets at least once annually, to ensure that the Board continues to operate within the established guidelines, including when necessary, selecting candidates for the position of director. The Remuneration and Nomination Committee comprises non-executive directors. This Committee comprised the following members:

Mr John D McGrath - Chairman

Mr Sam R White

Mr Alasdair MacLeod (appointed 29 August 2003)

Mr Mark A Webster (resigned 29 August 2003)

For details on the amount of remuneration and all monetary and non-monetary components for each of the five highest paid executives during the year and for all directors, refer to page 7 of the Directors' Report. In relation to the payment of bonuses, options and other incentive payments discretion is exercised by the Board, having regard to the overall performance of the company and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors.

The Remuneration and Nomination Committee is responsible for establishing and maintaining an appropriate framework for remuneration issues within the company. This function includes:

- determination of remuneration policies;
- the determination of executives' remuneration based on individual performances and the financial and operating performance of the company

For details on the number of meetings of the Remuneration and Nomination Committee held during the year and the attendees at those meetings, refer to page 8 of the Directors' Report.

### **Statement by Chief Executive Officer and Chief Financial Officer**

The Chief Executive Officer and the Chief Financial Officer have stated, in writing, to the Board that:

- a) For the year ended 30 June 2004, the financial statements comply with Australian Accounting Standards as required by Section 286 of the Corporations Act and give a true and fair view, in all material respects of the holding company and the consolidated group at that date
- b) during the period between 1 January 2004 and 30 June 2004, a review as carried out of operational and financial risks. Any deficiencies were rectified, and procedures were established to ensure that controls continue to operate at the required levels.
- c) At and subsequent to 30 June 2004, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal compliance and control systems of the company and consolidated entity

### **Ethical Standards**

The Directors and other employees are expected to act lawfully, in a professional manner, and with the utmost integrity and objectivity in their dealings with clients, contractors, candidates and competitors, the community and each other, striving at all times to enhance the reputation and performance of the company.

### **Dealings with Shares**

Directors and employees of the company are generally not permitted to deal in shares of the company in the period between the end of the financial half or full year up until the release of the financial information relating to that period. Directors and employees of the company are prohibited from dealing in the company's shares at any time whilst in possession of price sensitive information.

### **Shareholders**

The Board of Directors of the company aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:-

- the Annual Report is distributed to all shareholders and includes relevant information about the operations of the company during the year, changes in the state of affairs of the company and details of future developments, in addition to other disclosures required by the Corporations Law;
- announcements are made to the Australian Stock Exchange in respect of annual and half-yearly results and on other occasions when the company becomes aware of information that might materially affect the price of its units, and
- the use of the website [www.realestate.com.au](http://www.realestate.com.au) to publish releases by the company.

## Independent Audit Report to members of realestate.com.au Limited

### Scope

#### *The financial report and directors responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for realestate.com.au Limited and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

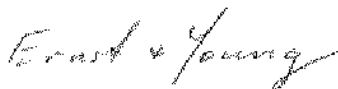
### **Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

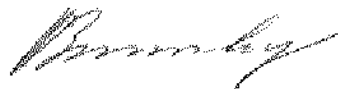
### **Audit opinion**

In our opinion, the financial report of realestate.com.au Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of realestate.com.au Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Don Brumley  
Partner  
Melbourne, Australia

Dated this 29<sup>th</sup> day of September 2004