

# HFA Holdings Limited

Annual Report 2009

**HFA HOLDINGS LIMITED ABN: 47 101 585 737**

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**SHAREHOLDER INFORMATION AND INQUIRIES**

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Net revenue of \$95.54 million, up 25 per cent  
Operating EBITDA<sup>1</sup> of \$52.65 million, up 5 per cent

I am pleased to provide this introduction to the full year accounts for HFA Holdings Limited. As many of you are aware the last 12 months has been an unprecedented period of upheaval for financial markets with a rolling series of crises having a major impact on our industry and our business. It has been one of the most difficult operating environments for fund managers in recent history and HFA has not been immune to these external pressures. The severity and swiftness of the global crisis and the subsequent distress in credit and global capital markets dramatically impacted the entire financial markets ability to function. Most markets, particularly credit markets, effectively stopped functioning.

Against this backdrop HFA's Board and senior management acted quickly to safeguard the long term future of the business and took a number of proactive steps to ensure we were in a position to begin rebuilding shareholder wealth when conditions improved. These steps included:

- Reducing overall risk levels in our investment funds as volatility increased rapidly;
- Re-negotiating the Company's debt to better reflect the current market;
- Reducing operating expenses; and
- Fast tracking the implementation of our managed account program to better meet the expectations of investors.

## FINANCIALS

Despite the challenges your Company was able to achieve positive underlying earnings with EBITDA (before non-cash impairment losses and non-cash equity settled transactions) of \$52.65 million, up 5 per cent on the same period last year. Net operating revenue for the year to 30 June 2009, was \$95.54 million compared to \$76.27 million, including the first full year contribution of operating fee revenue from the merger with US-based manager Lighthouse Partners.

The net result for the year was impacted by two major items which do not affect the Company's cash balance, cash flows or operating profits in the year under review. The

items include a non-cash impairment of \$599.53 million, predominantly related to a write-down of goodwill arising from the merger with Lighthouse, and a non-cash accounting expense for equity settled transactions of \$12.40 million for shares issued to employees under employee incentive plans.

While the Company's net result was significantly impacted by the impairment of goodwill relating to the carrying value of the Lighthouse business, the Board considered the decision to amend the valuation as prudent. Despite the impairment, the merger with Lighthouse has given us the global scale, diversity and skills to deal effectively with the current market turmoil and we are confident the business will provide long term value.

During the year ended 30 June 2009, the Group successfully extended its existing loan facility until November 2011 and has reduced its US\$ denominated debt from US\$127.76 million to US\$113.07 million, and its A\$ denominated debt from A\$10 million to A\$6.90 million.

At 30 June, 2009, the Group's Funds Under Management (FUM) and Assets Under Management (AUM) were A\$5.62 billion and A\$6.16 billion respectively, down 29 per cent and 34 per cent respectively on the same period last year.

The Board has declared that no final dividend for the financial year ended 30 June 2009 will be paid.

## FUND PERFORMANCE

Despite the difficult conditions already highlighted we are proud of the relative performance of the Group's flagship funds compared to most major indices during the year.

However, we do acknowledge a failure to deliver 'absolute' returns regardless of market conditions and accept many investors were disappointed with this failure.

<sup>1</sup> before non-cash equity settled transactions and non-cash impairment losses. Prior year comparative is before non-cash equity settled transactions and foreign currency gains on derivative instruments.  
<sup>2</sup> based on net profit/(loss), adding back non-cash items of depreciation and amortisation, impairment losses and equity settled transactions, and adjusting for non-cash income tax benefit / (expense).

## Assets Under Management (AUM) of A\$6.16 billion, down 34 per cent Funds Under Management (FUM) of A\$5.62 billion, down 29 per cent

The Group's core funds, the Lighthouse Partners Diversified Funds and LHP Global Long/Short Funds, which combined represent approximately 60% of the Group's total AUM, have outperformed key investment benchmarks over the long term. Since inception in August 1996 the Lighthouse Diversified Fund LP (LHP DF) has delivered a total return of 187.5%, compared to 64.4% for the MSCI World, 79.8% for the S&P500. Since inception in January 2004 the Lighthouse Global Long/Short Fund Ltd (LHP GLS) has delivered total returns of 40.1%, compared to 5.4% for the MSCI World, -7.6% for the S&P500 and -5.0% for the FTSE100. Since the market's peak in October 2007 the LHP DF has fallen 13.8% while the LHP GLS has fallen 8.7%. This compares to falls in the MSCI World (down 37.7%), the S&P500 (down 37.2%) and the S&P/ASX200 (down 34.7%).

### OUTLOOK

We believe the worst of the crisis has now passed and markets are slowly returning to more normal levels of functionality and performance. This return to normality has happened remarkably quickly and throughout the second half we saw hedge fund investment returns move to more traditional levels. Pending any other unforeseen events we would anticipate this trend towards normalisation will continue throughout the current year. We have also seen early signs that the redemption levels we witnessed at the height of the crisis have diminished and we are cautiously optimistic that overall fund flows will stabilise.

Ultimately, our commitment to good people and sound processes has provided a stable foundation to move forward in this improving environment. We are now looking forward to once again delivering strong risk adjusted investment returns to our product investors, which overtime should help us build a strong, profitable business for our shareholders.

The last year has also highlighted the need to change and adapt our business to the new reality of global markets. To this end the Group has continued to extend its proprietary Lighthouse managed account program that will underpin its fund of hedge fund portfolio structures. We believe the managed account program will materially differentiate our product offerings in an environment where investors will expect greater transparency and security. The program offers us direct control over the underlying assets, independent asset valuations and full transparency.

While we are seeing stabilisation of the environment in which we operate there is still considerable uncertainty surrounding the global economy and financial markets and the Board does not believe it is appropriate to provide definitive guidance on future earnings.

I would like to conclude by thanking my fellow Board members, and the management and staff of HFA for their efforts over the last 12 months and their continued commitment to our business and our shareholders. I would also like to thank our loyal shareholders for their support in an extremely difficult period for the world economy and our Company.

Kind Regards



**Spencer Young**  
Chairman

# DIRECTORS' REPORT

The Directors present their report together with the financial report of HFA Holdings Limited ("the Company" or "HFA") and of the group, being the Company and its subsidiaries (the "Group" or "Consolidated Entity") for the financial year ended 30 June 2009 and the auditor's report thereon.

## 1. DIRECTORS

The Directors of the Company at any time during or since the end of the financial year are:

Mr Spencer Young (Executive Chairman)  
 Mr Sean McGould  
 Mr F P (Andy) Esteban  
 Mr John Larum, appointed 12 December 2008  
 Mr Brett Howard, resigned 31 March 2009  
 Mr Robert Fraser, resigned 24 November 2008

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p><b>Spencer M Young</b>            B.Eng. MBA   <i>Chairperson, Executive Director and Chief Executive Officer</i></p>	<p>Spencer founded HFA in 1998. He has over 18 years of alternate asset class investment experience and close relationships with a network of international hedge funds and domestic research and rating agencies.</p> <p>Spencer holds a B.Eng (U.Qld) and an MBA from Harvard. He has held several senior investment positions including Executive Director of Rothschild Australia Private Equity and Lend Lease Corporation's senior executive in the USA for venture capital and private equity investments. An experienced Company Director, his recent directorships have included Tremblant Capital, a significant New York based hedge fund.</p> <p>Appointed Non-Executive Director 13 April 2007 to 18 September 2007.</p> <p>Appointed Chief Executive Officer and Executive Director 18 September 2007.</p>
<p><b>Mr Sean McGould</b>            BSc. Accounting   <i>Executive Director</i></p>	<p>Sean is the co-founder of Lighthouse and serves as President and Co-Chief Investment Officer. He supports the investment team in the manager search, selection and review process and is the Chairperson of the Investment Committee. Sean has been overseeing all aspects of the portfolios since August 1996.</p> <p>Sean joined Asset Management Advisors ("AMA"), a multi-family office as Chief Investment Officer in August 1996. Lighthouse was formally spun out of AMA in 1999. For the past 15 years, Sean has been investing in various alternative investment strategies. Prior to founding Lighthouse, Sean was the Director of the Outside Trader Investment Program at Trout Trading Management Company and was responsible for the allocation of the fund's assets to external alternative asset strategies.</p> <p>Prior to Trout, Sean worked for PriceWaterhouse and passed the Certified Public Accountant examination.</p> <p>Appointed 3 January 2008.</p>
<p><b>Mr F P (Andy) Esteban</b>            B.Bus ASA MAICD METI   <i>Independent Non-Executive Director</i></p>	<p>Andy holds a Bachelor of Business majoring in Accounting. He is an Associate of the Australian Society of CPAs and a member of the Australian Institute of Company Directors. He has 30 years experience in the financial services industry, of which 21 years were with Perpetual Trustees Australia Ltd.</p> <p>In December 1999 he established FP Esteban and Associates, a private business specialising in implementing and monitoring risk management and compliance frameworks in the financial services industry. He has provided compliance consulting services to a number of organisations including UBS Global Asset Management for their funds management operations in Australia and South East Asia operations located in Hong Kong, Singapore, Taiwan and China and was appointed an Independent Director of three of their hedge fund companies based in Hong Kong. From July 2005 until June 2008 he was also an independent Director of Credit Suisse Asset Management (Australia) Ltd. He is currently a member of compliance committees and risk and audit committees for a range of managed investment schemes, superannuation, insurance and infrastructure products.</p> <p><i>Chairperson of Audit and Risk Committee and Member of Remuneration Committee.</i></p> <p>Appointed 18 June 2008.</p>
<p><b>Mr John Larum</b>            B. Com   <i>Independent Non-Executive Director</i></p>	<p>John has extensive experience in the financial services industry having held a range of senior positions including, President of China Business for UBS Global Asset Management, Chief Executive Officer of UBS Global Asset Management (Australia), and Chief Economist for UBS Warburg (Australia). Prior to joining UBS, he spent more than a decade with the Federal Treasury in Canberra, where he rose to the position of Assistant Secretary, Domestic Economy Branch, Economic Division. John holds a Bachelor of Commerce (Econometrics) from the University of New South Wales and a Master of Economics from the Australian National University.</p> <p><i>Member of Audit and Risk Committee and Member of Remuneration Committee.</i></p> <p>Appointed 12 December 2008.</p>

# DIRECTORS' REPORT (continued)

## 1. DIRECTORS (continued)

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p><b>Mr Brett Howard</b> B.Com (UNSW)</p> <p><i>Former - Chairperson Independent Non-Executive Director</i></p> <p><i>(Resigned – 31 March 2009)</i></p>	<p>Brett has worked in finance, property and funds management. He has had extensive experience in the establishment, marketing and management of unit trusts with authorised investments in property, shares and interest bearing securities. Brett was the founder of the Howard Mortgage Trust which has been one of Australia's largest mortgage trusts and is now managed by Challenger. Brett was a Director of Challenger Funds Management Limited and he was the Managing Director of the listed company, Howard Financial Holdings Limited, prior to it merging with Challenger in 1998. He was also a Director of Goldlink Income Plus Limited from April 2006 to November 2007. Brett has also served on the Boards of companies engaged in commercial finance and structured project finance.</p> <p><i>Former Chairperson of Nomination Committee, Chairperson of Remuneration Committee, Member of Audit and Risk Committee.</i></p> <p>Appointed on 15 March 2006 and resigned on 31 March 2009.</p>
<p><b>Mr Robert Fraser</b> B Ec LLB (Hons) (Syd)</p> <p><i>Former - Independent Non-Executive Director</i></p> <p><i>(Resigned – 24 November 2008)</i></p>	<p>Robert joined the Board of HFA in December 2007 with a 20 year career as an investment banker. He was initially with a major merchant bank, Wardley James Capel (Hong Kong Bank of Australia) and subsequently became a Director of the boutique advisory firm, Beerworth &amp; Partners Limited. He is presently the Managing Director of TC Corporate Pty Limited which he established in 1997. TC Corporate is the corporate advisory division of Taylor Collison Limited stockbrokers of which he is also a Director and principal. Robert has a wide range of corporate advisory experience, specialising in takeovers and mergers, acquisitions and divestments, capital management and investor relations for emerging growth companies. He is also presently and has been since February 2004 and June 2004 respectively a non-executive Director of ARB Corporation Limited and Crane Group Limited. He was a non-executive Director of Concept Hire Limited from September 2004 until the recommended takeover of that company in October 2007.</p> <p><i>Former Chairperson of Audit and Risk Committee, Member of Remuneration Committee, Member of Nomination Committee.</i></p> <p>Appointed on 14 December 2007 and resigned on 24 November 2008.</p>

## 2. COMPANY SECRETARIES

Mr Robert White (BBus) was appointed as joint company secretary on 15 February 2007. Robert has over 14 years experience in the financial services industry working within both the institutional and retail market segments in the UK, Europe and Australia. Robert is the Joint Managing Director of HFA Asset Management Limited, and is also the Chief Executive Officer and Executive Director of HFA Accelerator Plus Limited.

Ms Joanne Hill (BA LLB) was appointed to the position of joint company secretary on 20 November 2008. Joanne is a qualified solicitor. Joanne has over ten years experience in the financial services sector and prior to joining HFA in 2007 held senior legal advisory positions in both ASX and NZX listed financial services companies.

Ms Amber Stoney (BCom (Hons) CA) was appointed to the position of company secretary on 15 March 2005. Amber previously worked for KPMG specialising in providing assurance and advisory services to the funds management industry, particularly in relation to accounting, operational and regulatory compliance issues.

Ms Amber Stoney resigned as company secretary on 20 November 2008.

# DIRECTORS' REPORT (continued)

## 3. DIRECTORS' INTERESTS

The relevant interest of each Director in the ordinary share capital of the Company at the date of this report is as follows:

	<b>Number of Ordinary shares</b>
Mr Spencer Young <sup>1</sup>	<b>25,516,951</b>
Mr Sean McGould <sup>2</sup>	<b>77,752,335</b>
Mr F P (Andy) Esteban	<b>8,354</b>
Mr John Larum	<b>NIL</b>

<sup>1</sup> Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust

<sup>2</sup> 77,744,335 shares held indirectly by SGM Holdings, LLC

## 4. DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

<b>Director</b>	<b>Board Meetings</b>		<b>Remuneration Committee Meetings</b>		<b>Audit and Risk Committee Meetings</b>	
	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
S Young	<b>16</b>	<b>17</b>	-	-	-	-
S McGould	<b>12</b>	<b>17</b>	-	-	-	-
A Esteban	<b>16</b>	<b>17</b>	5	5	<b>5</b>	<b>5</b>
J Larum	<b>10</b>	<b>10</b>	2	2	<b>4</b>	<b>4</b>
*B Howard	<b>14</b>	<b>15</b>	4	4	<b>4</b>	<b>4</b>
*R Fraser	<b>6</b>	<b>6</b>	3	3	<b>1</b>	<b>1</b>

**A** – Number of meetings attended

**B** – Number of meetings held during the time the Director held office and was eligible to attend during the year

During the financial year ending 30 June 2009, the Board had responsibility for the performance of the functions of the nomination committee and no separate nomination committee meetings were held.

\* B Howard resigned on 31 March 2009 and R Fraser resigned on 24 November 2008.

## 5. CORPORATE GOVERNANCE STATEMENT

The Board of Directors of HFA Holdings Limited ("the Company") is committed to implementing and maintaining a strong system of corporate governance over the Company and its subsidiaries ("the Group"). The Board recognises its responsibilities to stakeholders to maximise value whilst maintaining a robust risk and control framework.

The Company refers to the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("Governance Principles") when setting and reviewing its corporate governance system. This Corporate Governance Statement (the "Statement") outlines the main corporate governance principles and practices of the Company as at 19 August 2009. The Statement identifies where the Company is in compliance with the Governance Principles, and also explains any departures of the Company's principles and practices from the Governance Principles.

The Company's policies, charters and codes in relation to corporate governance are available on the Company's website.

### 5.1 BOARD OF DIRECTORS

#### Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the Company and its overall corporate governance, including:

- ensuring the integrity of risk management, internal control, legal compliance and management control systems;
- reviewing and approving corporate strategies, budgets, plans and policies developed by management and evaluating performance of the Group against those strategies and business plans in order to:
  - monitor the performance of functions delegated to senior management including the progress of major capital expenditure, capital management, acquisitions, divestitures and strategic commitments; and
  - assess the suitability of the Company's overall strategies, business plans and resource allocation;
- ensuring that effective audit, risk management and regulatory compliance programs are implemented to protect the Group's assets and shareholder value;
- reviewing and approving governance policies;

# DIRECTORS' REPORT (continued)

## 5.1 BOARD OF DIRECTORS (continued)

### Role of the Board (continued)

- oversight of corporate governance matters pertaining to board management;
- appointing and removing the Chief Executive Officer ("CEO");
- ratifying the appointment of the Chief Financial Officer ("CFO") and the Company Secretary;
- evaluating the performance of the CEO and senior management;
- reviewing board and executive succession planning;
- monitoring financial performance and business results (including the audit process) to understand at all times the financial position of the Group;
- oversight of the Company's continuous disclosure obligations including approving the Group's statutory accounts and Directors' Reports and the declarations of any dividends;
- reporting to shareholders and other stakeholders;
- capital management, including issues, calls on, forfeiture of shares, declaration of dividend and share buy backs;
- membership and role of board sub-committees;
- reviewing the performance of the Board and board committees; and
- implementing a culture of compliance with the highest legal and ethical standards and business practices.

The Board has delegated to the CEO and, under the CEO's leadership, executive management, the powers and authority necessary to implement the strategies approved by the Board and to manage the day to day business affairs of the Company. The CEO is required to consult the Board on matters that are sensitive, extraordinary, of a strategic nature or are otherwise outside the CEO's delegated authority limits as specified by the Board from time to time.

At the time of their appointment, non-executive Directors receive a formal letter of appointment which sets out the key terms and conditions of their appointment, including expectations of attendance and preparation for all board meetings, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice. The roles and responsibilities of the CEO and CFO are formally outlined.

Details of the Board's charter are located on the Company's website ([www.hfaholdings.com.au](http://www.hfaholdings.com.au)).

### Membership of the Board

The composition of the Board is determined using the following principles:

- a minimum of four Directors, with a broad range of expertise;
- a maximum of nine Directors;
- a majority of non-executive Directors; and
- a non-executive independent Director is appointed as Chairperson.

The table below summarises the composition of the Board as at 19 August 2009:

<b>Name</b>	<b>Position</b>	<b>Independent</b>	<b>First appointed</b>
Spencer Young	<b>Chairperson, CEO and Executive Director</b>	No	<b>May 2003</b>
Sean McGould	<b>Executive Director</b>	No	<b>January 2008</b>
F P (Andy) Esteban	<b>Non-Executive Director</b>	Yes	<b>June 2008</b>
John Larum	<b>Non-Executive Director</b>	Yes	<b>December 2008</b>

Due to the resignation of Directors during the year, the majority of the board were not independent as at 19 August 2009. Further, following the resignation of the previous Chairman of the Board on 31 March 2009, the roles of Chairperson and CEO are currently being exercised by the same person. Accordingly, the Company was not in compliance with ASX Corporate Governance Principle 2.1, 2.2 and 2.3 throughout the entire financial year. The Board is seeking to appoint an additional independent Director, and subsequently to appoint a Chairman from its independent Directors, in the coming year.

# DIRECTORS' REPORT (continued)

## 5.1 BOARD OF DIRECTORS (continued)

### Director independence

An independent Director is a Director who is not a member of management (a non-executive Director), is free of any business or other relationships that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment, and who:

- is not a substantial shareholder of the Company and holds less than five per cent of the voting securities of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a holder of more than ten per cent of the Company's voting securities;
- has not within the last three years been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material professional advisor or a material consultant to the Company or another group member;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;
- has no material contractual relationship with the Company or another group member other than as a Director of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interest of the Company.

### Independent professional advice and access to Company information

Each Director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified advisor at the Group's expense. The Director must consult with an advisor suitably qualified in the relevant field, and obtain the Chairperson's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is to be made available to all other members of the Board.

### Director and executive education

The Group educates new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Group concerning performance of Directors. Directors are encouraged to interact with management to gain a better understanding of business operations, and are encouraged to undertake continuing education in relation to the Group and the industry in which it operates to update and enhance their skills and knowledge.

### Board processes

To assist in the execution of its responsibilities, the Board has provided for the establishment of a number of board committees including a Nomination Committee, a Remuneration Committee, and an Audit and Risk Committee. Committees have a written charter which outlines the duties and responsibilities of the committee and which is reviewed on a regular basis. The Board has also established a framework for management of the Group including a system of internal control, a business risk management process and the establishment of appropriate ethical standards and codes of conduct.

The framework includes:

- internal controls (for example: dual signatories, reconciliations, and segregation of duties);
- business risk management process (risk register, compliance plan for operation of managed investment schemes, staff trading policies, and employee manual); and
- ethical standards and codes of conduct (Director code of conduct, employee code of conduct, and employee manual).

The Board meets approximately every two months, with additional meetings held as required to address specific issues. The agenda for meetings is prepared in conjunction with the CEO, CFO and company secretary to ensure adequate coverage of strategic, financial, governance and compliance matters. Submissions are circulated in advance of the meetings. Senior executives are invited to attend board meetings and are available for contact by non-executive Directors between meetings. The Directors may have closed sessions without any executive involvement during meetings at their discretion.

## 5.2 NOMINATION COMMITTEE

The nomination committee charter requires that the nomination committee be comprised of three non-executive Directors, the majority of which must be independent.

The nomination committee is to advise the Board on matters relating to the composition and performance of the Board. Board candidates must stand for election at the next general meeting of shareholders. The nomination committee is also responsible for making recommendations regarding the appointment and removal of Directors, having regard to an appropriate mix of skill sets and expertise. The nomination committee also reviews performance of the Board, committees and key executives, reviews board succession plans, as well as overseeing the induction process for new Directors and committee members.

The nomination committee's nomination of existing Directors for re-appointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future requirements of the Board. The nomination committee submits recommendations to the Board, which votes on them.

# DIRECTORS' REPORT (continued)

## 5.2 NOMINATION COMMITTEE (continued)

The Company does not currently comply with ASX Corporate Governance Principle 2.4 and the functions of the nomination committee are being undertaken by the Board which the Company considers appropriate at this time given the small size of the Board. Further, given that two of the four Directors had been members of the Board for less than thirteen months, a performance evaluation of the Board (including its committees and individual members) did not take place during the year ended 30 June 2009. However, performance evaluations were undertaken for the Company's senior executives in accordance with the processes established under the nomination committee charter.

Under its charter, the nomination committee meets bi-annually unless otherwise required. As the functions of the nomination committee were undertaken by the Board for the year ended 30 June 2009, separate meetings of the committee were not held.

Further details of the nomination committee's charter and policies, including those for appointing Directors and senior executives, are available on the Company's website.

## 5.3 REMUNERATION COMMITTEE

The remuneration committee's duties and responsibilities are outlined in the remuneration committee charter. The remuneration committee charter requires that the remuneration committee be comprised of three non-executive Directors, the majority of which must be independent.

The remuneration committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and Directors of the Company and of other executives of the Group.

It is also responsible for reviewing and making recommendations in relation to share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

The remuneration committee comprises the following members, all of whom are non-executive Directors:

- John Larum - Independent non-executive Director; and
- F P (Andy) Esteban - Independent non-executive Director.

The Remuneration Committee currently comprises only two members and as such does not comply with ASX Corporate Governance Principle 8.1. It is intended that a third member will be appointed to the remuneration committee upon the appointment of an additional non-executive Director.

The CEO is invited to remuneration committee meetings, as required, to discuss senior executives' performance and remuneration packages but does not attend meetings involving matters pertaining to him.

The remuneration committee meets bi-annually and otherwise as required. The frequency of meetings and the attendance record of committee members are disclosed in the Directors' Report. A summary of the remuneration committee's charter is available on the Company's website.

## Remuneration policies

Compensation levels for key management personnel, secretaries of the Company and relevant key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and executives.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of key management personnel;
- key management personnel's ability to control the relevant performance;
- the Group's performance; and
- the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed compensation plus performance linked compensation which includes a short term incentive (STI) and a long term incentive (LTI). Details of STI and LTI arrangements are detailed in the Remuneration Report in the Directors' Report.

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. Executive compensation levels are reviewed annually by the remuneration committee through a process that considers individual and overall performance of the Group. A senior executive's compensation is also reviewed on promotion.

### Non-executive Director remuneration

Non-executive Directors receive Director fees. The aggregate of non-executive Director fees is capped at a maximum of \$750,000 per annum, as approved by shareholders at the annual general meeting held on 14 December 2007. Non-executive Directors are not entitled to participate in executive remuneration schemes, may not receive options or bonus payments, and are not provided with retirement benefits other than statutory superannuation entitlements.

Executive and non-executive Directors may be reimbursed for their reasonable expenses properly incurred as Directors.

Details of the remuneration of non-executive Directors and key personnel are included in the Remuneration Report in the Directors' Report.

# DIRECTORS' REPORT (continued)

## 5.4 AUDIT AND RISK COMMITTEE

The Audit and Risk Committee has a documented charter approved by the Board. The Audit and Risk Committee's charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

The committee members' comprise a minimum of three non-executive Directors, with a majority being independent. The Chairperson may not be the Chairperson of the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Consolidated Entity.

The members of the Audit and Risk Committee as at 19 August 2009 are:

- F P (Andy) Esteban (Chairperson) – Independent Non-Executive Director, appointed 22 July 2008; and
- John Larum – Independent Non-Executive Director, appointed 12 December 2008.

A summary of Director qualifications and attendance at Audit and Risk Committee meetings is provided in the Directors' Report on pages 4-6.

Robert Fraser and Brett Howard resigned as Directors of the Company in November 2008 and March 2009 respectively. Both of these non-executive Directors were members of the Audit and Risk Committee, and consequently upon their resignation, the membership of the Audit and Risk Committee was not in compliance with the requirements of the Audit and Risk Committee charter or ASX Corporate Governance Principle 4.2. John Larum was appointed to the committee in December 2008, however with the resignation of Brett Howard in March 2009, the Audit and Risk Committee currently operates with only two members, both of whom are independent non-executive Directors. It is intended that a third member will be appointed to the audit and risk committee upon the appointment of an additional non-executive Director.

At the discretion of the Audit and Risk Committee, the external auditor and other members of the Board and management will be invited to Audit and Risk Committee meetings.

The CEO and the CFO declare in writing to the Board on an annual basis that the financial records of the Company for the financial year have been properly maintained and that the Company's financial reports for the financial year comply with accounting standards and present a true and fair view of the Group's financial condition and operational results.

The role of the Committee is to assist the Board in discharging its oversight responsibilities in relation to audit and financial reporting matters. Responsibilities include:

- overseeing the financial reporting process to ensure the balance, transparency and integrity of published financial reports, including;
  - reviewing the annual, half year and concise financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure the compliance with Australian Accounting Standards (AASBs), and assessing whether the financial information is consistent with committee members' information and adequate for shareholders' needs;
  - assessing management's procedures surrounding the financial reporting process;
  - considering the results of the audit, including recommendations submitted by the external auditor and management's responses; and
  - making recommendations to the Board regarding same;
- reviewing the effectiveness of internal controls relevant to the financial reporting function;
- reviewing the independence of the external auditors and audit process, including:
  - making recommendations regarding the appointment / removal of the external auditor and rotation of the external audit partner;
  - assessing the performance of the external auditor; and
  - reviewing non-audit services provided by the external auditor and compliance with the Company's External Auditor Policy;
- reviewing the Company's processes for monitoring compliance with laws and regulations affecting financial reporting; and
- considering and reporting to the Board on any such other matters as the Board may refer to the Committee from time to time.

The Audit and Risk Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the audit plans, identify any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half-year and preliminary final report prior to lodgement with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half-year financial reports, and recommend Board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

# DIRECTORS' REPORT (continued)

## 5.4 AUDIT AND RISK COMMITTEE (continued)

### External auditors

The Company has engaged KPMG as its external auditors. The external auditor must remain independent of the Group at all times and comply with APES 110 Code of Ethics for Professional Accountants pertaining to financial independence and business relationships. In addition, the external auditor must not provide non-audit services that could be considered to impair the auditor's independence whether in fact or on a perception basis.

The lead audit engagement partner should be rotated after a period of no longer than five years and cannot resume the role until at least two years have elapsed. An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 30 of the financial statements.

## 5.5 RISK MANAGEMENT

### Oversight of the risk management system

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented a risk management system for assessing, monitoring and managing all risks, including material business risks, for the Group. A summary of these procedures is contained on the Company's website. The CEO and the CFO have provided assurance, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. The operational and other risk management compliance and controls have also been assessed, found to be operating effectively and the same reported by management to the Board. All risk assessments cover the entire financial year and the period up to the signing of the annual financial report for all material operations in the Group.

### Risk profile

The Group's risk management policies and procedures are aimed at ensuring risks are identified, assessed and appropriately managed. The Board reviews the status of the Group's risk profile at least annually. Risk reporting includes the status of risks through integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed.

Each business unit is responsible and accountable for implementing and managing the standards required.

Material business risks for the Company may arise from such matters as product investment performance, interest rate and exchange rate movements, actions by competitors, counterparty risk, systems risk, government policy changes, financial reporting, and the purchase, development and application of information technology systems.

### Risk management and compliance and controls

The Group strives to ensure that its investment products are of the highest standard. The Board is responsible for the overall internal control framework, but recognises that no cost-effective internal control system will preclude all errors and irregularities. The Board's policy on internal control comprises the Company's internal compliance and control systems, including:

- *Operating unit controls* – Operating units confirm compliance with financial controls and procedures including information systems controls.
- *Functional speciality reporting* – Key areas subject to regular reporting to the Board include Finance, Operations, Regulatory and Compliance matters.
- *Investment appraisal* – Guidelines for capital expenditure include annual budgets, detailed appraisal and review procedures, levels of authority, and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- compliance with financial services regulation;
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to interest rate management, foreign exchange rate management and credit risk management are included in notes 5 and 27 of the financial statements;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Given the size and nature of the Group, the Board does not consider it necessary to establish an internal audit function. The Group has a number of alternative policies in place in relation to independent oversight of compliance with financial services legislation, such as the establishment of an External Compliance Committee for each registered scheme operated under its financial services licence.

### Quality and integrity of personnel

Written confirmation of compliance with policies is obtained from all operating units. Performance appraisals are conducted at least annually for all employees. Training and development and appropriate remuneration and incentives with regular performance reviews create an environment of cooperation and constructive dialogue with employees and senior management.

### Financial reporting

The CEO and the CFO have provided assurance in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets approved by the Directors and revised forecasts for the year are prepared regularly.

# DIRECTORS' REPORT (continued)

## 5.5 RISK MANAGEMENT (continued)

### Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Australian or United States legislation. However, the Board believes that the Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the Group.

## 5.6 ETHICAL STANDARDS

All Directors, managers and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment. The Director code of conduct and employee code of conduct is reviewed annually and processes are in place to promote and communicate these policies.

### Conflict of interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned may only be present when the item is being considered at the Board's discretion. Details of Director related entity transactions with the Company and Group are set out in note 31 to the financial statements.

### Code of conduct

The Group has advised each Director, manager and employee that they must comply with the Code of Conduct and Employee Manual. The Code of Conduct and Employee Manual covers the following:

- aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies, practices and disclosure;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of service, and safety;
- employment practices such as occupational health and safety, employment opportunity, training and educational support, community activities, sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;

- compliance with legislation;
- managing actual or potential conflicts of interest;
- corporate opportunities such as preventing Directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets; and
- reporting of unlawful or unethical behaviour and breaches of the Code of Conduct.

A summary of the Code of Conduct is included on the Company's website.

### Trading in general Company securities by Directors and employees

The key elements of the Trading Policy are:

- identification of the designated officers to whom the policy applies, which includes all Directors and all staff;
- prohibition of designated officers from trading in Company securities:
  - except during the four week period commencing the first business day after the announcement of half-yearly and annual results to the Australian Stock Exchange ('ASX'), or the Annual General Meeting;
  - except during periods outside the above mentioned trading window, where approval has been granted by the Board or the Board's delegate; and
  - whilst in possession of price sensitive information not yet released to the market.
- raising the awareness of legal prohibitions including transactions with colleagues and external advisors;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade;
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship;
- a prohibition on entry into transactions or arrangements designed to limit the economic risk of security holdings in the Company over unvested entitlements.

The policy also details the insider trading provisions of the Corporations Act 2001 and is summarised on the Company's website.

# DIRECTORS' REPORT (continued)

## 5.7 COMMUNICATION WITH SHAREHOLDERS

The Board provides shareholders and the broader public with information in accordance with its Continuous Disclosure Policy and its Shareholder Communication Policy. A summary of each policy is contained on the Company's website.

### Continuous disclosure

The Continuous Disclosure Policy outlines how the Company identifies matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

The CEO is responsible for ensuring HFA complies with continuous disclosure requirements, whilst the Company Secretary oversees and monitors disclosure of information to the ASX, analysts, brokers, shareholders, investors, the media and the public.

Any matters requiring disclosure are advised to the ASX on the day they are discovered, and all staff must follow the Continuous Disclosure process, which involves monitoring all areas of the Group's internal and external environment.

### Shareholder communication

The Company shareholder communication platform consists of:

- the Company's Continuous Disclosure policy which is designed to facilitate compliance with continuous disclosure obligations imposed under the Corporations Act 2001 and ASX Listing Rules;
- the Company's website which contains relevant information about the Company activities and corporate governance framework;
- participation by shareholders at the Company's general meetings, to ensure a high level of accountability and identification with the Group's strategy and goals;
- attendance by the Company's auditor at the Company's Annual General Meeting to answer shareholder queries regarding the conduct of the audit and the preparation and content of the auditor's report; and
- the use of electronic technology where appropriate to facilitate greater effectiveness of corporate communication.

Information is made available on the Company's website within one day of public release. Important issues are presented to shareholders at general meetings as single resolutions. In particular, shareholders are requested to vote on the election and re-election of Directors, the aggregate remuneration of non-executive Directors, the granting of options and shares to Directors, the Remuneration Report and changes to the Constitution.

Copies of the Constitution are available to any shareholder upon request.

## 5.8 REMUNERATION REPORT - AUDITED

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the Corporations Act 2001 for the Company and the Group for the year ended 30 June 2009.

The Company's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. Details of the Company's remuneration strategy for the 2009 financial year are set out in this Remuneration Report. The Remuneration Report forms part of the Directors' Report.

### 5.8.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Group, including Directors of the Company and other executives. Key management personnel comprise the Directors of the Company and executives for the Company and the Group including the five most highly remunerated Company and Group executives.

Compensation levels for key management personnel and secretaries of the Company and relevant key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced Directors and executives. External remuneration benchmarks and surveys are considered when setting compensation levels.

The compensation structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The compensation structures take into account:

- the capability and experience of the key management personnel;
- the key management personnel's ability to control the relevant division / segment's performance;
- the Group's performance and achievement of KPIs; and
- the amount of incentives within each key management person's compensation.

Compensation packages include a mix of fixed compensation plus performance linked compensation (which includes a short term incentive (STI) and a long term incentive (LTI)).

The overall objective of this remuneration strategy is to support the overall business strategy of the Group by attracting, retaining and rewarding quality executive employees and staff, with a view to aligning employee and shareholder goals.

#### Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any Fringe Benefits Tax charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds and retirement plans. Executive compensation levels are reviewed annually by the Remuneration Committee through a process that considers individual and overall performance of the Group. A senior executive's compensation is also reviewed on promotion.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.1 Principles of compensation - audited (continued)

#### Short Term Incentives (STI)

STIs are paid to senior executives and employees in the form of an annual cash bonus. The aim of the arrangements in place across the Group is to recognise the contributions and achievements of individuals. Performance measures generally include measures relating to the Group and the individual, and include financial, people, client service, strategy and risk measures as appropriate. The measures are chosen as they directly align the individual's reward to the success of the Group and to its strategy and performance.

Staff in the Australian distribution division are eligible for an STI based on a "Sales Incentive Scheme", which determines the cash bonus as a function of net funds raised by each individual over a pre-determined minimum threshold. Other Australian staff and executives are entitled to a discretionary STI bonus, determined after taking into account their achievement of performance measures.

Employees of Lighthouse Investment Partners, LLC are entitled to participate in a STI bonus pool which is determined as up to 20% of earnings before interest, tax, depreciation and amortisation (EBITDA) of Lighthouse Investment Partners, LLC. Allocation of the STI bonus pool is recommended by senior management of Lighthouse based on achievement of performance measures.

STI bonuses allocated to senior executives are reviewed and approved by the Remuneration Committee. The Remuneration Committee exercises discretion when approving STI bonuses to senior executives, by taking into account qualitative assessments of an individual's performance during the previous year as well as achievement of tangible performance indicators.

#### Long term incentives (LTI)

The Company has established LTI plans to assist in the attraction, retention and motivation of employees and key management personnel. The plans provide long term incentives for employees and management to contribute to the long term profitability and share price growth of the Group through a direct growth in the value of their shareholdings and future dividend streams.

#### Incentive Plan – Shares at IPO

An employee offer was made at the time HFA listed on the Australian Securities Exchange, comprising the issue of new shares by the Company for nil consideration. The grant date of the shares under the employee offer was 1 May 2006. Shares issued under the offer were restricted from being sold or transferred, until the earlier of three years from the admission date and the date on which the employee is no longer employed by the Group. This offer comprised a once-off grant of shares which were released from escrow arrangements on 1 May 2009.

#### 2008 Employee Performance Rights Plan

An offer of rights to issued shares in the Company was made to employees of the HFA Australian business on 12 March 2008.

The Board approved the allocation of 3,955,000 performance rights to employees.

No consideration is payable by employees upon the issue of performance rights or in respect of the shares to be issued upon the exercise of the performance rights. Vesting conditions must be satisfied for the performance rights to be exercised.

Vesting of the performance rights is in tranches of 25%, 35% and 40% with respective vesting dates of 31 December 2008, 31 December 2009 and 31 December 2010. Vesting conditions include being employed by the Group at relevant vesting dates and meeting performance hurdles for HFA's Australian business relating to assets under management, base revenue (excluding performance fees) and EBITDA.

The HFA Holdings Board retains the ability to permit vesting in circumstances where hurdle thresholds are not met but commercial circumstances warrant limited or full vesting.

Allocations under the performance rights plan were approved by the Board based on recommendations from the CEO, with seniority in the organisation and potential to contribute to the future success of the Group forming the basis of these recommendations.

Tranche 1 of the performance plan vested at 31 December 2008, with 100% of the shares (901,250 shares) available under the tranche for eligible employees being issued at the discretion of the Board. The total non-cash expense recognised by the Group for the year ended 30 June 2009 totalled \$218,977.

#### Lighthouse Investment Partners Incentive Compensation Plan

An incentive plan for employees of Lighthouse Investment Partners, LLC was established by SGM Holdings, LLC on 1 July 2008. SGM Holdings, LLC is a related entity of Sean McGould and is not part of the HFA Holdings Limited Group. Grants made under the plan are funded by SGM Holdings, LLC not the HFA Holdings Limited Group. However, as SGM Holdings, LLC is a shareholder of HFA Holdings Limited, accounting standards require that the Group recognise an expense associated with the shares granted under the plan with a corresponding increase in the Group's equity to recognise the contribution by SGM Holdings, LLC as a shareholder.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.1 Principles of compensation - audited (continued)

#### Long term incentives (LTI) (continued)

The incentive plan grants participants an opportunity to earn a payment of cash or participate in a offering of ordinary shares of HFA Holdings Limited. The vesting of the incentive plan is in three equal tranches with vesting dates of 1 January 2009, 1 January 2010 and 1 January 2011 provided the employee remains employed at vesting date. There are no other vesting conditions or performance hurdles.

100% of the shares available under the plan were issued to eligible employees during the year ended 30 June 2009 (9,904,925 shares), with the total non-cash expense recognised by the Group totalling \$12,177,025.

No consideration is payable by employees in relation to the grant of the shares of HFA Holdings Limited.

SGM Holdings, LLC has full discretion in relation to the allocation of entitlements and vesting conditions under the plan.

The performance-linked component of compensation to key management personnel for the 2009 financial year is approximately 50 per cent (2008: 52 percent).

#### Consequences of performance on shareholders' wealth

The overall level of key management personnel's compensation takes into account the performance of the Group over a number of years. In considering the Group's performance and benefits for shareholders' wealth, the Remuneration Committee have regard to the following indicators:

	2009 \$ 000's	2008 \$ 000's	2007 \$ 000's
Net profit / (loss) attributable to equity holders of the parent	<b>(573,184)</b>	35,170	<b>20,279</b>
Dividends paid	<b>16,085</b>	14,895	<b>8,274</b>
Dividends per share (cents)	<b>3.5</b>	6.1	<b>4.1</b>
Change in share price (cents)	<b>(0.98)</b>	(1.39)	<b>0.86</b>

#### Other benefits

The Group does not currently pay any other benefits, either cash or non-cash to Directors or key management personnel of the Company.

#### Service contracts

The Group has entered into employment contracts with each executive Director and key management personnel. The employment contract outlines the components of compensation paid but does not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed and any changes required to meet the principles of the compensation policy.

*Spencer Young, Chief Executive Officer, HFA Holdings Limited.* The Company is currently negotiating a service agreement with Spencer Young (Chief Executive Officer).

*Sean McGould, President, Chief Investment Officer Lighthouse Investment Partners* entered into a service agreement on 1 January 2006. The agreement specifies the duties and obligations to be fulfilled. The service agreement is for a term of four years and thereafter shall automatically be extended for one year terms unless either the Group or the employee gives not less than sixty days notice of its intention not to extend the agreement.

The Group may terminate the service agreement at any time for gross negligence or wilful misconduct. The employee may terminate the service agreement at any time by giving sixty days notice. In these circumstances there is no entitlement to a termination payment.

The employee may terminate the agreement at any time if the Group fails to comply in any material respect with the terms of the agreement, there is a material reduction in the compensation opportunities, there is a material and unconsented change to responsibilities, or the employee involuntarily ceases to be a member of the Board of Directors of HFA Holdings Limited for any reason other than cause. In these circumstances a severance payment of six months salary will be made. In addition a payment of US \$1,000,000 multiplied by the number of days since the fiscal year ending before termination divided by 365 will be made in lieu of any unpaid bonus.

The Group may terminate the agreement for any reason other than gross negligence or wilful misconduct at any time by giving not less than sixty days notice. In this circumstance a severance payment of eight months salary will be made. In addition a payment of US \$1,000,000 multiplied by the number of days since the fiscal year ending before termination divided by 365 will be made in lieu of any unpaid bonus.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.1 Principles of compensation - audited (continued)

#### Service contracts (continued)

*Scott Perkins, Director of Investor Relations, Lighthouse Investment Partners* entered into a service agreement on 1 January 2006. The agreement specifies the duties and obligations to be fulfilled. The service agreement is for a term of four years and thereafter shall automatically be extended for one year terms unless either the Group or the employee gives not less than sixty days notice of its intention not to extend the agreement.

The Group may terminate the service agreement at any time for gross negligence or wilful misconduct. The employee may terminate the service agreement at any time by giving sixty days notice. In these circumstances there is no entitlement to a termination payment.

The employee may terminate the agreement at any time if the Group fails to comply in any material respect with the terms of the agreement, there is a material reduction in the compensation opportunities, there is a material and unconsented change to responsibilities, or Sean McGould involuntarily ceases to be a member of the Board of Directors of HFA Holdings Limited for any reason other than cause. In these circumstances a severance payment of six months salary will be made. In addition the employee is entitled to a pro-rata portion of the semi-annual discretionary bonus, as determined by Sean McGould or such other person so delegated by Sean McGould or his successor.

The Group may terminate the agreement for any reason other than gross negligence or wilful misconduct at any time by giving not less than sixty days notice. In this circumstance a severance payment of eight months salary will be made. In addition the employee is entitled to a pro-rata portion of the semi-annual discretionary bonus, as determined by Sean McGould or such other person so delegated by Sean McGould or his successor.

*Kelly Perkins Co-Chief Investment Officer, Lighthouse Investment Partners* entered into a service agreement on 1 January 2008. The agreement specifies the duties and obligations to be fulfilled. The service agreement is for a non-fixed term.

The employee or the Group may terminate the service agreement at any time and for any reason or no reason, with or without cause. The employee must give sixty days notice of termination. Upon termination the employee is entitled to a pro-rata portion of the semi-annual compensation. The semi-annual compensation is calculated as 1.25% of the gross revenue of Lighthouse Investment Partners, LLC.

*Robert Swan, Chief Operating Officer, Lighthouse Investment Partners* entered into a service agreement on 1 January 2008. The agreement specifies the duties and obligations to be fulfilled. The service agreement is for a non-fixed term.

The employee or the Group may terminate the service agreement at any time and for any reason or no reason, with or without cause. The employee must give sixty days notice of termination. Upon termination the employee is entitled to a pro-rata portion of the semi-annual compensation. The semi-annual compensation is calculated as 1.0% of the gross revenue of Lighthouse Investment Partners, LLC.

The following key management personnel are engaged pursuant to an executive services agreement:

- *Oscar Martinis, Joint Managing Director of HFA Asset Management Limited (agreement dated 21 November 2008)*
- *Robert White, Company Secretary of HFA Holdings Limited and Joint Managing Director of HFA Asset Management Limited (agreement dated 21 November 2008)*
- *Amber Stoney, Chief Financial Officer, HFA Holdings Limited (agreement dated 21 November 2008)*

The agreement specifies the duties and obligations to be fulfilled.

The Group may terminate the agreement at any time, without notice for a number of reasons including bankruptcy, gross negligence or wilful and serious misconduct. In these circumstances there is no entitlement to a termination payment. The employee may terminate the agreement at any time by giving 6 months notice and the Group may terminate the agreement at any time by the giving of 6 months notice or payment in lieu.

#### Non-executive Directors

The aggregate compensation for all non-executive Directors, last voted upon by shareholders, is not to exceed \$750,000 per annum and is determined with reference to external benchmarks, surveys and fees paid to other non-executive Directors of comparable companies. Actual compensation for non-executive Directors for the financial year ended 30 June 2009 was \$260,894 (2008: \$274,244).

Non-executive Director's compensation is \$80,000 plus superannuation per annum. The Chairperson receives an additional fee commensurate with experience.

Directors' fees cover all main Board activities and membership of any committee. Non-executive Directors do not receive any performance related remuneration.

Directors are entitled to be paid all travelling and other expenses they incur in attending to the Company's affairs, including general meetings.

Non-executive Directors are not entitled to any benefits or payments on retirement from office.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.2 Directors' and executive officers' remuneration (Company and Consolidated) - audited

Details of the nature and amount of each major element of remuneration of each Director of the Company and each of the eight named Company executives and relevant Group executives who receive the highest remuneration are:

Directors		Short-term Salary & fees \$	Short-term STI cash bonus \$	Short-term Total \$	Post-employment Super-annuation & retirement plan contributions \$	Termination Benefits	Share-based payments Shares & performance rights \$	Total \$	S300A (1)(e)(i) Proportion of remuneration based	S300A (1)(e)(vi) Value of shares as a % of remuneration
<b>Non-executive</b>										
Mr F P (Andy) Esteban (appointed 18 June 2008)	2009	80,000	-	80,000	7,200	-	-	87,200	-	-
	2008	3,000	-	3,000	270	-	-	3,270	-	-
Mr John Larum (appointed 12 December 2008)	2009	42,769	-	42,769	3,849	-	-	46,618	-	-
	2008	-	-	-	-	-	-	-	-	-
Mr Brett Howard (Chairperson) (resigned 31 March 2009)	2009	80,250	-	80,250	7,222	-	-	87,472	-	-
	2008	107,000	-	107,000	9,630	-	-	116,630	-	-
Mr Robert Fraser (appointed 14 December 2007, resigned 24 November 2008)	2009	36,333	-	36,333	3,270	-	-	39,603	-	-
	2008	46,987	-	46,987	4,229	-	-	51,216	-	-
Mr Michael King <sup>1</sup> (resigned 4 January 2008)	2009	-	-	-	-	-	-	-	-	-
	2008	-	-	-	-	-	-	-	-	-
Mr Spencer Young <sup>2</sup> (non-executive Director 13 April 2007 – 18 September 2007)	2009	-	-	-	-	-	-	-	-	-
	2008	56,251	-	56,251	3,277	-	-	59,528	-	-
<b>Executive</b>										
Mr Spencer Young <sup>2</sup> Chief Executive Officer	2009	286,871	-	286,871	13,745	-	-	300,616	-	-
	2008	249,429	250,000	499,429	9,852	-	-	509,281	49%	-
Mr Sean McGould (appointed 3 January 2008)	2009	335,300	-	335,300	20,118	-	-	355,418	-	-
	2008	135,131	-	135,131	8,108	-	-	143,239	-	-

<sup>1</sup> Michael King elected not to receive non-executive Director fees due to being a nominee of a shareholder.

<sup>2</sup> Spencer Young became a non-executive Director on 13 April 2007 and received fees during the period 13 April 2007 to 18 September 2007 in excess of standard non-executive Director fees per agreement. Spencer was reappointed an executive Director on 18 September 2007.

Insurance premiums in relation to Directors and officeholders have not been included in the disclosures above as there is no appropriate basis for allocation of premiums paid.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.2 Directors' and executive officers' remuneration (Company and Consolidated) - audited (continued)

Executives		Short-term Salary & fees \$	Short-term STI cash bonus \$	Short-term Total \$	Post-employment Super-annuation & retirement plan contributions \$	Termination Benefits	Share-based payments Shares & performance rights \$	Total \$	S300A (1)(e)(i) Proportion of remuneration performance based	S300A (1)(e)(vi) Value of shares as a % of remuneration
Mr Oscar Martinis <i>Joint Managing Director, HFA Asset Management</i>	2009	325,000	165,000	490,000	13,745	-	49,751	553,496	39%	9%
	2008	300,000	265,000	565,000	13,129	-	62,186	640,315	51%	10%
Mr Robert White <i>Joint Managing Director, HFA Asset Management</i>	2009	325,181	165,000	490,181	13,745	-	49,751	553,677	39%	9%
	2008	225,000	165,000	390,000	13,129	-	62,186	465,315	49%	13%
Mr Rodney Hughes <i>Chief Financial Officer</i> <i>(Appointed 14 January 2007, resigned 26 September 2008)</i>	2009	62,455	-	62,455	3,436	113,771	22,112	201,774	11%	11%
	2008	242,314	30,000	272,314	13,129	-	27,638	313,081	18%	9%
Ms Amber Stoney <i>Head of Operations, Chief Financial Officer (Appointed 26 September 2008<sup>1</sup>)</i>	2009	250,000	90,000	340,000	13,745	-	22,112	375,857	30%	6%
	2008	150,218	80,000	230,218	13,417	-	27,638	271,273	40%	10%
Mr Jonathan Pain <i>Chief Investment Strategist</i>	2009	395,833	280,000	675,833	13,745	-	27,640	717,218	43%	4%
	2008	350,000	195,000	545,000	13,129	-	34,548	592,677	39%	6%
Mr Scott Perkins <sup>2</sup> <i>Director, Investor Relations, Lighthouse</i>	2009	335,300	843,555	1,178,855	32,859	-	-	1,211,714	70%	-
	2008	135,131	478,369	613,500	8,108	-	-	621,608	77%	-
Mr Kelly Perkins <sup>2</sup> <i>Co-Chief Investment Officer, Lighthouse</i>	2009	335,300	1,054,445	1,389,745	34,536	-	-	1,424,281	74%	-
	2008	135,131	597,961	733,092	6,757	-	-	739,849	81%	-
Mr Robert Swan <sup>2</sup> <i>Chief Operating Officer, Lighthouse</i>	2009	335,300	843,555	1,178,855	32,859	-	-	1,211,714	70%	-
	2008	135,131	478,369	613,500	8,108	-	-	621,608	77%	-

<sup>1</sup> Ms Amber Stoney commenced a leave of absence on 15 May 2009. Her duties and responsibilities have been shared amongst other employees and members of Key Management Personnel.

<sup>2</sup> For the Lighthouse executives, 2008 represents the period from 3 January 2008 – 30 June 2008. 3 January 2008 being the acquisition date of the Lighthouse Group by HFA.

#### Notes in relation to the table of Directors' and executive officers' remuneration

The short-term incentive bonus is for performance during the respective financial year using the criteria set out on page 14.

Short-term incentives for the Lighthouse executives, excluding executive Directors, is calculated on a semi-annual basis as a % of the gross revenue of Lighthouse Investment Partners, LLC in accordance with their service contracts. This semi-annual bonus forms part of the Lighthouse STI bonus pool which is determined as up to 20% of EBITDA of Lighthouse Investment Partners, LLC.

The fair value of the performance rights issued during the year has been calculated using the Black-Scholes option pricing model adjusted for dividends and is expensed evenly over the period from grant date to vesting date. The value disclosed is the portion of fair value of the performance rights issued as compensation in the current reporting period.

#### Details of performance related remuneration - audited

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed at page 13.

# DIRECTORS' REPORT (continued)

## 5.8 REMUNERATION REPORT - AUDITED (continued)

### 5.8.3 Analysis of performance rights granted over equity instruments granted as compensation - audited

Details of the performance rights granted as remuneration to each key management person of the Group and each of the following named Company executives and Group executives are detailed below.

<b>Executives</b>	<b>Total number of rights granted</b>	<b>Grant date</b>	<b>Fair value at grant date \$</b>	<b>Expiry date</b>	<b>Financial year in which grant vests</b>	<b>Number of options vested during the financial year</b>
Mr Oscar Martinis	<b>112,500</b>	12/03/08	<b>0.9950</b>	31/12/09	<b>2009</b>	112,500
	<b>157,500</b>	12/03/08	<b>0.9196</b>	31/12/10	<b>2010</b>	
	<b>180,000</b>	12/03/08	<b>0.8499</b>	31/12/11	<b>2011</b>	
Mr Robert White	<b>112,500</b>	12/03/08	<b>0.9950</b>	31/12/09	<b>2009</b>	112,500
	<b>157,500</b>	12/03/08	<b>0.9196</b>	31/12/10	<b>2010</b>	
	<b>180,000</b>	12/03/08	<b>0.8499</b>	31/12/11	<b>2011</b>	
Mr Jonathan Pain	<b>62,500</b>	12/03/08	<b>0.9950</b>	31/12/09	<b>2009</b>	62,500
	<b>87,500</b>	12/03/08	<b>0.9196</b>	31/12/10	<b>2010</b>	
	<b>100,000</b>	12/03/08	<b>0.8499</b>	31/12/11	<b>2011</b>	
Mr Rodney Hughes	<b>50,000</b>	12/03/08	<b>0.9950</b>	31/12/09	<b>2009</b>	50,000
	<b>70,000</b>	12/03/08	<b>0.9196</b>	31/12/10	<b>2010</b>	
	<b>80,000</b>	12/03/08	<b>0.8499</b>	31/12/11	<b>2011</b>	
Ms Amber Stoney	<b>50,000</b>	12/03/08	<b>0.9950</b>	31/12/09	<b>2009</b>	50,000
	<b>70,000</b>	12/03/08	<b>0.9196</b>	31/12/10	<b>2010</b>	
	<b>80,000</b>	12/03/08	<b>0.8499</b>	31/12/11	<b>2011</b>	

In accordance with the terms of the performance plan, the Board exercised its discretion to vest 100% of the shares available under Tranche 1.

In accordance with the plan rules, Mr Rodney Hughes forfeited his right to tranche 2 and 3 of the performance plan upon his resignation.

No terms of performance rights granted have been altered or modified by the issuing entity during the reporting period or prior period. The rights were provided at no cost to the participants.

In addition to a continuing service condition, the right to receive shares is conditional on the Australian based operations achieving certain performance hurdles. Details of performance criteria are set out on page 14.

## 6. PRINCIPAL ACTIVITIES

The principal activities of the Group during the course of the financial year were the provision of absolute return fund products to investors globally via HFA Asset Management Limited and Lighthouse Investment Partners, LLC.

HFA Holdings Limited is a company limited by shares that is incorporated in Australia. A wholly owned subsidiary, HFA Asset Management Limited, acts as the Responsible Entity and Manager of schemes and other products in Australia. Another wholly owned subsidiary, HFA Lighthouse Holdings Corp is the parent entity of the US based Lighthouse Group ("Lighthouse"), which through Lighthouse Investment Partners, LLC acts as a global absolute return funds manager. Details of the Corporate Group are included at note 32 to the financial statements.

# DIRECTORS' REPORT (continued)

## 7. OPERATING AND FINANCIAL REVIEW

### Consolidated results

	2009 Actual \$000's	2008 Actual \$000's
Revenue	112,855	98,596
Investment management costs	(17,312)	(22,323)
<b>Operating income</b>	<b>95,543</b>	76,273
Foreign exchange gain/(loss) on operating activities	1,213	(91)
Operating expenses, net of other income	(44,108)	(26,024)
<b>Operating EBITDA (before equity settled transactions)</b>	<b>52,648</b>	50,158
Equity settled transaction expenses	(12,396)	(553)
Foreign exchange gain on derivative instrument	-	9,004
<b>Operating EBITDA (after equity settled transaction)</b>	<b>40,252</b>	58,609
Depreciation and amortisation	(14,949)	(6,926)
Impairment losses	(599,537)	-
Net interest income / (expenses)	(6,230)	(794)
<b>Profit/(loss) before income tax</b>	<b>(580,464)</b>	50,889
Income tax benefit / (expense)	7,280	(15,719)
<b>Net profit/(loss) after income tax</b>	<b>(573,184)</b>	35,170
<b>Basic EPS (cents)</b>	<b>(124.641)</b>	10.070

The Group recorded a consolidated loss after tax of \$573,184 thousand for the financial year ended 30 June 2009 (2008: consolidated profit after tax of \$35,170 thousand) which has been driven primarily by the impairment loss recognised in relation to the goodwill on acquisition of the Lighthouse Group of entities which occurred on 3 January 2008. Aside from this and other non-cash expense items recognised for the financial year ended 30 June 2009, the Group's operations have performed satisfactorily relative to the difficult economic climate, recording earnings before interest, tax, depreciation and amortisation and significant items<sup>1</sup> of \$52,648 thousand for the year ended 30 June 2009 (2008: \$50,158 thousand). The results reflect the contribution of the Lighthouse business for a full twelve months compared to six months in the prior period, offset by a reduction in management and performance fees received by the Group due to the factors noted above.

### Review of operations

HFA operates a specialist global funds management business providing absolute return fund products to investors with the aim of achieving consistent risk adjusted returns. In Australia, HFA provides absolute return products to retail, wholesale and institutional investors via the HFA Asset Management business.

The Lighthouse business has an investor base that spans the United States, Europe, Canada and Asia and includes high net worth individuals, family offices, endowments, foundations, trusts, investment banks, benefit plans, pension funds, healthcare and insurance companies.

The global financial crisis, particularly after the collapse of Lehman Brothers investment bank in September 2008, created one of the most difficult operating environments for fund managers in history. The severity and swiftness of the crisis, and the resultant distress in credit and global capital markets around the world meant that even absolute return funds were not immune to negative investment performance. The relative investment performance of the HFA Group's flagship funds held up well when compared to global market indices.

<sup>1</sup>Significant items for financial year ended 30 June 2009 refers to non-cash equity settled transactions and non-cash impairment losses. Significant items for the financial year ended 30 June 2008 refers to non-cash equity settled transactions and foreign currency gains on derivative instruments.

# DIRECTORS' REPORT (continued)

## 7. OPERATING AND FINANCIAL REVIEW (continued)

### Review of operations (continued)

#### Net income from operating activities

Net income from operating activities increased to \$95,543 thousand for the financial year ended 30 June 2009. This represents an increase of 25% over the 2008 financial year. The increase is due to the full year contribution from Lighthouse of \$70,210 thousand compared to \$39,255 thousand in the prior year as a result of the acquisition in January 2008, offset by a reduction in management fees and performance fees received by the HFA Asset Management business during the financial year.

#### Operating expenses

Operating expenses (excluding depreciation, amortisation and impairment costs) increased to \$44,108 thousand for the financial year ended 30 June 2009. This represents an increase of \$18,084 thousand when compared to the financial year ended 30 June 2008. This increase is largely due to the inclusion of the Lighthouse Group operating expenses for the full year, offset by cost control measures across the Group.

#### Debt profile

As announced to the market in March 2009, HFA successfully extended its existing loan facility until November 2011.

Since 30 June 2008, the consolidated group has reduced its USD denominated debt from USD \$127,762 thousand to USD \$113,074 thousand, and its AUD denominated debt from AUD \$10,000 thousand to \$6,899 thousand.

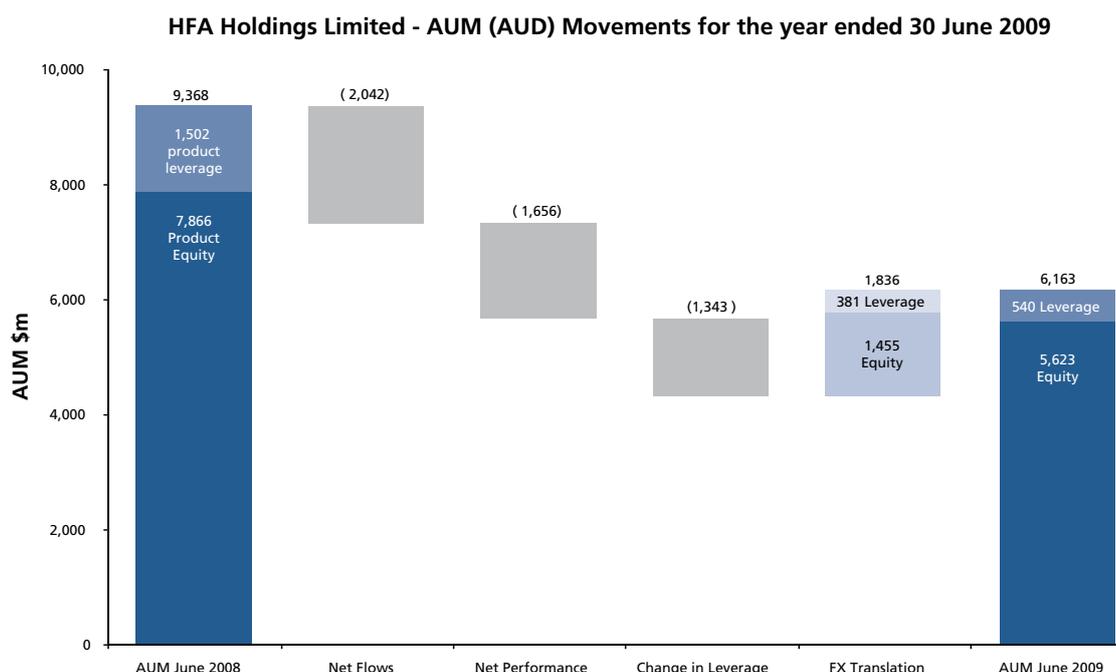
#### Fund flows

The severe contraction in credit markets and the associated lack of liquidity in global capital markets resulted in significant outflows across the global wealth management industry, including the absolute return fund sector. HFA Group products experienced net outflows for the financial year ended 30 June 2009 of \$2,042 million (2008: net inflows of \$535 million), which represented approximately 26% of funds under management as at 30 June 2008. Outflows from the funds have now begun to stabilise and the Group expects a return to net inflows through the coming financial period.

In response to market conditions, plans for new products during the financial year were deferred pending the return to a more stable market environment. In December 2008, as a result of changes in the redemption payment policy of the underlying investment fund, three of the HFA Asset Management products suspended applications and redemptions to investors. A withdrawal offer has been made to investors in one of these products to facilitate redemptions by investors.

#### Assets under management

As at 30 June 2009, HFA had total funds under management ("FUM") of \$5.62 billion (2008: \$7.87 billion) and total assets under management ("AUM") of \$6.16 billion (2008: \$9.36 billion). This represents a decrease of 29% in FUM and 34% in AUM since the end of the previous financial year. The following graph shows how performance, net flows, reduction in leverage within the products and foreign exchange translation impacted the AUM over the financial year:



# DIRECTORS' REPORT (continued)

## 7. OPERATING AND FINANCIAL REVIEW (continued)

### Review of operations (continued)

#### Impairment losses

The Group sought and received independent advice on the carrying value of the goodwill in the balance sheet related to the acquisition of the Lighthouse Group in January 2008. The reduction in the Group's AUM as a result of the global financial crisis, and the expectation that fund outflows would continue in the short-term before fund flows and performance returned to normal levels, resulted in the recognition of a \$585,621 thousand impairment loss in relation to the goodwill in the 31 December 2008 interim accounts. This loss reflects the significantly lower expected future net cash flows from the US operations compared to the business at the time of acquisition.

The carrying value of the remaining goodwill balance was reassessed as at 30 June 2009 which did not result in the recognition of any further impairment loss.

In addition, an impairment loss of \$13,916 thousand was recognised in relation to goodwill, other intangibles assets, non-current product receivables and investments held by the Australian business.

#### Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group that occurred during the financial year under review.

## 8. DIVIDENDS

Dividends paid or declared by the Company to members since the end of the previous financial year are:

<b>Declared and paid during the 2009 financial year</b>	<b>Cents per share</b>	<b>Total amount \$000's</b>	<b>Franked / unfranked</b>	<b>Date of payment</b>
Final 2008 ordinary	<b>3.5</b>	16,085	<b>Franked</b>	26 September 2008
Interim 2009 ordinary	-	-	-	N/A
<b>Total amount</b>		16,085		

<b>Declared and paid during the 2008 financial year</b>	<b>Cents per share</b>	<b>Total amount \$000's</b>	<b>Franked / unfranked</b>	<b>Date of payment</b>
Final 2007 ordinary	<b>4.0</b>	8,072	<b>Franked</b>	25 September 2007
Interim 2008 ordinary	<b>2.1</b>	6,823	<b>Franked</b>	26 March 2008
<b>Total amount</b>		14,895		

Franked dividends declared as paid during the year were franked at the rate of 30%.

#### Declared after end of year

The Directors have at the date of this report declared no final dividend will be paid for 2009.

# DIRECTORS' REPORT (continued)

## 9. EVENTS SUBSEQUENT TO REPORTING DATE

In the opinion of the Directors of the Company, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

## 10. LIKELY DEVELOPMENTS

As the various global economies and the industry begin to stabilise, the Group will recommence the identification of opportunities to expand distribution in the European and Asian regions as well as broadening the product offering in Australia. Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Consolidated Entity.

## 11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### **Indemnification**

The Company has agreed to indemnify current Directors and former Directors against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

### **Insurance premiums**

The Directors have not included details of the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract. The insurance premiums paid relate to costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and other liabilities that may arise from their position, with the exception of conduct involving a willful breach of duty or improper use of information or position to gain a personal advantage.

## 12. AUDITOR

KPMG continues in office as auditor in accordance with section 327 of the Corporations Act 2001.

### **Non-audit services**

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The Board has considered the non-audit services provided during the year by the auditor and it is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid or payable to KPMG for audit and non audit services are provided in note 30 of the financial statements.

## DIRECTORS' REPORT (continued)

### Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration required under section 307C of the Corporations Act 2001 is set out on page 25 and forms part of the Directors' Report for the financial year ended 30 June 2009.

### Rounding off

The Company is a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



**Spencer Young**  
Chairperson / Executive Director /  
Chief Executive Officer



**F P (Andy) Esteban**  
Non-Executive Director

Dated at Sydney this 19<sup>th</sup> day of August 2009

# LEAD AUDITOR'S INDEPENDENCE DECLARATION



## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

To the Directors of HFA Holdings Limited:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'Kpmg'.

KPMG

A handwritten signature in black ink that reads 'Robert S. Jones'.

Robert S Jones  
Partner

Brisbane  
19<sup>th</sup> August 2009

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.

# INCOME STATEMENTS

For the year ended 30 June 2009

	Note	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Revenue	9	112,855	98,596	-	-
Investment management costs		(17,312)	(22,323)	-	-
<b>Net income from operating activities</b>		<b>95,543</b>	76,273	-	-
Other income	9	208	52	1	-
Expenses	9	(57,635)	(32,787)	(5,077)	(1,213)
<b>Results from operating activities before impairment losses and equity settled transactions</b>		<b>38,116</b>	43,538	(5,076)	(1,213)
Impairment losses	9	(599,537)	-	(435,156)	-
Equity settled transactions	9	(12,396)	(553)	-	-
<b>Results from operating activities</b>		<b>(573,817)</b>	42,985	(440,232)	(1,213)
Financial income	10	2,018	12,359	22,096	41,595
Financial expenses	10	(8,665)	(4,455)	(563)	(1,140)
<b>Net financial income/(expense)</b>		<b>(6,647)</b>	7,904	21,533	40,455
<b>Profit/(loss) before income tax</b>		<b>(580,464)</b>	50,889	(418,699)	39,242
Income tax (expense)/benefit	11	7,280	(15,719)	(4,178)	(6,167)
<b>Net profit/(loss)</b>		<b>(573,184)</b>	35,170	(422,877)	33,075
<b>Earnings per share</b>					
Basic earnings per share (cents per share)	12	(124.641)	10.070		
Diluted earnings per share (cents per share)	12	(124.474)	10.067		

The notes on pages 30 to 72 are an integral part of these consolidated financial statements.

# STATEMENTS OF RECOGNISED INCOME AND EXPENSE

For the year ended 30 June 2009

	Note	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Foreign currency translation differences for foreign operations		178,436	(44,398)	-	-
Effective portion of changes in fair value of cash flow hedges		(6,207)	2,751	-	-
Net change in fair value of available-for-sale financial assets		7	(137)	7	(137)
Income tax on income/(expense) recognised directly in equity	11	(24,094)	7,496	(3)	-
<b>Income/(expense) recognised directly in equity</b>	10(b)	<b>148,142</b>	<b>(34,288)</b>	<b>4</b>	<b>(137)</b>
<b>Profit/(loss) for the period</b>		<b>(573,184)</b>	<b>35,170</b>	<b>(422,877)</b>	<b>33,075</b>
<b>Total recognised income and expense for the period</b>	25	<b>(425,042)</b>	<b>882</b>	<b>(422,873)</b>	<b>32,938</b>
<b>Attributable to:</b>					
Members of HFA Holdings Limited		(425,042)	882	(422,873)	32,938
<b>Total recognised income and expense for the period</b>		<b>(425,042)</b>	<b>882</b>	<b>(422,873)</b>	<b>32,938</b>

Other movements in equity arising from transactions with owners as owners are set out in note 25.

# BALANCE SHEETS

For the year ended 30 June 2009

	Note	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
<b>Assets</b>					
<b>Current</b>					
Cash and cash equivalents	13	29,290	38,828	5,858	13,562
Trade and other receivables	14	19,391	25,345	755	2,467
Current tax assets	16	307	-	134	-
<b>Total current assets</b>		<b>48,988</b>	64,173	<b>6,747</b>	16,029
<b>Non-current</b>					
Trade and other receivables	14	-	-	83,817	241,649
Investments, including derivatives	15	2,319	5,327	11,427	289,778
Plant and equipment	17	1,893	2,358	-	-
Deferred tax assets	16	496	3,968	41	125
Intangible assets	18	191,959	604,286	-	-
<b>Total non-current assets</b>		<b>196,667</b>	615,939	<b>95,285</b>	531,552
<b>Total assets</b>		<b>245,655</b>	680,112	<b>102,032</b>	547,581
<b>Liabilities</b>					
<b>Current</b>					
Trade and other payables	19	9,294	12,037	460	442
Employee benefits	22	5,303	7,981	-	-
Current tax payable	16	-	5,535	-	4,422
Interest bearing loans and borrowings	21	7,879	-	1,994	-
<b>Total current liabilities</b>		<b>22,476</b>	25,553	<b>2,454</b>	4,864
<b>Non-current</b>					
Interest bearing loans and borrowings	21	137,039	141,729	4,792	9,802
Employee benefits	22	217	164	-	-
Deferred Income	24	-	1,467	585	652
Derivatives	20	3,455	-	-	-
<b>Total non-current liabilities</b>		<b>140,711</b>	143,360	<b>5,377</b>	10,454
<b>Total liabilities</b>		<b>163,187</b>	168,913	<b>7,831</b>	15,318
<b>Net assets</b>		<b>82,468</b>	511,199	<b>94,201</b>	532,263
<b>Equity</b>					
Share capital	25	504,730	504,730	504,730	504,730
Reserves	25	113,987	(34,155)	-	(4)
Retained earnings/(accumulated losses)	25	(536,249)	40,624	(410,529)	27,537
<b>Total equity</b>		<b>82,468</b>	511,199	<b>94,201</b>	532,263

The notes on pages 30 to 72 are an integral part of these consolidated financial statements

# STATEMENTS OF CASH FLOWS

For the year ended 30 June 2009

	Note	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
<b>Cash flows from operating activities</b>					
Fees received		123,918	139,347	-	28
Payments to suppliers & employees		(72,250)	(67,750)	(10,370)	(7,529)
Cash generated from/(used in) operations		51,668	71,597	(10,370)	(7,501)
Interest received		796	3,305	242	2,296
Dividends and distributions received		8	34	6,312	18,529
Income taxes paid		(9,931)	(13,206)	(9,716)	(13,206)
<b>Net cash from/(used in) operating activities</b>	26	<b>42,541</b>	61,730	<b>(13,532)</b>	118
<b>Cash flows from investing activities</b>					
Acquisition of property, plant and equipment		(162)	(1,175)	-	-
Acquisition of investments		(67)	-	-	-
Acquisition of controlled entities <sup>1</sup>		-	(409,990)	(9,999)	(246,800)
Interest received on intercompany investment loan		-	-	23,880	4,441
Borrowing costs on intercompany loan		-	-	492	(99)
Loans to subsidiaries		-	-	11,585	23,499
Loans from subsidiaries		-	-	(300)	(2,000)
Acquisition of intangibles		-	(739)	-	-
<b>Net cash from/(used in) investing activities</b>		<b>(229)</b>	(411,904)	<b>25,658</b>	(220,959)
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		9,999	159,135	9,999	14,000
Repayment of borrowings		(34,803)	(17,927)	(13,100)	(17,927)
Proceeds from share issues		-	258,319	-	258,319
Payment of transaction costs		-	(10,696)	-	(9,847)
Dividends paid		(16,085)	(14,895)	(16,085)	(14,895)
Interest paid		(6,562)	(2,754)	(599)	(775)
Borrowing costs		(1,659)	(122)	(45)	51
<b>Net cash from/(used in) financing activities</b>		<b>(49,110)</b>	371,060	<b>(19,830)</b>	228,926
<b>Net increase/(decrease) in cash and cash equivalents</b>					
		<b>(6,798)</b>	20,886	<b>(7,704)</b>	8,085
Cash and cash equivalents at 1 July		38,828	17,942	13,562	5,477
Effect of exchange rate fluctuations on cash held		(2,740)	-	-	-
<b>Cash and cash equivalents at 30 June</b>	13	<b>29,290</b>	38,828	<b>5,858</b>	13,562

<sup>1</sup> Net of cash acquired

The notes on pages 30 to 72 are an integral part of these consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2009

## 1. REPORTING ENTITY

HFA Holdings Limited (the "Company" or "HFA") is domiciled in Australia. The HFA Holdings Limited group of companies (the "Group") consists of HFA and its subsidiaries (together referred to as the "Consolidated Entity"). HFA is a company limited by shares, incorporated in Australia whose shares are publicly listed on the Australian Securities Exchange. HFA has three Australian domiciled wholly owned subsidiaries, HFA Asset Management Limited ("HFAAM"), HFA Admin Pty Ltd ("HFA Admin") and A.C.N. 122 776 550 Pty Ltd ("A.C.N 122 776 550"). HFAAM is the responsible entity for the Australian based HFA investment schemes and is the investment manager of HFA Accelerator Plus Limited. HFA Admin is a service entity to HFAAM and provides administrative services including staff, premises and other resources to HFAAM and the Company. A.C.N 122 776 550 is a dormant entity. HFA also has two foreign subsidiaries, HFA Lighthouse Holdings Corp. and HFA Lighthouse Corp. Both foreign subsidiaries are incorporated in the United States and were established to facilitate the acquisition of US based Lighthouse Group. The Lighthouse Group comprises five foreign entities being LHP Investments LLC, Lighthouse Investment Partners LLC, Lighthouse Partners NY LLC, Lighthouse Partners UK LLC (all incorporated in the United States) and Lighthouse Partners Limited (HK) (incorporated in Hong Kong). Lighthouse Investment Partners LLC is the investment manager for the Lighthouse investment schemes.

The registered office of HFA is Level 5, 151 Macquarie Street, Sydney NSW 2000.

## 2. BASIS OF PREPARATION

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company also comply with the International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 19 August 2009.

### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through the profit or loss are measured at fair value
- available-for-sale financial assets that are measured at fair value

The methods used to measure fair value are discussed further in note 4.

### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

### (d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

- note 14 - measurement of investment loan receivables
- note 15 - measurement of investments
- note 16 - utilisation of tax losses
- note 18 - measurement of the recoverable amounts of cash-generating units containing goodwill
- note 23 - measurement of share based payments
- note 27 - valuation of financial instruments

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

### (a) Basis of consolidation

The consolidated financial statements are those of the Consolidated Entity, comprising HFA Holdings Limited (the parent company) and all entities that HFA Holdings Limited controlled from time to time during the period and at the reporting date.

#### (i) Subsidiaries

Subsidiaries are entities controlled by HFA. Control exists when HFA has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

In the Company's financial statements, investments in subsidiaries are carried at cost less impairment losses.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Where subsidiaries are acquired during the financial year which have a different reporting period to the parent company, the subsidiary entity is required to align their reporting period with the parent entity at the earliest opportunity.

#### (ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income & expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### (b) Foreign currency

#### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on retranslation of available-for-sale equity instruments, and financial liabilities designated as a qualifying cash flow hedges, which are recognised directly in equity (see (c)(ii) below).

#### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Australian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Australian dollars using exchange rates approximating the dates of the relevant transaction.

Foreign currency differences are recognised directly in the foreign currency translation reserve (FCTR) in equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to the profit or loss.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the FCTR.

### (c) Financial instruments

#### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and other investment vehicles, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits.

#### *Trade and other receivables*

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (g)).

#### *Available-for-sale financial assets*

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see accounting policy (g)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Financial instruments (continued)

#### *Financial assets at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on the fair value in accordance with the Group's investment strategy or risk management strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### *Trade and other payables*

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30-day terms.

#### *Interest-bearing loans and borrowings*

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

#### *Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

### (ii) Derivative financial instruments

The Group holds/has held derivative financial instruments to hedge certain foreign currency and interest rate risk exposures. Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein accounted for as described below.

#### *Cash flow hedges*

Changes in fair value of derivative hedging instruments designated as cash flow hedges are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

### (iii) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by HFA.

Ordinary shares are classified as equity. Incremental costs attributable to the issue of ordinary shares is recognised as a deduction from equity, net of any tax effects. Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

### (d) Plant and equipment

#### (i) Recognition and measurement

Items of plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of plant and equipment and are recognised net within "expenses" in profit or loss.

#### (ii) Subsequent costs

The cost of replacing part of an item of plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of plant and equipment are recognised in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of the asset as follows:

Furniture and Fixtures	7 years
Leasehold Improvements	Lease term
Computer Equipment	3 - 5 years

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually. The carrying value of plant and equipment is reviewed for impairment (see accounting policy (g)) when events or changes in circumstances indicate the carrying value may not be recoverable.

### (e) Leased assets

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Intangible assets

#### (i) Goodwill

Goodwill on acquisition of subsidiaries is initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses (see accounting policy (g)).

As at acquisition date, any goodwill is allocated to the acquired cash-generated units that gave rise to the recognition of the goodwill. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

#### (ii) Management rights and customer relationships

Where acquired separately, management rights and customer relationship assets are capitalised at cost. Subsequent to acquisition the assets are measured at cost less accumulated amortisation and accumulated impairment losses (see accounting policy (g)).

#### (iii) Other intangible assets

Other intangible assets acquired by the Group, which have finite lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

#### (iv) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Management rights and customer relationships	5 - 10 years
Trademarks	20 years
Capitalised software development costs	5 years

### (g) Impairment

#### (i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

#### (ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets (see accounting policy (n)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives, the recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortisation, if no impairment loss had been recognised.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Provisions

A provision is recognised if, as a result of a past event the Group has a present obligation (legal or constructive) that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### (i) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date, in accordance with local statutory requirements. These benefits include wages and salaries, annual leave, long service leave, and bonuses.

#### (i) Wages and salaries, annual leave and long service leave

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within 12 months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled, including related on-costs. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses arising in respect of the following categories:

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

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

#### (ii) Bonuses

A liability for employee benefits in the form of bonus plans is recognised when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit, or the amount of the benefit has been determined before the time of completion of the annual report. Liabilities for bonus plans are expected to be settled within 12 months and are measured on an undiscounted basis at the amounts expected to be paid when they are settled.

#### (iii) Share-based payments

The Group provides benefits to its employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions").

Share-based payments include the shares granted to employees under the HFA and Lighthouse Employee Share Plans.

The cost of these shares is measured by reference to the fair value at grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market vesting conditions are met.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects: (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date.

Where the Company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investment in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

#### (iv) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as a personnel expense in profit or loss when they are due.

### (j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Where amounts do not meet these recognition criteria, they are deferred and recognised in the period in which the recognition criteria are met.

#### *Management fees and performance fees*

Periodic management fees are received for management services provided by Group entities that act as investment manager in relation to various investment products. These fees are recognised as revenues as the management services are provided.

Periodic performance fees are received by group entities that act as investment manager of various investment products when the performance of the product exceeds a predetermined level. These fees are recognised as revenues when it is established that performance of the investment product has exceeded the required level.

#### (k) Investment management costs

Investment management costs consist of fees for investment management services from investment advisors, distribution rebates and trail commissions paid to financial advisors and other third party distributors. These costs are recognised on an accrual basis.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### (m) Financial income and expenses

Financial income comprises interest income on funds invested and internal financing arrangements, dividend and distribution income, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets held at fair value through the profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend and distribution income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss, and losses on hedging instruments that are recognised in profit or loss.

Foreign currency gains and losses are recognised on a net basis.

### (n) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

### (i) Tax consolidation

The Company and its wholly-owned Australian resident entities formed a tax-consolidated group with effect from 1 May 2006 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is HFA Holdings Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the subsidiaries is assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

### (o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheets.

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

### (p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which includes share options granted to employees.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments. The geographical segments are determined based on location of operations.

Inter segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment.

Segment capital expenditure is the total cost incurred during the period to acquire plant and equipment, and intangible assets other than goodwill.

### (r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report:

- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require a change in the presentation on and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information to the CEO and Board of Directors in respect of its geographical segments (see note 7). The Amendments to AASB 8 are not expected to have a significant impact on the consolidated financial statements.
- Revised AASB Business Combinations (2008) incorporates the following changes that would be relevant to the Group's operations in the event of any future changes to its business combinations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.
- Revised AASB 127 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements are not expected to have a significant impact on the consolidated financial statements.
- Revised AASB 101 Presentation of Financial Statements (2007) introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statement, is not expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income using the two statement approach for its 2010 consolidated financial statements.
- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. This amendment is not expected to have any retrospective impact on the Group and would only need to be considered for future share based remuneration plans.
- AASB 2008-5 Amendments to Australian Accounting Standards arising from other Annual Improvements Process and 2008-6 Further Amendments to Australian Accounting Standards arising from The Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- AASB 2008-7 Amendments to Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate changes the recognition and measurement of dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 4. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of the fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### Plant and equipment

The fair value of plant and equipment recognised as a result of a business combination is based on market values. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

### Intangible assets

The fair value of intangibles is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### Investments in equity securities and investment vehicles

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If the listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on valuations received from the interest swap provider. These valuations are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at measurement date.

### Non-derivative financial assets

Fair value, is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

## Share-based payment transactions

The fair value of employee performance rights is measured using the Black-Scholes model. Measurement inputs include share price on grant date, exercise price of the instrument, expected volatility (based on historical share price volatility), life of the instrument, expected dividends, and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

## 5. FINANCIAL RISK MANAGEMENT

### Overview

The Company and Group have exposure to the following risks from their use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

This note presents information about the Company's and Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Company and Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's and Group's activities. The Company and Group, through training, employee manuals and procedures, seek to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 5. FINANCIAL RISK MANAGEMENT (continued)

### Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables and investment securities including derivatives.

### Trade and other receivables

The Group's exposure to credit risk is predominantly related to management fees, performance fees and other related fees from products managed by the Group (approximately 60% of the Group's AUM is invested in the Lighthouse Diversified Fund and Lighthouse Global Long Short Fund). Receivables are actively monitored to minimise the Group's exposure to bad debts.

The Company's exposure to credit risk is predominantly related to receivables from wholly owned subsidiaries.

### Investments

The Group limits its exposure to credit risk from investments by only investing in either quoted securities or unquoted securities where the investment entity is managed by a Group entity. Based on historical performance, management does not expect any counterparty to fail to meet its obligations.

### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group actively monitors cash flow and funding. The Group ensures that it has sufficient cash on demand to meet operational requirements, including the servicing of financial obligations. This approach excludes the potential impact of extreme circumstances which cannot be predicted.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

### Currency risk

The Group is exposed to currency risk on fee revenue, receivables and borrowings that are denominated in a currency other than the respective functional currencies of the Group entities. This relates primarily to Australian dollar (AUD) denominated balances held by the US Lighthouse Group, which has a functional currency of US dollars (USD).

In addition, the Group is exposed to currency risk in respect of financial assets and liabilities denominated in foreign currencies and the foreign currency risk of net assets relating to the Group's foreign operations. HFA is also exposed to currency risk in respect of the translation of its USD earnings.

The Group is also indirectly exposed to foreign currency risk on revenue earned from AUD denominated managed investment products invested in markets denominated in a currency other than AUD. The currency giving rise to this risk is primarily USD. This risk is primarily hedged by the managed investment product directly, thereby reducing the foreign currency risk on revenues earned by the Group.

Wherever appropriate, the Group seeks to ensure borrowings and related payments are structured to provide an economic hedge, thereby minimising currency risk arising.

### Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's secured bank loans. Interest rates on borrowings are on a variable rate basis. The Group manages interest rate risk by entering into interest rate swaps to convert a portion of its exposure to changes in interest rate borrowings to a fixed rate basis.

### Equity risk

Equity price risk arises from available-for-sale assets and financial assets designated at fair value through profit or loss. Available-for-sale financial assets consist of investments in ordinary shares. Financial assets designated at fair value through profit or loss are units in investment vehicles that would otherwise be classified as available-for-sale. The value of these investments held by the Group is not considered to result in any significant risk to the Group's income.

Further information on credit risk, liquidity risk and market risk is included at note 27.

### Capital management

The Group aims to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, the level of dividends paid and related dividend policy. The Group's capital management policies are also monitored to ensure that they are within the requirements of the Group's external debt facility.

In accordance with the requirements of the Australian Securities and Investments Commission Australian Financial Services Licence, HFA Asset Management Limited (HFAAM) must ensure that at all times the value of its net tangible assets are maintained at an amount equal to not less than 0.5% of that scheme property, up to a maximum of \$5,000 thousand. HFAAM's position is actively monitored to ensure compliance with this requirement. The requirement was complied with throughout the year.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 6. GOING CONCERN

The financial statements have been prepared on a going concern basis which contemplates the continuation of normal business operations.

During the financial year ended 30 June 2009, the Group's operations and results were affected by the global credit and liquidity crisis and its impact on the global absolute return fund industry:

- the Group recorded a consolidated loss of \$573,184 thousand, primarily as a result of impairment losses on goodwill of \$599,537 thousand (\$587,640 thousand relating to goodwill; \$11,897 thousand relating to other intangibles assets, non-current receivables from managed products and investments held by the Australian business). However, aside from this and other non-cash expense items recognised for the financial year ended 30 June 2009, the Group's operations have performed satisfactorily relative to the difficult economic climate, recording earnings before interest, tax, depreciation and amortisation and significant items<sup>2</sup> of \$52,648 thousand for the year ended 30 June 2009 (2008: \$50,158 thousand);
- the Group experienced net fund outflows of \$2,042 million. These outflows have now begun to stabilise and the Group expects a return to net inflows through the coming financial period;
- products managed by the Australian business undertook a significant reduction in the leverage held within the products which had the impact of reducing AUM by \$1,343 million. It is expected that the remaining leverage will be largely extinguished within the next six months; and
- the Group successfully restructured and extended its bank debt facility to November 2011.

The Directors have approved cash flow projections that support the Company's and the Group's ability to meet its obligations, incorporating the agreed amendments to the bank debt facility.

On this basis, the Directors and management of the Company have prepared the financial statements on a going concern basis.

<sup>2</sup> Significant items for financial year ended 30 June 2009 refers to non-cash equity settled transactions and non-cash impairment losses. Significant items for the financial year ended 30 June 2008 refers to non-cash equity settled transactions and foreign currency gains on derivative instruments.

## 7. SEGMENT REPORTING

The business activity engaged in by the Group is funds management activities in the absolute return fund finance sector. There are no distinguishable components in the provision of funds management activities undertaken by the Group.

Segment information is therefore presented in respect of the Consolidated Entity's geographical segments which corresponds with the Consolidated Entity's management and internal reporting structure.

The geographic segmentation of revenue and assets is based on the location of operations. HFA operates in two principal geographical locations, being Australia and the United States of America (US).

The below table sets out geographical segment results for the Group. The United States segment has recognised financial income of \$45,855 thousand which relates predominantly to an unrealised foreign exchange gain that has arisen due to the translation of the Australian dollar loan between HFA Holdings Limited and HFA Lighthouse Holdings Corp as at 30 June 2009. This financial income eliminates on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 7. SEGMENT REPORTING (continued)

### Geographical Segments:

<b>2009</b>	<b>Australia \$000's</b>	<b>United States \$000's</b>	<b>Elimination \$000's</b>	<b>Consolidated \$000's</b>
External revenue	36,140	76,715	-	112,855
Inter-segment revenue	-	9,512	(9,512)	-
Investment management costs	(10,807)	(16,017)	9,512	(17,312)
<b>Net income from operations</b>	<b>25,333</b>	<b>70,210</b>	<b>-</b>	<b>95,543</b>
Other income	92	116	-	208
Expenses	(14,795)	(42,840)	-	(57,635)
<b>Results from operating activities before impairment losses and equity settled transactions</b>	<b>10,630</b>	<b>27,486</b>	<b>-</b>	<b>38,116</b>
Impairment losses	(448,622)	(585,621)	434,706	(599,537)
Equity settled transactions	(219)	(12,177)	-	(12,396)
<b>Results from operating activities</b>	<b>(438,211)</b>	<b>(570,312)</b>	<b>434,706</b>	<b>(573,817)</b>
Financial income	16,146	45,855	(59,983)	2,018
Financial expenses	(572)	(28,329)	20,236	(8,665)
<b>Net financial income/ (expenses)</b>	<b>15,574</b>	<b>17,526</b>	<b>(39,747)</b>	<b>(6,647)</b>
<b>Profit / (loss) before tax</b>	<b>(422,637)</b>	<b>(552,786)</b>	<b>394,959</b>	<b>(580,464)</b>
Income tax (expense) / benefit	(5,567)	(3,749)	16,596	7,280
<b>Net profit / (loss)</b>	<b>(428,204)</b>	<b>(556,535)</b>	<b>411,555</b>	<b>(573,184)</b>
Segment assets	109,502	220,610	(84,457)	245,655
Segment liabilities	11,729	393,662	(242,204)	163,187
Capital expenditure	76	86	-	162
Depreciation	255	549	-	804
Amortisation of intangible assets	668	12,844	-	13,512
<b>2008</b>	<b>Australia \$000's</b>	<b>United States \$000's</b>	<b>Elimination \$000's</b>	<b>Consolidated \$000's</b>
External revenue	59,744	38,852	-	98,596
Inter-segment revenue	-	8,494	(8,494)	-
Investment management costs	(22,726)	(8,091)	8,494	(22,323)
<b>Net income from operations</b>	<b>37,018</b>	<b>39,255</b>	<b>-</b>	<b>76,273</b>
Other income	52	-	-	52
Expenses	(14,179)	(18,608)	-	(32,787)
<b>Results from operating activities before impairment losses and equity settled transactions</b>	<b>22,891</b>	<b>20,647</b>	<b>-</b>	<b>43,538</b>
Impairment losses	-	-	-	-
Equity settled transactions	(553)	-	-	(553)
<b>Results from operating activities</b>	<b>22,338</b>	<b>20,647</b>	<b>-</b>	<b>42,985</b>
Financial income	23,961	255	(11,857)	12,359
Financial expenses	(1,154)	(37,511)	34,210	(4,455)
<b>Net financial income/ (expenses)</b>	<b>22,807</b>	<b>(37,256)</b>	<b>22,353</b>	<b>7,904</b>
<b>Profit / (loss) before tax</b>	<b>45,145</b>	<b>(16,609)</b>	<b>22,353</b>	<b>50,889</b>
Income tax (expense) / benefit	(13,487)	6,401	(8,633)	(15,719)
<b>Net profit / (loss)</b>	<b>31,658</b>	<b>(10,208)</b>	<b>13,720</b>	<b>35,170</b>
Segment assets	570,218	633,610	(523,716)	680,112
Segment liabilities	28,380	385,468	(244,935)	168,913
Capital expenditure	337	791	-	1,128
Depreciation	170	191	-	361
Amortisation of intangible assets	1,243	5,106	-	6,349

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 8. ACQUISITION OF SUBSIDIARIES

On 3 January 2008, the Company completed the acquisition of the US based Lighthouse Group under the purchase agreement dated 31 October 2007. The Company acquired all the issued shares in the Lighthouse Group for consideration of USD 364,187 thousand in cash and 134,667 thousand Company shares. The fair value of the 134,667 thousand issued shares as at 3 January 2008 was AUD 255,867 thousand.

The Group's 2008 results included contributed profit of \$10,997 thousand for the six months to 30 June 2008. If the acquisition had occurred on 1 July 2007, management estimates that the consolidated revenue of the Group for the year ended 30 June 2008 would have been \$141,900 thousand and consolidated net profit after tax would have been \$48,150 thousand.

The acquisition had the following effect on the Group's assets and liabilities on acquisition date:

	Pre-acquisition carrying amount \$000's	Fair value adjustment \$000's	Recognised value on acquisition \$000's
Cash and cash equivalents	6,565	-	6,565
Trade and other receivables	22,416	-	22,416
Other current assets	314	-	314
Plant and equipment (net)	1,082	-	1,082
Financial assets at fair value through profit and loss	2,124	-	2,124
Intangible assets	-	86,448	86,448
Trade and other payables	(10,532)	-	(10,532)
Net identifiable assets and liabilities	21,969	86,448	108,417
Goodwill on acquisition			567,506
Foreign currency variance on deferred consideration now paid			(1,440)
Total consideration, including acquisition costs			674,483
Consideration paid, satisfied in cash <sup>1</sup>			(418,617)
Cash acquired			6,565
Net cash outflow <sup>2</sup>			(412,052)

<sup>1</sup> includes acquisition costs of \$6,328 thousand.

<sup>2</sup> includes \$2,062 thousand of acquisition costs incurred and paid prior to 1 July 2007.

Pre-acquisition carrying amounts were determined based on applicable AASBs immediately before the acquisition. The value of assets and liabilities recognised on acquisition are their estimated fair values (see note 4 for methods used in determining fair values). In determining the fair value of intangible assets acquired, an external valuation was undertaken. The goodwill recognised at acquisition was attributable to the skills and technical talent of the acquired business' work force and the anticipated growth and diversification expected to be achieved from integration of the Lighthouse Group into the Group's existing funds management activities.

During the year ended 30 June 2009, the Group's operations and results were affected by the global credit and liquidity crisis and its impact on the global return fund industry. As a result, the carrying value of this goodwill was assessed and an impairment loss recognised. Please refer to note 18 for details regarding the impairment loss recognised.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 9. REVENUE AND EXPENSES

Profit / (loss) before income tax expense includes the following specific revenues and expenses whose disclosure is relevant in explaining the performance of the Group:

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>(a) Revenue</b>				
Management fee income	<b>110,369</b>	89,077	-	-
Performance fee income	<b>844</b>	9,175	-	-
Origination fees	<b>1,642</b>	344	-	-
<b>Total revenue</b>	<b>112,855</b>	98,596	-	-
<b>(b) Other income</b>				
Sundry income	<b>208</b>	52	<b>1</b>	-
<b>Total other income</b>	<b>208</b>	52	<b>1</b>	-
<b>(c) Expenses</b>				
Personnel expenses <sup>1</sup>	<b>31,584</b>	19,859	<b>2,780</b>	274
Professional fees	<b>2,920</b>	955	<b>1,726</b>	464
Depreciation	<b>804</b>	361	-	-
Amortisation intangible assets	<b>13,512</b>	6,349	-	-
Occupancy expenses	<b>2,987</b>	968	-	-
Marketing and promotion costs	<b>263</b>	310	<b>1</b>	-
Travel costs	<b>1,384</b>	1,021	<b>8</b>	5
Other expenses	<b>4,181</b>	2,964	<b>562</b>	470
<b>Total expenses</b>	<b>57,635</b>	32,787	<b>5,077</b>	1,213
<b>(d) Impairment losses</b>				
Impairment losses - intangible assets	<b>596,119</b>	-	-	-
Impairment losses - financial assets	<b>3,418</b>	-	<b>435,156</b>	-
<b>Total impairment losses</b>	<b>599,537</b>	-	<b>435,156</b>	-
<b>(e) Equity settled transactions</b>				
Equity settled transactions	<b>12,396</b>	553	-	-
<b>Total equity settled transactions</b>	<b>12,396</b>	553	-	-

<sup>1</sup> includes consolidated contributions to defined contribution plans of \$1,019 thousand (2008: \$612 thousand), and Company contributions of \$61 thousand (2008: \$21 thousand)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 10. FINANCIAL INCOME AND EXPENSES

### (a) Recognised directly in profit or loss

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Financial income</b>				
Interest income	796	3,305	15,403	13,967
Dividend and distribution income on available-for-sale financial assets	8	34	6,312	18,529
Net change in fair value of financial assets at fair value through profit or loss	-	107	-	-
Fee income on loans to subsidiaries	-	-	272	93
Net foreign exchange gain	1,214	8,913	109	9,006
<b>Total Financial income</b>	<b>2,018</b>	12,359	<b>22,096</b>	41,595
<b>Financial expenses</b>				
Interest expense on financial liabilities measured at amortised cost	7,659	4,315	530	1,026
Borrowing costs	726	140	33	114
Net change in fair value of financial assets at fair value through profit or loss	280	-	-	-
<b>Total financial expenses</b>	<b>8,665</b>	4,455	<b>563</b>	1,140

During the year ended 30 June 2008, HFA Holdings Limited entered into a forward exchange contract (FEC) to hedge the foreign currency exposure on the cash portion of the purchase price for the Lighthouse Group. The FEC was entered into on 1 November 2007 for USD 220,000 thousand at a rate of AUD / USD 0.91. The FEC was due to settle on 31 March 2008, being the original settlement date for the acquisition of the Lighthouse Group.

On entering into the FEC it was recognised at fair value and it was determined to be an effective cash flow hedge in accordance with AASB 139 Financial Instruments: Recognition and Measurement. Subsequent to entering into the FEC, the settlement date of the acquisition was brought forward to 3 January 2008. A reassessment of the FEC determined that it was no longer effective and hedge accounting discontinued. As a result, on settlement of the hedge on 3 January 2008, a fair value gain of \$9,004 thousand was realised and recognised in the profit or loss of HFA Holdings Ltd.

### (b) Recognised directly in equity

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
Foreign currency translation difference for foreign operations	178,436	(44,398)	-	-
Effective portion of changes in fair value of cash flow hedges	(6,207)	2,751	-	-
Change in fair value of available-for-sale financial assets transferred to profit or loss	7	(137)	7	(137)
Income tax on income and expense recognised directly in equity	(24,094)	7,496	(3)	-
<b>Finance (expense)/income attributable to equity holders recognised directly in equity, net of tax</b>	<b>148,142</b>	(34,288)	<b>4</b>	(137)
<b>Recognised in:</b>				
Fair value reserve	4	(137)	4	(137)
Hedging reserve	(5,068)	1,613	-	-
Translation reserve	153,206	(35,764)	-	-
	<b>148,142</b>	(34,288)	<b>4</b>	(137)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 11. INCOME TAX EXPENSE

### Recognised in the income statement

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
<b>Current tax expense</b>				
Current year	(7,471)	(14,360)	(4,095)	(6,334)
<b>Deferred tax expense</b>				
Origination and reversal of temporary differences	217,486	(1,359)	131,773	167
Tax losses for which no deferred tax was recognised	(15,295)	-	-	-
Change in unrecognised temporary differences	(187,440)	-	(131,853)	-
<b>Income tax (expense) / benefit reported in income statement</b>	<b>7,280</b>	<b>(15,719)</b>	<b>(4,178)</b>	<b>(6,167)</b>

### Numerical reconciliation between tax-expense and pre-tax net profit

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Accounting profit before tax	(580,464)	50,889	(418,699)	39,242
Income tax using the domestic corporation tax rate of 30% (2008: 30%)	174,139	(15,267)	125,610	(11,773)
Effect of tax rates in foreign jurisdictions*	42,771	(452)	-	-
Non-deductible expenses	(7,069)	-	-	-
Tax exempt income	-	-	1,891	-
Tax benefits not included in accounting profit	131,853	-	-	-
Tax losses for which no deferred tax is recognised	(15,295)	-	-	-
Changes in unrecognised temporary differences	(319,293)	-	(131,853)	-
Under/(Over) provided in prior periods	174	-	174	5,606
<b>Income tax (expense) / benefit on pre-tax net profit</b>	<b>7,280</b>	<b>(15,719)</b>	<b>(4,178)</b>	<b>(6,167)</b>

\*The subsidiary group acquired on 3 January 2008 operates in a tax jurisdiction with higher tax rates.

The Group's consolidated effective tax rate for the year ended 30 June 2009 was 1.3 percent (for the year ended 30 June 2008: 31 percent). The effective tax rate for the year ended 30 June 2009 was impacted by the following factors:

- the inclusion of the Lighthouse Group in the results 12 months compared to 6 months in the previous financial year. The Lighthouse Group has a tax rate of approximately 38%. This has the effect of increasing the effective tax rate.
- the \$12,396 thousand in non-cash equity settled transaction expenses that were recognised during the financial year are not tax deductible. This has the effect of decreasing the effective tax rate.
- The Group has determined that due to the current operating environment in the global financial markets it is not probable that sufficient taxable profits will be generated in the future to utilise the potential benefits associated with the impairment loss recognised on goodwill and carried forward operating losses. As such, the Group did not recognise the value of the potential benefit associated with these losses in the current period. This has the effect of decreasing the effective tax rate.

### Income tax recognised directly in equity

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Equity securities available-for-sale	(3)	-	(3)	-
Derivatives	1,137	(1,137)	-	-
Net foreign investment in foreign operations	(25,228)	8,633	-	-
<b>Income tax benefit / (expense) recognised in equity</b>	<b>(24,094)</b>	<b>7,496</b>	<b>(3)</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 12. EARNINGS PER SHARE

The calculation of basic earnings per share and diluted earnings per share at 30 June 2009 was based on the loss attributable to ordinary shareholders of \$573,184 thousand (2008: profit of \$35,170 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2009 of 459,869 thousand (2008: 349,255 thousand), calculated as follows:

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's
Earnings from operations used in calculating basic earnings per share	<b>(573,184)</b>	35,170
Earnings from operations used in calculating diluted earnings per share	<b>(573,184)</b>	35,170

	Note	<b>Consolidated 2009 No. of Shares 000's</b>	Consolidated 2008 No. of Shares 000's
<b>Weighted average number of shares issued</b>			
Issued ordinary shares at 1 July	25	<b>459,583</b>	201,811
Effect of institutional placement on 1 November 2007		-	21,665
Effect of shares issued 27 November 2007		-	59,737
Effect of shares issued 3 January 2008		-	66,042
Effect of shares issued 6 March 2009		<b>286</b>	-
Weighted average number of ordinary shares used in calculating basic earnings per share		<b>459,869</b>	349,255
Effect of performance rights issued 12 March 2008		<b>615</b>	90
Weighted average number of ordinary shares used in calculating diluted earnings per share		<b>460,484</b>	349,345
<hr/>			
Basic earnings per share (cents per share)		<b>(124.641)</b>	10.070
Diluted earnings per share (cents per share)		<b>(124.474)</b>	10.067

On 1 November 2007, the Company completed an equity raising via an institutional placement of 30,272 thousand shares. The placement raised \$72,652 thousand at an issue price of \$2.40 per share.

On 27 November 2007, HFA completed a fully underwritten equity raising of 92,833 thousand shares via a 2 for 5 renounceable rights issue. The rights raised \$185,667 thousand at an issue price of \$2.00 per share.

On 3 January 2008, the Company issued 134,667 thousand shares in relation to the acquisition of the Lighthouse Group.

On 6 March 2009, the Company issued 901 thousand shares for no consideration in relation to the 2008 HFA Employee Performance Rights Plan offered to employees on 12 March 2008.

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 13. CASH AND CASH EQUIVALENTS

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
Cash at bank	<b>27,865</b>	37,510	<b>5,858</b>	13,562
Call deposits	<b>1,425</b>	1,318	-	-
	<b>29,290</b>	38,828	<b>5,858</b>	13,562

Cash at bank earns interest at floating rates based on daily bank deposit rates for the Australian cash deposits, and the Federated Government Obligations Fund for the US cash deposits.

The fair value of cash and cash equivalents is \$29,290 thousand (2008: \$38,828 thousand).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 27.

## 14. TRADE AND OTHER RECEIVABLES

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Current</b>				
Receivables due from Group managed products	<b>17,893</b>	24,121	-	-
Receivables from controlled entities	-	-	<b>555</b>	2,263
Other receivables and prepayments	<b>1,498</b>	1,224	<b>200</b>	204
	<b>19,391</b>	25,345	<b>755</b>	2,467
<b>Non-current</b>				
Investment loan due from subsidiary	-	-	<b>83,817</b>	241,649
	-	-	<b>83,817</b>	241,649

Receivables comprise management fees, performance fees, and recoverable costs from Group managed products and are non-interest bearing and generally on 30 day terms.

The investment loan relates to an intercompany facility used to facilitate the acquisition of the Lighthouse Group.

### Impairment of non-current receivables

During the year, \$2,968 thousand of non-current receivables relating to the performance of Index Outperformance Call Options included in three of the Group's structured products were impaired and written down to zero due to a decrease in the value of the options.

### Impairment of investment loan due from subsidiary

The investment loan is recognised at fair value, calculated as the present value of estimated future cash flows expected to be received in relation to the loan. The discount rate used in this calculation is the current effective interest rate on the loan as at 30 June 2009 (5.04%).

The reduction in the carrying value of the loan (\$157,832 thousand) has been recognised in "impairment losses" in the accounts of the Company. This impairment loss eliminates on consolidation of the Group, and does not impact the results of the Consolidated Group.

The Group's exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 27.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 15. INVESTMENTS, INCLUDING DERIVATIVES

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Non-current</b>				
Available-for-sale financial assets	<b>84</b>	528	<b>84</b>	528
Financial assets designated at fair value through profit or loss	<b>2,235</b>	2,048	-	-
Investments in controlled entities	-	-	<b>11,343</b>	289,250
Derivatives used for hedging	-	2,751	-	-
	<b>2,319</b>	5,327	<b>11,427</b>	289,778

Available-for-sale financial assets consist of investments in ordinary shares (refer to note 31 for transactions with related parties).

The financial assets designated at fair value through profit or loss are units in investment vehicles that otherwise would have been classified as available-for-sale.

Derivatives used for hedging relate to interest rate swaps used to hedge the Group's exposure to interest rate risk. The fair value of these derivatives is based on valuations received from the interest rate swap provider. As at 30 June 2009 the derivatives are in a loss position and have been included in non-current liabilities (refer note 20).

### **Impairment of available-for-sale financial assets**

HFA Holdings Limited holds 562 thousand shares in HFA Accelerator Plus Limited with a cost base of \$534 thousand (approximately 0.95 cents per share). As at 30 June 2009, the fair value of these shares was \$84 thousand (0.15 cents per share). As a result, the carrying value of this asset was assessed under the impairment provisions of AASB 139 Financial Instruments: Recognition and Measurement. Due to the significant decline in the fair value of this investment, an impairment loss of \$450 thousand (2008: \$Nil) has been recognised and is included in "impairment losses" in the profit or loss of the Group and the Company.

### **Impairment of investments in controlled entities**

HFA Holdings Limited holds an investment in its wholly owned subsidiary HFA Lighthouse Holdings Corp with a cost base of \$281,678 thousand. Due to the reduction in the carrying value of the Lighthouse Group resulting from the impairment of the goodwill recognised in relation to acquisition, the fair value of this investment has been assessed under the impairment provisions of AASB 136: Impairment of Assets. As a result, an impairment loss of \$281,678 thousand has been recognised in relation to this investment and is included in "impairment losses". This impairment loss eliminates on consolidation of the Group, and does not impact the results of the Consolidated Group.

The Group's exposure to credit, liquidity and market rate risks related to other investments is disclosed in note 27.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 16. TAX ASSETS AND LIABILITIES

### Current tax assets and liabilities

The current tax asset for the Group of \$307 thousand (2008: \$Nil) and for the Company of \$134 thousand (2008: \$Nil) represents the amount of income taxes recoverable in respect of prior periods and that arise from the payment of tax in excess of the amounts due to the relevant tax authority. The current tax liability for the Group of \$Nil (2008: \$5,535 thousand) and for the Company of \$Nil (2008: \$4,422 thousand) represents the amount of income taxes payable in respect of current and prior financial periods. The Company liability includes the income tax payable by all members of the Australian Tax Consolidated Group.

### Recognised deferred tax assets and liabilities

Deferred tax asset and liabilities are attributable to the following:

	<b>Assets 2009 \$000's</b>	Assets 2008 \$000's	<b>Liabilities 2009 \$000's</b>	Liabilities 2008 \$000's	<b>Net 2009 \$000's</b>	Net 2008 \$000's
<b>Consolidated</b>						
Financial assets at fair value through profit or loss	-	-	-	(37)	-	(37)
Intangible assets	-	-	-	(8,073)	-	(8,073)
Amortisation / depreciation	-	22	-	-	-	22
Available-for-sale financial assets	<b>2</b>	2	-	-	<b>2</b>	2
Foreign currency gains / (losses)	-	7,463	-	-	-	7,463
Derivatives	-	-	-	(963)	-	(963)
Other receivables	-	2,806	-	-	-	2,806
Trade creditors	<b>168</b>	-	-	-	<b>168</b>	-
Employee benefits	<b>235</b>	280	-	-	<b>235</b>	280
Deferred revenue	-	440	-	-	-	440
Other provisions	<b>91</b>	744	-	-	<b>91</b>	744
Tax value of loss carry-forwards recognised	-	1,284	-	-	-	1,284
<b>Net tax assets / (liabilities)</b>	<b>496</b>	13,041	-	(9,073)	<b>496</b>	3,968

### The Company

Available-for-sale financial assets	<b>2</b>	3	-	-	<b>2</b>	3
Other receivables	-	-	-	-	-	-
Other items	<b>39</b>	122	-	-	<b>39</b>	122
Tax value of loss carry-forwards recognised	-	-	-	-	-	-
<b>Net tax assets / (liabilities)</b>	<b>41</b>	125	-	-	<b>41</b>	125

### Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
Deductible temporary differences	<b>293,202</b>	-	<b>131,853</b>	-
Tax losses	<b>15,295</b>	-	-	-
	<b>308,497</b>	-	<b>131,853</b>	-

These deferred tax assets arise as a result of impairment losses recognised in the current year, and carried forward operating tax losses.

These deferred tax assets have not been recognised on the basis that due to the current operating environment in the global financial markets, it is not probable that future taxable profit or capital gains will be available against which the Group can utilise these benefits. As such, the Group did not recognise the value of the potential benefit associated with these losses in the current period.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 17. PLANT AND EQUIPMENT

Plant and equipment is held at subsidiary levels only. No plant and equipment is held by the Company.

<b>Consolidated</b>	<b>Furniture and Equipment \$000's</b>	<b>Computer Equipment \$000's</b>	<b>Leasehold Improvements \$000's</b>	<b>Under Construction \$000's</b>	<b>Total \$000's</b>
<b>Cost</b>					
Balance at 1 July 2007	129	390	493	-	1,012
Acquisitions through business combinations	302	677	181	315	1,475
Other additions	737	294	397	-	1,428
Disposals	(10)	-	-	-	(10)
Transfer on completion	-	-	-	(300)	(300)
Write-off fully written down assets	(9)	(115)	(81)	-	(205)
Effect of movement in exchange rate	(53)	(61)	(28)	(15)	(157)
<b>Balance at 30 June 2008</b>	<b>1,096</b>	<b>1,185</b>	<b>962</b>	<b>-</b>	<b>3,243</b>
Balance at 1 July 2008	1,096	1,185	962	-	3,243
Additions	8	123	31	-	162
Disposals	(33)	(83)	(118)	-	(234)
Effect of movement in exchange rate	175	127	83	-	385
<b>Balance at 30 June 2009</b>	<b>1,246</b>	<b>1,352</b>	<b>958</b>	<b>-</b>	<b>3,556</b>
<b>Depreciation and impairment losses</b>					
Balance at 1 July 2007	(25)	(232)	(123)	-	(380)
Acquisition through business combinations	(68)	(299)	(27)	-	(394)
Depreciation charge for the year	(69)	(187)	(105)	-	(361)
Disposals	4	-	-	-	4
Write-off fully written down assets	9	115	82	-	206
Effect of movement in exchange rate	8	29	3	-	40
<b>Balance at 30 June 2008</b>	<b>(141)</b>	<b>(574)</b>	<b>(170)</b>	<b>-</b>	<b>(885)</b>
Balance at 1 July 2008	(141)	(574)	(170)	-	(885)
Depreciation charge for the year	(235)	(407)	(162)	-	(804)
Disposals	13	70	24	-	107
Effect of movement in exchange rate	(1)	(46)	(34)	-	(81)
<b>Balance at 30 June 2009</b>	<b>(364)</b>	<b>(957)</b>	<b>(342)</b>	<b>-</b>	<b>(1,663)</b>
<b>Carrying amounts</b>					
At 1 July 2007	105	157	370	-	632
<b>At 30 June 2008</b>	<b>955</b>	<b>611</b>	<b>792</b>	<b>-</b>	<b>2,358</b>
At 1 July 2008	955	611	792	-	2,358
<b>At 30 June 2009</b>	<b>882</b>	<b>395</b>	<b>616</b>	<b>-</b>	<b>1,893</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 18. INTANGIBLE ASSETS

Intangible assets are held at subsidiary levels only. No intangible assets are held by the Company.

<b>Consolidated</b>	<b>Goodwill \$000's</b>	<b>Mgmt rights / Customer Relationships \$000's</b>	<b>Trademarks \$000's</b>	<b>Software \$000's</b>	<b>Total \$000's</b>
<b>Cost</b>					
Balance at 1 July 2007	2,020	11,212	-	-	13,232
Acquisitions through business combinations	567,506	83,381	2,158	909	653,954
Additions	-	738	-	-	738
Effect of movement in exchange rate	(48,580)	(7,128)	(184)	(78)	(55,970)
<b>Balance at 30 June 2008</b>	<b>520,946</b>	<b>88,203</b>	<b>1,974</b>	<b>831</b>	<b>611,954</b>
Balance at 1 July 2008	520,946	88,203	1,974	831	611,954
Additions	-	-	-	-	-
Written off	-	(34)	-	-	(34)
Effect of movement in exchange rate	96,699	14,209	368	155	111,431
<b>Balance at 30 June 2009</b>	<b>617,645</b>	<b>102,378</b>	<b>2,342</b>	<b>986</b>	<b>723,351</b>
<b>Amortisation and impairment losses</b>					
Balance at 1 July 2007	-	(1,527)	-	-	(1,527)
Amortisation for the year	-	(6,211)	(51)	(87)	(6,349)
Effect of movement in exchange rate	-	203	2	3	208
<b>Balance at 30 June 2008</b>	<b>-</b>	<b>(7,535)</b>	<b>(49)</b>	<b>(84)</b>	<b>(7,668)</b>
Balance at 1 July 2008	-	(7,535)	(49)	(84)	(7,668)
Amortisation for the year	-	(13,165)	(129)	(218)	(13,512)
Impairment losses	(587,640)	(8,479)	-	-	(596,119)
Effect of movement in exchange rate	85,598	301	2	6	85,907
<b>Balance at 30 June 2009</b>	<b>(502,042)</b>	<b>(28,878)</b>	<b>(176)</b>	<b>(296)</b>	<b>(531,392)</b>
<b>Carrying amounts</b>					
At 1 July 2007	2,020	9,685	-	-	11,705
<b>At 30 June 2008</b>	<b>520,946</b>	<b>80,668</b>	<b>1,925</b>	<b>747</b>	<b>604,286</b>
At 1 July 2008	520,946	80,668	1,925	747	604,286
<b>At 30 June 2009</b>	<b>115,603</b>	<b>73,500</b>	<b>2,166</b>	<b>690</b>	<b>191,959</b>

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 18. INTANGIBLE ASSETS (continued)

### Impairment testing of intangible assets

The recoverable amount of goodwill and intangible assets is calculated as the present value of the estimated future cash flows, discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to those assets.

For goodwill and intangible assets with an indefinite life, an impairment test is carried out annually. Other intangible assets are tested for impairment when an impairment indicator exists (see note 3(g)).

For the purpose of impairment testing, intangible assets are allocated to the following cash generating units:

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Australian based funds management</b>				
Goodwill	-	2,019	-	-
Management rights	-	9,182	-	-
<b>US based funds management</b>				
Goodwill	<b>115,603</b>	518,927	-	-
Management rights/customer relationships	<b>73,500</b>	71,486	-	-
Trademarks	<b>2,166</b>	1,925	-	-
Software	<b>690</b>	747	-	-
	<b>191,959</b>	604,286	-	-

The global financial crisis, particularly following the collapse of Lehman Brothers investment bank in September 2008, created one of the most difficult operating environments for fund managers in history. The severity and swiftness of the crisis, and the resultant distress in credit and capital markets around the world has meant that the absolute funds sector experienced investment losses and significant net fund outflows.

The Group assessed the carrying value of goodwill and intangible assets as at 31 December 2008 due to the reduction in the Group's AUM and the expectation that these conditions would continue in the short term before fund flows and performance returned to normal levels. As at 30 June 2009, outflows from the funds have begun to stabilise and the Group expects a return to net inflows through the coming financial period.

### Australian based funds management cash generating unit (AUS CGU)

As a result of the testing carried out on the AUS CGU, the carrying amount of management rights and goodwill allocated to this CGU was determined to be higher than its recoverable amount, and an impairment loss of \$10,498 thousand (2008: \$Nil) was recognised and is included in "impairment losses".

The recoverable amount of the AUS CGU was determined based on a value in use calculation.

To calculate this, cash flow projections are based on the financial budget for the Australian business approved by the Board of Directors for the 2009 to 2012 financial years. Forecasts for 2013 were based on levels consistent with 2012. A terminal value was calculated using a growth rate of 0%.

These cash flow projections were then discounted using the pre-tax discount rate of 20.2% (2008:17.1%)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 18. INTANGIBLE ASSETS (continued)

### US based funds management cash generating unit (US CGU)

As a result of the testing carried out on the CGU, the aggregate carrying amount of assets allocated to this CGU was determined to be higher than its recoverable amount, and an impairment loss of \$585,621 thousand (2008: \$Nil) was recognised and is included in "impairment losses". The impairment loss was allocated fully against goodwill.

This loss reflects the significantly lower than expected future cash flows from the US operations compared to the business at the time of acquisition.

The recoverable amount of the US CGU was determined based on a value in use calculation.

To calculate this, cash flow projections are based on the financial budget for the US business approved by the Board of Directors for the 2009 to 2012 financial years. Forecasts for 2013 were based on revenue growth that was broadly consistent with the approved growth rates for 2011 and 2012 and normalised cost percentages.

A long term growth rate of 3.5% was used in the terminal value component of the calculation. This rate was based on a 2.1% CPI long term forecast plus 1.4% for real GDP as sourced from the Economist Intelligence Unit, and is consistent with the growth assumption applied by many US companies when performing impairment tests.

These cash flow projections were then discounted using the pre-tax discount rate of 16.6% (2008: 13.2%)

## 19. TRADE AND OTHER PAYABLES

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Current</b>				
Trade creditors	<b>1,859</b>	3,349	<b>94</b>	369
Other creditors and accruals	<b>7,435</b>	8,688	<b>366</b>	73
<b>Total trade and other payables</b>	<b>9,294</b>	12,037	<b>460</b>	442

Trade creditors are non-interest bearing and normally settled on 30 day terms.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

## 20. DERIVATIVES

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Non-current</b>				
Derivatives used for hedging	<b>3,455</b>	-	-	-
<b>Total Derivatives</b>	<b>3,455</b>	-	-	-

Derivatives used for hedging relate to interest rate swaps used to hedge the Group's exposure to interest rate risk. The fair value of these derivatives is based on valuations received from the interest rate swap provider. As at 30 June 2008 these derivatives were in a gain position and were included in non-current assets (see note 15).

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 21. INTEREST BEARING LOANS AND BORROWINGS

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Current</b>				
Bank loan - secured				
Facility A - USD	<b>5,885</b>	-	-	-
Facility B - AUD	<b>1,994</b>	-	<b>1,994</b>	-
	<b>7,879</b>	-	<b>1,994</b>	-
<b>Non-current</b>				
Bank loan - secured				
Facility A - USD	<b>132,247</b>	131,927	-	-
Facility B - AUD	<b>4,792</b>	9,802	<b>4,792</b>	9,802
	<b>137,039</b>	141,729	<b>4,792</b>	9,802

In the interim financial report for the six months ended 31 December 2008, interest bearing loans and borrowings were classified as current due to the fact that the Group was undergoing negotiations with its bank regarding a restructure of its cash advance facility agreement.

As announced to the market in March 2009, these negotiations were successfully completed, and the facility extended until November 2011.

Interest bearing loans and borrowings have therefore been reclassified as non-current, other than the portion of bank loans expected to be paid within one year (2008: \$Nil).

### Terms and debt repayment schedule

The terms and conditions of the outstanding loans as at 30 June 2009 were as follows:

<b>Consolidated</b>	Nominal Interest Rate	Year of Maturity	<b>2009</b>		2008	2008
			<b>Face Value AUD \$000's</b>	<b>Carrying Amount AUD \$000's</b>	Face Value AUD \$000's	Carrying Amount AUD \$000's
Facility A – USD	LIBOR + 2.25%	2011	<b>139,357</b>	<b>138,132</b>	132,727	131,927
Facility B – AUD	BBSY + 2.25%	2011	<b>6,899</b>	<b>6,786</b>	10,000	9,802
<b>Total Interest bearing liabilities</b>			<b>146,256</b>	<b>144,918</b>	142,727	141,729

<b>The Company</b>	Nominal Interest Rate	Year of Maturity	<b>2009</b>		2008	2008
			<b>Face Value AUD \$000's</b>	<b>Carrying Amount AUD \$000's</b>	Face Value AUD \$000's	Carrying Amount AUD \$000's
Facility B – AUD	BBSY + 2.25%	2011	<b>6,899</b>	<b>6,786</b>	10,000	9,802
<b>Total Interest bearing liabilities</b>			<b>6,899</b>	<b>6,786</b>	10,000	9,802

### Financing arrangements

Bank loans are denominated in both Australian dollars and US dollars. The bank loan amounts in current liabilities comprises the portion of the Consolidated Entity's bank loans expected to be paid within one year (2009: \$7,879) (2008: \$Nil).

Bank loans comprise of the following facilities available under a Cash Advance Facilities Agreement with Westpac Banking Corporation ("CAFA"):

- Facility A (USD Lighthouse Group Acquisition Facility)
- Facility B (AUD Working Capital Facility)

Both facilities are secured by first ranking fixed and floating charges and mortgages over all the assets and undertakings of HFA Holdings Limited and HFA Admin Pty Ltd in favour of Westpac, with US Charges granted by HFA Lighthouse Holdings Corp, HFA Lighthouse Corp, LHP Investments, LLC and Lighthouse Investment Partners, LLC in favour of Westpac and Deposit Account Control Agreements granted by LHP Investments LLC and Lighthouse Investment Partners LLC in favour of Westpac.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 21. INTEREST BEARING LOANS AND BORROWINGS (continued)

### Financing arrangements (continued)

HFA Holdings Limited, HFA Admin Pty Ltd, HFA Asset Management Limited, HFA Lighthouse Holdings Corp and HFA Lighthouse Corp guarantee the obligations of HFA Holdings Limited and HFA Lighthouse Holdings Corp ("the Borrowers"). The Borrowers and guarantors also provide a cross guarantee in relation to these obligations and any new or acquired HFA subsidiary must also provide a guarantee and first ranking security over its assets. The CAFA contains representations, warranties, undertakings and events of default of a type usual for a debt facility of this kind and having regard to the nature of HFA's business. Undertakings include obligations to comply with applicable laws, carry on business in a proper and efficient manner, ensure that no event of default occurs and insure all secured property.

Financial undertakings include that HFA and its related entities will ensure that:

- EBITDA for each period is always at least 1.5 times greater than the interest expense for the same period; and
- Assets under management of the Consolidated Group are not less than \$US 2.6 billion.

The financial undertakings are tested quarterly, based on the preceding 12 months.

The Group's exposure to currency and interest rate risk related to interest bearing loans and borrowings is disclosed in note 27.

## 22. EMPLOYEE BENEFITS

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
<b>Current</b>				
Salaries and wages accrued	4,704	7,218	-	-
Liability for annual leave	599	763	-	-
<b>Total employee benefits – current</b>	<b>5,303</b>	<b>7,981</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>				
Liability for long service leave	217	164	-	-
<b>Total employee benefits – non-current</b>	<b>217</b>	<b>164</b>	<b>-</b>	<b>-</b>

## 23. SHARE-BASED PAYMENTS

### 2008 HFA Employee Performance Rights Plan

An offer of rights to issued shares in the Company was made to employees of HFA's Australian business on 12 March 2008.

The Board approved the allocation of 3,955,000 performance rights to employees.

No consideration is payable by employees upon the issue of performance rights or in respect of the shares to be issued upon the exercise of the performance rights. Vesting conditions must be satisfied for the exercise of the performance rights.

Vesting of the performance rights is in tranches of 25%, 35% and 40% with respective vesting dates of 31 December 2008, 31 December 2009 and 31 December 2010. Vesting conditions include being employed by the Group at the relevant vesting date and meeting of performance hurdles for HFA's Australian business relating to assets under management, base revenue (excluding performance fees) and EBITDA.

The HFA Holdings Limited Board retains the ability to permit vesting in circumstances where hurdle thresholds are not met but commercial circumstances warrant limited or full vesting.

Details of the performance rights granted are as follows:

	Total Number of rights granted	Grant date	Fair value at grant date (\$)	Expiry date	Financial year in which grant vests
Tranche 1	988,750	12/03/2008	0.9950	31/12/2009	2009
Tranche 2	1,384,250	12/03/2008	0.9196	31/12/2010	2010
Tranche 3	1,582,000	12/03/2008	0.8499	31/12/2011	2011

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 23. SHARE-BASED PAYMENTS (continued)

The following is a reconciliation of performance rights outstanding under the 2008 HFA Employee Performance Rights Plan:

	Number of shares
Outstanding at 1 July 2008	3,955,000
Forfeited during the period	(983,750)
Issued during the period in relation to Tranche 1	(901,250)
<b>Outstanding at 30 June 2009</b>	<b>2,070,000</b>

Tranche 1 of the performance plan vested at 31 December 2008, with 100% of the shares (901,250 shares) available under the tranche for eligible employees being issued at the discretion of the Board. The total non-cash expense recognised by the Group for the year ended 30 June 2009 totalled \$219 thousand (2008: \$553 thousand).

The fair value of performance rights is calculated using the Black-Scholes option pricing model adjusted for dividends and is allocated to reporting periods evenly over the period from grant date to vesting date after estimating probabilities of vesting.

The following factors and assumptions were used in determining the fair value of the rights at grant date:

	Grant date	Life of right granted	Exercise Price \$	Share price at grant date \$	Risk free interest rate	Dividend yield	Fair value per right at grant date \$
Tranche 1	12/03/08	1.8 years	-	1.06	6.630%	8.2%	0.9950
Tranche 2	12/03/08	2.8 years	-	1.06	6.323%	8.2%	0.9196
Tranche 3	12/03/08	3.8 years	-	1.06	6.190%	8.2%	0.8499

### *Lighthouse Investment Partners Incentive Compensation Plan*

An incentive plan for employees of Lighthouse Investment Partners, LLC was established by SGM Holdings, LLC on 1 July 2008. SGM Holdings, LLC is a related entity of Sean McGould and is not part of the HFA Holdings Limited Group. Grants made under the plan are funded by SGM Holdings, LLC not the HFA Holdings Limited Group. However, as SGM Holdings, LLC is a shareholder of HFA Holdings Limited, accounting standards require that the Group recognise an expense associated with the shares granted under the plan with a corresponding increase in the Group's equity to recognise the contribution by SGM Holdings, LLC as a shareholder.

The incentive plan grants participants an opportunity to earn a payment of cash or receive ordinary shares of HFA Holdings Limited. 100% of the shares available under the plan were issued to eligible employees during the year ended 30 June 2009 (9,904,925 shares), with the total non-cash expense recognised by the Group totalling \$12,177 thousand (2008: \$Nil).

The fair value of ordinary shares available under the plan is calculated using the Black-Scholes option pricing model adjusted for dividends and is allocated to reporting periods evenly over the period from grant date to vesting date after estimating probabilities of vesting.

The following factors and assumptions were used in determining the fair value of the rights at grant date:

	Grant date	Life of right granted	Exercise Price \$	Share price at grant date \$	Risk free interest rate	Dividend yield	Fair value per right at grant date \$
Tranche 1	01/07/2008	0.5 years	-	1.09	6.947%	8.0%	1.0489
Tranche 2	01/07/2008	1.5 years	-	1.09	6.849%	8.0%	0.9712
Tranche 3	01/07/2008	2.5 years	-	1.09	6.748%	8.0%	0.8992

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 24. DEFERRED INCOME

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
<b>Non-current</b>				
Deferred Income	-	1,467	<b>585</b>	652
	-	1,467	<b>585</b>	652

Deferred income consists of the following balances:

### Consolidated

#### *Establishment Fee – HFA Retrospective Fund:*

The deferred income as at 30 June 2008 relates to an establishment fee of \$1,629 thousand received by HFA Asset Management Limited from its leverage counterparty on the launch of the HFA Retrospective Fund in December 2007. In the year ended 30 June 2009, the remaining balance of this establishment fee was recognised in full as it was established that all risks and rewards in relation to the fee had fully transferred to the Group.

### The Company

#### *Establishment Fee – Investment Loan:*

An establishment fee of \$675 thousand was paid on the establishment of the investment loan between HFA Holdings Limited and HFA Lighthouse Holdings Corp. This fee is being recognised over the 10 year life of the loan using the effective interest method. This balance is eliminated on consolidation.

## 25. ISSUED CAPITAL AND RESERVES

<b>Consolidated</b>	<b>Share Capital \$000's</b>	Fair Value Reserve \$000's	<b>Hedging Reserve \$000's</b>	Translation Reserve \$000's	<b>Retained Earnings \$000's</b>	Total Equity \$000's
Balance at 1 July 2007	<b>706</b>	133	-	-	<b>19,796</b>	20,635
Total recognised income and expense	-	(137)	<b>1,613</b>	(35,764)	<b>35,170</b>	882
Issue of ordinary shares	<b>504,024</b>	-	-	-	-	504,024
Dividend to equity holders	-	-	-	-	<b>(14,895)</b>	(14,895)
Equity settled transactions	-	-	-	-	<b>553</b>	553
Balance at 30 June 2008	<b>504,730</b>	(4)	<b>1,613</b>	(35,764)	<b>40,624</b>	511,199
Balance at 1 July 2008	<b>504,730</b>	(4)	<b>1,613</b>	(35,764)	<b>40,624</b>	511,199
Total recognised income and expense	-	4	<b>(5,068)</b>	153,206	<b>(573,184)</b>	(425,042)
Dividend to equity holders	-	-	-	-	<b>(16,085)</b>	(16,085)
Equity settled transactions	-	-	-	-	<b>12,396</b>	12,396
Balance at 30 June 2009	<b>504,730</b>	-	<b>(3,455)</b>	117,442	<b>(536,249)</b>	82,468

Equity settled transactions relate to the recognition of shares issued to employees under the 2008 HFA Employee Performance Rights Plan and the Lighthouse Investment Partners Incentive Compensation Plan (refer to note 23). This is a non-cash expense. These amounts are recognised in retained earnings.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 25. ISSUED CAPITAL AND RESERVES (continued)

The Company	Share Capital \$000's	Fair Value Reserve \$000's	Hedging Reserve \$000's	Translation Reserve \$000's	Retained Earnings \$000's	Total Equity \$000's
Balance at 1 July 2007	706	133	-	-	9,357	10,196
Total recognised income and expense	-	(137)	-	-	33,075	32,938
Issue of ordinary shares	504,024	-	-	-	-	504,024
Dividend to equity holders	-	-	-	-	(14,895)	(14,895)
<b>Balance at 30 June 2008</b>	<b>504,730</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>27,537</b>	<b>532,263</b>
Balance at 1 July 2008	504,730	(4)	-	-	27,537	532,263
Total recognised income and expense	-	4	-	-	(422,877)	(422,873)
Dividend to equity holders	-	-	-	-	(16,085)	(16,085)
Equity settled transactions	-	-	-	-	896	896
<b>Balance at 30 June 2009</b>	<b>504,730</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(410,529)</b>	<b>94,201</b>

### Movement in ordinary shares on issue

	Consolidated 2009 Number 000's	Consolidated 2008 Number 000's	The Company 2009 Number 000's	The Company 2008 Number 000's
Balance at beginning of financial year	459,583	201,811	459,583	201,811
Institutional placement on 1 November 2007	-	92,833	-	92,833
Rights issue on 27 November 2007	-	30,272	-	30,272
Issued on 3 January 2008 as part of Lighthouse Group acquisition	-	134,667	-	134,667
Performance rights issued on 6 March 2009	901	-	901	-
<b>Balance at end of financial year</b>	<b>460,484</b>	<b>459,583</b>	<b>460,484</b>	<b>459,583</b>

The Company does not have authorised capital or par value in respect of issued shares.

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

Tranche 1 of the HFA performance rights plan vested at 31 December 2008 and were issued on 6 March 2009, with 100% of the shares (901,250 shares) available under the tranche for eligible employees being issued at the discretion of the Board.

### Nature and purpose of reserves

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Fair value reserve	-	(4)	-	(4)
Translation reserve	117,442	(35,764)	-	-
Hedging reserve	(3,455)	1,613	-	-
	<b>113,987</b>	<b>(34,155)</b>	<b>-</b>	<b>(4)</b>

#### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

#### Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 25. ISSUED CAPITAL AND RESERVES (continued)

### Nature and purpose of reserves (continued)

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

#### Dividends

Dividends recognised in the current year by the Group are:

	Cents per share	Total amount \$000's	Franked / unfranked	Date of payment
<b>Declared and paid during the 2009 financial year</b>				
Final 2008 ordinary	3.5	16,085	Franked	26 September 2008
Interim 2009 ordinary	-	-	-	N/A
<b>Total amount</b>		16,085		
<b>Declared and paid during the 2008 financial year</b>				
Final 2008 ordinary	4.0	8,072	Franked	25 September 2007
Interim 2009 ordinary	2.1	6,823	Franked	26 March 2008
<b>Total amount</b>		14,895		

Franked dividends declared or paid during the year were fully franked and franked at the tax rate of 30%.

The Directors have at the date of this report declared that no final dividend will be paid for the financial year ended 30 June 2009.

<b>Dividend franking account</b>	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
30 percent franking credits available to shareholders of HFA Holdings Limited for subsequent financial years.	<b>10,140</b>	10,880

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for franking credits that will arise from the payment of current tax liabilities.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends proposed after balance sheet date but not recognised as a liability is to reduce it by \$Nil (2008: \$6,894 thousand). In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of \$10,140 thousand (2008: \$10,880 thousand) franking credits.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 26. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Note	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
<b>Cash flows from operating activities</b>					
Net profit/(loss) for the period (after tax)		<b>(573,184)</b>	35,170	<b>(422,877)</b>	33,075
<i>Adjustments for:</i>					
Depreciation expense	9 (c)	<b>804</b>	361	-	-
Impairment losses	9 (d)	<b>599,537</b>	-	<b>435,156</b>	-
Amortisation of intangible assets	9 (c)	<b>13,512</b>	6,349	-	-
Interest expense on financial liabilities measured at amortised cost	10 (a)	<b>7,659</b>	4,315	<b>530</b>	1,026
Net loss on disposal of plant & equipment		<b>127</b>	-	-	-
Borrowing costs	10 (a)	<b>726</b>	140	<b>33</b>	114
Fee income on loans to subsidiaries	10 (a)	-	-	<b>(272)</b>	(93)
Equity-settled transactions	9(e)	<b>12,396</b>	553	-	-
Intercompany interest income recognised		-	-	<b>(15,161)</b>	(4,441)
Income tax expense/(benefit)		<b>(17,211)</b>	2,513	<b>(5,538)</b>	(7,039)
Fair value gain/(loss) on financial assets at fair value through profit or loss	10 (a)	<b>280</b>	(107)	-	-
Intercompany interest converted to investment in controlled entities		-	-	-	(6,063)
Foreign currency (gain) / loss		<b>113</b>	(8,913)	<b>(109)</b>	(9,006)
<b>Operating cash flow before changes in working capital and provisions</b>					
		<b>44,759</b>	40,381	<b>(8,238)</b>	7,573
(Increase)/decrease in receivables		<b>5,235</b>	31,135	-	28
(Increase)/decrease in other assets		<b>(174)</b>	(177)	<b>527</b>	(1,510)
(Increase)/decrease to loans to controlled entities		-	-	<b>(5,479)</b>	(6,331)
Increase/(decrease) in payables		<b>(2,116)</b>	(18,529)	<b>(342)</b>	358
Increase/(decrease) in provisions and employee benefits		<b>(3,696)</b>	7,453	-	-
Increase/(decrease) in deferred income		<b>(1,467)</b>	1,467	-	-
<b>Net cash from operating activities</b>					
		<b>42,541</b>	61,730	<b>(13,532)</b>	118

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and market risk arises in the normal course of the Company's and Group's business.

### Credit risk

#### Exposure to credit risk

The carrying amount of the Company's and Group's financial assets represents the maximum credit exposure.

The Company's and Group's maximum exposure to credit risk at reporting date was:

	Note	Consolidated Carrying amount 2009 \$000's	Consolidated Carrying amount 2008 \$000's	The Company Carrying amount 2009 \$000's	The Company Carrying amount 2008 \$000's
Cash and cash equivalents	13	29,290	38,828	5,858	13,562
Loans and receivables	14	19,391	25,345	84,572	244,116
Available-for-sale financial assets	15	84	528	84	528
Financial assets at fair value through profit or loss	15	2,235	2,048	-	-
Interest rate swaps used for hedging	15	-	2,751	-	-
<b>Total financial assets</b>		<b>51,000</b>	69,500	<b>90,514</b>	258,206

The Group's exposure to credit risk for loans and receivables predominantly relates to management fees, performance fees and other related fees from products managed by the Group. At reporting date, 92% of the Group's loans and receivables related to management fees, performance fees and other related fees owing from products managed by the Group (2008: 95%). 43% of receivables relate to the Lighthouse Diversified Fund and Lighthouse Long Short Fund (2008: 33%).

The majority of the Company's loans and receivables are with subsidiaries, with one subsidiary accounting for \$83,817 thousand (2008: \$241,649 thousand).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets, financial assets at fair value through the profit or loss and interest rate swaps used for hedging, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS (continued)

### Impairment losses

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables. 94% of the trade receivables balance is not past due.

### The movement in the allowance for impairment in respect of non-current loans and receivables during the year was as follows:

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Balance at 1 July	-	-	-	-
Impairment loss recognised	2,968	-	157,832	-
<b>Balance at 30 June</b>	<b>2,968</b>	-	<b>157,832</b>	-

### Impairment of non-current receivables

The impairment loss recognised in the profit and loss of the Consolidated Group relates to \$2,968 thousand of non-current receivables connected to the performance of Index Outperformance Call Options included in three of the Group's structured products. These receivables were impaired during the financial year ended 30 June 2009 due to a decrease in the value of the options.

### Impairment of investment loan from subsidiary

The impairment loss recognised by the Company relates to the investment loan receivable that the Company holds with a wholly owned subsidiary. The investment loan is recognised at fair value, calculated as the present value of estimated future cash flows expected to be received in relation to the loan. The discount rate used in this calculation is the current effective interest rate on the loan as at 30 June 2009 being 5.04%.

The reduction in the carrying value (\$157,832 thousand) of the loan has been recognised in "impairment losses" in the profit or loss of the Company. This impairment loss eliminates on consolidation of the Group, and does not impact the results of the Consolidated Group.

### The movement in the allowance for impairment in respect of available-for-sale investments during the year was as follows:

	Consolidated 2009 \$000's	Consolidated 2008 \$000's	The Company 2009 \$000's	The Company 2008 \$000's
Balance at 1 July	-	-	-	-
Impairment loss recognised	450	-	450	-
<b>Balance at 30 June</b>	<b>450</b>	-	<b>450</b>	-

### Impairment of available-for-sale financial assets

HFA Holdings Limited holds 562 thousand shares in HFA Accelerator Plus Limited with a cost base of \$534 thousand (approximately 0.95 cents per share). As at 30 June 2009, the fair value of these shares was \$84 thousand (0.15 cents per share). As a result, the carrying value of this asset was assessed under the impairment provisions of AASB 139 Financial Instruments: Recognition and Measurement. Due to the significant decline in the fair value of this investment, an impairment loss of \$450 thousand (2008: \$Nil) has been recognised and is included in "impairment losses" in the profit or loss of the Group and the Company.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS (continued)

### Liquidity risk

The Group's debt facilities will mature in November 2011.

The following are the contractual maturities of non-derivative financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

2009	Note	Fair Value \$000's	6 months or less \$000's	6-12 months \$000's	1-2 years \$000's	2-5 years \$000's	More than 5 years \$000's
<b>Consolidated</b>							
<b>Non derivative financial liabilities:</b>							
Interest bearing bank loans	21	<b>146,256</b>	(4,340)	(10,320)	(11,384)	(130,935)	-
Trade and other payables	19	<b>9,294</b>	(9,294)	-	-	-	-
		<b>155,550</b>	(13,634)	(10,320)	(11,384)	(130,935)	-
<b>The Company</b>							
<b>Non derivative financial liabilities:</b>							
Interest bearing bank loans	21	<b>6,899</b>	(2,123)	(133)	(268)	(5,041)	-
Trade and other payables	19	<b>460</b>	(460)	-	-	-	-
		<b>7,359</b>	(2,583)	(133)	(268)	(5,041)	-
<b>2008</b>							
	Note	Fair Value \$000's	6 months or less \$000's	6-12 months \$000's	1-2 years \$000's	2-5 years \$000's	More than 5 years \$000's
<b>Consolidated</b>							
<b>Non derivative financial liabilities:</b>							
Interest bearing bank loans	21	<b>142,727</b>	(2,867)	(2,821)	(5,689)	(144,566)	-
Trade and other payables	19	<b>12,037</b>	(12,037)	-	-	-	-
		<b>154,764</b>	(14,904)	(2,821)	(5,689)	(144,566)	-
<b>The Company</b>							
<b>Non derivative financial liabilities:</b>							
Interest bearing bank loans	21	<b>10,000</b>	(435)	(429)	(864)	(10,279)	-
Trade and other payables	19	<b>442</b>	(442)	-	-	-	-
		<b>10,442</b>	(877)	(429)	(864)	(10,279)	-

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS (continued)

The following table indicates the period in which the cash flows associated with derivatives that are cash flow hedges are expected to occur and when they are expected to impact profit or loss:

2009	Note	Fair value \$000's	6 months or less \$000's	6-12 months \$000's	1-2 years \$000's	2-5 years \$000's	More than 5 years \$000's
<b>Consolidated</b>							
<b>Interest rate swaps:</b>							
Assets	15	-	-	-	-	-	-
Liabilities	20	3,455	(1,240)	(1,428)	(1,640)	-	-
		3,455	(1,240)	(1,428)	(1,640)	-	-
2008	Note	Fair value \$000's	6 months or less \$000's	6-12 months \$000's	1-2 years \$000's	2-5 years \$000's	More than 5 years \$000's
<b>Consolidated</b>							
<b>Interest rate swaps:</b>							
Assets	15	2,751	(57)	(56)	(113)	(36)	-
Liabilities	20	-	-	-	-	-	-
		2,751	(57)	(56)	(113)	(36)	-

The Company does not hold any derivatives that are cash flow hedges.

### Currency risk

The Group is exposed to currency risk as at reporting date in respect of AUD receivables held by the Lighthouse Group, which has a functional currency of USD. The value of receivables held at balance date was \$617 thousand (2008: \$3,263 thousand).

The Company's exposure to foreign currency risk at balance date was \$Nil (2008: \$Nil).

The following significant exchange rates applied during the year:

	Average Rate 2009	Average Rate 2008	Reporting date spot rate 2009	Reporting date spot rate 2008
AUD: USD	0.7456	0.9250*	0.8114	0.9626

\*For the period January 2008 to June 2008

### Sensitivity analysis

A 10 percent appreciation (depreciation) in the Australian dollar against the US dollar at 30 June would have increased (decreased) the Group's profit or loss by \$40 thousand (2008: \$202 thousand). This analysis assumes that all other variables remain constant.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS (continued)

### Equity price risk

An analysis of financial assets which are exposed to equity price risk fluctuations in fair value includes the following:

	Note	Consolidated Carrying amount 2009 \$000's	Consolidated Carrying amount 2008 \$000's	The Company Carrying amount 2009 \$000's	The Company Carrying amount 2008 \$000's
Available-for-sale financial assets	15	84	528	84	528
Financial assets designated as fair value through profit and loss	15	2,235	2,048	-	-
		<b>2,319</b>	<b>2,576</b>	<b>84</b>	<b>528</b>

### Sensitivity analysis

#### Available-for-sale financial assets

A 10 percent increase (decrease) in equity prices would have increased (decreased) the fair value of available-for-sale financial assets by \$6 thousand (2008: \$37 thousand). The equity value of both the Group and the Company would have been affected by a corresponding amount.

#### Financial assets designated as fair value through profit and loss

A 10 percent increase in the fair value of investments at reporting date would have increased the Group's profit by \$121 thousand (2008: \$109 thousand). A 10 decrease would have decrease the Group's profit by \$138 thousand (2008: \$127 thousand). The Company's result would not have been affected.

### Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured bank loans, cash deposits and interest rate swaps.

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's secured bank loan, cash deposits and investment loan receivable.

The interest rate profile of financial liabilities is detailed in note 21. All interest rates on borrowings are on a variable rate basis. The Group manages interest rate risk on its USD denominated borrowing by entering into fixed rate interest rate swaps.

At reporting date the Company and the Group's interest bearing financial instruments were:

	Consolidated Carrying amount 2009 \$000's	Consolidated Carrying amount 2008 \$000's	The Company Carrying amount 2009 \$000's	The Company Carrying amount 2008 \$000's
<b>Fixed rate instruments</b>				
Interest rate swap assets	-	2,751	-	-
Interest rate swap liabilities	(3,455)	-	-	-
<b>Variable rate instruments</b>				
Cash and cash equivalents	29,290	38,828	5,858	13,562
Investment loan due from subsidiary	-	-	83,817	241,649
Interest bearing loans	(144,918)	(141,729)	(6,786)	(9,802)

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 27. FINANCIAL INSTRUMENTS (continued)

### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Interest rate swaps are designated as effective cash flow hedges, with movements in fair value being accounted for through equity. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A 100 basis point increase (decrease) in interest rates would have increased (decreased) the Group's equity by \$1,087 thousand (2008: \$1,726 thousand). There would have been no impact on the Company's equity.

### Cash flow sensitivity analysis for variable rate instruments

A change in interest rates at reporting date would not have impacted the carrying value of the Group's variable rate instruments, and would therefore not have had an impact on the Group's equity or profit or loss.

A change in interest rates at reporting date would have impacted the carrying value of the Company's investment loan receivable, which is carried at fair value based on the present value of future cash flows. An increase of 100 basis points would have had a positive impact on the Company's profit or loss by \$8,713 thousand (2008: \$Nil). A decrease of 100 basis points would have had a negative impact on the Company's profit or loss by \$9,550 thousand. This impact eliminates on consolidation and does not affect the Group's earnings or financial position.

### Fair values

The carrying values of financial assets and liabilities approximate their fair values.

### Estimation of fair values

The following summarises the key methods and assumptions used in estimating the fair values of financial instruments.

#### Securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

#### Trade and other receivables/payables

For receivables/payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables/payables are discounted to determine the fair value.

#### Interest-bearing loans and borrowings

Fair value is calculated based on discounted expected future principal and interest cash flows.

## 28. COMMITMENTS

### Operating lease commitments

The Group has entered into commercial leases on office equipment and premises where it is not in the best interest of the Group to purchase these assets.

These leases have an average life of between 1 and 8 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	<b>Consolidated 2009 \$000's</b>	Consolidated 2008 \$000's	<b>The Company 2009 \$000's</b>	The Company 2008 \$000's
Within one year	<b>1,603</b>	1,437	-	-
After one year but not more than five years	<b>3,526</b>	3,617	-	-
More than five years	<b>263</b>	778	-	-
	<b>5,392</b>	5,832	-	-

## 29. CONTINGENT LIABILITIES

### Litigation

There are no outstanding legal matters to which the Group or Company is a party. Matters outstanding as at the date of the last financial report have subsequently settled.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 30. AUDITOR'S REMUNERATION

	<b>Consolidated 2009 \$</b>	Consolidated 2008 \$	<b>The Company 2009 \$</b>	The Company 2008 \$
<b>Audit services:</b>				
Auditors of the Company				
<i>KPMG</i> Australia:				
Audit and review of financial reports	<b>183,750</b>	136,202	<b>165,450</b>	115,202
Overseas <i>KPMG</i> Firm:				
Audit and review of financial reports	<b>189,780</b>	158,919	-	-
	<b>373,530</b>	295,121	<b>165,450</b>	115,202
<b>Services other than statutory audit:</b>				
Auditors of the Company				
<i>KPMG</i> Australia:				
Other assurance services	<b>24,480</b>	22,120	<b>10,000</b>	-
Taxation services	<b>123,902</b>	12,940	<b>119,902</b>	7,000
Other advisory services	<b>10,000</b>	87,105	<b>10,000</b>	-
Due diligence services	-	1,308,045	-	1,308,045
	<b>158,382</b>	1,430,210	<b>139,902</b>	1,315,045

The costs identified as due diligence services were incurred in relation to the acquisition of the Lighthouse Group that was completed on 3 January 2008 and associated capital raising. These costs are considered to be one-off costs incurred due to the nature of the transaction.

## 31. RELATED PARTIES

### Remuneration of Key Management Personnel

The key management personnel compensation included in "personnel expenses" (see note 9) is as follows:

	<b>Consolidated 2009 \$</b>	Consolidated 2008 \$	<b>The Company 2009 \$</b>	The Company 2008 \$
Short-term employee benefits	<b>6,667,447</b>	4,993,996	<b>1,026,224</b>	253,237
Post employment benefits	<b>214,074</b>	131,154	<b>49,031</b>	21,007
Termination benefits	<b>113,771</b>	-	-	-
Share-based payments	<b>171,366</b>	214,197	-	-
	<b>7,166,658</b>	5,339,347	<b>1,075,255</b>	274,244

### Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives' compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving Directors' interest existing at year-end.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Options and rights over equity instruments

The movement during the reporting period in the number of performance rights over ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009	Balance 1 July 2008	Granted as compensation	Exercised	Other changes*	Balance 30 June 2009	Vested and exercisable at 30 June 2009
<b>Directors</b>	-	-	-	-	-	-
Spencer Young	-	-	-	-	-	-
Sean McGould	-	-	-	-	-	-
FP (Andy) Esteban	-	-	-	-	-	-
John Larum	-	-	-	-	-	-
Brett Howard	-	-	-	-	-	-
Robert Fraser	-	-	-	-	-	-
<b>Executives</b>						
Oscar Martinis	450,000	-	112,500	-	337,500	-
Robert White	450,000	-	112,500	-	337,500	-
Jonathan Pain	250,000	-	62,500	-	187,500	-
Rodney Hughes	200,000	-	50,000	(150,000)	-	-
Amber Stoney	200,000	-	50,000	-	150,000	-
Scott Perkins	-	-	-	-	-	-
Kelly Perkins	-	-	-	-	-	-
Robert Swan	-	-	-	-	-	-

\* Other changes represent performance rights that were forfeited during the year.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Options and rights over equity instruments (continued)

2008	Balance 1 July 2007	Granted as compensation	Exercised	Other changes*	Balance 30 June 2008	Vested and exercisable at 30 June 2008
<b>Directors</b>						
Brett Howard	-	-	-	-	-	-
Spencer Young	-	-	-	-	-	-
Sean McGould	-	-	-	-	-	-
Robert Fraser	-	-	-	-	-	-
Andy Esteban	-	-	-	-	-	-
<b>Executives</b>						
Oscar Martinis	-	450,000	-	-	<b>450,000</b>	-
Robert White	-	450,000	-	-	<b>450,000</b>	-
Jonathan Pain	-	250,000	-	-	<b>250,000</b>	-
Rodney Hughes	-	200,000	-	-	<b>200,000</b>	-
Amber Stoney	-	200,000	-	-	<b>200,000</b>	-
Scott Perkins	-	-	-	-	-	-
Kelly Perkins	-	-	-	-	-	-
Robert Swan	-	-	-	-	-	-

\* Other changes represent performance rights that were forfeited during the year.

No performance rights held by key management personnel are vested but not exercisable at 30 June 2009 or 2008.

No additional performance rights or shares were granted to key management personnel during the reporting period as compensation.

Further details of performance rights provided as remuneration to each key management person of the group, together with the terms and conditions of the rights, can be found in the remuneration report on pages 14 and 17-19.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Movements in shares

The movement during the reporting period in the number of shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

2009	Balance 1 July 2008	Purchases	Sales	Net Change Other	Balance 30 June 2009
<b>Directors</b>					
Spencer Young <sup>1</sup>	25,516,951	-	-	-	25,516,951
Sean McGould <sup>2</sup>	91,476,460	-	-	(13,724,125) <sup>3</sup>	77,752,335
FP (Andy) Esteban	8,354	-	-	-	8,354
John Larum	-	-	-	-	-
Brett Howard	450,000	-	-	-	N/A <sup>4</sup>
Robert Fraser	23,600	-	-	-	N/A <sup>4</sup>
<b>Executives</b>					
Oscar Martinis	5,501,909	-	(5,613,500)	112,500 <sup>6</sup>	909
Robert White	1,110,000	-	(1,104,693)	112,500 <sup>6</sup>	117,807
Jonathan Pain	1,014,324	-	(872,543)	62,500 <sup>6</sup>	204,281
Rodney Hughes <sup>4</sup>	93,000	-	-	50,000 <sup>6</sup>	143,000
Amber Stoney <sup>5</sup>	650,491	-	-	50,000 <sup>6</sup>	700,491
Scott Perkins	10,848,612	-	-	-	10,848,612
Kelly Perkins	17,931,675	-	-	-	17,931,675
Robert Swan	10,848,612	-	-	-	10,848,612

<sup>1</sup> Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust.

<sup>2</sup> 77,752,335 shares are held indirectly by SGM Holdings, LLC.

<sup>3</sup> 3,819,200 shares were transferred from SGM Holdings, LLC to a minority shareholder of SGM Holdings, LLC in accordance with an agreement between the parties and as foreshadowed in the HFA Rights Issue Prospectus dated 1 November 2007. 9,904,925 shares from SGM Holdings, LLC were transferred to Lighthouse employees in accordance with the Employee Incentive Plan established in July 2008. This resulted in the recognition of \$12,177,025 of equity settled transaction expense in the consolidated income statement.

<sup>4</sup> No longer Key Management Personnel as at 30 June 2009.

<sup>5</sup> 649,582 shares are held indirectly by AJ Stoney Family Trust.

<sup>6</sup> Being shares issued under the 2008 HFA Performance Rights Plan.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Movements in shares (continued)

2008	Balance 1 July 2007	Purchases	Sales	Net Change Other <sup>5</sup>	Balance 30 June 2008
<b>Directors</b>					
Spencer Young	25,366,951 <sup>1</sup>	150,000	-	-	25,516,951
Sean McGould <sup>2</sup>	-	-	-	91,476,460	91,476,460
FP (Andy) Esteban	-	8,354	-	-	8,354
Brett Howard	250,000	200,000	-	-	450,000
Robert Fraser	-	23,600	-	-	23,600
<b>Executives</b>					
Oscar Martinis	4,999,091	502,818	-	-	5,501,909
Robert White <sup>3</sup>	985,602	124,398	-	-	1,110,000
Jonathan Pain	1,135,321	-	(120,997)	-	1,014,324
Rodney Hughes	-	93,000	-	-	93,000
Amber Stoney <sup>4</sup>	650,491	-	-	-	650,491
Scott Perkins	-	-	-	10,848,612	10,848,612
Kelly Perkins	-	-	-	17,931,675	17,931,675
Robert Swan	-	-	-	10,848,612	10,848,612

<sup>1</sup> Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust

<sup>2</sup> 85,476,460 shares are held indirectly by SGM Holdings, LLC

<sup>3</sup> 191,511 shares are held indirectly by White Family Trust

<sup>4</sup> 77,764 shares are held indirectly by AJ Stoney Family Trust

<sup>5</sup> Being shares issued by HFA Holdings Ltd on acquisition of the Lighthouse Group on 3 January 2008.

### Key management personnel and Director transactions

A number of key management persons of the Group hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with key management personnel were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and other related parties were as follows:

#### HFA Accelerator Plus Limited

HFA Accelerator Plus Limited is a listed investment company managed by HFA Asset Management Limited, a wholly owned subsidiary of HFA Holdings Limited, pursuant to a management agreement.

Robert White is a secretary of the Company and a Director of HFA Asset Management Limited, and is Chief Executive Officer and Executive Director of HFA Accelerator Plus Limited.

During the financial year the following related party transactions occurred:

- (i) The Company purchased no additional shares in HFA Accelerator Plus Limited. The fair value of the holding of 561,692 shares as at 30 June 2009 is \$84,254 (2008: \$527,990)
- (ii) The Company received dividends of \$8,425 fully franked (2008: \$33,702) from its shareholding in HFA Accelerator Plus Limited.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Key management personnel and Director transactions (continued)

(iii) HFA Asset Management Limited recognised management and performance fees paid or payable of \$6,083,506 (2008: \$12,146,014) from HFA Accelerator Plus Limited. Amounts receivable from HFA Accelerator Plus Limited at 30 June 2009 were \$1,610,977 (2008 \$1,950,894)

#### HFA Asset Management Limited

HFA Asset Management Limited is a wholly owned subsidiary of the Company and responsible entity of a number of managed investment schemes.

Robert White, Oscar Martinis and Jonathan Pain are Directors of HFA Asset Management Limited.

During the financial year HFA Asset Management Limited recognised management and performance fees paid or payable of \$34,497,402 (2008: \$47,254,240) from managed investment schemes for which it acts as the Responsible Entity and from HFA Accelerator Plus Limited.

Amounts receivable from schemes for which HFA Asset Management acts as the Responsible Entity and from HFA Accelerator Plus Limited were \$6,782,828 (2008: \$12,680,403).

#### Lighthouse Investment Partners, LLC

Lighthouse Investment Partners, LLC (LIP) became a wholly owned subsidiary and related party of the Group on 3 January 2008. LIP is a registered investment advisor under the Investment Advisors Act of 1940 and operates as general partner and investment manager for the Lighthouse investment products.

Sean McGould is a Director of the Company and President of LIP. Robert Swan, Scott Perkins and Robert White are vice-presidents of LIP.

During the financial year the following related party transactions occurred:

- (i) LIP recognised management and performance fees paid or payable of \$76,715,320 (2008: \$38,852,036) from investment products for which LIP acts as general partner and investment manager. Amounts receivable from these products at 30 June 2009 were \$11,109,344 (2008: \$10,687,043).
- (ii) LIP holds the following investments in products in which they act as general partner and investment manager:

Product	Fair Value 30 June 2009 \$	Fair Value 30 June 2008 \$
Lighthouse Composite Series	230,303	180,512
Lighthouse Global Series	223,810	176,329
Lighthouse Trend Series	224,188	177,274
Lighthouse Healthcare Series	171,741	121,323
Lighthouse Low Volatility Fund QP II, LP	205,568	196,692
Lighthouse Aggressive Growth Fund	138,945	159,043
Lighthouse Enhanced Global Series	62,545	77,979
Lighthouse Credit Opportunities Fund, LP	520,131	614,995
LH Strategies Master Fund SPC LH Enhanced Global Master Segregated Portfolio	109,774	54,744
Lighthouse Enhanced Yield Fund LP	283,642	288,934
Lighthouse Navigator Fund LP	63,949	-
	<b>2,234,596</b>	<b>2,047,825</b>

All of the above investments held by LIP are in products that they act as general partner and investments manager for, and are classified as at fair value through profit and loss.

# NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 30 June 2009

## 31. RELATED PARTIES (continued)

### Subsidiaries

HFA Holdings Limited made a loan to HFA Lighthouse Holdings Corp to facilitate the acquisition of the Lighthouse Group. The loan has an initial term of 10 years, and bears interest at BBSY plus a margin of 1.80%. The carrying value of this loan at 30 June 2009 is \$83,816,563 (2008: \$241,648,658). The reduction in the carrying value of the loan has been recognised in "impairment losses" in the accounts of the Company. This impairment loss eliminates on consolidation of the Group, and does not impact the results of the Consolidated Group. In addition, the loan balance and interest received on the loan are eliminated on consolidation.

HFA Holdings Limited also contributed capital of \$ \$9,999,337 to HFA Lighthouse Holdings Corp during the year ended 30 June 2009 (2008: \$278,804,192). This contribution was satisfied through cash transfers.

Loans are also made by HFA Holdings Limited to wholly owned subsidiaries for operational purposes. Loans outstanding between HFA Holdings Limited and its controlled entities have no fixed date of repayment and are non-interest bearing. As at 30 June 2009, such loans to subsidiaries totalled \$555,077 (2008: \$2,262,982).

### Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arms length transactions at both normal market prices and normal commercial terms.

Outstanding balances at year-end are unsecured and settlement occurs in cash.

There have been no guarantees provided or received for any related party receivables.

For the year ended 30 June 2009, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties as their financial position is considered to be sound and their payment history has been excellent (2008: \$Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates in. When assessed as required the Group raises such a provision.

## 32. GROUP ENTITIES

The Group's financial statements include the financial statements of HFA Holdings Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest 2009	% Equity interest 2008	Investment (\$000's) Year ended 2009	Investment (\$000's) Year ended 2008
HFA Asset Management Ltd	Australia	100	100	10,446	10,446
HFA Admin Pty Ltd	Australia	100	100	897	1
ACN 122 776 550 Pty Ltd	Australia	100	100	1	1
HFA Lighthouse Holdings Corp	United States	100	100	281,678*	278,804
HFA Lighthouse Corp	United States	100	100	-	-
LHP Investments, LLC	United States	100	100	-	-
Lighthouse Investment Partners, LLC	United States	100	100	-	-
Lighthouse Partners NY, LLC	United States	100	100	-	-
Lighthouse Partners UK, LLC	United States	100	100	-	-
Lighthouse Partners Limited (HK)	Hong Kong	100	100	-	-
				<b>293,022</b>	289,252

\*The carrying value of this investment in the Company's balance sheet \$Nil (refer to note 15 for further detail)

## 33. EVENTS AFTER BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial year and the date of this report, any other item, transaction or event of a material nature, likely to affect significantly the operations of the Company or Consolidated Entity, the results of those operations, or the state of affairs of the Company or Consolidated Entity, in future financial years.

# DIRECTORS' DECLARATION

For the year ended 30 June 2009

1. In the opinion of the Directors of HFA Holdings Limited (the "Company"):
  - (a) the financial statements and notes, and the Remuneration Report in the Directors' Report, set out on pages 13 to 19, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a); and
  - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2009.

Dated at Sydney this 19<sup>th</sup> day of August 2009

Signed in accordance with a resolution of the Directors.



**Spencer Young**  
Chairperson / Executive Director /  
Chief Executive Officer



**F P (Andy) Esteban**  
Non-Executive Director

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HFA HOLDINGS LIMITED

## For the year ended 30 June 2009



### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HFA HOLDINGS LIMITED

#### **Report on the financial report**

We have audited the accompanying financial report of HFA Holdings Limited ("the Company"), which comprises the balance sheets as at 30 June 2009, and the income statements, statements of recognised income and expense and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 33 and the Directors' declaration set out on pages 26 to 73 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

#### **Directors' responsibility for the financial report**

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the Directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance

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

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HFA HOLDINGS LIMITED

## For the year ended 30 June 2009



### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HFA HOLDINGS LIMITED (continued)

#### **Independence**

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

#### **Auditor's opinion**

In our opinion:

- (a) the financial report of HFA Holdings Limited is in accordance with the *Corporations Act 2001*, including:
- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

#### **Report on the remuneration report**

We have audited the Remuneration Report set out on pages 13 to 19 of the Directors' Report for the year ended 30 June 2009. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

#### **Auditor's opinion**

In our opinion, the remuneration report of HFA Holdings Limited for the year ended 30 June 2009, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in black ink that reads 'Kpmg' in a stylized, cursive font.

KPMG

A handwritten signature in black ink that reads 'Robert S. Jones' in a cursive font.

Robert S Jones  
Partner

Brisbane  
19<sup>th</sup> August 2009

# ASX ADDITIONAL INFORMATION

For the year ended 30 June 2009

Additional information required by the Australian Securities Exchange Limited Listing Rules is set out below.

## SHAREHOLDINGS (AS AT 2 SEPTEMBER 2009)

### Substantial shareholders

Sean McGould, his controlled entities and associates had a relevant interest in 77,752,335 shares as at 1 September 2009 which represented 16.88% of HFA's total issued capital.

Spencer Young as trustee for Spencer Young Family Trust and its associates had a relevant interest in 22,516,951 shares as at 1 September 2009, which represented 4.89% of HFA's total issued capital.

Bank of America Corporation advised that, as at 31 March 2009, it and its associates had a relevant interest in 23,868,222 shares, which represented 5.18% of HFA's total issued capital.

Delaware Street Capital Master Fund, LP advised that, as at 31 March 2009, it and its associates had a relevant interest in 24,522,301 shares, which represented 5.33% of HFA's total issued capital.

### Securities subject to voluntary escrow

There are no securities subject to escrow as at 2 September 2009.

### Distribution of equity security holders

Category	Number of equity security holders	
	Ordinary shares	
1 – 1,000		172
1,001 – 5,000		874
5,001 – 10,000		795
10,001 – 100,000		1975
100,001 and over		333
		<b>4,149</b>

The number of shareholders holding less than a marketable parcel of ordinary shares is 288.

### On-market buy-back

There is no current on-market buy-back.

# ASX ADDITIONAL INFORMATION (continued)

For the year ended 30 June 2009

## SHAREHOLDINGS (AS AT 2 SEPTEMBER 2009 (continued))

### Twenty largest shareholders

Name	Number of Ordinary Shares held	Percentage of capital held
HSBC Custody Nominees (Australia) Limited	<b>142,522,745</b>	30.95%
Citicorp Nominees Pty Limited	<b>27,261,109</b>	5.92%
Spencer Young - Spencer Young Family A/C	<b>22,516,951</b>	4.89%
National Nominees Limited	<b>17,464,728</b>	3.79%
Citicorp Nominees Pty Limited - CFS Developing Companies A/C	<b>17,201,527</b>	3.74%
J P Morgan Nominees Australia Limited	<b>14,562,188</b>	3.16%
ANZ Nominees Limited - Cash Income A/C	<b>10,606,456</b>	2.30%
Merrill Lynch (Australia) Nominees Limited	<b>10,593,912</b>	2.30%
Cogent Nominees Pty Limited - SMP Accounts	<b>9,728,917</b>	2.11%
Carrington Land Pty Ltd	<b>5,471,396</b>	1.19%
Mr Shay Shimon Hazan	<b>4,800,000</b>	1.04%
Woodmont Trust Company Ltd - Leuchturn Foundation A/C	<b>2,970,874</b>	0.65%
Mr Frederick Edward Shaw & Mrs Marion Shaw - Shaw Investments A/C	<b>2,918,481</b>	0.63%
UBS Wealth Management Australia Nominees Pty Ltd	<b>2,845,817</b>	0.62%
AMP Life Limited	<b>2,674,106</b>	0.58%
Kembla No 20 Pty Ltd - John Shuster Retirement A/C	<b>2,500,000</b>	0.54%
Comsec Nominees Pty Limited	<b>2,032,047</b>	0.44%
Netwealth Investments Limited - Wrap Services A/C	<b>1,820,028</b>	0.40%
CS Fourth Nominees Pty Ltd - Unpaid A/C	<b>1,715,764</b>	0.37%
Banquest Pty Limited	<b>1,500,000</b>	0.33%

### Unquoted equity securities

There are no unquoted equity securities.

## VOTING RIGHTS

### Ordinary shares

Refer to Note 25 of the financial statements.

# CORPORATE DIRECTORY

HFA HOLDINGS LTD  
ABN: 47 101 585 737

## **REGISTERED OFFICE**

Level 5, 151 Macquarie Street  
Sydney NSW 2000  
Ph: (02) 8302 3333

## **PRINCIPAL ADMINISTRATIVE OFFICE**

Level 3, 46 Edward Street  
Brisbane Qld 4000  
(07) 3218 6200

## **COMPANY SECRETARIES**

Ms Joanne Hill  
Mr Robert White

## **AUDITORS OF THE COMPANY**

KPMG

## **SHARE REGISTRY**

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

## **ASX LISTING**

The Company is listed on the Australian Stock Exchange  
ASX Code Listing: HFA

## **STOCK EXCHANGE**

The Company is listed on the Australian Stock Exchange. The Home Exchange is Melbourne.

## **OTHER INFORMATION**

HFA Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.



**Australia**

Sydney  
Melbourne  
Brisbane

**United States**

New York  
Chicago  
Florida

**Europe**

London

**Asia**

Hong Kong

**For information on HFA's investment products contact HFA Asset Management:**

Office: Level 5, 151 Macquarie Street, Sydney NSW 2000  
Mailing Address: GPO Box 1616, Brisbane QLD 4001  
Investor Services: 1300 30 90 92  
Advisor Services 1300 30 90 93  
Facsimilie: (02) 9252 4580  
Website: [www.hfainvestments.com.au](http://www.hfainvestments.com.au)  
E-mail: [contact@hfainvestments.com.au](mailto:contact@hfainvestments.com.au)