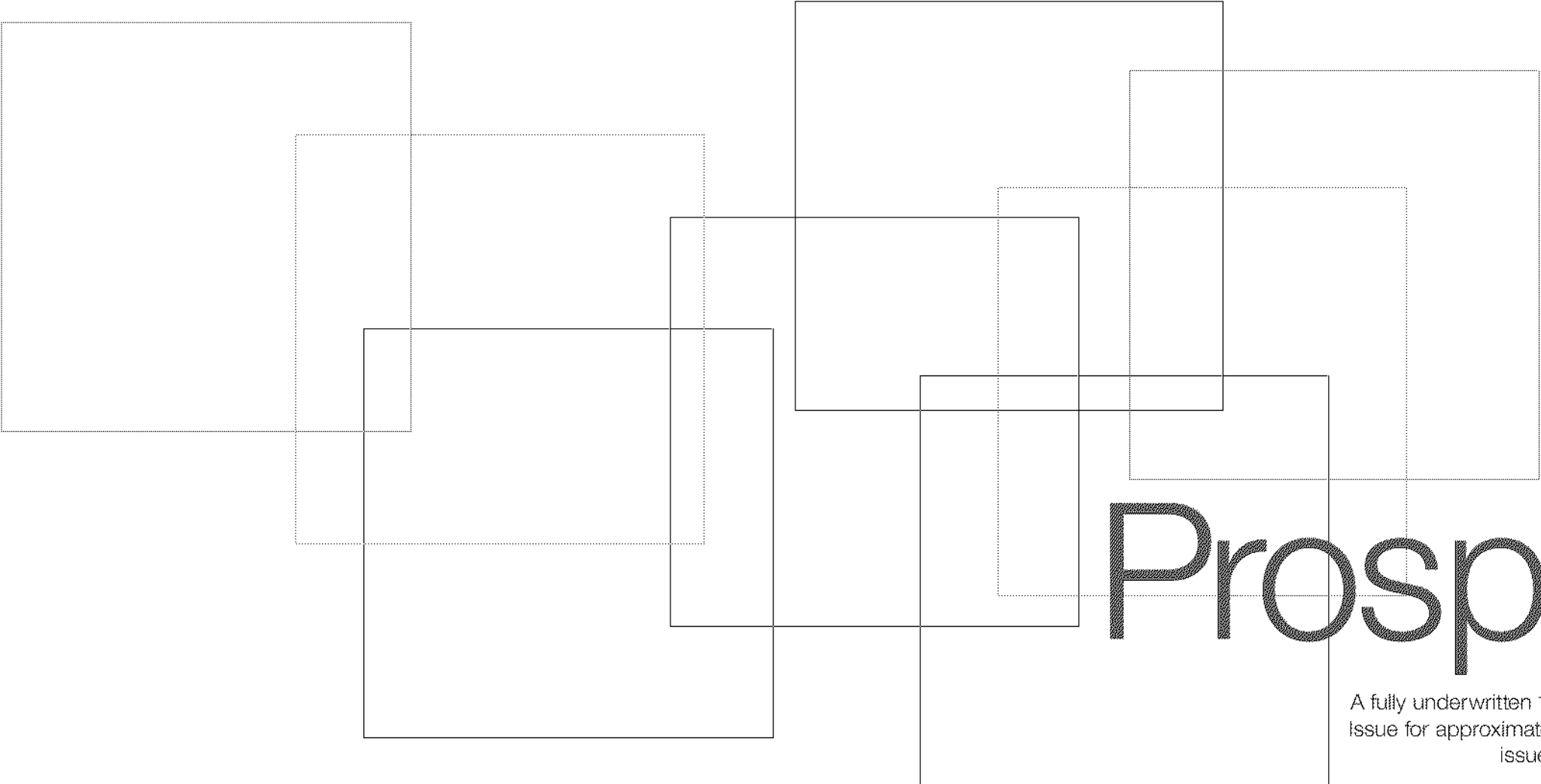




Prospectus

A fully underwritten 1 for 100 non-renounceable pro-rata Rights Issue for approximately 503,540 Reset Preference Shares at an issue price of \$10.00 per share.

This offer closes at 5.00pm WST on 29th December 2003.

Valid acceptances must be received before that time.

Please read the instructions in this Prospectus and on the accompanying Entitlement and Acceptance Form regarding the acceptance of your entitlement.

This is an important document and requires your immediate attention.

It should be read in its entirety.

If you are in doubt about what to do, you should consult your professional adviser without delay.

CORPORATE DIRECTORY

Directors

Timothy Holmes (Chairman)
Robert Salmon (Managing Director)
Robert Scott (Non Executive Director)
Andrew Pridham (Non Executive Director)

Company Secretary

Jennifer Murray

Registered Office

Level 9 The Quadrant
1 William Street
Perth WA 6000

Telephone (08) 9327 1777
Facsimile (08) 9327 1778

National Office

Level 2
The Atrium Building
168 St Georges Terrace
Perth WA 6000

Telephone: (08) 9261 7000
Facsimile: (08) 9261 7660

Share Registry

Computershare Investor Services Pty Limited
Level 2
45 St George's Terrace
Perth WA 6000

Telephone 1300 557 010
Facsimile (08) 9323 2033

Stock Exchange Listing

Australian Stock Exchange Limited
Home Branch – Western Australia

ASX Code

HOM

Auditors & Tax Advisers

Ernst & Young
Central Park
152 St George's Terrace
Perth WA 6000

Solicitors to the Offer

O'Loughlins Lawyers
Level 2
55 Hunter Street
Sydney NSW 2000

IMPORTANT INFORMATION

This Prospectus is dated 25 November 2003 and was lodged with the ASIC on that date. The ASIC and ASX take no responsibility for the contents of this Prospectus.

No Securities will be issued on the basis of this Prospectus later than 13 months after the date of this Prospectus.

This document is important and requires your immediate attention. Applicants should read this Prospectus in its entirety before deciding to participate in the Offer. If after reading this Prospectus you have any questions about the Offer, you should contact your stockbroker, solicitor, accountant or professional adviser.

A copy of this Prospectus is available for inspection at the registered office of the Company at, Level 9 The Quadrant, 1 William St, Perth WA 6000, during normal business hours. The Company will provide a copy of this Prospectus to any person on request. The Company will also provide copies of other documents on request (see Section 8.4).

The Company will apply to ASX within 7 days of the date of this Prospectus for Official Quotation by ASX of the Securities offered by this Prospectus.

There are risks associated with investing in Reset Preference Shares under this Prospectus. Please refer to Section 5 for details relating to investment risks.

Eligible Shareholders may accept their Entitlements in whole or in part. If Eligible Shareholders decide not to accept their Entitlement by the Closing Date, the Entitlements will lapse. As this Offer is non-renounceable, Eligible Shareholders may not sell or transfer their Entitlements.

Applications for Securities can only be submitted on an original Entitlement and Acceptance Form. The Entitlement and Acceptance Form sets out an Eligible Shareholders' entitlement to participate in the Offer.

Revenues and expenditures disclosed in this Prospectus are recognised exclusive of the amount of goods and services tax, unless otherwise disclosed.

No person is authorised to give any information or to make any representation in connection with the Offer described in this Prospectus that is not contained in this Prospectus. Any information or representation not so contained may not be relied on as having been authorised by the Company in connection with the Offer.

No action has been taken to permit the offer of Securities under this Prospectus in any jurisdiction other than Australia and New Zealand.

The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and therefore persons into whose possession this document comes should seek advice on and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of those laws. This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would be unlawful to issue this Prospectus.

Please refer to the Glossary in Section 9 for terms and abbreviations used in parts of this Prospectus.

LETTER FROM THE CHAIRMAN

Dear Shareholders,

On behalf of your Directors I am pleased to offer you a further opportunity to participate in the future growth of Homeloans Ltd. This offer is through a non-renounceable pro-rata Entitlement offer of Reset Preference Shares in Homeloans Ltd.

This Offer is by way of a non-renounceable Rights Issue, which entitles Eligible Shareholders to subscribe for 1 Reset Preference Share for every 100 existing Ordinary Shares held, at a price of \$10.00 per Reset Preference Share. The Directors are intending to take up their respective pro-rata Entitlements in full. This Rights Issue is fully underwritten by the Directors subject to the usual conditions and termination events described in section 8.8.1 of this Prospectus.

The funds raised from this Offer will be used to pursue growth opportunities both organically and by acquisition, further strengthening the Company's financial position and in financing payment of the stamp duty assessment (announced to the market on 16 July 2003), to the extent it is payable.

This Prospectus contains detailed information about the Offer and your Directors commend you to read it carefully. On behalf of your Directors, I invite you to consider the contents of this Prospectus and to participate in this Offer to acquire Reset Preference Shares in your Company.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Holmes', with a stylized flourish at the end.

Tim Holmes
Chairman

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PROPOSED TIMETABLE

- Announcement of Offer and lodgement of Prospectus with ASIC and ASX 25 November 2003
 - Record date for determining entitlements 4 December 2003
 - Prospectus and Entitlement and Acceptance Form despatched to Shareholders 9 December 2003
 - Closing Date * 29 December 2003
 - Anticipated date for allotment and issue of Reset Preference Shares **14 January 2004
- * Subject to the Listing Rules, the Directors reserve the right to extend the Closing Date for the Offer. Any extension of the Closing Date will have a consequential effect on the anticipated date for allotment and issue of Reset Preference Shares.
- ** Indicative date only.

1. CORPORATE HISTORY AND BUSINESS OVERVIEW

1.1 Corporate History

The business which now trades as Homeloans Ltd was incorporated in 1985 under the name of I.F.&I. Holdings Pty Ltd. Homeloans Ltd was incorporated on 9 November 2000 with the issue of shares to the Unitholders in the IF&I Securities Unit Trust and acquisitions of the mortgage origination and management business (including assets and liabilities) of IF&I Securities Pty Ltd (as trustee for the IF&I Securities Unit Trust), Anedo Pty Ltd (as trustee for the Anedo Unit Trust) and various IF&I group entities. On 19 March 2001, Homeloans Ltd shares commenced trading on the Australian Stock Exchange.

After listing on the ASX, the Company continued to expand and to develop its mortgage origination and management businesses in the various mainland states. Each business operated under its' own state-based brand name, being Homeloans WA, Homeloans VIC, Homeloans NSW, Homeloans SA, Homeloans QLD and Homeloans Canberra.

In October 2002 the group united its various state based brands to operate under the one brand of Homeloans Ltd. While the name changed it was still business as usual and Homeloans Ltd today continues to pride itself on providing a varied and flexible product range designed to suit borrowers' needs.

Homeloans Ltd acquired FAI First Mortgage Pty Ltd ("FAIFM") in April 2001 for approximately \$7.1 million, the mortgage book of Eurofinance Corporation Pty Ltd ("Eurofinance") in August 2001 for approximately \$3.5 million and Access Home Loans Pty Ltd ("Access") and its subsidiaries in December 2001 for approximately \$11 million. The Access mortgage book was approximately \$1.4 billion at the time of purchase. The total value of mortgages under management as at June 2003 was approximately \$4.2 billion which means Homeloans Ltd's loan book has effectively trebled in size since incorporation..

Further details concerning the Company, its major activities and financial status are contained in the Company's 30 June 2003 Annual Report, a copy of which was lodged with ASX on 20 October 2003. The 30 June 2003 Annual Report forms part of this Prospectus. Copies of the 30 June 2003 Annual Report may be obtained from the Company, the ASIC or on the Company's website at www.homeloans.com.au.

1.2 Business Overview

Homeloans Ltd is one of Australia's leading non-bank originators and managers of home loan mortgages. Homeloans Ltd derives its income from originating the loan, managing the loan on behalf of the financier and providing other value added products and services to its customers. Homeloans Ltd retains control of the client base through management of the loans.

Homeloans Ltd originates and manages loans for a number of financiers including through a residential mortgage trust managed by it. Under this model, Homeloans Ltd does not fund its loan book from its own balance sheet and therefore does not bear the usual interest rate and principal risks of these fund providers

Homeloans Ltd was awarded by the Australian Mortgage Awards "Best Call Centre Operation" in August 2003 and the "Most Effective Internet Presence" in 2002.

The Company's growth strategy comes from consolidation of the businesses and organic growth from markets in the eastern states of Australia. The Company is also investing substantially in developing brand awareness in these markets.

2. DETAILS OF THE OFFER

2.1 The Offer

The Company is making a non-renounceable pro-rata Rights Issue of one Reset Preference Share for every 100 Ordinary Shares held at 5.00 pm (WST) on 4 December 2003 ("**Record Date**") at an issue price of \$10.00 per Reset Preference Share. Where fractions arise in the calculation of Entitlements they will be rounded to the nearest whole number.

The Rights Issue will raise approximately \$5,035,400. The Rights Issue is fully underwritten by entities associated with the directors of the Company. The maximum amount that will be raised from the Rights Issue (assuming all exercisable options are exercised before the Record Date) is approximately \$5,181,400.

Each Reset Preference Share will carry a cumulative entitlement to an unfranked dividend of 10% per annum payable half yearly (31 May and 30 November) in arrears until conversion to Ordinary Shares or into cash. If the dividend is franked to any extent it will be reduced so that the after tax return to the holder is the same (at the Company tax rate) as it would have been if the dividend was unfranked.

The first reset date is 30 November 2006. Reset dates after the first reset date are expected to be every three years. On any reset date, Homeloans Ltd may change certain terms (subject to certain restrictions), including the next reset date, frequency and timing of dividend payment dates, dividend rate and conversion terms (including exchange value, discount percentage, exchange number and minimum conversion number).

A holder may require exchange of some or all of their Reset Preference Shares on any reset date or earlier if certain specified events occur. If a holder requires exchange, the holder will receive (at Homeloans Ltd's choice) either:

- A number of Ordinary Shares equal to the product of the exchange number and the number of Reset Preference Shares to be exchanged for Ordinary Shares; or
- A cash amount equal to the product of the exchange value and the number of Reset Preference Shares to be exchanged for cash.

Homeloans Ltd may require exchange of some or all Reset Preference Shares on a reset date or after a regulatory event or tax event or change of control event (as defined in the terms of issue). If Homeloans Ltd requires exchange then the holder will receive (at Homeloans Ltd's choice) either:

- A number of Ordinary Shares equal to the product of the exchange number and the number of Reset Preference Shares to be exchanged for Ordinary Shares; or
- A cash amount equal to the product of the exchange value and the number of Reset Preference Shares to be exchanged for cash.

The maximum number of Ordinary Shares into which one Reset Preference Share may be converted is 50. The minimum number of Ordinary Shares into which one Reset Preference Share may be converted is 20 (subject to reset). The exchange number is the number of Ordinary Shares received on conversion of a holder's Reset Preference Shares and is calculated by dividing the exchange amount (after adjusting for any unpaid dividend) by the average of daily volume weighted average sale prices (VWASP) of Ordinary Shares sold on ASX during the 20 trading days immediately preceding the exchange date, multiplied by the discount percentage of 92.5%.

All Reset Preference Shares issued under this Prospectus will rank equally. For details of the full terms and conditions on which Reset Preference Shares will be issued please refer to section 8.2 of this Prospectus.

Ordinary Shares resulting from the conversion of Reset Preference Shares will rank equally with all existing Ordinary Shares then on issue.

Please refer to Section 8.1 for a summary of the rights attaching to the Ordinary Shares.

2.2 Purpose of the Offer

The Company will issue approximately 503,540 Reset Preference Shares (assuming no options are exercised before the Record Date) pursuant to this Prospectus to raise approximately \$5,035,400, before costs of the Offer.

Successful completion of the Offer will result in an increase in the cash on hand of approximately \$5,035,400 (before the payment of costs associated with the Offer).

The Company will use the funds raised pursuant to the Offer to pursue growth opportunities (both organically and through acquisitions), refinance current banking facilities and/or any other purposes determined by the Directors. For Homeloans Ltd to be in a position to be able to attract or approach these new opportunities, the Board is of the view that it is important it be in a position to act quickly. The funds raised from this Offer will provide it with the ability to do so.

A portion of the funds raised will be used to pay the balance of a stamp duty assessment from the Western Australian Office of State Revenue for \$1.7 million relating to the transfer of assets of IF&I Securities Pty Ltd as trustee for the IF&I Unit Trust to Homeloans Ltd. Homeloans Ltd has lodged an appeal in the Supreme Court of Western Australia against this assessment. Notwithstanding the appeal Homeloans Ltd is required to pay the assessment and all penalties imposed under the assessment. If its appeal is successful then the amount paid will be refunded.

2.3 Your entitlement and acceptance

Your entitlement to participate in the Offer will be determined on the Record Date, being 4 December 2003. The entitlement of Eligible Shareholders receiving this Prospectus is shown on the Entitlement and Acceptance Form sent to Eligible Shareholders with this Prospectus.

2.4 Opening and Closing Dates

The Company will accept Entitlement and Acceptance Forms from the Record Date for determining Shareholders' Entitlements until 5.00pm WST on 29 December 2003 or such other date as the Directors in their absolute discretion shall determine, subject to the requirements of the Listing Rules ("Closing Date").

2.5 No Rights trading

The Rights Issue is made on a non-renounceable basis. This means that there will be no trading of rights and you may not renounce (sell) your rights and Entitlements which you do not wish to accept. If you do not take up your Entitlement to Reset Preference Shares under the Rights Issue by the Closing Date, the Offer to you will lapse and you will receive no benefit.

2.6 Entitlements and Acceptance Form

Acceptance of a completed Entitlement and Acceptance Form by the Company creates a legally binding contract between the Applicant and the Company for the number of Securities accepted by the Company. The Entitlement and Acceptance Form does not need to be signed to be a binding acceptance of Securities.

If the Entitlement and Acceptance Form is not completed correctly it may still be treated as valid. The Directors' decision as to whether to treat the acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

2.7 Allotment

The Company expects to issue the Securities on 14 January 2003 and in any event no later than 15 Business Days after the Closing Date. Holding statements in relation to the Securities are expected to be dispatched on 19 January 2003 and in any event no later than 15 Business Days after the Closing Date.

It is the responsibility of Applicants to determine their allocation prior to trading in the Securities. Applicants who sell Reset Preference Shares before they receive their holding statements will do so at their own risk.

2.8 Application Monies held on trust

All Application Monies received for the Securities will be held in trust in a bank account maintained solely for the purpose of depositing Application Monies received pursuant to this Prospectus until the Securities are allotted. All Application Monies will be returned (without interest) if the Securities are not allotted. Any interest earned on Application payments will be, and will remain, the property of Homeloans Ltd.

2.9 ASX quotation

Application will be made to ASX no later than 7 days after the date of this Prospectus for the Official Quotation of the Securities offered by this Prospectus. If permission is not granted by ASX for the Official Quotation of the Securities offered by this Prospectus within 3 months after the date of this Prospectus the Company will repay, as soon as practicable, without interest, all Application Monies received pursuant to this Prospectus.

2.10 CHESS

The Company participates in the Clearing House Electronic Subregister System, known as CHESS. ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532 ("ASTC"), a wholly owned subsidiary of ASX, operates CHESS in accordance with the Listing Rules and Securities Clearing House Business Rules.

Under CHESS, Applicants will not receive a certificate but will receive a statement of their holding of Reset Preference Shares.

If you are broker sponsored, ASTC will send you a separate CHESS statement for Reset Preference Shares.

The CHESS statements will set out the number of Securities issued under this Prospectus, provide details of your holder identification number and the participant identification number of the sponsor.

If you are registered on the Issuer Sponsored subregister, your statement will be dispatched by Computershare Investor Services Pty Limited and will contain the number of Reset Preference Shares issued to you under this Prospectus and your security holder reference number.

A CHESS statement or Issuer Sponsored statement will routinely be sent to holders of Reset Preference Shares at the end of any calendar month during which the balance of their

shareholding changes. Holders of Reset Preference Shares may request a statement at any other time, however a charge may be made for additional statements.

2.11 Overseas Shareholders

No offer of Securities will be made to Shareholders resident outside Australia and New Zealand.

This Prospectus and accompanying Entitlement and Acceptance Form do not, and are not intended to, constitute an offer of securities in any place or jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or to issue this Prospectus. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand may be restricted by law and persons who come into possession of this Prospectus should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws.

2.12 Underwriting

The Rights Issue is being fully underwritten by the Underwriters, being related parties of the Directors of the Company. The terms of the Underwriting Agreement are summarised in Section 8.8.1 of this Prospectus.

2.13 Risk Factors

There are risks associated with investing in the Reset Preference Shares. In addition to the general risks applicable to all investments in listed securities, there are specific risks associated with an investment in the Company which are set out in Section 5 of this Prospectus.

2.14 Taxation implications

A general description of the Australian taxation consequences of investing in the Reset Preference Shares is set out in the Taxation Report contained in Section 7 of this Prospectus. This report provides general information and is not intended to provide specific advice in relation to the circumstances of any particular investor. Accordingly, investors should seek independent advice in relation to their individual tax position.

If there is a change to the taxation system that increases the costs for Homeloans Ltd of having Reset Preference Share on issue, then Homeloans Ltd may decide that a tax event has occurred. This will entitle Homeloans Ltd to require that the Reset Preference Shares be exchanged. Please refer to section 8.2 for the full terms and conditions of the Reset Preference Shares.

2.15 Major activities and financial information

A summary of the major activities and financial information relating to the Company for the financial year ended 30 June 2003 is contained in the Annual Report which was lodged with the ASX on 20 October 2003.

2.16 Enquiries

Enquiries concerning the Entitlement and Acceptance Form can be made by contacting Computershare Investor Services Pty Limited by telephone on 1300 557 010 or facsimile on (08) 9323 2033.

3. BOARD

3.1 Directors' Profiles

Timothy Alastair Holmes

Chairman

Tim is an Executive Director of the Company. He was appointed Chairman as at 1 July 2003. He has 35 years experience in the finance and banking industry including holding the position of Chief Executive Officer of Permanent Investment Building Society.

In 1985, Tim and Rob Salmon established International Financing and Investment Pty Ltd, and then IF&I Securities Pty Ltd in 1990 which became the predecessor to Homeloans Ltd.

Tim is a past International President of the Young President's Organisation, a former Vice President of the WA Chamber of Commerce and Industry, a Fellow of the Company Directors Association, and Honorary Consul of Austria in Western Australia.

Robert Peter Salmon

Managing Director

Rob Salmon is the Managing Director of the Company with 33 years experience in the finance and banking industry. He is a Bachelor of Economics graduate from the University of Western Australia and was an executive for leading fund manager Amstrong Jones from 1976 until 1985.

In 1985, he joined with Tim Holmes to establish International Financing and Investment Pty Ltd prior to the inception of IF&I Securities Pty Ltd.

Robert Norman Scott

Non Executive Director

Rob is a Chartered Accountant with over 35 years experience. He was formerly an International Partner with Arthur Andersen, retiring from that firm in 1995. Rob now consults on corporate taxation to Perth based Gooding Pervan Chartered Accountants.

Rob is the non-executive Chairman of Amadeus Energy Ltd.

Andrew Robert Pridham

Non Executive Director

Appointed 16th April 2003.

Andrew Pridham has worked in investment banking for over 15 years in Australia and internationally. He was an executive at global investment bank UBS Warburg between 1990 and 2002 where he held the senior positions of Managing Director and Head of Corporate Finance Australasia and ultimately Global Head of Real Estate based in London and Singapore.

Andrew is Chief Executive of Grange First Provident Pty Ltd a corporate advisory and investment firm and is based in Sydney. Andrew holds a Bachelor of Applied Science.

4. ACTION REQUIRED BY SHAREHOLDERS

4.1 Acceptance of full Entitlement of Reset Preference Shares under this Prospectus

Should you wish to accept all of your Entitlement to Reset Preference Shares, then applications for Securities under this Prospectus must be made on the Entitlement and Acceptance Form that accompanies this Prospectus, in accordance with the instructions referred to in this Prospectus and on the Entitlement and Acceptance Form. Please read the instructions carefully.

Please complete the Entitlement and Acceptance Form by filling in the details in the spaces provided and attach a cheque for the amount indicated on the Entitlement and Acceptance Form.

Completed Entitlement and Acceptance Forms must be accompanied by a cheque in Australian dollars, crossed "**Not Negotiable**" and made payable to "**Homeloans Ltd Subscription Account**" and lodged at any time on or after the Opening Date and on or before 5pm WST on the Closing Date at the Company's share registry (by delivery or by post) at:

By delivery: Computershare Investor Services Pty Limited
 Level 2
 45 St George's Terrace
 PERTH WA 6000

By post: Computershare Investor Services Pty Limited
 GPO Box D182
 PERTH WA 6840

4.2 If you wish to take up part of your Entitlement only

Should you wish to only take up part of your Entitlement, then applications for Securities under this Prospectus must be made on the Entitlement and Acceptance Form that accompanies this Prospectus, in accordance with the instructions referred to in this Prospectus and on the Entitlement and Acceptance Form. Please read the instructions carefully.

Please complete the Entitlement and Acceptance Form by filling in the details in the spaces provided, including the number of Reset Preference Shares you wish to accept and the amount payable (calculated at \$10 per Reset Preference Share accepted), and attach a cheque for appropriate Application Monies.

Completed Entitlement and Acceptance Forms must be accompanied by a cheque in Australian dollars, crossed "**Not Negotiable**" and made payable to "**Homeloans Ltd Subscription Account**" and lodged at any time on or after the Opening Date and on or before 5pm WST on the Closing Date at the Company's share registry (by delivery or by post) at:

By delivery: Computershare Investor Services Pty Limited
 Level 2
 45 St George's Terrace
 PERTH WA 6000

By post: Computershare Investor Services Pty Limited
 GPO Box D182
 PERTH WA 6840

4.3 Entitlements not taken up

If you do not wish to accept any of your Entitlement, you are not obliged to do anything.

The number of Shares you hold and the rights attached to those Shares will not be affected should you choose not to accept any of your Entitlement.

4.4 Enquiries concerning your entitlement

If you have any queries concerning your Entitlement please contact:

In person: Computershare Investor Services Pty Limited
 Level 2
 45 St George's Terrace
 PERTH WA 6000

By telephone: 1300 557 010

By facsimile: (08) 9323 2033

By post: Computershare Investor Services Pty Limited
 GPO Box D182
 PERTH WA 6840

5. RISK FACTORS

Potential investors in the Company should be aware that subscribing for Reset Preference Shares involves a number of risks. The risk factors outlined in this Section and elsewhere in this Prospectus should be carefully considered by investors when evaluating an investment in the Company. Some of these risks relate generally to any investment, whilst others are associated with the nature of Reset Preference Shares and with Homeloans Ltd.

Any of the factors set out in this Section or any other factors identified in this Prospectus may materially affect the financial performance of the Company and the market price of the Securities. Reset Preference Shares carry no guarantee with respect to the payment of dividends, return on capital or the price at which those Securities will trade on the ASX.

There are a number of risk factors that investors should consider before deciding whether or not to invest in the Securities. The principal risk factors include, but are not limited to, the following:

5.1 Risks associated with investing in Reset Preference Shares

5.1.1 Financial market conditions

The market price of the Reset Preference Shares will fluctuate due to various factors, including interest rates, general movements in the Australian and international equity markets, investor sentiment, worldwide or regional economic conditions, movements in the market price of Ordinary Shares and factors which may effect Homeloans Ltd's financial position and earnings.

5.1.2 Market Price and liquidity of Homeloans Reset Preference Shares

Homeloans Ltd will apply for quotation of the Reset Preference Shares on ASX, but is unable to forecast the market price or liquidity of the market for the Reset Preference Shares.

The market price for the Reset Preference Shares may fluctuate due to various factors, including financial market conditions (see Section 5.1.1). The market for the Reset Preference Shares may be less liquid than the market for Ordinary Shares. Holders who wish to sell their Reset Preference Shares may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for the Reset Preference Shares.

5.1.3 Ability to pay Dividends

The payment of dividends on the Reset Preference Shares is subject to the terms of issue set out in section 8.2 of this Prospectus. There is a risk that dividends may not be paid on Reset Preference Shares.

5.1.4 Early conversion

A holder may require exchange of all or some of their Reset Preference Shares on any reset date or when a change of control event occurs. Homeloans Ltd may require exchange of all or some Reset Preference Shares on any reset date or if a regulatory event, tax event or change of control event occurs.

The method of exchange chosen by Homeloans Ltd may not coincide with a holder's individual preference, and may be disadvantageous to the holder in light of market conditions or individual circumstances at the time.

5.1.5 Ranking of Reset Preference Shares

In the unlikely event of a winding up of Homeloans Ltd, holders will rank in priority of payment behind creditors of Homeloans Ltd but ahead of Shareholders and holders of securities ranking lower than Reset Preference Shares. If there is a shortfall of funds on a winding up, there is a risk that holders will not receive a full return of share capital and any dividend due but unpaid at the time.

5.1.6 Future issue of new securities

Homeloans Ltd may issue other securities, including other Reset Preference Shares, which rank equally with Reset Preference Shares, without the approval of holders. In addition, Homeloans Ltd may also issue other securities that rank behind Reset Preference Shares for dividends or repayment of capital in a winding up of Homeloans Ltd. Such further issue of securities by Homeloans Ltd may affect the market price of Reset Preference Shares and the liquidity of Reset Preference Shares and may also impact the ability of Homeloans Ltd to pay dividends or the sufficiency of funds on a winding up.

5.1.7 Taxation treatment

A summary of general taxation implications for holders of Reset Preference Shares is set out in Section 7. This summary is in general terms and is not intended to provide specific advice in relation to the circumstances of any particular holder. Accordingly, you should seek independent advice in relation to your individual taxation position before deciding to invest in the Reset Preference Shares.

If there is a change to the taxation system that increases the costs to Homeloans Ltd of having Reset Preference Shares on issue, Homeloans Ltd may require exchange (see Section 8.2).

5.1.8 Accounting classification

In July 2002, the Financial Reporting Council (FRC) announced its formal support for Australia to adopt International Financial Reporting Standards (IFRS) by 1 January 2005. This means that from 1 January 2005, the accounting standards that apply to reporting entities under the Corporations Act will be based on the IFRS issued by International Accounting Standard Board. It should be noted that the Australian Accounting Standards Board may allow adoption of accounting standards based on the IFRS before that date.

The accounting standard based on the IFRS may result in the Reset Preference Shares being classified as a liability rather than equity of the Company. If the Reset Preference Shares are reclassified as a liability, this will result in the dividends being classified as interest expense in arriving at the net profit or loss after tax attributable to shareholders.

5.2 Risks associated with investing in Homeloans Ltd

Set out below are key risks associated with investing in Homeloans Ltd and the financial services industry in general. Some of these risks can be mitigated using appropriate safeguards, control,

and systems, but others are outside the control of Homeloans Ltd and its Directors and cannot be mitigated.

The risks outlined below are not intended to be exhaustive of all possible risks associated with investing in Homeloans Ltd.

5.2.1 Economic Factors

The financial performance and position of Homeloans Ltd depends significantly on the condition of the Australian economy. Any adverse change to the Australian economy may have a material adverse effect on the Company.

A long-term downturn in the housing market or the general economy may adversely impact on the performance of Homeloans Ltd. The effects of such a downturn could include a reduction in the level of mortgage lending.

5.2.2 Liquidity Risk

Homeloans Ltd's business requires funding arrangements procured under mortgage origination and management agreements with a number of lenders. There are specific events of default contained in each of the agreements that would enable the various lenders to terminate the relevant arrangements, and some of the agreements also enable the lender to terminate after giving written notice to the Company.

Some of the agreements also contain provisions enabling the lender to require Homeloans Ltd to pay instalments due from borrowers until the security is enforced or an insurance claim has been paid, and to purchase the mortgage from the lender if Homeloans Ltd is in default. The Company's risk in this area is mitigated by insurance policies.

Homeloans Ltd is also potentially exposed to the extent that at any point in time its banking facility and securitisation program are not renewed or are offered on terms not acceptable to Homeloans Ltd. This means that Homeloans Ltd potentially has insufficient funds and is unable to meet its payment obligations as they fall due. This risk is mitigated by the availability of other suppliers as a source of funding and liquidity.

5.2.3 Operational Risk

Operational risk relates to the risk of loss resulting from inadequate or failed internal process, people and systems, or from external events which impact on the Company's operating business. Operational risk includes the risks arising from process error, fraud, system failure, failure of security and physical protection systems, customer services, staff skills and performance, and product development and maintenance.

Operational risk has the potential to have a material adverse effect on the Company's financial performance and position, and reputation.

5.2.4 Competition

The Australian banking environment has become more competitive in recent years and most banks have experienced reduced interest margins, as well as new competitors (including regional banks) entering the market.

The banking industry has sought to place pressure on non-bank financial institutions, such as Homeloans Ltd, particularly in the home loan market, by selectively targeting

margins on products like housing loans. The effect of the competitive market conditions in which the Company operates may have a material adverse effect on the Company's financial performance and position.

Homeloans Ltd is seeking to find new products or services and new clients, to counter the effects of such competition from the banking industry, on its business activities.

5.2.5 Management of Growth

The Company's prospects rely in part on the ability of its management team to effectively manage its growth. The Company must attract and retain highly qualified management and sales personnel. As a service provider, the Company relies heavily on the calibre and commitment of its employees.

5.2.6 Government Regulation

Homeloans Ltd must ensure that it complies with the current regulatory environment within which it operates and caters for any changes to that environment when they take place. The imposition of legislative changes could increase the costs of compliance with regulatory requirements.

5.2.7 Tax Reform

The Australian Government may introduce further tax reform. Furthermore there may be a change in government following a Federal election that may also result in further changes to the taxation system. The introduction and scope of any further tax reform is uncertain. Until the precise nature of this reform is determined, the Company is not able to give any assurance as to the impact on its operating and financial performance.

5.2.8 Litigation and Contingent Liabilities

There are outstanding court proceedings, claims and possible claims against the Company, the aggregate amount of which cannot readily be quantified. Appropriate legal advice has been obtained and, in light of such advice, provisions deemed necessary have been made and are disclosed in the Company's financial statements. If these provisions prove inadequate, this may have a material adverse effect on the Company.

The Company's exposure arising from the stamp duty assessment and 2K litigation is referred to in Section 8.9 of this Prospectus.

6. CAPITAL STRUCTURE AND FINANCIAL INFORMATION

6.1 Pro Forma Capital Structures

The capital structure of Homeloans Ltd incorporating the effect of the Issue and the impact of conversion of the Reset Preference Shares into Ordinary Shares is summarised below:

Issued Capital	Note	Number of Shares	Number of Reset Preference Shares⁽¹⁾	Number of options -⁽²⁾
Balance at 30 June 2003	3	50,354,063		3,420,000
Exercise of Options	4	1,460,000		(1,460,000)
Total securities before the Offer		51,814,063		1,960,000
Offer			503,540	
Total securities after the Offer		51,814,063	503,540	1,960,000
Conversion of Reset Preference Shares	5	25,177,000	(503,540)	
Closing Balance		76,991,063	-	1,960,000

Notes

1. Refers to the number of Reset Preference Shares issued pursuant to this Prospectus.
2. Refers to the number of options currently on issue. Details of Directors, Employees and Executive Options are as follow:
 - a. 1,200,000 Non-Executive Directors' Options granted on 9 March 2001. 400,000 options are exercisable into 400,000 Ordinary Share at any time on or after 19 March 2002 at an exercise price of \$1.00. 400,000 options are exercisable into 400,000 Ordinary Shares at any time on or after 19 March 2003 at an exercise price of \$1.15.

400,000 options are exercisable into 400,000 Ordinary Shares at any time on or after 19 March 2004 at an exercise price of \$1.30. Expiry date for Non-Executive Directors' options is 9 March 2006.

- b. 820,000 Employee Options granted on 27 March 2001. 820,000 options are exercisable into 820,000 Ordinary Shares at an exercise price of \$1.01. 50% of the options can be exercised after 27 March 2003 and all of the options can be exercised after 27 March 2004. Expiry date of Employee Options is 27 March 2006.
 - c. 1,000,000 Executive Options granted on 2 May 2002.
 - i. 500,000 options are exercisable into 500,000 Ordinary Shares at an exercise price of \$1.01. 50% of the options can be exercised after 27 March 2003 and all of the options can be exercised after 27 March 2004. Expiry date of the Executive Options is 27 March 2006.
 - ii. 500,000 options are exercisable into 500,000 Ordinary Shares at an exercise price of \$0.994. 50% of the options can be exercised after 1 April 2004 and all of the options can be exercised after 1 April 2005. Expiry date of these Executive Options is 1 April 2007.
 - d. 200,000 Executive Options granted on 29 April 2002. 200,000 options are exercisable into 200,000 Ordinary Shares at an exercise price of \$0.994. 50% of the options can be exercised after 1 April 2004 and all of the options can be exercised after 1 April 2005. Expiry date of these Executive Options is 1 April 2007.
 - e. 200,000 Executive Options granted on 1 April 2003. 200,000 options are exercisable into 200,000 Ordinary Shares at an exercise price of \$0.52. 50% of the options can be exercised after 21 January 2005 and all of the options can be exercised after 21 January 2006. Expiry date of these Executive Options is 21 January 2008.
- 3. As disclosed in the Company's Annual Report.
 - 4. Assumes that all Options that can be exercised are exercised before the Record Date.
 - 5. Assumes all Reset Preference Shares convert into maximum number of Ordinary Shares of 50 Ordinary Shares for each Reset Preference Share.

6.2 Financial Information

Set out below is the Audited Balance Sheet of Homeloans Ltd as at 30 June 2003 and the Pro Forma Balance Sheet as at same date, prepared on the basis of assumptions contained in the Notes to the Balance Sheets.

Further financial information, including details on the significant accounting policies upon which the Audited Balance Sheet is based and details regarding transactions with related parties of the Company, are contained in the Company's 30 June 2003 Annual Report, which forms part of this Prospectus.

	Audited 2003 \$	Pro forma 2003 \$
CURRENT ASSETS		
Cash assets	672,227	5,707,627
Receivables	9,779,524	9,779,524
Prepaid Expenses	7,249,303	7,249,303
TOTAL CURRENT ASSETS	17,701,054	22,736,454
NON-CURRENT ASSETS		
Prepaid expenses	19,084,171	19,084,171
Investments	-	-
Plant and equipment	1,874,120	1,874,120
Intangibles	16,631,026	16,631,026
Receivables	1,606,435	1,606,435
TOTAL NON-CURRENT ASSETS	39,195,752	39,195,752
TOTAL ASSETS	56,896,806	61,932,206
CURRENT LIABILITIES		
Payables	3,433,883	3,433,883
Non interest bearing liabilities	-	-
Unearned revenue	2,350,970	2,350,970
Interest bearing liabilities	1,698,009	1,698,009
Provisions	555,304	555,304
TOTAL CURRENT LIABILITIES	8,038,165	8,038,165
NON-CURRENT LIABILITIES		
Deferred income tax liabilities	3,729,557	3,729,557
Unearned revenue	6,039,376	6,039,376
Interest bearing liabilities	7,950,751	7,950,751
Non interest bearing liabilities	-	-
TOTAL NON-CURRENT LIABILITIES	17,719,684	17,719,684
TOTAL LIABILITIES	25,757,849	25,757,849
NET ASSETS	31,138,957	36,174,357
EQUITY		
Contributed equity	48,624,215	53,659,615
Retained profits/(accumulated losses)	(17,485,258)	(17,485,258)
TOTAL EQUITY	31,138,957	36,174,357

Notes to the Balance Sheet

1. The Pro Forma Balance Sheet has been prepared on the same basis and in accordance with the same accounting policies as the Audited Balance Sheet, as set out in the 30 June 2003 Annual Report.
2. Contributed Equity has been adjusted for \$5,035,400 which represents the estimated gross proceeds from the Rights Issue of Reset Preference Shares undertaken pursuant

to this Prospectus. The gross proceeds have been assumed to be applied to cash on hand.

6.3 Market price of Shares

The highest and lowest market sale prices of the Company's Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

Highest: \$0.44 per Share on 31 October 2003

Lowest: \$0.37 per Share on 14 October 2003

The latest available market sale price of the Company's Shares on ASX prior to the date of lodgement of this Prospectus with the ASIC was \$0.40 per Share on 24 November 2003.

6.4 Dividend policy

The extent, timing and payment of any dividends in the future will be determined by the Directors based on a number of factors, including future earnings and the financial performance of the Company.

Holders of Reset Preference Shares will only be entitled to a dividend if the directors of the Company resolve to pay a dividend out of profits. The right to receive a Reset Preference Share dividend ceases when a Reset Preference Share is converted into Ordinary Shares. There can be no guarantee that the Company will pay a dividend in respect of Reset Preference Shares.

The Reset Preference Shares issued pursuant to this Prospectus will earn a 10% per annum cumulative unfranked dividend or a franked dividend which produces an equivalent after tax return (assuming a corporate tax rate of 30%).

7. ERNST & YOUNG TAXATION REPORT

25 November 2003

Private & Confidential

The Directors
Homeloans Limited
Level 2, The Atrium
168 St George's Terrace
PERTH WA 6000

Dear Directors

Homeloans Limited ("Homeloans") Taxation Opinion

We have acted as taxation advisers for Homeloans regarding the issue of Cumulative Reset Preference Shares ("RPS"). This opinion is to the investors in this particular RPS issue and should not be relied upon by other parties.

Set out below is a general outline of the taxation consequences for RPS investors based on the taxation law as at the date of this letter. Australian tax law may change at any time and therefore, the taxation consequences discussed in this letter may change if there is a change in the taxation law after the date of this letter.

Scope

This letter is concerned only with the taxation consequences for Australian resident investors (individuals, complying superannuation funds and companies).

The information contained in this letter does not apply to investors that:

- Hold RPS as trading stock in the course of the carrying on of a business;
- Hold RPS for the purpose of resale at a profit;
- Are not residents of Australia for income tax purposes; or
- Are exempt from Australian income tax.

This opinion is not intended to be an authoritative or exhaustive statement of the law applicable to the particular circumstances of all taxpayers. The information is not advice and so should not be relied upon on that basis.

The taxation consequences for particular investors will depend on their individual circumstances. Therefore, investors should obtain their own professional taxation advice on the taxation consequences of investing in the RPS.

Facts & Assumptions

In rendering our opinion, we have relied upon the facts, information, assumptions and representations as contained in the Prospectus dated 25 November 2003, inclusive of the Terms of Issue. Defined terms used in this letter are consistent with those set out in Part 9 of the Prospectus.

In addition, we have relied on the representations made to us by Homeloans, as detailed in their Representations Letter of 18 November 2003. The key representations made to us are as follows:

- Where RPS are exchanged for ordinary shares, this does not represent a cancellation, redemption, buy-back or termination of the RPS.
- Prior to the issue of the RPS, Homeloans has just one class of share on issue. The RPS, as compared to Homeloans' current class of shares, do not have the same, or substantially the same, rights.
- Homeloans will not issue ordinary shares in payment for any adjustment made for unpaid dividends or undertake any action which could taint their share capital account for tax purposes.
- Where there is a redemption of the RPS shares, Homeloans will meet the requirements under the Income Tax Assessment Act 1936, such that the redemption amount will not be considered a dividend for tax purposes.

Opinion

1 Taxation Treatment of Dividends

1.1 Equity Interest

In our view, RPS would constitute an equity interest for the purposes of the *Income Tax Assessment Act 1997* (the 1997 Act). This is because Homeloans will not have an "effectively non-contingent obligation" to provide any "financial benefits" to the holders of the RPS for the purposes of the 1997 Act.

Accordingly, dividends paid by Homeloans on the RPS would be capable of having franking credits attached to them.

1.2 Assessability of Dividends

Dividends received on the RPS by investors will need to be included in each investor's assessable income as ordinary income.

Individuals

To the extent that the dividend is fully franked, each individual's tax liability is calculated by first "grossing up" the amount of the dividend by $\frac{30}{70}$ (based on a 30% company tax rate) to take account of the tax already paid by Homeloans. This is referred to as the imputation credit. The individual then applies their marginal tax rate to the "grossed up" dividend amount including the imputation credit, but will

generally be entitled to a tax (franking) offset equal to the amount of imputation credit included in their assessable income.

In effect, if an individual's marginal rate of tax is greater than 30% that individual will be required to pay "top up tax" in the amount of the excess. On the other hand, if an individual's marginal tax rate is less than 30%, they may receive a franking offset that will reduce tax payable on other income or result in a refund of the excess imputation credits.

To the extent that the dividend is unfranked, there is no franking gross up and the individual will be taxed at their marginal rate on the dividend received with no offsetting franking rebate.

Complying Superannuation Funds

Generally speaking, complying superannuation funds treat the receipt of the dividend in the same way as an individual, although complying superannuation funds are subject to different tax rates. A complying superannuation fund investor is subject to tax at the rate of 15%. Complying superannuation funds, like individuals, should be entitled to a franking offset or refund of excess imputation credits if the applicable tax rate for the complying superannuation fund is less than the underlying company tax paid in respect of the dividend.

Companies

A resident corporate taxpayer that receives a dividend will also be required to "gross up" the amount of the dividend by an amount equal to the imputation credit to take account of the tax already paid by Homeloans, and apply the company rate of tax to that "grossed up" dividend amount. As with individuals and complying superannuation funds, the corporate investor should be entitled to a franking offset equal to the amount of imputation credit included in its assessable income.

In addition, corporate taxpayers will record a credit in their franking account to reflect the underlying tax paid by Homeloans in respect of the dividend, i.e. an amount equal to the franking credit attached to the dividend.

To the extent that a dividend does not have a franking credit attached to it, a resident corporate taxpayer investor will include in assessable income the amount of the dividend only, and will not be entitled to a tax offset or rebate.

1.3 Holding Period Rule

The availability of any franking benefit, including an entitlement to a franking credit or franking offset, to investors is subject to the "holding period rule". Broadly, this requires investors to hold the RPS "at risk" for a period of at least 90 days (excluding the dates of acquisition and disposal). Investors are required to retain at least 30% of the risks and benefits associated with holding the RPS for a continuous period of at least 90 days. This 90 day period does not include the day on which the investor acquired the RPS and also does not include the day on which the investor disposes of the RPS.

Individual investors may qualify for the small shareholder exemption under the "holding period rule". If the sum of the franking off-sets to which the investor would be entitled, from all sources, does not exceed \$5,000 in the income year, the investor will generally be considered to be a qualified person for the purposes of the "holding period rule" without the need to consider the "at risk" test or the minimum 90 day holding period. The small shareholder exemption will not apply if the individual investor has made or is likely to make a "related payment" in respect of the dividend, or a distribution attributable to the dividend.

If an investor does not satisfy the “holding period rule” in relation to a dividend, the imputation credit attached to the dividend will not be included in the investor’s assessable income, and the investor will not be entitled to the tax offset in relation to the franking credit.

There is currently uncertainty regarding the interpretation of the legislation for “holding period rule”. Accordingly, our comments above are based on various Australian Taxation Office and Government public announcements made up until the date of this advice regarding the operation of this rule. These announcements state that this rule currently applies, and will be incorporated into the new imputation regime through proposed consequential legislative amendments. Amending legislation has not been introduced to date.

In addition, the Treasurer announced by Press Release No. 74 dated 11 November 1999 that the Federal Government intended to review the “at risk” period of the holding period rule. At the date of this letter, no such amendments have been announced.

2 Reset of Terms of RPS

If Homeloans specifies new terms for RPS on a Reset Date, Homeloans can vary the future reset dates, dividend rate/payment dates and certain other entitlements attaching to the RPS. This process will not constitute a conversion, cancellation, termination, redemption, or buy-back of the RPS.

The reset of terms for the RPS by Homeloans would not trigger a capital gains tax (“CGT”) event for investors in respect of the RPS.

3 Exchange of RPS

3.1 Exchange for Ordinary Shares in Homeloans

If Homeloans “exchanges” a RPS for Homeloans ordinary shares, the rights attaching to the RPS would be varied so that the RPS converts into an ordinary share. The investor is then issued with additional ordinary shares, according to the terms of the exchange. For the purposes of this advice, “exchange” is a reference to clauses 10.7(a) and 10.7(b) of the Terms of Issue.

In our view, this exchange process should not constitute a cancellation, redemption or termination of the RPS. For tax purposes, this exchange should not trigger a CGT event. In addition, the additional ordinary shares issued should not constitute the payment of a dividend (however see the comments at part 3.3 regarding any unpaid dividend component included in the conversion).

For the purposes of calculating the cost base of the ordinary shares for CGT purposes, the cost of each original RPS would be apportioned between the ordinary shares into which the RPS is converted under the exchange process. If the 7.5% discount applies to the conversion calculation, each investor would receive a greater number of ordinary shares for each RPS. The tax consequences would be no different in these circumstances, except that the cost base of each RPS would be apportioned over the greater number of ordinary shares. The discount calculation would not give rise to any other tax implications for investors.

For CGT purposes, the ordinary shares will be treated as having been acquired by the investor at the time that the investor acquired the RPS from which the ordinary shares were exchanged.

A CGT event would arise if investors later dispose of their ordinary shares. Broadly, a capital gain would arise if the capital proceeds received on disposal of the ordinary shares by the investor exceed the cost base

of the ordinary shares to the investor. A capital loss would arise if the capital proceeds received on disposal were less than the reduced cost base of the ordinary shares to the investor.

The cost base of the ordinary shares would include the investor's acquisition cost (modified as discussed above for the number of ordinary shares arising from the exchange of each RPS) and incidental acquisition and disposal costs (for example, brokerage) that are not deductible to the investor. The reduced cost base would be similar to the cost base, but would not include the non-capital costs of ownership.

Any capital gain arising would be required to be included in the assessable income of the investor. Any capital loss could only be used to offset capital gains.

An individual investor, a complying superannuation fund investor or a trustee may be entitled to discount the amount of the taxable capital gain (after application of capital losses) arising from the disposal of ordinary shares. The capital gain can be discounted by 50% for individual and trust investors and by 33.3% for complying superannuation fund investors. This discount is only available if the disposal occurs at least 12 months after the date of acquisition of the RPS. A resident corporate tax entity is not able to obtain the CGT discount concession.

3.2 Exchange for Cash

Homeloans may elect to exchange RPS for cash. The taxation treatment for an investor that disposes of RPS as part of a cash exchange will depend on whether the transaction is a buy-back, redemption or cancellation of shares, at Homeloans' option. All of these transactions would give rise to CGT events for investors (see also comments at 3.3 regarding any unpaid dividend component included in the exchange). However, the exact taxation treatment will depend on which method is used, and the circumstances of the exchange. Therefore, we strongly recommend that investors obtain their own professional taxation advice on the taxation consequences of such an exchange.

3.3 Adjustment for Unpaid Dividends

At the time of the exchange for either cash or ordinary shares, there may be an adjustment to the cash or ordinary shares provided, in such manner as the directors reasonably consider appropriate, for the whole or any part of any dividend which is unpaid. The taxation treatment of such adjustments are summarised below.

Exchange for Ordinary Shares

Where additional ordinary shares are issued to the investor as a premium on exchange, there is a significant risk that the additional shares will be deemed to be an unfranked dividend to the investor. As outlined under Facts and Assumptions, we have relied on the representation by Homeloans that additional ordinary shares will not be issued to investors in circumstances where this would taint their share capital account for tax purposes. The exact taxation treatment of any additional amount paid will depend on the circumstances of the additional share issue at the time of exchange.

Exchange for Cash

The taxation treatment for an investor from such an adjustment will depend on whether the transaction is a buy-back, redemption or cancellation of shares of RPS shares at Homeloans' option. Where additional cash provided is declared as a dividend, the payment is likely to represent a frankable distribution to the investor. Where additional cash is provided to the investor as a premium on exchange, there is a significant risk that the additional cash payment will be deemed to be an unfranked dividend to the investor. The

exact taxation treatment of any additional amount paid will depend on the circumstances of the additional cash payment at the time of exchange.

4 Selling of Shares on Stock Exchange

If an investor disposes of its RPS by sale on the Australian Stock Exchange, a CGT event will occur. This will give rise to a capital gain or a capital loss. If the investor holds RPS as trading stock or on revenue account, other taxation implications will arise. Any investors holding shares as trading stock or on revenue account should seek their own professional taxation advice on the taxation consequences of such a disposal.

A capital gain will arise if the capital proceeds received on disposal exceed the cost base of the RPS to the investor. The cost base of the RPS to the investor will include the acquisition cost and any incidental costs on acquisition or disposal. As discussed above, an individual investor, a complying superannuation entity investor or a trust investor would be able to discount this capital gain if the investor had held the RPS for at least 12 months before disposal.

A capital loss would arise if the capital proceeds received on disposal were less than the reduced cost base of the RPS to the investor. Broadly, the reduced cost base will be similar to the cost base, but will not include the non-capital costs of ownership.

Any capital gain arising would be required to be included in the assessable income of the investor. Any capital loss could only be used to offset capital gains.

5 Quotation of Tax File Numbers

Investors will be able to quote their Tax File Number ("TFN") or claim an exemption from doing so, if applicable.

Although disclosure of a TFN is not compulsory, failure to disclose a TFN by an investor that is not exempt from doing so will result in an amount of tax being withheld from any part of a dividend that does not have a franking credit attached to it. The rate at which the tax will be withheld is the highest marginal tax rate (currently 47%), plus Medicare Levy (currently 1.5%). The tax will be remitted to the Australian Taxation Office and may be claimed as a tax credit by the investor in their income tax return for the relevant year.

Alternatively, where the investor holds RPS in the course or furtherance of an enterprise carried on by it, the investor may quote its Australian Business Number (ABN).

6 Anti-Avoidance Provisions

There are anti-avoidance provisions in the taxation laws relating to dividend streaming arrangements and franking credit benefits that allow the Commissioner of Taxation to make a determination to deny shareholders the benefit of franking credits and other benefits associated with franking credits attached to dividends.

In our view, the terms of the issue and exchange of the RPS do not fall within these provisions and therefore the Commissioner should not make a determination under these anti-avoidance provisions in respect of the issue and exchange of RPS or payment of a dividend in respect of the RPS.

7 Goods and Services Tax (“GST”)

The payment of a dividend by Homeloans will not be regarded as consideration for a supply by investors for the purposes of the GST legislation. Accordingly, there will be no GST payable nor input tax credits claimable by investors in relation to the receipt of these dividends.

The exchange or disposal of RPS will not be a taxable supply if an investor is either not carrying on an enterprise, or is not registered for GST.

In the event a GST registered investor acquires, exchanges or disposes of RPS in the course of an enterprise, this transaction would be a financial supply. Investors making financial supplies will not be liable to GST, as financial supplies are input taxed. These investors should seek GST advice as to the potential blockage of input tax credits on acquisitions made in relation to the exchange/disposal.

* * * *

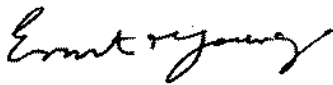
DISCLAIMER

Our advice contained in this opinion is of a general nature only and the taxation implications associated with an investment in the RPS will depend upon the tax profile of each individual investor. There is no specific Australian Taxation Office private ruling, product ruling or class ruling that has been issued in respect of this transaction. Investors should obtain independent taxation advice that considers the taxation implications in respect of their own specific circumstances before investing in any RPS. We disclaim all liability to any investor or other party for all costs, loss, damage and liability that the investor or other party may suffer or incur arising from or relating to or in any way connected with the contents of our opinion or the provision of our opinion to the investor or other party or the reliance on our opinion by the investor or other party.

Ernst & Young's involvement is limited to the preparation of this opinion. Neither the undersigned nor any of the partners of Ernst & Young have any interest in the promotion of the investment. This opinion does not constitute an endorsement of the investment or recommendation by Ernst & Young of any participation in RPS in Homeloans by an intending investor.

Ernst & Young has given its consent to the inclusion of this letter in the Prospectus. However, it gives no assurance or guarantee in respect of the performance of RPS and its consent should not be taken as an endorsement or as a recommendation.

Yours faithfully



Ernst & Young

8. ADDITIONAL INFORMATION

8.1 Rights attaching to Ordinary Shares

The securities offered pursuant to this Prospectus are Reset Preference Shares.

The rights attaching to the Reset Preference Shares arise from a combination of the terms and conditions upon which they are issued (as set out in section 8.2), the Company's Constitution, statute and general law.

The rights attaching to Ordinary Shares arise from a combination of the Company's Constitution, statute and general law.

Ordinary Shares arising on the conversion of Reset Preference Shares will as from their allotment rank equally with other Ordinary Shares then on issue.

Copies of the Company's Constitution are available for inspection during business hours at its registered office. The clauses of the Constitution contain the internal rules of the Company and define matters such as the rights, duties and powers of its Shareholders and directors, including provisions to the following effect (when read in conjunction with the Corporations Act or Listing Rules):

(a) Shares

The issue of shares in the capital of the Company is under the control of the Directors, subject to the Corporations Act, ASX Listing Rules and any rights attached to any special class of shares.

(b) Transfer of Shares

The Company participates in the electronic share registration and transfer system known as CHESS operated by ASX under the Security Clearing House Business Rules. Accordingly, the Company will issue holding statements in lieu of share certificates. The Directors may refuse to register a transfer of shares, or request SCH to apply a holding lock to prevent a proper SCH transfer, in the circumstances identified in the Constitution or as otherwise permitted or required under the Corporations Act or Listing Rules.

(c) Meetings of members

Directors may call a meeting of members whenever they think fit. Members may call a meeting as provided by section 249D of the Corporations Act. The Constitution contains provisions prescribing the content requirements of notices of meetings of members and all members are entitled to a notice of meeting. A meeting may be held in two or more places linked together by audio-visual communication devices. A quorum for a meeting of members is 2 natural persons, each of whom is or represents different Shareholders who are eligible to vote.

The Company holds annual general meetings in accordance with the Corporations Act and the Listing Rules.

(d) **Voting**

Subject to any rights or restrictions for the time being attached to any shares or class of shares of the Company, each member of the Company is entitled to receive notice of, attend and vote at a general meeting. Resolutions of members will be decided by a show of hands unless a poll is demanded. On a show of hands each eligible voter present has one vote. However, where a person present at a general meeting represents personally or by proxy, attorney or representative more than one member, on a show of hands the person is entitled to one vote only despite the number of members the person represents.

On a poll each eligible member has one vote for each fully paid share held and a fraction of a vote for each partly paid share determined by the amount paid up on that share.

(e) **Directors**

Under the provisions of the Constitution, unless changed by the Company in general meeting, the minimum number of Directors is 3 and the maximum is 7. The existing Directors and the Company in general meeting may appoint a new Director to fill a casual vacancy or as an addition to the board. Any such Director must retire at the next following annual general meeting under the Constitution, (at which meeting he or she may be eligible for election as a Director). No Director, other than the Managing Director, may hold office for longer than 3 years without submitting himself or herself for re-election at the next following annual general meeting.

The business of the Company is to be managed by or under the direction of the Directors. The Directors are not required by the Constitution to hold any shares in the Company.

(f) **Dividends**

Subject to any rights attaching to shares that may in the future be issued with special or preferred rights, the Directors may fix the amount, the time for payment and the method of payment of a dividend. Subject to any special rights attaching to shares, dividends will be paid in proportion to the amounts paid on the shares in respect of which the dividend is paid. The Company is not required to pay any interest on dividends.

(g) **Officers: indemnities and insurance**

Under the Constitution, to the extent permitted by law, the Company indemnifies every person who is or has been a Director or Secretary of the Company against a liability incurred by that person in his or her capacity as a Director or Secretary provided that the liability does not arise out of conduct involving his or her own dishonesty, negligence, lack of good faith or breach of duty. The Company may also pay the premiums on Directors and officers liability insurance in accordance with Corporations Act.

(h) **Winding Up**

If on a winding up of the Company there remains a surplus, then under the Constitution and subject to any rights attaching to shares which may in the future be issued with special or preferred rights, all assets representing the surplus that may be legally distributed among Shareholders shall be so distributed in proportion to the number of shares held by each Shareholder.

(i) **Dividend Plans**

The Company's Constitution contains a provision allowing directors to implement a dividend reinvestment plan and a dividend selection plan. The Company currently has a dividend reinvestment plan in place.

(j) **Changes to the Constitution**

The Company's Constitution can only be amended by a special resolution passed by at least three quarters of the members present and voting at a general meeting of the Company. At least 28 days' written notice specifying the intention to propose the resolution as a special resolution must be given.

(k) **Share Buy-Backs**

The Company may buy-back Shares in itself in accordance with the provisions of the Corporations Act.

(l) **Listing Rules**

Provided the Company remains admitted to the Official List, then despite anything in its Constitution, no act may be done that is prohibited by the Listing Rules, and authority is given for acts required to be done by the Listing Rules. The Company's Constitution will be deemed to comply with the Listing Rules as amended from time to time.

8.2 Terms and Conditions of Reset Preference Shares

The Reset Preference Shares ("RPS") will be issued on the following terms and conditions:

1. **Issue Price**

Each RPS will be issued by the Company as fully paid at an Issue Price of \$10.

2. **Quotation**

The Company will apply for official quotation on the ASX of the RPS and all Ordinary Shares issued under clause 10.

3. **No Maturity**

Subject to the other provisions of these Terms, the RPS are perpetual and therefore do not have any set maturity date.

4. **Dividends**

4.1 **Calculation**

The RPS will pay a fixed dividend (**Dividend**) on each Dividend Payment Date. The Dividend is calculated in accordance with the following formula:

$$\text{Dividend} = \frac{N \times \text{Dividend Rate} \times \text{Issue Price}}{365}$$

Where:

N is the number of days from (and including) the date of issue of the RPS or the preceding Dividend Payment Date (whichever is the later) until (but not including) the relevant Dividend Payment Date;

Dividend Rate: is:

- a) for the period to the first Reset Date, 10% per annum; and
- b) for the periods between succeeding Reset Dates, as reset by the Company in accordance with clause 5.1;

4.2 **Adjustment**

If any Dividend is franked under Part 3-6 of the Tax Act (or any provisions that revise or replace that Part), the Dividend will be adjusted in accordance with the following formula (rounded to the nearest four decimal places):

$$\text{Dividend} = D \times [1 - (T \times f)]$$

Where:

D is the Dividend calculated under clause 4.1;

T is the Australian corporate tax rate applicable to the franking account from the Company from which the Dividend will be franked, expressed as a decimal; and

f is the franking percentage (within the meaning of Part 3-6 of the Tax Act or any provisions that revise or replace that Part) of the Dividend, expressed as a decimal to the nearest four decimal places.

4.3 **Cumulative**

Dividends are cumulative.

5. **Reset**

5.1 **Right to “Reset”**

The Company will have the ability to “reset” certain terms of the RPS on specific future dates (each a **Reset Date**). The first Reset Date will be on 30 November 2006. The Company will offer new terms in a Reset Notice given not less than 50 Business Days prior to the Reset Date, specifying:

- (a) the timing of the next Reset Date (which must be a Dividend Payment Date);
- (b) the Dividend Rate to apply to the period commencing on the Reset Date until the next Reset Date;
- (c) the frequency of Dividend Payment Dates (including appropriate adjustments to the calculations of Dividends and the next Dividend Payment Date); and

- (d) any other matter related to the matters set out in clause 10 (including, without limitation, the Exchange Value, the Discounted Percentage, the Exchange Number and the Conversion Minimum).

5.2 If the Company does not offer new terms in a Reset Notice given not less than 50 Business Days prior to a Reset Date, the then current terms will continue to apply from that Reset Date until the next Reset Date.

6. **Withholding obligations**

6.1 The Company will be entitled to deduct from any amount payable to a Holder the amount of any withholding or other tax, duty, levy, assessment or government charges of whatsoever nature required by law to be deducted from it. Where any such deduction is made:

- (a) the Company will pay the amount required to be deducted to the relevant revenue or collection authority within the time allowed for such payment;
- (b) the Holder will be paid the balance of the amount after allowance for the payment referred to in paragraph (a) above; and
- (c) upon compliance by the Company with paragraphs (a) and (b) above, the Holder will be deemed to have been duly paid the amount by the Company (and to have been paid that amount on the date the payment referred to in paragraph (b) above is made).

7. **Dividend Payment and Restrictions**

7.1 **Payment of Dividend**

The payment of a Dividend is subject to:

- (a) the Directors, at their discretion, determining that the Dividend is payable;
- (b) the Company having **Distributable Profits** (being the distributable profits determined in accordance with the then existing Accounting Standards in Australia and otherwise in accordance with the Company's usual accounting policies and practices provided that the amount of any Dividends to be declared are not taken into account in the determination of the distributable profits) sufficient to pay the Dividend on the Record Date; and
- (c) there being no impediment under the Corporations Act or any other Law to the Company paying the Dividend at the Record Date.

7.2 **Payment in Arrears**

Subject to this clause 7, Dividends will be payable on the RPS in arrears on each Dividend Payment Date:

- (a) with the first Dividend Payment Date being on 31 May 2004; and
- (b) thereafter on each 30 November and 31 May until the RPS are Exchanged or except to the extent varied under clause 5.

7.3 **Rounding**

All calculations of Dividends will be to four decimal places and rounded up or down to the nearest two decimal places. For the purposes of making any Dividend Payment in respect of a Holder's aggregate RPS, any fraction of a cent will be disregarded.

7.4 **Record Date**

A Dividend is only payable to those persons registered as Holders on the date which is 11 Business Days (or such other period determined by the Directors from time to time in accordance with the ASX Listing Rules) before the Dividend Payment Date for that Dividend (**Record Date**).

7.5 **Certificate by Company Conclusive**

A certificate by the Company as to any amount due to a Holder of RPS is, in the absence of manifest error, conclusive and binding on the Holder.

7.6 **Unpaid Dividends**

If the Company fails for any reason (including without limitation because of the application of clause 7.1) to pay in full within 20 Business Days after a Dividend Payment Date, a Dividend:

- (a) payment of the amount of any Dividend unpaid will be deferred until the next Dividend Payment Date; and
- (b) whether or not the Dividend is declared, the Company may not pay any dividends on or return any amount (including pursuant to a buy-back) on any Ordinary Shares unless and until:
 - (i) the Company has paid in full all outstanding Dividends; or
 - (ii) all RPS have been Exchanged.

8. **Ranking and Participation**

8.1 **Ranking**

Other than as expressly contemplated by these Terms, the RPS rank equally among themselves in all respects.

8.2 **Repayment on a winding up**

On a winding-up of the Company, the Company must pay to the Holders in respect of their RPS, a cash payment equal to the Issue Price of the RPS and the amount of any Dividend due but unpaid, before any distribution to the holders of Ordinary Shares.

8.3 Subordination

- (a) The RPS constitute unsecured obligations of the Company and the rights of the Holders will be subordinated in right of payment to the claims of all other creditors of the Company other than:
 - (i) persons whose claims are expressed to rank equally with the RPS; and
 - (ii) persons whose claims against the Company are subordinated in any manner to the claims of the Holders in the event of a liquidation of the Company (including the holders of Ordinary Shares as expressly provided in these Terms).
- (b) The Holders waive, to the fullest extent permitted by Law, any right to prove in any such liquidation as a creditor ranking for payment equally with any other such prior ranking creditors.

8.4 Priority of dividends

If:

- (a) a Dividend; or
- (b) a dividend on any other securities in the Company which rank equally with the RPS as to dividends,

has not been, or is not able to be, paid in full, any Dividends and any dividends payable on those other securities must be paid pro-rata.

8.5 Shortfall on winding up

If, upon a distribution on a winding up, there are insufficient funds to pay in full amounts payable under clauses 4 (if any) and 8.2 and the amounts payable to any other creditors in the Company ranking as to such distribution equally with the RPS on a winding-up, the Holders of the RPS and those other creditors will share in any distribution by the Company in proportion to the amounts to which they are entitled respectively.

8.6 Further issues of securities

- (a) Until all the RPS have been Exchanged, the Company must not, without approval of the Holders in accordance with the requirements of the Company's constitution and the Corporations Act, issue securities ranking in priority to the RPS as to payment of interest or dividends or repayment on winding up.
- (b) The Company may issue further securities ranking equally with or behind RPS as to payment of interest or dividends or repayment on winding up without the approval of the Holders.

8.7 No Set-off

No contractual right of set-off exists between the RPS and any claims by the Company on the Holders.

8.8 Participation in new issues

The RPS confer no right to subscribe for new securities in the Company (other than on Exchange) or to participate in any bonus issues or capital reconstructions unless the Company determines otherwise.

9. Voting and provision of information

9.1 Voting

Holders will:

- (a) be entitled to attend general meetings of the Company;
- (b) not have any right to vote at general meetings of the Company except in any one or more of the following circumstances:
 - (i) if, at the commencement of that meeting a Dividend (or part of a Dividend) payable on the RPS held by that Holder is in arrears;
 - (ii) on any proposal to reduce the Company's share capital;
 - (iii) on any resolution to approve the terms of a buyback agreement;
 - (iv) on the proposal that affects rights attaching to the RPS held by that Holder;
 - (v) on any resolution for the winding up of the Company;
 - (vi) on a proposal for the disposal of the whole of the Company's property, business and undertaking;
 - (vii) during the winding up of the Company; and
 - (viii) any other circumstances in which the ASX Listing Rules require holders of preference shares to be entitled to vote,

in which case the Holder has, on a show of hands, one vote, and on a poll, one vote for each RPS held and has the same right to be represented at any meeting as the holders of Ordinary Shares.

9.2 Provision of information

- (a) Subject to the Corporations Act and the ASX Listing Rules, each Holder will be provided with copies of:
 - (i) all notices of general meeting of the Company; and

- (ii) all other documents (including annual reports and financial statements) given by the Company to the holders of Ordinary Shares,

at the same time as, or as soon as reasonably practicable after, the holders of Ordinary Shares.

- (b) Failure by the Company to give a Holder any notice, report or other document to which that Holder is entitled under this clause 9.2 will not affect the validity of any meeting (or any proceedings at any meeting), transaction or document which relates to the document which was not received by the Holder.

10. Exchange

10.1 General

- (a) Any Exchange of RPS will take place in accordance with this clause 10.
- (b) The Company must give effect to the relevant Exchange on the relevant Exchange Date.

10.2 Exchange Date

The Exchange Date of the RPS is:

- (a) if the RPS are Exchanged in accordance with clause 10.3, the Reset Date immediately following the delivery of the relevant Exchange Notice; or
- (b) if the RPS are Exchanged in accordance with clause 10.4(b), clause 10.4(c) or clause 10.5, the date specified in that clause.

10.3 Prior to Reset Date

- (a)
 - (i) A Holder may request an Exchange of some or all of its RPS on a Reset Date by giving an Exchange Notice to the Company not less than 35 Business Days before the Reset Date.
 - (ii) On receipt of an Exchange Notice from a Holder, the Company in its absolute discretion must determine and notify the Holder not less than 20 Business Days before the Reset Date which of the following actions it will undertake (singularly or in combination):
 - (A) Exchange the Holder's RPS for cash consideration equal to the Exchange Value; or
 - (B) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.
 - (iii) If the Company fails to notify a Holder in accordance with clause 10.3(a)(ii), the Company will be taken to have determined to Exchange the Holder's RPS referred to in the Holder's Exchange Notice for the Exchange Number of Ordinary Shares.

- (b) The Company has the right to Exchange some or all of the RPS on a Reset Date by giving to a Holder an Exchange Notice not less than 20 Business Days before the Reset Date, specifying which of the following actions it will undertake (singularly or in combination):
 - (i) Exchange the Holder's RPS for cash consideration equal to the Exchange Value; or
 - (ii) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

10.4 **Change of Control Event**

- (a) If a Change of Control Event occurs, the Company must give to each Holder written notice of the occurrence of the Change of Control Event as soon as reasonably practicable ("**Change Notification**").
- (b) A Holder may request an Exchange of some or all of its RPS on the expiry of the period of 35 Business Days after the date of despatch of the Change Notification by giving an Exchange Notice to the Company not more than 15 Business Days after the date of the Change Notification, and
 - (i) if a Holder requests an Exchange, the Company in its absolute discretion must determine and notify the Holder promptly which of the following actions it will undertake (singularly or in combination):
 - (A) Exchange the Holder's RPS for cash consideration equal to the Exchange Value; or
 - (B) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares;
 - (ii) if the Company fails to notify a Holder in accordance with clause 10.4(b)(i), the Company will be taken to have determined to Exchange the Holder's RPS referred to in the Holder's Exchange Notice for the Exchange Number of Ordinary Shares.
- (c) Following the expiry of the 15 Business Days period referred to in clause 10.4(b), the Company has the right to Exchange some or all of a Holder's RPS on the expiry of the period of 35 Business Days after the date of the Change Notification, by giving an Exchange Notice to the Holder not more than 20 Business Days after the date of despatch of the Change Notification and specifying in that Exchange Notice which of the following actions it will undertake (singularly or in combination):
 - (i) Exchange the Holder's RPS for cash consideration equal to the Exchange Value; or
 - (ii) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

10.5 **Trigger Event**

If a Trigger Event occurs, the Company has the right to Exchange some or all of the RPS on the next Dividend Payment Date by giving to a Holder an Exchange Notice not less than 20 Business Days before the next Dividend Payment Date, specifying which of the following actions it will undertake (singularly or in combination):

- (a) Exchange the Holder's RPS for cash consideration equal to the Exchange Value; or
- (b) Exchange the Holder's RPS for the Exchange Number of Ordinary Shares.

10.6 **Exchange Notice**

- (a) An Exchange Notice is a notice in a form acceptable to the Directors given by:
 - (i) a Holder to the Company requesting the Exchange of some or all of its RPS; or
 - (ii) the Company to a Holder stating that the Company intends to Exchange some or all of the Holder's RPS in the manner specified in the notice.
- (b) An Exchange Notice once given, is irrevocable.
- (c) A form of Exchange Notice which may be used by Holders must be made available by the Company upon request.
- (d) An Exchange Notice is taken to be received by the Company if it is received at the Company's nominated share registry.
- (e) Once a Holder has given an Exchange Notice, that Holder must not deal with, transfer, dispose of or otherwise encumber the RPS the subject of the Exchange Notice.
- (f) An Exchange Notice given by a Holder must be accompanied by evidence of title acceptable to the Company for the RPS the subject of the Exchange Notice.

10.7 **Exchange**

In these Terms:

- (a) a reference to **"Exchange the Holder's RPS for cash consideration equal to the Exchange Value"** is a reference to the redemption, buy back or cancellation of the RPS as determined by the Directors;
- (b) a reference to **"Exchange the Holder's RPS for the Exchange Number of Ordinary Shares"** is a reference to each relevant RPS, on and from the relevant Exchange Date and without any further act, converting into and having the same rights as one Ordinary Share and the Holder of the RPS which is being converted, being allotted on that date with an additional number of Ordinary Shares which is equal to the Exchange Number minus one for each RPS being converted (expressed to two decimal places). Exchange of the Holder's RPS into Ordinary Shares in this manner does not

constitute cancellation, redemption or termination of any RPS or an issue, allotment or creation of new shares (other than additional Ordinary Shares issued to make up the Exchange Number);

- (c) a reference to “**Exchanged**” or “**Exchange**” is a reference to the RPS being converted, redeemed, bought back or cancelled as determined by the Directors;
- (d) “**Exchange Value**” is a reference to the amount payable to a Holder in respect of one RPS, such amount being calculated to the relevant Exchange Date and being whichever is the greater of:

- (i) the amount calculated in accordance with the following formula:

$$\frac{\text{Exchange Amount}}{\text{VWAP}} \times \text{VWASP};$$

and

- (ii) the amount calculated in accordance with the following formula:

Conversion Minimum x VWASP,

adjusted in each case, in such manner as the Directors reasonably consider appropriate for the whole or any part of any Dividend which is unpaid; the calculation of each such amount will be to four decimal places and rounded up or down to the nearest two decimal places; for the purposes of making the payment of the greater amount in respect of a Holder’s aggregate RPS to be exchanged, any fraction of a cent will be disregarded;

- (e) **Exchange Number** is the number of Ordinary Shares to be Exchanged for a Holder’s RPS and is calculated (to four decimal places) by dividing the Exchange Amount by the VWAP, subject to the Exchange Number being no greater than the Conversion Maximum and no less than the Conversion Minimum; for the avoidance of doubt, if the Exchange Number is greater than the Conversion Maximum, the Exchange Number shall be the Conversion Maximum, and if the Exchange Number is less than the Conversion Minimum, the Exchange Number shall be the Conversion Minimum adjusted in each case, in such manner as the Directors reasonably consider appropriate, for the whole or any part of any Dividend which is unpaid;
- (f) **Conversion Maximum** means:
 - (a) as at the Allotment Date, the number 50;
 - (b) thereafter the number determined in accordance with clauses 10.8 to 10.11 (inclusive) as those clauses may apply from time to time; if clauses 10.8 to 10.11 (inclusive) apply more than once, the Conversion Maximum shall be calculated based upon the Conversion Maximum as adjusted applying immediately prior to the application of the relevant clause; and
- (g) **Conversion Minimum** means:

- (a) as at the Allotment Date, the number 20;
- (b) thereafter the number determined in accordance with clauses 5.1 and 10.8 to 10.11 (inclusive) as those clauses may apply from time to time; if clauses 10.8 to 10.11 (inclusive) apply more than once, the Conversion Minimum shall be calculated based upon the Conversion Minimum as adjusted applying immediately prior to the application of the relevant clause.

10.8 Adjustments for Bonus and Rights Issues

- (a) Subject to clause 10.8(b) and (c), if the Company makes a pro-rata bonus issue or a rights issue of Ordinary Shares to holders of Ordinary Shares generally the Conversion Minimum and the Conversion Maximum shall be adjusted immediately in accordance with the following formula:

$$CA = CB \times P \times \left[\frac{(D + N)}{(D \times P) + (N \times S)} \right]$$

Where:

- CA** means the Conversion Minimum and Conversion Maximum applying immediately after the application of this formula as provided for in the definition of those terms;
- CB** means the Conversion Minimum and Conversion Maximum applying immediately prior to the application of this formula as provided for in the definition of those terms;
- P** means the Volume Weighted Average Sale Price of Ordinary Shares during the period from the first Business Day after the announcement of the bonus or rights issue to the ASX up to and including the last Business Day of trading *cum* rights or bonus issue;
- S** means the subscription or unit price per Ordinary Share for the rights issue and is zero in the case of a bonus issue;
- N** means the numerator of the ratio (expressed as a fraction) used to determine entitlements to a rights or bonus issue; and
- D** means the denominator of the ratio (expressed as a fraction) used to determine entitlements to a rights or bonus issue.

The Conversion Minimum and Conversion Maximum shall be rounded to the nearest four decimal places.

- (b) No adjustment to the Conversion Minimum and Conversion Maximum shall occur in accordance with this clause if S exceeds P.
- (c) Clause 10.8(a) will not apply to Ordinary Shares issued as part of an employee share or option plan or dividend reinvestment plan.

10.9 Adjustment for Return of Capital

If the Company makes a return of capital to holders of Ordinary Shares (including by way of share buy-back that in the reasonable opinion of the Directors is equivalent to a return of capital to holders of Ordinary Shares) the Conversion Minimum and Conversion Maximum shall be adjusted in accordance with the following formula:

$$CA = CB \times \frac{P}{(P-C)}$$

Where:

- CA** means the Conversion Minimum and Conversion Maximum applying immediately after the application of this formula as provided for in the definition of those terms;
- CB** means the Conversion Minimum and Conversion Maximum applying immediately prior to the application of this formula as provided for in the definition of those terms;
- P** means the Volume Weighted Average Sale Price of Ordinary Shares during the period from the first Business Day after the announcement of the return of capital to the ASX up to and including the last Business Day of trading *cum* return of capital; and
- C** means the amount of the cash and/or the value (as reasonably determined by the Directors) of any other property distributed to holders of Ordinary Shares per Ordinary Share (or such lesser amount such that the difference between P and C is greater than zero).

The Conversion Minimum and Conversion Maximum shall be rounded to the nearest four decimal places.

10.10 Adjustment for Capital Reconstruction

If at any time the Ordinary Shares are reconstructed, consolidated, divided or reclassified (other than by way of a bonus issue, which is dealt with under clause 10.8) into a lesser or greater number of securities, then the RPS must, in accordance with the ASX Listing Rules, be reconstructed, consolidated, divided or reclassified by the Directors on the same basis and the Issue Price (for the purpose of calculating the Dividends on the RPS and the Exchange mechanism set out in clause 10.7(b)) shall be adjusted by the Directors as appropriate.

10.11 Discretion in Adjustment of Conversion Mechanism

Where:

- (a) any of the adjustment provisions set out in clauses 10.8, 10.9 or 10.10, or the number of additional Ordinary Shares to be allotted on Exchange of the RPS, is not, in the reasonable opinion of the Directors, appropriate in any particular circumstances (including for the reason that more than one adjustment provision applies to a particular occurrence); or

- (b) the Company makes a distribution other than by way of dividend in the ordinary course of business or makes a pro-rata offer to the holders of its Ordinary Shares to subscribe for, or purchase, securities in any company other than the Company in a way which does not, in the reasonable opinion of the Directors, result in an appropriate adjustment to the Conversion Minimum and Conversion Maximum; or
- (c) any other similar event occurs in relation to the Company that may have a diluting or concentrative effect on the value of the Ordinary Shares,

and the Directors determine that any such occurrence would, in the reasonable opinion of the Directors, affect the relative values of the RPS and the Ordinary Shares, the Directors may:

- (d) make such alterations to the Conversion Minimum and Conversion Maximum or to VWAP as the Directors reasonably consider appropriate or necessary to maintain that relativity; or
- (e) extend an entitlement to the Holders of the RPS to participate in such distribution or pro-rata offer based upon the number of Ordinary Shares to which those Holders would have been entitled if their RPS had been Exchanged on a date nominated by the Directors and adapting 10.7(b) as the Directors reasonably consider appropriate to maintain the relativity.

10.12 Restriction on conversion

Notwithstanding any other provision of these Terms, if the conversion of the RPS into Ordinary Shares for a particular Holder would result in that Holder breaching any provision of the constitution of the Company or any applicable Law, the Directors have the discretion not to convert that Holder's RPS into Ordinary Shares and instead to redeem, buy back or cancel that Holder's RPS as contemplated by these Terms (whether or not the specific event would otherwise permit such action under these Terms). Before taking such action, the Directors will take reasonable steps to determine which is preferred by the particular Holder.

10.13 Fractions

Where the total number of Ordinary Shares to be issued to a Holder in respect of the total number of RPS being Exchanged at that time includes a fraction, the resultant number of Ordinary Shares to be issued to that Holder will be rounded to the nearest whole Ordinary Share.

10.14 Ranking of new Ordinary Shares

Ordinary Shares which are issued upon Exchange shall, from the relevant Exchange Date, rank *pari passu* in all respects with all other Ordinary Shares then on issue.

11. Volume Weighted Average Price

11.1 Calculation

- (a) **Volume Weighted Average Sale Price** means, subject to any adjustment made in clause 11.2, the volume weighted average of the sale prices at which the securities of the relevant class in question were sold on ASX

during the relevant period, but does not include the following crossings as defined in the ASX Business Rules (or any rule which may replace these ASX Business Rules) as:

- (i) special crossing (in accordance with ASX Business Rule 2.8);
 - (ii) crossings prior to commencement of normal trading (in accordance with ASX Business Rule 2.7.4A) or
 - (iii) crossings during the after hours adjust phase (in accordance with ASX Business Rule 2.7.3).
- (b) **VWAP** means VWASP multiplied by the Discounted Percentage.
- (c) **VWASP** means, subject to clause 11.2, the arithmetic average of the daily Volume Weighted Average Sale Price (in dollars and cents, rounded to the nearest full cent) of Ordinary Shares sold on ASX, during the 20 Trading Day period on which trade in those Ordinary Shares took place most recently preceding, but not including, the relevant Exchange Date.

11.2 **Adjustment**

If the Ordinary Shares have been quoted cum dividend or cum entitlement during the relevant 20 Trading Day period, and the Ordinary Shares to be issued to Holders will not carry that entitlement, then the VWASP on the days the Ordinary Shares have been quoted cum dividend or cum entitlement will be reduced by an amount equal to:

- (a) the cash amount of the dividend (not including any amount for attached franking); or
- (b) the cash amount or the value of the other entitlement.

12. **Accrued Dividend Amount**

- 12.1 The Accrued Dividend Amount is the Dividend payable on the next Dividend Payment Date multiplied by the number of days from (but not including) the last Dividend Payment Date until the date on which the RPS will be Exchanged, divided by the number of days between the relevant Dividend Payment Dates.

13. **Change of Control Event**

13.1 **50% offer or scheme**

Subject to clause 13.2, a Change of Control Event occurs when:

- (a) a takeover bid (as defined in the Corporations Act) or any type of equivalent offer made under any successor sections of the Corporations Act relating to takeovers is made to acquire all or some of the Ordinary Shares and the bid is, or becomes, unconditional and:
 - (i) the bidder at any time during the offer period, becomes entitled to more than 50% of the voting power of the Ordinary Shares; and

- (ii) the Directors recommend that shareholders accept the bid; or
- (b) the Court approves a scheme of arrangement under Part 5.1 of the Corporations Act or any successor sections of the Corporations Act relating to schemes of arrangement, which, when implemented, will result in a person having more than 50% of the voting power of the Ordinary Share.

13.2 **Concurrent offer or scheme involving RPS**

The Directors may in their absolute discretion deem an event of the type set out in clause 13.1 not to be a Change of Control Event where a concurrent or simultaneous unconditional takeover offer or scheme of arrangement is made or proposed that effectively includes all of the RPS on issue at the relevant time and under which Holders would receive consideration for each of their RPS at least equal to the Exchange Amount referred to in paragraph (b) of the definition of Exchange Amount.

14. **Amendments to the Terms of Issue**

- 14.1 Subject to complying with all applicable laws, the Company may without the authority, assent or approval of Holders amend or add to these Terms if such amendment or addition is, in the opinion of the Directors:
- (a) of a formal, minor or technical nature;
 - (b) made to correct a manifest error; or
 - (c) not likely (taken as a whole and in conjunction with all other modifications, if any, to be made contemporaneously with that modification) to be materially prejudicial to the interests of the Holders of the RPS.

15. **Definitions and Interpretation**

15.1 **Definitions**

In these Terms the following definitions apply unless the context requires otherwise:

Accrued Dividend Amount has the meaning given in clause 12.

Allotment Date means the date on which all of the RPS are allotted (it being the Company's intention that all RPS will be allotted on the same date).

ASX means Australian Stock Exchange Limited or any successor body.

ASX Business Rules means the business rules of ASX as amended or replaced from time to time.

ASX Listing Rules means the listing rules of ASX as amended or replaced from time to time.

Business Day has the meaning given to that term in the ASX Listing Rules.

Change of Control Event has the meaning given in clause 13.

Company means Homeloans Ltd ACN 095 034 003.

Conversion Maximum has the meaning given in clause 10.7.

Conversion Minimum has the meaning given in clause 10.7.

Corporations Act means the Corporations Act 2001 (Cth).

Director means a director of the Company for the time being.

Directors means the board of directors of the Company from time to time.

Discounted Percentage means (subject to clause 5.1) 92.5%.

Distributable Profits has the meaning given in clause 7.1.

Dividend has the meaning given in clause 4.

Dividend Payment Date has the meaning given in clause 8.2, whether or a Dividend is paid on that date.

Dividend Rate has the meaning given in clause 4.1.

Exchange has the meaning given in clause 10.7(c).

Exchange Amount means:

- (a) in the case of an Exchange under clause 10.3 or clause 10.5, the Issue Price;
or
- (b) in the case of an Exchange under clause 10.4, the Issue Price plus the Accrued Dividend Amount.

Exchange Date has the meaning given in clause 10.2.

Exchange Notice has the meaning given in clause 10.6.

Exchange Number has the meaning given in clause 10.7.

Exchange Value has the meaning given in clause 10.7.

Holder means a person whose name is for the time being registered in the Register as the holder of RPS from time to time.

Issue Price has the meaning given in clause 1.

Law means any applicable legal requirement, whether at common law (including at equity) or under any statute, regulation, proclamation, ordinance or by-law from time to time.

Ordinary Share means a fully paid ordinary share in the capital of the Company.

Record Date has the meaning given in clause 7.4.

Register means the register of RPS maintained by the Company and includes any sub-register established under the Clearing House Electronic Sub-Register System (as defined in the ASX Listing Rules).

Regulatory Event means the receipt by the Company of advice from a reputable legal counsel that as a result of any amendment to, clarification of, or change in any law or regulation affecting securities laws in Australia, additional requirements would be imposed on the Company which the Company determines, at its sole discretion, to be unacceptable.

Reset Date has the meaning given in clause 5.1.

Reset Notice means a notice given by the Company under clause 5.1.

Reset Notice Date means the date on which a Reset Notice is despatched to Holders.

RPS means the cumulative reset preference shares issued under clause 3.2A of the Company's constitution on the terms set out in these Terms or, where the context requires, each cumulative reset preference share.

SCH Business Rules means the business rules made by ASX Settlement and Transfer Corporation Pty Limited, being approved as the securities clearing house under the Corporations Act and **SCH** has a corresponding meaning.

Tax Act means:

- (a) the *Income Tax Assessment Act 1936* or the *Income Tax Assessment Act 1997*, as the case may be, as amended;
- (b) any other act setting the rate of income tax payable; and
- (c) any regulation promulgated thereunder.

Tax Event means the receipt by the Company of advice from a reputable legal counsel or other tax adviser in Australia that as a result of any amendment to, clarification of, or change in Australian tax law (including laws, treaties, judicial decisions and administrative actions) that results in there being more than an insubstantial risk of the Company being exposed to a more than de minimus increase in the costs of servicing the obligations on the RPS (as a result of increased taxes, duties or other governmental charges or duties) that the Company deems to be unacceptable except that advice that the RPS will be treated as debt for taxation or accounting purposes will not be a Tax Event.

Terms means the terms of issue of the RPS, as set out in this document.

Trading Day has the meaning given in the ASX Listing Rules.

Trigger Event means a Tax Event or a Regulatory Event, as the case may be.

Volume Weighted Average Sale Price has the meaning given in clause 11.

VWAP has the meaning given in clause 11.

VWASP has the meaning given in clause 11.

15.2 Interpretation

Unless the context otherwise requires or unless otherwise specified:

- (a) if there is any inconsistency between the provisions of these Terms and the constitution of the Company then, to the maximum extent permitted by law, the provisions of these Terms will prevail;
- (b) the Directors may exercise all powers of the Company under these Terms as are not, by the Corporations Act or by the Company's constitution, required to be exercised by the Company in general meeting;
- (c) notices may be given by the Company to a Holder in the manner prescribed by the Company's constitution for the giving of notices to members of the Company and the relevant provisions of the Company's constitution apply with all necessary modification to notices to Holders;
- (d) where, under these Terms the day on or by which any thing is to be done is not a Business Day, that thing must be done on or by the following Business Day;
- (e) the singular includes the plural and vice versa;
- (f) where a word or phrase is defined, its other grammatical forms have a corresponding meaning;
- (g) a reference to a person includes a body corporate, an unincorporated body or other entity and conversely;
- (h) a reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including persons taking by novation) and assigns.;
- (i) a reference to any legislation or to any provision of any legislation includes any modification or re-enactment of it, any legislative provision substituted for it and all regulations and statutory instruments issued under it;
- (j) a reference to any instrument or document includes any variation or replacement of it;
- (k) a reference to \$ is a reference to the lawful currency in Australia;
- (l) a term not specifically defined in the Terms has the meaning given to it in the Corporations Act or, if it is not defined in the Corporations Act, in the ASX Listing Rules, the ASX Business Rules or the SCH Business Rules; and
- (m) a reference to "including" means "including but not limited to".

8.3 Company is a disclosing entity

The Company is a disclosing entity under the Corporations Act. It is subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules of ASX. Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

Those obligations include being required to notify ASX immediately of any information concerning the Company which it is, or becomes aware of, and which a reasonable person would

expect to have a material effect on the price or value of the Company's Shares. Exceptions apply for certain information that does not have to be disclosed.

Other documents that are required to be lodged include:

- (a) half yearly reports and preliminary financial statements, to be provided to ASX within 75 days of the end of each half and full year accounting period respectively; and
- (b) financial statements, to be lodged with ASX within a specified time after the end of each accounting period.

8.4 Inspection and copies of documents

Copies of documents lodged by the Company in connection with its reporting and disclosure obligations may be obtained from, or inspected at, an office of the ASIC or ASX. The Company will provide free of charge to any person who requests it during the period of the Offer, a copy of:

- (a) the Annual Report of the Company for the year ended 30 June 2003, being the last financial year for which an annual financial report has been lodged with the ASX in relation to the Company before the issue of this Prospectus; and
- (b) documents lodged by the Company to notify ASX of information relating to the Company during the period from the date of lodgement of the Annual Report referred to in section 8.4(a) and before the date of issue of this Prospectus in accordance with the Listing Rules and the Corporations Act.

The documents referred to in paragraphs (a) and (b) above are not included in, and do not accompany, this Prospectus. In addition, the following documents are available for inspection throughout the application period of this Prospectus during normal business hours at the registered office of the Company at Level 9 The Quadrant, 1 William Street, Perth WA 6000:

- (a) this Prospectus;
- (b) the Company's Constitution;
- (c) the consents referred to in Section 8.10 and the consents provided by the Directors to the issue of this Prospectus;
- (d) the Annual Report of the Company for the year ended 30 June 2003.

8.5 Directors' interests

Except as disclosed in this Prospectus, no Director or proposed Director, and no firm in which a Director or proposed Director is a partner:

- (a) has any interest nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Company, the Offer or property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (b) has been paid or given or will be paid or given any amount or benefit to induce him or her to become, or to qualify as, a Director, or otherwise for services rendered by him or her in connection with the formation or promotion of the Company or the Offer.

Directors' interests in Company securities

No Director or proposed Director as at the date of this Prospectus has a relevant interest in any securities of the Company other than as set out below:

Director	Shares¹	Options¹	Entitlement to Subscribe for Reset Preference Shares²	Maximum Number of Shares pursuant to underwriting agreement³
T.A. Holmes	8,776,281	-	87,763	116,693
R.P. Salmon	8,665,366	-	86,654	116,693
A.R. Pridham	2,609,452	-	26,095	34,575
R.N. Scott	1,489,794	300,000	14,898	20,169

Notes:

1. Held directly or indirectly by the director or a Related Party of the director.
2. Entitlement to subscribe for Reset Preference Shares that will be held directly or indirectly.
3. This calculation assumes that none of the Entitlements are taken up by Eligible Shareholders pursuant this Prospectus.

Remuneration of Directors

The Constitution provides that non-executive Directors may be paid for their services as Directors a sum not exceeding such fixed sum per annum as may be determined by the Company in general meeting, to be divided among the Directors in such proportion and manner as the Directors agree and, in default of agreement, equally.

The Constitution provides that, unless otherwise determined by the Company in general meeting, the non-executive directors' fees are not to exceed \$250,000.00 per annum. No such determination has been made.

There are currently no service agreements between the Company and any Director that requires the Director to remain a Director of the Company for any period of time.

Related entities of the Directors will underwrite the Offer on the terms of the Underwriting Agreement set out in section 8.8.1.

8.6 Interests of other persons

Except as disclosed in this Prospectus, no expert, promoter, underwriter or other person named in this Prospectus as performing a function in a professional, advisory or other capacity:

- (a) has any interest nor has had any interest in the last two years prior to the date of this Prospectus in the formation or promotion of the Company, the Offer or property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offer; or
- (b) has been paid or given or will be paid or given any amount or benefit in connection with the formation or promotion of the Company or the Offer.

O'Loughlins Lawyers will be paid approximately \$45,000 (including GST) in fees for legal services in connection with the Offer. In the past two years O'Loughlins Lawyers have not provided any services to or been paid any fees by the Company.

Computershare Investor Services Pty Limited will be paid approximately \$3,700 (including GST) in fees for professional services in connection with the Offer. In the past two years Computershare Investor Services Pty Limited has been paid a total of \$55,895 (including GST) in fees for share registry services provided to the Company.

Ernst & Young will be paid approximately \$27,500 (including GST) in fees for preparation of Taxation Report included in Section 7. In the past two years Ernst & Young have been paid (or will be paid) approximately \$197,110 (including GST) for auditing and accounting services provided to the Company.

8.7 Expenses of Offer

The estimated expenses of the Offer (excluding GST) are as follows:

	\$
ASIC lodgment fee	2,010
ASX quotation fee	6,085
Share registry expenses	3,380
Legal expenses	41,000
Printing, mailing and other expenses	27,500
Underwriting fees	162,000
Total	241,975

8.8 Material Contracts

Set out below are summaries of the more important provisions of the contracts to which Homeloans Ltd is a party and which are or may be material in terms of the Offer, the operations of Homeloans Ltd or otherwise or may be relevant to an Eligible Shareholder who is contemplating this Offer.

To fully understand all rights and obligations in the Material Contracts it is necessary to read them in full.

8.8.1 Underwriting Agreement

An Underwriting Agreement to be dated on or about 25 November 2003 has been entered into between the Company and the Underwriters (the "Underwriter"). The Underwriter has agreed to underwrite the subscription of 503,540 Reset Preference Shares of \$10.00 each offered pursuant to this Prospectus. The underwriter is free to arrange sub-underwriters at its discretion.

The following is a summary of certain material provisions of the Underwriting Agreement.

The Underwriter will receive an underwriting commission equal to 3.2% of the amount raised under the Prospectus. The Underwriter is entitled to be reimbursed for costs and expenses incurred in connection with the Offer. The Company has given certain representations and warranties to the Underwriter regarding the position of the Company. The Company indemnified the Underwriter and its respective directors, officers, agents,

advisers and related bodies corporate (“Indemnified”) against all claims, losses (other than consequential losses), expenses, damages and costs that any of the Indemnified may suffer or incur arising out of or in connection with:

- (a) (Prospectus) the issue of the Prospectus, or the conduct of the Offer (including losses or claims arising out of or in connection with the preparation for, or involvement in, investigations conducted by ASIC in relation to the issue of the Prospectus of the Offer);
- (b) (breach) the Company failing to perform or observe any of its obligations under this agreement or any other obligations binding on it;
- (c) (misrepresentation) any of the representations and warranties by the Company contained in this agreement not being true or correct;
- (d) (authorised publications) any roadshow presentation, announcement, advertisement or publicity made or distributed by or on behalf of the Company in relation to the Prospectus or the Offer;
- (e) (information) reliance by the Underwriter on information of a material nature supplied by the Company which is inaccurate, incomplete or misleading; and
- (f) (enforcement of rights) the enforcement or protection or attempted enforcement or protection of any rights of the underwriters arising out of or under this agreement or the Offer.

The Underwriter may, without prejudice to any other right or remedy available to it, terminate its obligations to satisfy a shortfall if any of the following events occur before the Reset Preference Shares are allotted under the Offer:

- a statement contained in the Prospectus is misleading or deceptive, a material matter is omitted from the Prospectus or the issue of the Prospectus is misleading or deceptive;
- the Prospectus does not contain all such information as investors and their professional advisers would reasonably require for the purpose of making an informed assessment of the rights and liabilities attaching to the Reset Preference Shares;
- the Prospectus does not contain all such information as investors and their professional advisers would reasonably require, and reasonably expect to find in the Prospectus, for the purpose of making an informed assessment of the assets, liabilities, financial position and performance, profits and losses and prospects of the Company; or
- the Prospectus does not contain any other material information regarding the offer which is required under the Corporations Act to be contained in the Prospectus;
- (Supplementary Prospectus) a supplementary prospectus or a replacement prospectus is, in the reasonable opinion of the underwriters, required under section 719 of the Corporations Act or a person (other than the underwriters) gives notice to the Company under section 730 of the Corporations Act;
- a director or senior executive of the Company (or any of its related bodies corporate) is charged with an indictable offence or becomes bankrupt;

- there is a material contravention by the Company of the Corporations Act, its constitution, or any of the Listing Rules; or
- the Prospectus or any aspect of the offer breaches the Corporations Act or any other applicable law or regulation in any material respect;
- (ASX approval) permission is not granted for the Reset Preference Shares to be quoted on the official list of ASX (subject only to customary listing conditions) on or before 20 Business Days after the lodgement of the Prospectus with ASIC, or if granted, the permission is subsequently withdrawn, qualified or withheld or the offer Shares are not approved for the official quotation by ASX, or if approval is granted the approval is subsequently withdrawn, qualified or withheld;
- (insolvency) the Company (or any of its related bodies corporate) is or becomes unable to pay its debts when they are due or is or becomes unable to pay its debts within the meaning of the Corporations Act or is presumed to be insolvent under the Corporations Act;
- a receiver, receiver and manager, trustee, administrator or similar official is appointed, or steps taken for such appointment, over any of the assets or undertakings of the Company (or any of its related bodies corporate); or
- an application or order is made for the winding-up or dissolution of the Company (or any of its related bodies corporate) or a resolution is passed or any steps are taken to pass a resolution for the winding-up or dissolution of the Company (or any of its related bodies corporate) otherwise than for the purpose of an amalgamation or reconstruction which has the prior consent of the Underwriters;
- (alteration to capital structure or constitution) the Company (or any of its related bodies corporate) alters its capital structure or constitution without the prior written consent of the Underwriters;
- ASIC issues proceedings in relation to the Offer;
- ASIC issues an order under section 739 of the Corporations Act in relation to the offer which is not dismissed or withdrawn by the Closing Date;
- an application is made by ASIC for an order under section 1324B of the Corporations Act in relation to the Prospectus which is not dismissed or withdrawn by the Closing Date; or
- any person who has previously consented to the inclusion of its name in the Prospectus (or any Supplementary Prospectus) or to be named in the Prospectus withdraws that consent;
- (withdrawal) the Company withdraws the Prospectus or the offer;
- (compliance with agreement) there is a material default by the Company in the performance of any of its obligations under this agreement;
- the All Ordinaries Index of the ASX closes on 2 consecutive Business Days at a level that is 15.0% or more below its Starting Level;
- (prescribed occurrence) a prescribed occurrence in relation to the Company (or any of its related bodies corporate) occurs as that expression is defined in section 652C of the Corporations Act but substituting the respective party for “target”;

- (timetable) any event specified in the timetable is delayed for more than 10 Business Days;
- (material adverse change) any material adverse change occurs in the assets, liabilities, financial position and performance, profits, losses or prospects of the Company, including any adverse change in the assets, liabilities, financial position, profits, losses or prospects of the Company (or any of its related bodies corporate) from those respectively disclosed in the Prospectus;
- (change of law) there is introduced or there is a public announcement of a proposal to introduce, into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a new law or a Government Agency adopts or announces to adopt a new policy, any of which does or is likely to prohibit or regulate the Offer, capital issues or stock markets;
- (material contracts) without the prior written consent of the Underwriter (which may not be unreasonably withheld), any of the material contracts summarised in the Prospectus are terminated (whether by breach or otherwise), rescinded, altered or amended in a material respect or any such contract is found to be void or voidable;
- (hostilities) hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, the United Kingdom any member state of the European Union, Indonesia, Japan, Russia or the Peoples Republic of China, or a terrorist act is perpetrated on any of those countries or any diplomatic or political establishment of any of those countries elsewhere in the world, or a national emergency is declared by any of those countries;
- (banking moratorium) a general moratorium on commercial banking activities in Australia, the United Kingdom or the United States of America is declared by the relevant central banking authority in any of those countries which remains in force for 2 consecutive Business Days or there is a material disruption in commercial banking or security settlement or clearance services in any of those countries which remains in force for two consecutive Business Days; or
- (adverse change in financial markets) there occurs any material adverse change or material adverse disruption to the political or economic conditions or financial markets in Australia, the United Kingdom, the United States of America or the international financial markets or any change or development involving a prospective change in the national or international political, financial or economic conditions.

8.8.2 Mortgage Management Deed – Adelaide Bank Limited

By deed dated 1 September 2002 (“MMD”) between Homeloans Ltd (‘HOM’) and Adelaide Bank Limited (‘ABL’), it was agreed that HOM would originate and manage mortgages and ancillary products.

HOM is entitled to receive an upfront fee for any loan advanced and a monthly management fee for managing the relevant loans, subject to the arrears clause.

HOM makes various representations and warranties to ABL under the MMD, to comply with the MMD, HOM’s ability to discharge its obligations under the MMD, and (in

relation to loans or mortgages managed by the MMD) the circumstances relating to the mortgage, mortgaged property and mortgagor, and compliance with relevant legislation.

If payments under a loan arranged by HOM under the MMD are in arrears for greater than 120 days, HOM is required to pay the relevant amount to ABL from the monthly fees and is entitled to reimburse itself from any money subsequently received from the mortgage or the lenders mortgage insurance policy.

If ABL consider that HOM has breached any of its obligations in originating or managing loans under the MMD, HOM must pay ABL the mortgage amount.

When HOM breaches a material obligation which is not remedied within 30 days or is incapable to fulfil its future obligations or undergoes a change in effective control which creates conflict of interest, ABL is entitled to terminate the MMD and/or dismiss HOM as manager.

There is no compensation payable to HOM if it is terminated in the first case. If ABL terminates the MMD in the other circumstances, HOM is entitled to compensation for the amount agreed between the parties, or the amount chosen by another nominated person.

HOM must indemnify ABL and or the relevant trustee for any claims, loss, liability or expenses incurred as a result of:

- breach of representation or warranty in the MMD;
- HOM breaching or causing ABL to be in breach of Lender's Mortgage Insurance;
- any misrepresentation, act or omission of HOM.

ABL may transfer its interest in the loan under a securitisation program and cease managing the loan, and terminate HOM to manage the loans by giving notice. HOM cannot assign, novate, transfer or deal with any of its rights or obligations under the MMD without the prior written consent of ABL.

If ABL transfers its interest in the relevant loans under a securitisation program, and ceases to be entitled to manage the relevant loans, ABL may terminate HOM's right to manage the relevant loans by giving HOM notice.

8.8.3 TMC Master Sub-Servicing Agreement – The Mortgage Company Pty Limited

By the Master Sub-Servicing Agreement dated 19 December 1997 between The Mortgage Company Pty Limited ("TMC"), FAI First Mortgage Pty Limited (FAIFM') and FAI Insurance Limited ("FAI" or "Guarantor"), FAIFM has contracted for certain mortgage sub-servicing functions and responsibilities to be performed by TMC. By a Share Purchase Agreement dated 3 April 2001 the Company acquired the whole of the issued capital of FAIFM. Since completion was effected under that Share Purchase Agreement FAIFM has been a wholly owned subsidiary of Homeloans Ltd.

The sub servicing functions to be performed by TMC are loan origination services, loan administration services, securitisation services and other ancillary services to FAIFM.

As part of the loan origination process TMC responsibilities include property valuation administration, application processing and settlements. Funding for FAIFM loans will be arranged by TMC utilising FAIFM's line of credit.

TMC provides services to support the administration of activities which occur after loan settlement and continue through to discharge. These include; call centre and customer service administration, account maintenance, delinquency and collection services, document storage, payment processing, statement processing and customer correspondence. All policies, processes, systems, and documentation provided by TMC have been developed and implemented to comply with the Consumer Credit Code as well as the Code of Banking Practice. Loans not subject to UCCC are also supported.

TMC will provide the capability for FAIFM to securitise standardised assets which have been originated and serviced on TMC's mortgage system. TMC must cooperate with the funder, ratings agencies, mortgage insurers and all other persons or their representatives reasonably necessary to complete the transactions.

In consideration of TMC performing all or any part thereof of the Sub-Servicing, FAIFM will pay TMC Sub-Servicing Fees in accordance with this agreement.

FAIFM shall remain liable as credit provider and indemnifies TMC for any loss or damage suffered as a result of a court or tribunal forming the view that TMC is liable as credit provider.

8.8.4 Mortgage Origination and Management Deed – Australia and New Zealand Banking Group Limited

By deed dated 26 April 1995 (“MOMD”) between Primary Industries Bank of Australia Limited (“PIBA”) and IF & I Securities Pty Ltd (“IFI”) in its capacity as trustee of the IF & I Securities Unit Trust, PIBA engaged IFI to introduce loans to PIBA and to manage any loans approved by PIBA in accordance with the terms of the MOMD and the loan terms for the time being required by PIBA, under the MOMD.

The fees payable to IFI under the MOMD are determined under the Terms and Fees Agreement (“TFA”) supplemental to the MOMD and dated 26 April 1995, between PIBA, IFI, and (as guarantors) International Financing & Investment Pty Limited, Robert Peter Cockburn Salmon and Timothy Alastair Holmes. Under the TFA, IFI is entitled to a management fee equal to the difference between the rate determined by PIBA to be earned from the loans by PIBA and the rate of interest paid by a borrower for a loan introduced and managed by IFI.

By a deed of assignment dated 1 October 1998 between PIBA and the Australia and New Zealand Banking Group Limited (“ANZ”), PIBA assigned its right, title and interest in the MOMD and TFA to ANZ. By a deed of novation dated 1 March 2001 IFI novated its right title and interest in the MOMD and the TFA to the Company.

If payments under a mortgage arranged by the Company under the MOMD are more than 10 days late, the Company is required to pay the relevant amount (up to a maximum of 3 months’ payments due under the mortgage) to ANZ from its own funds and entitled to reimburse itself from any moneys subsequently received from the mortgagor.

Under the MOMD, an Event of Default includes such events as the Company failing to pay any money due to ANZ on the due date, or a default by the Company in the performance of its obligations under the MOMD or the TFA, which is not remedied within 14 days of written notice to the Company by ANZ.

If an Event of Default occurs, ANZ may:

- (a) terminate the MOMD;
- (b) dismiss the Company;
- (c) appoint another person to manage the loans;
- (d) take over management of the loans.

Management fees cease to be payable by ANZ to the Company under the TFA, if an Event of Default occurs, the Company must also indemnify ANZ (or, where the relevant mortgage is held by a trustee nominated by ANZ, the relevant trustee) for any costs, expense, loss, damage or liability (the amount of which is to be determined by ANZ) incurred by ANZ or the relevant trustee as a result of an Event of Default.

If ANZ determines that the Company has not acted in an efficient, honest and businesslike manner on the introduction or management of a loan, or if a loan does not comply with the MOMD, ANZ is entitled to require the Company to purchase the loan from ANZ.

ANZ may also require the Company to purchase a loan from ANZ if any transaction document is unenforceable; the title to any mortgaged property is in a material fashion defective; a mortgage insurer reduces or refuses a claim under primary insurance; or a loan does not comply with the terms applicable under the MOMD. If any of these events occurs as a result of default by the Company, ANZ is also entitled to exercise the rights it has if an Event of Default occurs, referred to above.

ANZ may terminate the MOMD at any time, by 3 months' written notice to the Company. On termination of the MOMD under this provision, ANZ must pay the Company an amount agreed between the parties, as compensation, or – failing agreement – an amount determined by ANZ as the fair market value that a purchaser would pay to purchase the management rights under the MOMD.

ANZ may assign its rights and obligations under the MOMD. The Company must not assign its rights and obligations under the MOMD without the written consent of ANZ.

8.8.5 Mortgage Origination and Management Agreement – ING Bank NV, ING Bank (Australia) Limited and IF & I Securities Pty Limited

By deed dated 15 November 2000 (“MOMA”) between ING Bank NV and ING Bank (Australia) Limited (“ING”), IF & I Securities Pty Ltd (“IFI”), and Robert Peter Cockburn Salmon and Timothy Alastair Holmes (“Guarantors”), ING engaged IFI to introduce loans to ING in accordance with the terms of the MOMA and any guidelines specified by ING, and to manage any loans approved by ING in accordance with the terms of the MOMA. By a deed of novation dated 6 March 2001 IFI novated its right, title and interest in the MOMA to the Company.

Under the MOMA, the Company is entitled to a management fee equal to the difference between the rate of interest at which ING funds the relevant loans and the rate of interest to be paid by the relevant borrowers, during the period that the Company manages the relevant loans. The management fee is not payable on any loan that is in default for 90 days or more.

ING is entitled to make a lump sum payment of the upfront fee in relation to any loan, and (in exchange for doing so) to reduce the management fee and charge the Company a servicing fee based on the balance of the management fee not recouped by ING.

ING is responsible for the costs of any trustee appointed by it, for acting as trustee of any transaction documents in relation to any loans under the MOMA or storing those documents; and the Company is responsible for any other trustee costs, including costs of signing or dealing with transaction documents.

ING is liable for GST on the management fees payable to the Company under the MOMA and, if any other payments made under or in relation to the MOMA are taxable supplies for the purposes of GST or any similar tax, the amount payable is adjusted to cover any liability for GST in respect of that supply.

Under the MOMA an Event of Default includes such events as the Company failing to pay any money due to ING within 30 days of receiving written notice requiring its remedy, or the Company defaulting in the performance of any term in the MOMA where the default is not remedied within 30 days of written notice from ING.

If an Event of Default occurs, ING may:

- (a) terminate the MOMA;
- (b) dismiss the Company as manager of the loans;
- (c) appoint another person to manage the loans;
- (d) take over management of the loans.

The Company is not entitled to any fees for the period after the MOMA is terminated.

ING may also require the Company to purchase a loan from ING by 30 days' written notice to the Company if, due to the Company's fault or negligence:

- (a) a transaction document relating to the loan is unenforceable;
- (b) the title to any property mortgaged is materially defective;
- (c) a mortgage insurer is entitled to reduce or refuse a claim;
- (d) a loan does not comply with the MOMA;
- (e) the Company did not act in an efficient and honest manner in introducing or managing the loan; or
- (f) an approval given by the Company was outside its authority.

Either party may terminate the MOMA as it relates to any obligation or right to introduce new loans, by giving the other party not less than 90 days' notice.

The Company must indemnify ING against any claims, demands, losses, damages, costs and expenses arising from:

- (a) any failure by the Company to comply with any law;
- (b) any Event of Default;
- (c) any fault or negligence by the Company.

ING is entitled to vary the terms for new loans or terminate any new loan funding under the MOMA at any time. Any variation or termination does not vary or terminate the Company's entitlements and obligations in relation to loans previously made under the MOMA.

ING may assign and transfer its rights under the MOMA. The Company must not assign its rights under the MOMA without the prior written consent of ING.

8.8.6 Credit Facilities – Westpac Banking Corporation

Under a Multi-Option Facility Agreement dated 28 December, 2001 between Homeloans Ltd (as Borrower), FAI First Mortgage Pty Ltd ("FAIFM" as Guarantor) and Westpac Banking Corporation ("Westpac"), Westpac provides the following facilities for financial accommodation up to \$9,765,200:

1. Revolving Cash Advance Facility not exceeding \$7,875,000.
2. Overdraft Commitment of \$900,000.
3. Bank Guarantee Commitment of \$990,200.

The Revolving Cash Advance Facility amortises over its term, which expires on 31 December 2005. The Overdraft is on demand and the Bank Guarantee expires on 28 December 2004.

FAIFM guarantees the due and punctual payment of monies under this facility.

The securities to secure all of these facilities are:

- A first ranking fixed and floating charge over the assets and undertakings of Homeloans Ltd;
- Security Trust Deed between Perpetual Trustee Company Limited, FAIFM and Westpac.

The terms and conditions of the facilities are standard commercial terms for facilities of such nature.

8.9 Litigation

8.9.1 Stamp Duty Assessment

On 16 July 2003 the Company announced, through the ASX, that it had received an assessment for the payment of stamp duty and penalties in an amount of \$1,740,566. The assessment relates to the stamp duty allegedly payable on the transfer of assets from IF & I Securities Pty Ltd as trustee for the IF & I Securities Unit Trust to the Company at or about the time of incorporation of the Company in December 2000.

The Company has lodged an appeal against the assessment which is pending. Notwithstanding the lodgement of the appeal, the assessment is payable during the second half of 2003. The Company is in the process of paying the assessment by instalments. A hearing date for the appeal has not yet been set.

8.9.2 Access Home Loans – 2K Litigation

In December 2001 the Company acquired the whole of the issued capital of Access Home Loans Pty Ltd, Access Network Management Pty Ltd ("ANM") and First National Homeloans Pty Ltd under a Share Sale Agreement dated 14 December 2001 as varied by

Deeds of Variation dated 27 December 2001 and 31 January 2003 (“**Share Sale Agreement**”).

At the time of entering into that Agreement ANM disclosed that Australia & New Zealand Banking Group Ltd trading as Origin Mortgage Management Services (“**Origin**”) may have a claim against it in relation to 12 loans, allegedly fraudulently obtained, which were introduced by 2K Finance Pty Ltd and funded by Origin. Origin’s potential claim was under a Mortgage Origination and Management Deed made between ANM and Origin and entered into on or about 1 July 1997.

In the Share Sale Agreement an indemnity was provided by the vendors of the shares in favour of Homeloans Ltd in respect of any liability, losses, costs and expenses arising out of a claim made by Origin against ANM in relation to the loans introduced by 2K Finance Pty Ltd. As security for the performance by the vendors of their obligations under the indemnity, the vendors also provided Homeloans Ltd with bank guarantees totalling \$2,500,000, which bank guarantees are still held by Homeloans Ltd.

By letters dated 1 September 2003, Origin formally notified ANM that, pursuant to the Mortgage Origination and Management Deed, it required ANM to purchase the 12 loans from Origin for the amount owing, being a total of approximately \$2,300,000.

The Company believes that any liability ANM may have to Origin will be covered by ANM’s professional indemnity insurance, the indemnity referred to above and the bank guarantees held by Homeloans Ltd in support of that indemnity. ANM disputes that it has a liability to Origin in respect of the subject loans.

8.10 Consents

The following consents have been given in accordance with the Corporations Act and have not been withdrawn as at the date of lodgment of this Prospectus with the ASIC:

O’Loughlins Lawyers have given, and have not withdrawn, their written consent to being named in this Prospectus as solicitors to the Offer. O’Loughlins Lawyers have not authorised or caused the issue of this Prospectus or the making of the Offer. O’Loughlins Lawyers make no representation regarding, and to the extent permitted by law exclude any responsibility for, any statements in or omissions from any part of this Prospectus.

Ernst & Young has given, and has not withdrawn, its written consent to the inclusion of its Taxation Report in Section 7 of this Prospectus and to being named in this Prospectus as auditors of the Company. Ernst & Young has not been involved in the preparation of this Prospectus (other than Section 7) and has not authorised or caused the issue of any part of this Prospectus. Accordingly Ernst & Young does not make any representation regarding this Prospectus and accepts no liability for the completeness or accuracy of the information in any part of this Prospectus other than Section 7.

Computershare Investor Services Pty Limited has given and, as at the date hereof, has not withdrawn, its written consent to be named as Share Registrar in the form and context in which it is named. Computershare Investor Services Pty Limited has had no involvement in the preparation of any part of the Prospectus other than being named as Share Registrar to the Company. Computershare Investor Services Pty Limited has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Prospectus.

8.11 Directors' statement

The Directors state that they have made all reasonable enquiries and have reasonable grounds to believe that all statements made by the Company in this Prospectus are true and not misleading and that, in respect of any other statements made in this Prospectus by persons other than the Directors, the Directors have made reasonable enquiries and have reasonable grounds to believe that persons making the statement or statements were competent to make such statements, those persons having given their consent to the inclusion of such statement or statements in this Prospectus and not having withdrawn that consent, before lodgment of this Prospectus with the ASIC or, to the Directors' knowledge, before any issue of securities pursuant to this Prospectus.

This Prospectus is prepared on the basis that:

- (a) certain matters may be reasonably expected to be known to professional advisers of any kind with whom applicants may reasonably be expected to consult; and
- (b) information is known to applicants or their professional advisers by virtue of any acts or laws of Western Australia or the Commonwealth of Australia.

Each Director has consented to the lodgment of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company by:

Tim Holmes
Chairman

9. GLOSSARY OF TERMS

These definitions are provided to assist persons in understanding some of the expressions used in this Prospectus.

“Annual Report”	The Financial Report lodged by the Company with ASX on 20 October 2003 in respect to the year ended 30 June 2003 and includes the corporate directory, Chairman’s report, review of activities, shareholder information, Financial Reports of the Company and its controlled entities for the year ended 30 June 2003, together with a directors’ report in relation to that financial year and the auditor’s report on that financial report.
“Applicant”	A person who submits an Entitlement and Acceptance Form.
“Application Monies”	Application monies for Reset Preference Shares received by the Company.
“ASIC”	Australian Securities and Investments Commission.
“ASTC”	ASX Settlement and Transfer Corporation Pty Ltd ACN 008 504 532.
“ASX”	Australian Stock Exchange Limited ACN 008 129 164.
“Board”	The Directors of the Company meeting as a board.
“Business Day”	Monday to Friday inclusive, other than a day that ASX declares is not a business day.
“CHESS”	ASX Clearing House Electronic Subregistry System.
“Closing Date”	29 December 2003 or such later date as the Directors may determine.
“Company”	Homeloans Ltd ABN 55 095 034 003.
“Constitution”	The constitution of the Company as at the date of this Prospectus.
“Corporations Act”	Has the meaning given to it by Part 3 of the Corporations Act 2001.
“Directors”	The directors of the Company from time to time.
“Eligible Shareholder”	A person registered as the holder of Shares on the Record Date whose registered address is in Australia or New Zealand.
“Entitlement”	The entitlement of each Eligible Shareholder to subscribe for Reset Preference Shares pursuant to this Prospectus.
“Entitlement and Acceptance Form” or “Form”	The entitlement and acceptance form accompanying this Prospectus that sets out the entitlement of Shareholders to subscribe for Shares pursuant to the Offer.
“Financial Report”	The financial report of the Company within the meaning of the Corporations Act.
“Homeloans Ltd”	The Company.

“GST”	Goods and Services Tax.
“Issuer Sponsored”	Securities issued by an issuer that are held in uncertificated form without the holder entering into a sponsorship agreement with a broker or without the holder being admitted as an institutional participant in CHESS.
“Listing Rules”	The Listing Rules of ASX.
“Material Contracts”	The contracts described in section 8.8 of this Prospectus.
“Offer”	The offer pursuant to this Prospectus by the Company of Reset Preference Shares at an issue price of \$10.00 per share on the basis of 1 Reset Preference Share for every 100 Ordinary Shares.
“Offer Price”	\$10.00 for every Reset Preference Share.
“Official List”	The official list of ASX.
“Official Quotation”	Quotation of Securities on the Official List.
“Optionholders”	Holders of Options.
“Prospectus”	This prospectus dated 25 November 2003.
“Record Date”	5.00pm (WST) on 4 December 2003 being the date for the determination of entitlements of Shareholders of the Company to participate in the Offer.
“Related Party”	As defined by the Corporations Act.
“Relevant Company”	The Company and each subsidiary of the Company.
“Reset Preference Shares”	The reset cumulative preference shares issued pursuant to this Prospectus the terms and conditions of which are set out in Section 8.2 of this Prospectus.
“Rights Issue”	The Offer of Securities to Eligible Shareholders made under this Prospectus.
“Section”	A section of this Prospectus.
“Securities”	Reset Preference Shares the subject of the Offer.
“Securities Licence”	As defined by the Corporations Act.
“SCH”	Securities Clearing House.
“Shareholders”	Holders of Shares.
“Shares”	Fully paid ordinary shares in the capital of the Company.
“Underwriters”	Tico Pty Ltd as trustee for TA Holmes Family Trust, Peterlyn Pty Ltd as trustee for Salmon Family Trust, First Provident Corporation Pty Ltd and Carpenter Nominees Pty Ltd as trustee for Robert Scott Family Trust.
“WST”	Western Standard Time
“\$”	Australian dollars.

