HFA HOLDINGS LIMITED

ABN 47 101 585 737

Appendix 4E – Preliminary financial report

30 June 2010

Contents

HFA Holdings Limited

Results for announcement to the market

					A$M
2.1	Revenues from ordinary activities	down	36%	to	72.6
	Operating EBITDA (before impairment losses and equity settled transactions)	down	50%	to	26.3
2.2	Profit/(loss) from ordinary activities after tax attributable to members	up	101%[1]	to	4.7
2.3	Net profit/(loss) for the period attributable to members	up	101%[1]	to	4.7

2.4	Dividends	No final dividend for the financial year ended 30 June 2010 has been proposed.
2.5	Record date for determining entitlements to the dividend	N/A

2.6 Brief explanation of any of the figures reported above of importance not previously released to the market:

Net income from operating activities decreased to $60.620 million for the financial year ended 30 June 2010. This represents a decrease of 37% from the 2009 financial year.

Net operating income from the US Lighthouse operations was $47.522 million, down 20% in US dollar currency terms from the prior year. This reflected the fact that whilst Lighthouse had positive Assets Under Management (AUM) growth over the 2010 financial year, the average AUM for 2010 was 10% lower than for the prior year. The average net management fee (after investment management costs) earned on AUM remained unchanged compared to the prior year.

The Australian Certitude operations experienced a 48% decrease in net operating income to $13.098 million, mirroring the decrease in the average AUM for 2010 compared to the prior year. The average net management fee (after investment costs) for Certitude remained steady when compared to the prior year.

Operating expenses (excluding depreciation, amortisation and impairment costs) decreased to $34.399 million for the financial year ended 30 June 2010. This represents a decrease of $9.710 million or 22% when compared to the prior financial year. This decrease is due to a higher average Australian dollar exchange rate for the 2010 financial year and active cost management across the Group.

Whilst the Group recognised significant impairment losses in the prior year, the expectations of the US operation's future cash flows have materially improved since 2009, and hence no further impairment losses were recognised during the 2010 financial year.

[1] This 101% represents a $577.9 million increase from the prior year loss of $573.2 million.

HFA Holdings Limited

Appendix 4E requirements within the annual report

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Requirement		Page reference	Note reference
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N/A – not applicable

HFA Holdings Limited

ABN 47 101 585 737

and its controlled entities

Annual Financial Report

30 June 2010

Directors' report

The directors present their report together with the financial report of HFA Holdings Limited and its subsidiaries (the "Group") for the financial year ended 30 June 2010 and the auditor's report thereon.

1. Directors

The directors of HFA Holdings Limited (the "Company" / "HFA") at any time during or since the end of the financial year are:

Name, qualifications and independence status	*Experience, special responsibilities and other directorships*
Mr Spencer Young B.Eng. MBA *Chairperson, Executive Director and Chief Executive Officer*	Spencer founded HFA in 1998. He has over 19 years of alternate asset class investment experience and close relationships with a network of international hedge funds and domestic research and rating agencies. 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. Appointed Executive Director 15 May 2003. Appointed Non-Executive Director 13 April 2007 to 18 September 2007. Appointed Chief Executive Officer and Executive Director 18 September 2007.
Mr Sean McGould BSc. Accounting *Executive Director*	Sean is the co-founder of Lighthouse Investment Partners, LLC (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. 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 16 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. Prior to Trout, Sean worked for PriceWaterhouse. Appointed 3 January 2008.

Directors' report

1. Directors (continued)

Name, qualifications and independence status	*Experience, special responsibilities and other directorships*
Mr F P (Andy) Esteban B.Bus ASA MAICD METI *Independent Non-Executive Director*	Andy holds a Bachelor of Business majoring in Accounting. He is an Associate of the Australian Society of CPA's and a member of the Australian Institute of Company Directors. He has 31 years experience in the financial services industry, of which 21 years were with Perpetual Trustees Australia Limited. In 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. From July 2005 until June 2008 he was an independent director of Credit Suisse Asset Management (Australia) Ltd. He is currently the Chairman of Certitude Global Investments Limited, a wholly-owned subsidiary of the Company. *Chairperson of the Audit Committee and Member of the Remuneration Committee.* Appointed 18 June 2008.
Mr John Larum B. Com MEc GAICD *Independent Non-Executive Director*	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. *Chairperson of the Remuneration Committee and Member of the Audit Committee.* Appointed 12 December 2008.

Directors' report

1. Directors (continued)

Name, qualifications and independence status	*Experience, special responsibilities and other directorships*
Mr Michael Shepherd *Independent Non-Executive Director*	Michael has extensive experience in financial markets and the financial services industry having held a range of senior positions including Vice Chairman of ASX Limited, and directorships of several of ASX's subsidiaries including Australian Clearing House Pty Ltd. He was also National President of the Financial Services Institute of Australasia. Currently Michael is a director of ASX Market Supervision Pty Ltd, Chairman of the Shepherd Centre and is an independent Compliance Committee Member for UBS Global Asset Management (Australia) Limited. *Member of the Remuneration Committee and Member of the Audit Committee.* Appointed 16 December 2009.

2. Company secretaries

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 Australian Securities Exchange (ASX) and New Zealand Exchange (NZX) listed financial services companies. Joanne has been sole company secretary since 1 June 2010.

Mr Robert White BBus was appointed to the position of joint company secretary on 15 February 2007. Robert has over 15 years experience in the financial services industry working within both the institutional and retail market segments in the UK, Europe and Australia. Robert resigned as company secretary on 1 June 2010.

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:

	Number of Ordinary shares
Mr Spencer Young[1]	22,516,951
Mr Sean McGould[2]	77,752,335
Mr F P (Andy) Esteban	8,354
Mr John Larum	36,400
Mr Michael Shepherd[3]	100,000

[1] Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust.
[2] 77,744,335 shares held indirectly by SGM Holdings, LLC.
[3] Shares are held indirectly by Tidala Pty Ltd as Trustee for the Shepherd Provident Fund.

Directors' report

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:

	Board Meetings		Remuneration Committee Meetings		Audit Committee Meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr Spencer Young	11	11	-	-	-	-
Mr Sean McGould	10	11	-	-	-	-
Mr F P (Andy) Esteban	11	11	1	1	3	3
Mr John Larum	10	11	1	1	2	3
Mr Michael Shepherd	8	8	-	-	2	2

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 2010, the board had responsibility for the performance of the functions of the nomination committee and no separate nomination committee meetings were held.

5. Corporate governance statement

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Governance Council recommendations, unless otherwise stated.

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 overall corporate governance of the Group, 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 Group'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;
- oversight of corporate governance matters pertaining to board management;
- appointing and removing the chief executive officer ("CEO");

Directors' report

5.1 Board of directors (continued)

- 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 declaration of any dividends;
- reporting to shareholders and other stakeholders;
- capital management, including issues, calls on, forfeiture of shares, declaration of dividends 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).

Composition 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; and
- a majority of non-executive directors.

Directors' report

5.1 Board of directors (continued)

Composition of the board (continued)

The table below summarises the composition of the board as at 19 August 2010:

Name	Position	Independent	First appointed
Mr Spencer Young	Chairperson, CEO and Executive Director	No	May 2003
Mr Sean McGould	Executive Director	No	January 2008
Mr F P (Andy) Esteban	Non-Executive Director	Yes	June 2008
Mr John Larum	Non-Executive Director	Yes	December 2008
Mr Michael Shepherd	Non-Executive Director	Yes	December 2009

The board comprised of only four members until the appointment of non-executive director Mr Michael Shepherd in December 2009, at which point the majority of the board were independent. Following the resignation of the previous Chairman on 31 March 2009, the roles of Chairperson and CEO have been exercised by the same person. At that time, the board determined that given the global economic circumstances and their potential impact on the Company, Mr Young had the appropriate knowledge and experience to best undertake the Chairman role. This arrangement will remain under review by the board. Accordingly, the Company was not in compliance with ASX Corporate Governance Principle 2.1, 2.2 and 2.3 throughout the entire financial year.

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 judgement, and who:

- is not a substantial shareholder of the Company, holds less than 5% 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 10% 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 adviser 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.

Directors' report

5.1 Board of directors (continued)

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 adviser 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 committee. These committees have written charters outlining the duties and responsibilities of the committee, which are 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 plans for the 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.

Directors' report

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 then votes on them.

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. The board undertakes on-going self-assessment and is currently reassessing its process for a formal performance evaluation.

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 2010, 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.

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 members of the remuneration committee during the year were:

- Mr F P (Andy) Esteban - Independent non-executive director
- Mr John Larum - Independent non-executive director
- Mr Michael Shepherd - Independent non-executive director (appointed 16 December 2009).

Directors' report

5.3 Remuneration committee (continued)

The remuneration committee comprised of only two members until the appointment of non-executive director Mr Michael Shepherd in December 2009. Accordingly, the Company was not in compliance with ASX Corporate Governance Principle 8.1 throughout the entire financial year.

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 himself as CEO.

The remuneration committee meets bi-annually or as often as necessary to enable it to effectively discharge its responsibilities. 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 and secretaries of the Company and relevant key management personnel of the Group are competitively set to attract and retain appropriately qualified and experienced individuals. External remuneration benchmarks and surveys are considered when setting compensation levels.

Compensation structures are designed to 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 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 may include a long term incentive (LTI). Details of fixed compensation, STI and LTI arrangements are discussed in the remuneration report in the directors' report.

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

5.4 Audit committee

The audit committee has a documented charter approved by the board. 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 members of the audit committee during the year were:

- Mr F P (Andy) Esteban - Independent non-executive director
- Mr John Larum - Independent non-executive director
- Mr Michael Shepherd - Independent non-executive director (appointed 16 December 2009).

The audit committee comprised of only two members until the appointment of non-executive director Mr Michael Shepherd in December 2009. Accordingly, the Company was not in compliance with ASX Corporate Governance Principle 4.2 throughout the entire financial year.

At the discretion of the audit committee, the external auditor and other members of the board and management will be invited to audit 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 frequency of meetings and the attendance record of committee members, along with a summary of director qualifications are disclosed in the directors' report.

A summary of the audit 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 role of the audit 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 half year and annual financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure 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;

5.4 Audit committee (continued)

- 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 process 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 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.

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. Mr Robert Jones, the current lead audit engagement partner, will rotate off the Company's audit following completion of the current financial year end audit.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in note 28 of the financial statements.

Directors' report

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.
- *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.

Directors' report

5.5 Risk Management (continued)

Risk management and compliance and controls (continued)

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 25 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 dedicated compliance resources in each business unit and the establishment of an external compliance committee for each registered scheme operated under an Australian Financial Services Licence.

Quality and integrity of personnel

Written confirmation of compliance with policies is obtained from all business 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.

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.

Directors' report

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. Processes are in place to promote and communicate these standards of ethical behaviour.

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 Group are set out in note 29 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, equal 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.

Directors' report

5.6 Ethical standards (continued)

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 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 advisers;
- 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.

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.

Directors' report

5.7 Communication with shareholders (continued)

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's 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.

A copy of the Constitution is 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 Group for the year ended 30 June 2010.

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 2010 financial year are set out in this remuneration report. The remuneration report forms part of the directors' report.

5.8.1 Principles of compensation

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 individuals. External remuneration benchmarks and surveys are considered when setting compensation levels.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

Compensation structures are designed to 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 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 may include a long term incentive (LTI). The overall objective of this remuneration strategy is to support the 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 FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds and retirement plans. Key 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.

Short Term Incentives (STI)

STIs are paid to senior executives and employees in the form of an annual bonus, which is usually paid in cash, but may be satisfied by the issue of shares. 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.

Australian distribution staff 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 and the overall performance of the business unit.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

Short Term Incentives (STI) (continued)

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. In December 2009, Lighthouse management recommended, and the board approved, the grant of 8,547,009 shares to senior Lighthouse executives in addition to the cash bonus pool. The shares were granted for the purpose of recognition of staff contribution to the growth of the Lighthouse business during the year despite challenging external factors, and to provide additional motivation to retain key staff within the business. The non-cash expense recognised in relation this grant of shares for the year ended 30 June 2010 totalled $2,008,547.

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.

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 at which time 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 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.

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.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

Long term incentives (LTI) (continued)

Tranche 1 of the performance rights 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 non-cash expense recognised in relation to Tranche 1 for the year ended 30 June 2009 totalled $218,977.

Tranche 2 of the performance rights plan vested at 31 December 2009, with 30% of the shares (299,250 shares) available under the tranche for eligible employees being issued due to the satisfaction of the base revenue performance hurdle. The board did not exercise its discretion to vest any additional shares under Tranche 2. The non-cash expense recognised in relation to Tranche 2 for the year ended 30 June 2010 totalled $241,395.

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 executive director 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 Company recognise an expense associated with the shares granted under the plan with a corresponding increase in the Company'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 participate in an 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. 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.

100% of the shares available under the plan were transferred to eligible employees during the year ended 30 June 2009 (9,904,925 shares). The total non-cash expense recognised by the Group in relation to this plan for the year ended 30 June 2009 totalled $12,177,025. No expense in relation to the plan was recognised by the Group for the year ended 30 June 2010.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

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:

in thousands of AUD	**2010**	**2009**	**2008**	**2007**
Net profit / (loss) attributable to equity holders of the parent	4,701	(573,184)	35,170	20,279
Dividends paid	-	16,085	14,895	8,274
Dividends per share (cents)	-	3.5	6.1	4.1
Change in share price (dollars)	(0.01)	(0.98)	(1.39)	0.86

Other benefits

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

Service contracts

The Group has entered into employment contracts with each executive director and member of 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. Individual performance evaluations were undertaken for the Company's senior executives in accordance with the Company's employment policies and individuals' contractual arrangements.

Spencer Young, Chief Executive Officer, HFA Holdings Limited. The Company is currently finalising a service agreement with Spencer Young. Aspects of this service agreement may require shareholder approval.

Sean McGould, President, Chief Investment Officer Lighthouse Investment Partners entered into a service agreement on 1 January 2006, and which was amended on 1 November 2009. The agreement specifies the duties and obligations to be fulfilled. The amended service agreement is for a term of two years commencing from 1 January 2010 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.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

Service contracts (continued)

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 payment of US Dollars ("USD") 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 these circumstance also, a payment of USD 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.

Scott Perkins, Director of Investor Relations, Lighthouse Investment Partners entered into a service agreement on 1 January 2006, and which was amended on 1 November 2009. The agreement specifies the duties and obligations to be fulfilled. The service agreement is for a term of two years commencing from 1 January 2010 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. 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 or there is a material and unconsented change to responsibilities. The employee must give sixty dates notice of termination. In these circumstances a payment of USD 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 these circumstance also, a payment of USD 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.

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.

Directors' report

5.8 Remuneration report - audited (continued)

5.8.1 Principles of compensation (continued)

Service contracts (continued)

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:

Amber Stoney, Chief Financial Officer, HFA Holdings Limited

Craig Mowll, Chief Executive Office, Certitude Global Investments Limited ("Certitude") (formerly HFA Asset Management Limited)

Oscar Martinis, Joint Managing Director of Certitude (Resigned 1 June 2010)

Robert White, Company Secretary of HFA Holdings Limited and Joint Managing Director of Certitude (Resigned 1 June 2010)

The agreements specify 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 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 2010 was $226,831 (2009: $260,893).

Non-executive director's compensation is $80,000 plus superannuation per annum.

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)

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 and Group executives who receive the highest remuneration are:

		Short-term			Post-employment	Termination Benefits	Share-based payments	Total	S300A (1)(e)(i) Proportion of remuneration performance based	S300A (1)(e)(vi) Value of shares as a % of remuneration
		Salary & fees $	STI cash bonus $	Total $	Superannuation and retirement plan contributions $		Shares and performance rights $	$		
Directors										
Non-executive										
Mr F P (Andy) Esteban[1]	2010	84,410	-	84,410	7,597	-	-	92,007	-	-
(appointed 18 June 2008)	2009	80,000	-	80,000	7,200	-	-	87,200	-	-
Mr John Larum	2010	80,000	-	80,000	7,200	-	-	87,200	-	-
(appointed 12 December 2008)	2009	42,769	-	42,769	3,849	-	-	46,618	-	-
Mr Michael Shepherd	2010	43,692	-	43,692	3,932	-	-	47,624	-	-
(appointed 16 December 2009)	2009	-	-	-	-	-	-	-	-	-
Mr Brett Howard	2010	-	-	-	-	-	-	-	-	-
(Chairperson) (resigned 31 March 2009)	2009	80,250	-	80,250	7,222	-	-	87,472	-	-
Mr Robert Fraser	2010	-	-	-	-	-	-	-	-	-
(appointed 14 December 2007, resigned 24 November 2008)	2009	36,333	-	36,333	3,270	-	-	39,603		-
Executive										
Mr Spencer Young	2010	286,871	-	286,871	14,461	-	-	301,332	-	-
Chief Executive Officer	2009	286,871	-	286,871	13,745	-	-	300,616	-	-
Mr Sean McGould	2010	283,134	-	283,134	16,988	-	-	300,122	-	-
(appointed 3 January 2008)	2009	335,300	-	335,300	20,118	-	-	355,418	-	-

[1]In addition to the $80,000 received by Mr F P (Andy) Esteban for his role as non-executive director of HFA Holdings Limited, he received $4,410 for his role as non-executive director of Certitude Global Investments Limited (appointed 21 May 2010).

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)

		Short-term			Post-employment	Termination Benefits	Share-based payments	Total $	S300A (1)(e)(i) Proportion of remuneration performance based	S300A (1)(e)(vi) Value of shares as a % of remuneration
		Salary & fees $	STI cash bonus $	Total $	Superannuation and retirement plan contributions $		Shares and performance rights $			
Executives										
Mr Craig Mowll	2010	50,059	-	50,059	3,615	-	-	53,674	-	-
Chief Executive Officer, Certitude (Appointed 14 May 2010)	2009	-	-	-	-	-	-	-	-	-
Ms Amber Stoney	2010	112,822	20,000	132,822	9,673	-	19,312	161,807	24%	12%
Chief Financial Officer (Appointed 26 September 2008[1])	2009	250,000	90,000	340,000	13,745	-	22,112	375,857	30%	6%
Mr Scott Perkins	2010	283,134	348,620	631,754	11,487	-	237,821	881,062	67%	27%
Director, Investor Relations, Lighthouse	2009	335,300	843,555	1,178,855	32,859	-	-	1,211,714	70%	-
Mr Kelly Perkins	2010	283,134	421,618	704,752	9,488	-	311,432	1,025,672	71%	30%
Co-Chief Investment Officer, Lighthouse	2009	335,300	1,054,445	1,389,745	34,536		-	1,424,281	74%	-
Mr Robert Swan	2010	283,134	348,620	631,754	11,487	-	237,821	881,062	67%	27%
Chief Operating Officer, Lighthouse	2009	335,300	843,555	1,178,855	32,859	-	-	1,211,714	70%	-
Former										
Mr Oscar Martinis	2010	399,253	-	399,253	14,461	162,500	43,451	619,665	7%	7%
Joint Managing Director, Certitude (Resigned 1 June 2010)	2009	325,000	165,000	490,000	13,745	-	49,751	553,496	39%	9%
Mr Robert White	2010	360,752	-	360,752	14,461	162,500	43,451	581,164	7%	7%
Joint Managing Director, Certitude (Resigned 1 June 2010)	2009	325,181	165,000	490,181	13,745	-	49,751	553,677	39%	9%
Mr Jonathan Pain	2010	157,197	-	157,197	5,317	-	-	162,514	-	-
Chief Investment Strategist (Resigned 18 September 2009[2])	2009	395,833	280,000	675,833	13,745	-	27,640	717,218	43%	4%
Mr Rodney Hughes	2010	-	-	-	-	-	-	-	-	-
Chief Financial Officer (Appointed 14 January 2007, resigned 26 September 2008)	2009	62,455	-	62,455	3,436	113,771	22,112	201,774	11%	11%

[1] Ms Amber Stoney took a leave of absence during the period 15 May 2009 to 12 October 2009. Her duties and responsibilities during that period were shared amongst other employees and members of Key Management Personnel.

[2] Mr Jonathan Pain resigned as an executive officer on 18 September 2009. On 6 April 2010 he resigned his position as a non-executive director of Certitude, a wholly-owned subsidiary of the Company.

Directors' report (continued)

5.8 Remuneration report - audited (continued)

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

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 pages 18 and 19.

Short-term incentives for the Lighthouse executives, excluding executive directors, are calculated on a semi-annual basis in accordance with their service contracts. This semi-annual bonus forms part of the Lighthouse STI bonus pool.

The fair value of the performance rights 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.

The fair value of the ordinary shares granted was based on the market value of the shares on grant date.

Details of performance related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed at pages 18 to 20.

5.8.3 Analysis of performance rights granted over equity instruments granted as compensation

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

The right to receive shares is conditional on continuing service, and the achievement of certain performance hurdles. Details of performance criteria are set out on pages 19 and 20.

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 terms of the performance plan and upon the satisfaction of the base revenue performance hurdle, 30% of the shares available under Tranche 2 vested. The board did not exercise its discretion to vest any further shares under Tranche 2.

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.

Directors' report (continued)

5.8 Remuneration report - audited (continued)

5.8.3 Analysis of performance rights granted over equity instruments granted as compensation (continued)

Executives	Total number of rights granted	Grant date	Fair value at grant date $	Expiry date	Financial year in which grant vests	Number of options vested during the financial year	Value of vested options at exercise date $	Number of options lapsed during the financial year	Value of lapsed options at exercise date $
Mr Oscar Martinis[1]	112,500	12/03/08	0.9950	31/12/09	2009	112,500	6,750	Nil	Nil
	157,500	12/03/08	0.9196	31/12/10	2010	47,250	11,017	110,250	25,707
	180,000	12/03/08	0.8499	31/12/11	2011	-	-	-	-
Mr Robert White [1]	112,500	12/03/08	0.9950	31/12/09	2009	112,500	6,750	Nil	Nil
	157,500	12/03/08	0.9196	31/12/10	2010	47,250	11,017	110,250	25,707
	180,000	12/03/08	0.8499	31/12/11	2011	-	-	-	-
Mr Jonathan Pain[1]	62,500	12/03/08	0.9950	31/12/09	2009	62,500	3,750	Nil	Nil
	87,500	12/03/08	0.9196	31/12/10	2010	Nil	Nil	87,500	20,402
	100,000	12/03/08	0.8499	31/12/11	2011	-	-	-	-
Mr Rodney Hughes[1]	50,000	12/03/08	0.9950	31/12/09	2009	50,000	3,000	Nil	Nil
	70,000	12/03/08	0.9196	31/12/10	2010	Nil	Nil	70,000	16,322
	80,000	12/03/08	0.8499	31/12/11	2011	-	-	-	-
Ms Amber Stoney	50,000	12/03/08	0.9950	31/12/09	2009	50,000	3,000	Nil	Nil
	70,000	12/03/08	0.9196	31/12/10	2010	21,000	4,897	49,000	11,425
	80,000	12/03/08	0.8499	31/12/11	2011	-	-	-	-

[1]In accordance with the plan rules, Mr Jonathan Pain and Mr Rodney Hughes forfeited their rights to Tranche 2 and 3 of the performance plan upon their resignation. Mr Oscar Martinis and Mr Robert White forfeited their rights to Tranche 3 of the performance plan upon their resignation.

Directors' Report (continued)

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 Lighthouse Investment Partners, LLC and Certitude Global Investments Limited ("Certitude").

HFA Holdings Limited is a company limited by shares that is incorporated in Australia. A 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. Another wholly owned subsidiary, Certitude, acts as the Responsible Entity and Manager of schemes and other products in Australia.

Details of the Consolidated Group are included at note 30 to the financial statements.

7. Operating and financial review

Consolidated results

in thousands of AUD	**2010**	**2009**
Revenue	72,576	112,855
Investment management costs	(11,956)	(17,312)
Operating income	**60,620**	**95,543**
Foreign exchange gain/(loss) on operating activities	119	1,214
Operating expenses, net of other income	(34,399)	(44,109)
Operating EBITDA (before equity settled transactions)	**26,340**	**52,648**
Equity settled transaction expenses	(2,250)	(12,396)
Operating EBITDA (after equity settled transaction)	**24,090**	**40,252**
Depreciation and amortisation	(11,977)	(14,949)
Impairment losses	-	(599,537)
Net interest income / (expenses)	(5,808)	(6,230)
Profit/(loss) before income tax	**6,305**	**(580,464)**
Income tax benefit / (expense)	(1,604)	7,280
Net profit/(loss) after income tax	**4,701**	**(573,184)**
Basic EPS (cents)	**1.013**	**(124.641)**

The Group recorded a consolidated profit after tax of $4.701 million for the financial year ended 30 June 2010 (2009: consolidated loss after tax of $573.184 million). The Group generated an operating EBITDA of $24.090 million. This is down 40% on the prior year, and reflects both lower average Assets Under Management ("AUM") for 2010 compared to the prior year, as well as the negative impact of the increase in the average Australian Dollar exchange rate for the year to 88.30 cents (2009: 74.56 cents).

Directors' Report (continued)

7. Operating and financial review (continued)

Consolidated results (continued)

Net income from operating activities

Net income from operating activities decreased to $60.620 million for the financial year ended 30 June 2010. This represents a decrease of 37% from the 2009 financial year.

Net operating income from the US Lighthouse operations was $47.522 million, down 20% in US dollar currency terms from the prior year. This reflected the fact that whilst Lighthouse had positive AUM growth throughout the 2010 financial year, the average AUM for 2010 was 10% lower than the prior year. The average net management fee (after investment management costs) earned on AUM remained unchanged compared to the prior year.

The Australian Certitude operations experienced a 48% decrease in net operating income to $13.098 million, mirroring the decrease in the average AUM for 2010 compared to the prior year. The average net management fee (after investment costs) for Certitude remained steady when compared to the prior year.

Operating expenses

Operating expenses (excluding depreciation, amortisation and impairment costs) decreased to $34.399 million for the financial year ended 30 June 2010. This represents a decrease of $9.710 million or 22% when compared to the prior financial year. This decrease is due to a higher average Australian dollar exchange rate for the 2010 financial year and active cost management across the Group.

Debt and net interest expense

Since 30 June 2009, the Group has reduced its US Dollar ("USD") denominated debt from USD 113.074 million to USD 102.375 million, and its Australian Dollar ("AUD") denominated debt from AUD 6.899 million to AUD 1.087 million.

This reduction in debt has resulted in a decrease in net interest expense for the Group for the 2010 financial year.

Impairment losses

An impairment loss of $585.621 million in relation to the goodwill recognised on the acquisition of the US operations was recognised in the 2009 financial year. This loss reflected the significantly lower expected future net cash flows from the US operations at that time, as compared to the business at the time of acquisition. The expectations of the US operation's future cash flows have materially improved since 2009, and hence no further impairment losses were recognised during the 2010 financial year.

In addition, an impairment loss of $13.916 million was recognised in the 2009 financial year in relation to goodwill, other intangibles assets, non-current product receivables and investments held by the Australian business. No further impairment losses were recognised by the Australian business during the 2010 financial year.

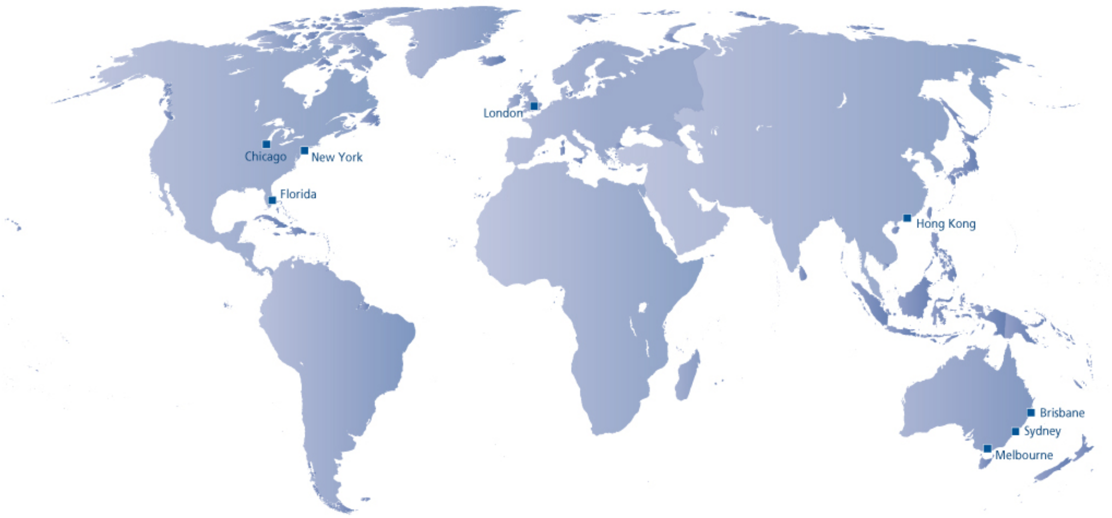
Directors' Report (continued)

7. Operating and financial review (continued)

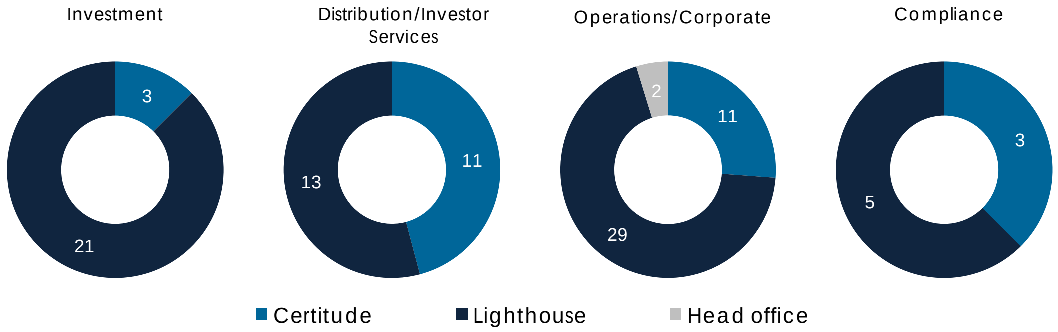
Review of operations

HFA operates a specialist global funds management business providing absolute return fund products to investors with the aim of achieving consistent risk adjusted returns.

One of the Group's most important assets is its quality people. The Group has 98 staff in locations around the world.



Both the Lighthouse and Certitude operations are structured by function:



Investor base

The Group's overall investor base has remained solid and continues to be well diversified across both client type and geographical region.

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.

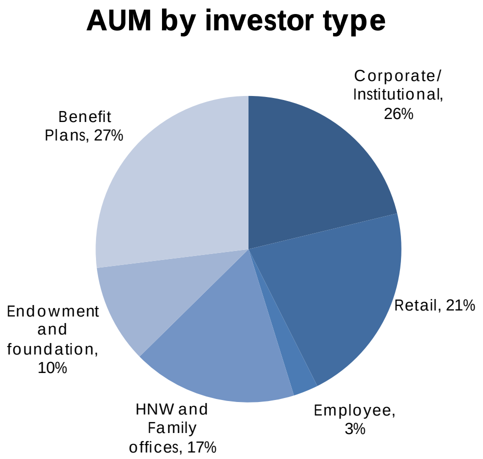
In Australia, Certitude provides absolute return products to retail, wholesale and institutional investors via the operation and distribution of managed investment schemes.

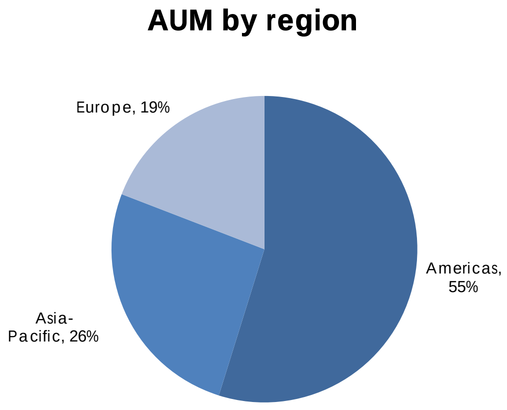
Directors' Report (continued)

7. Operating and financial review (continued)

Review of operations (continued)

At the Group level, allocations of the investor base as at 30 June 2010 by investor type and geographical region are as follows:

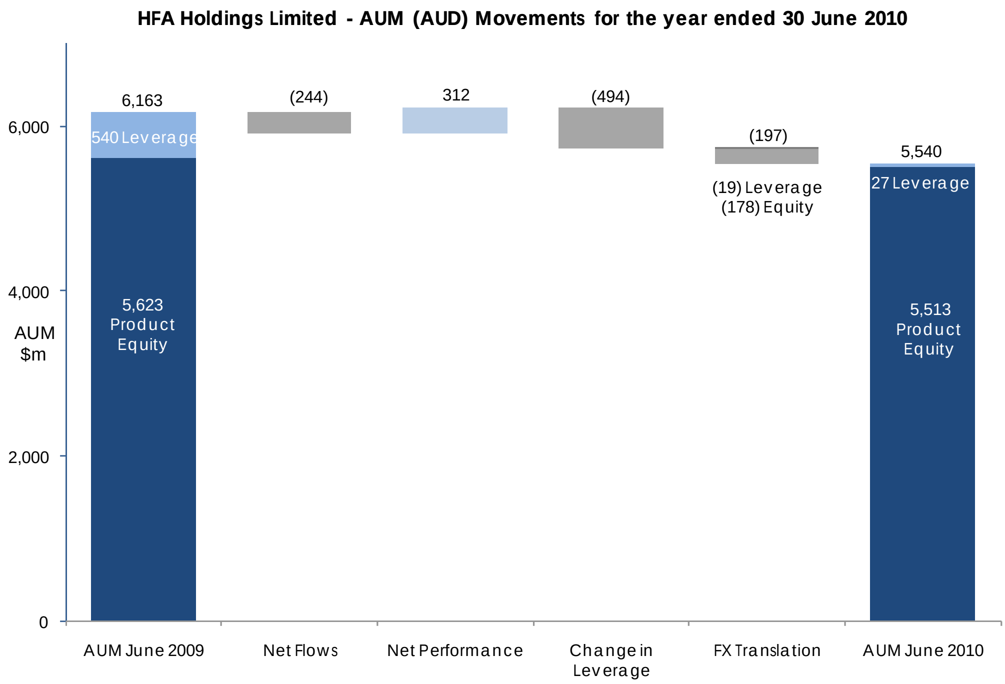




Assets under management

Global economic factors eased throughout the 2010 financial year as compared to the Global Financial Crisis ("GFC") in the prior year. The Group's funds under management ("FUM") in AUD terms (excluding leverage within the products) remained relatively steady.

As at 30 June 2010, HFA had total FUM of $5.51 billion (2009: $5.62 billion) and total AUM of $5.54 billion (2009: $6.16 billion). This represents a decrease of 2% in FUM and 10% in AUM since the end of the previous financial year. The following chart shows how performance, net flows, reduction in leverage within the products and foreign exchange translation impacted the FUM (represented as product equity in the chart) and AUM over the financial year:



Directors' Report (continued)

7. Operating and financial review (continued)

Review of operations (continued)

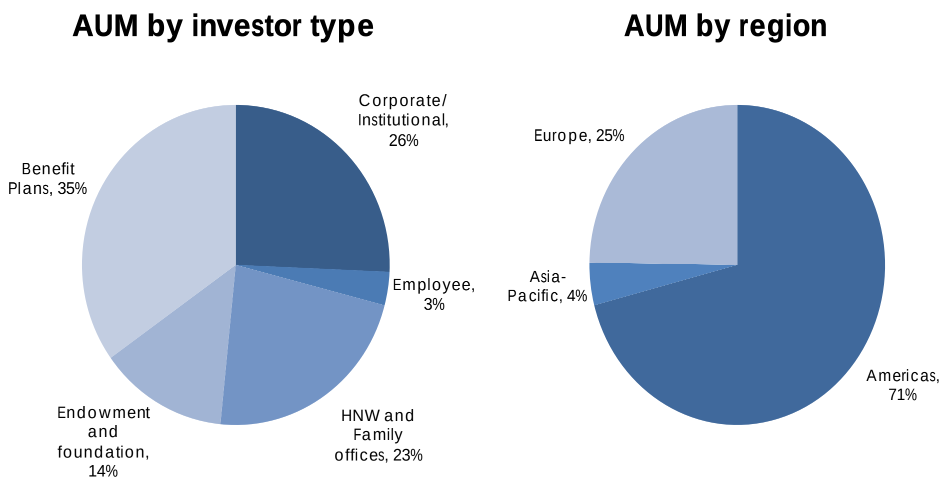
Lighthouse - US Operations

The Lighthouse operations in the US have demonstrated a steady recovery from the worst impacts of the GFC in 2008 and 2009. AUM for Lighthouse has increased from USD 3.27 billion to USD 3.63 billion, an increase of 11% for the financial year ended 30 June 2010. This increase is driven by both positive net inflows for the year of USD 195 million, and positive investment performance across the core Lighthouse products.

One of Lighthouse's key focuses during the 2010 financial year has been the distribution of its managed account program. Lighthouse first established its managed account program in 2005, and has been refining and expanding the program since that time, with the program being completed during this financial year.

A major theme amongst investors coming out of the GFC has been a demand for increased transparency, direct security over underlying assets, greater certainty of asset valuations and access to the liquidity of the underlying assets. Benefits of managed accounts to investors include a better understanding of the overall risks within a portfolio, and enhanced management and monitoring of risk. The Lighthouse managed account program, which meets the demands of Investors post the GFC and delivers the related benefits, has been well received by existing and potential Lighthouse investors. The program has been rolled out as much as possible across the existing Lighthouse funds, and new Lighthouse funds are being established to capitalise on the benefits that the managed account program offers. During 2010, 70% of subscriptions into Lighthouse products were received into Lighthouse funds which utilise the managed account program.

Lighthouse has continued to maintain a strong, diversified global investor base, with allocations to different investor types as at 30 June 2010 as follows:



With the growth of AUM throughout the 2010 financial year, Lighthouse has been the major contributor to the Group's result, with the US operations accounting for approximately 78% of net operating income, and 89% of EBITDA (excluding the foreign exchange losses on the intercompany loan).

Directors' Report (continued)

7. Operating and financial review (continued)

Review of operations (continued)

Certitude - Australian Operations

The Australian operations have experienced a more challenging year, with the recovery of the Australian retail funds management sector occurring more slowly than the broader global hedge fund market. The 2010 financial year was a period of resolution of residual issues from the GFC, and provided the opportunity to re-evaluate the strategic direction of the Australian business.

Australian AUM fell 39%, whilst overall FUM (which excludes leverage) fell 21%. The key drivers for this decrease were:

- The completion of deleveraging by the Australian fund portfolios;
- $235 million of withdrawal offers by the HFA Diversified Investments Fund; and
- the discontinuation of the $78 million investment management agreement with Signature Capital Investments Limited (formerly HFA Accelerator Plus Limited) in February 2010.

To counter the resultant fall in revenue, the Australian business has placed a key focus on controlling operating costs, with a 28% reduction in operating costs for 2010 compared to the prior year.

Throughout the year, the Australian business has worked to retain the strength of its Independent Financial Adviser ("IFA") network, and continues to be supported by 1,532 independent financial advisers, with products listed on 28 master trust platforms.

The close of the financial year has seen positive developments for the Australian business, including the lifting of the redemption suspension from its largest Australian fund, the HFA Diversified Investments Fund.

Of key importance is the launch of a new business focus and strategy under the new brand name of Certitude, led by the new Australian business Chief Executive Officer, Mr Craig Mowll.

Under this new approach, Certitude will broaden its business strategy on two key fronts:

- a broader investment offering, from an exclusive multi-strategy absolute return product base to being a more comprehensive provider of active funds management solutions; and
- an expansion of its investment base beyond its traditional IFA sourced retail investor base toward the needs of institutional and high net worth investors as well.

Whilst the existing Australian funds will retain the HFA brand, new products which fit within a broader active manager product suite will carry the Certitude brand name.

Results of the Australian operations will continue to be impacted in the short-term by the decline in AUM which has occurred over the 2009 and 2010 financial years. However, the successful implementation of the new business strategy under the Certitude brand, including the introduction of high quality single manager products that are liquid, transparent and simple, will lay the foundations for renewed AUM growth and profitability over the medium-term.

Directors' Report (continued)

7. Operating and financial review (continued)

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:

Declared and paid during the 2010 financial year	Cents per share	Total amount $000's	Franked / unfranked	Date of payment
Final 2009 ordinary	-	-	-	N/A
Interim 2010 ordinary	-	-	-	N/A
Total amount		-		

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

Franked dividends declared and paid during the 2009 year were franked at the tax rate of 30%.

Declared after end of year

The directors have at the date of this report declared that no final dividend will be paid for the financial year ended 30 June 2010.

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

The US Lighthouse business will continue to focus on the development and distribution of its managed account program, in particular focusing on broadening distribution not only geographically, but also into the larger institutional investor space.

The Australian business will pursue its new business strategy, rolling out new products which fit with its broader "active funds management solution" philosophy, and focusing distribution efforts not only on the independent financial adviser network, but also high net worth and institutional investors.

Further information about likely developments in the operations of the Group 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 Group.

Directors' Report (continued)

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 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 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 28 of the financial statements.

Directors' Report (continued)

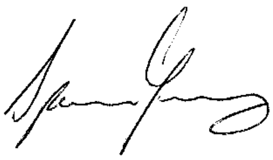
Lead auditor's independence declaration under section 307C of the Corporations Act 2001

The lead auditor's independence declaration required under section 307C of the Corporations Act 2001 is set out on page 37 and forms part of the directors' report for the financial year ended 30 June 2010.

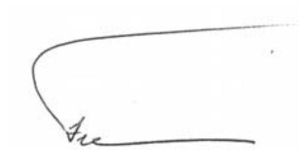
Rounding off

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 19th day of August 2010

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 2010, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane
19 August 2010

Consolidated statement of financial position

As at 30 June 2010

in thousands of AUD	Note	2010	2009
Assets			
Cash and cash equivalents	10	32,977	29,290
Trade and other receivables	11	12,817	19,391
Current tax assets	13	500	307
Total current assets		**46,294**	**48,988**
Investments	12	2,373	2,319
Plant and equipment	14	1,615	1,893
Deferred tax assets	13	293	496
Intangible assets	15	171,683	191,959
Total non-current assets		**175,964**	**196,667**
Total assets		**222,258**	**245,655**
Liabilities			
Trade and other payables	16	7,252	9,294
Employee benefits	17	4,399	5,303
Derivatives	18	1,359	-
Loans and borrowings	20	10,322	7,879
Total current liabilities		**23,332**	**22,476**
Employee benefits	17	172	217
Derivatives	18	-	3,455
Loans and borrowings	20	110,351	137,039
Total non-current liabilities		**110,523**	**140,711**
Total liabilities		**133,855**	**163,187**
Net assets		**88,403**	**82,468**
Equity			
Share capital		504,730	504,730
Reserves	21	112,971	113,987
Retained earnings / (accumulated losses)		(529,298)	(536,249)
Total equity attributable to equity holders of the Company		**88,403**	**82,468**

The notes on pages 44 to 94 are an integral part of these consolidated financial statements.

Consolidated income statement

For the year ended 30 June 2010

in thousands of AUD	Note	2010	2009
Revenue	7	72,576	112,855
Investment management costs		(11,956)	(17,312)
Net income from operating activities		**60,620**	**95,543**
Other income	7	4	208
Expenses	7	(45,391)	(57,635)
Results from operating activities before impairment losses and equity settled transactions		**15,233**	**38,116**
Impairment losses	7	-	(599,537)
Equity settled transactions	7	(2,250)	(12,396)
Results from operating activities		**12,983**	**(573,817)**
Finance income	8	660	2,018
Finance costs	8	(7,338)	(8,665)
Net finance costs		**(6,678)**	**(6,647)**
Profit / (loss) before income tax		**6,305**	**(580,464)**
Income tax (expense) / benefit	9	(1,604)	7,280
Net profit / (loss) for the period		**4,701**	**(573,184)**
Attributable to:			
Owners of the Company		4,701	(573,184)
Profit / (loss) for the period		**4,701**	**(573,184)**
Earnings per share			
Basic earnings / (loss) per share (cents per share)	22	1.013	(124.641)
Diluted earnings / (loss) per share (cents per share)	22	1.013	(124.474)

The notes on pages 44 to 94 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year ended 30 June 2010

in thousands of AUD	Note	2010	2009
Profit for the period		4,701	(573,184)
Other comprehensive income			
Foreign currency translation differences for foreign operations	8	(3,187)	178,436
Effective portion of changes in fair value of cash flow hedges	8	2,096	(6,207)
Net change in fair value of available-for-sale financial assets	8	107	7
Income tax on other comprehensive income	9	(32)	(24,094)
Other comprehensive income / (expense) for the period, net of income tax		**(1,016)**	**148,142**
Total comprehensive income / (expense) for the period		**3,685**	**(425,042)**
Attributable to:			
Owners of the Company		3,685	(425,042)
Total comprehensive income / (expense) for the period		**3,685**	**(425,042)**

The notes on pages 44 to 94 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2010

		Attributable to equity holders of the Company					
in thousands of AUD	Note	Share Capital	Fair Value Reserve	Hedging Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at 1 July 2008		504,730	(4)	1,613	(35,764)	40,624	511,199
Total comprehensive income for the period							
Profit / (loss) for the period		-	-	-	-	(573,184)	(573,184)
Other comprehensive income							
Foreign currency translation differences, net of tax	8(b)	-	-	-	153,206	-	153,206
Effective portion of changes in fair value of cash flow hedges, net of tax	8(b)	-	-	(5,068)	-	-	(5,068)
Net change in fair value of available-for-sale financial assets, net of tax	8(b)	-	4	-	-	-	4
Total other comprehensive income		-	4	(5,068)	153,206	-	148,142
Total comprehensive income for the period		-	4	(5,068)	153,206	(573,184)	(425,042)
Transactions with owners, recorded directly in equity							
Dividends to equity holders	21	-	-	-	-	(16,085)	(16,085)
Equity settled transactions	19	-	-	-	-	12,396	12,396
Total transactions with owners		-	-	-	-	(3,689)	(3,689)
Balance at 30 June 2009		504,730	-	(3,455)	117,442	(536,249)	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 19). This is a non-cash expense. These amounts are recognised in retained earnings.

The notes on pages 44 to 94 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity (continued)

For the year ended 30 June 2010

		Attributable to equity holders of the Company					
in thousands of AUD	Note	Share Capital	Fair Value Reserve	Hedging Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at 1 July 2009		504,730	-	(3,455)	117,442	(536,249)	82,468
Total comprehensive income for the period							
Profit / (loss) for the period		-	-	-	-	4,701	4,701
Other comprehensive income							
Foreign Currency translation differences, net of tax	8(b)	-	-	-	(3,187)	-	(3,187)
Effective portion of changes in fair value of cash flow hedges, net of tax	8(b)	-	-	2,096	-	-	2,096
Net change in fair value of available-for-sale financial assets, net of tax	8(b)	-	75	-	-	-	75
Total other comprehensive income		-	75	2,096	(3,187)	-	1,016
Total comprehensive income for the period		-	75	2,096	(3,187)	4,701	3,685
Transactions with owners, recorded directly in equity							
Dividends to equity holders	21	-	-	-	-	-	-
Equity settled transactions	19	-	-	-	-	2,250	2,250
Total transactions with owners		-	-	-	-	2,250	2,250
Balance at 30 June 2010		504,730	75	(1,359)	114,255	(529,298)	88,403

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 Short Term Incentive Plan (refer to note 19). This is a non-cash expense. These amounts are recognised in retained earnings.

The notes on pages 44 to 94 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

For the year ended 30 June 2010

in thousands of AUD	Note	2010	2009
Cash flows from operating activities			
Cash receipts from customers		79,995	123,918
Cash paid to suppliers and employees		(49,610)	(72,250)
Cash generated from operations		30,385	51,668
Interest received		541	796
Dividends and distributions received		-	8
Income taxes paid		(1,528)	(9,931)
Net cash from operating activities	24	**29,398**	**42,541**
Cash flows from investing activities			
Acquisition of plant and equipment		(525)	(162)
Acquisition of investments		(167)	(67)
Proceeds from disposal of investment		310	-
Net used in investing activities		**(382)**	**(229)**
Cash flows from financing activities			
Proceeds from borrowings		-	9,999
Repayment of borrowings		(17,660)	(34,803)
Borrowing costs		(135)	(1,659)
Dividends paid		-	(16,085)
Interest paid		(6,930)	(6,562)
Net cash used in financing activities		**(24,725)**	**(49,110)**
Net increase/(decrease) in cash and cash equivalents		**4,291**	**(6,798)**
Cash and cash equivalents at 1 July		29,290	38,828
Effect of exchange rate fluctuations on cash held		(604)	(2,740)
Cash and cash equivalents at 30 June	10	**32,977**	**29,290**

The notes on pages 44 to 94 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 30 June 2010

1. Reporting entity

HFA Holdings Limited (the "Company" / "HFA") is domiciled in Australia. HFA is a company limited by shares, incorporated in Australia whose shares are publicly listed on the Australian Securities Exchange. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (the "Group"). HFA has four Australian domiciled wholly owned subsidiaries, Certitude Global Investments Limited (formerly HFA Asset Management Limited) ("Certitude"), Admin Pty Ltd (formerly HFA Admin Pty Ltd) ("Admin"), A.C.N. 122 776 550 Pty Ltd and A.C.N. 143 806 651 Limited. Certitude is the responsible entity for the Australian based investment schemes. Admin is a service entity to Certitude and provides administrative services including staff, premises and other resources to Certitude and the Company. A.C.N 122 776 550 Pty Ltd and A.C.N. 143 806 651 are dormant entities. 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 consolidated 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 also complies 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 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on a going concern basis. As such, the consolidated financial statements have been prepared on a historical cost basis except for the following items in the statement of financial position:

- 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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

2. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with AASBs 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.

Information about critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

- note 12 - measurement of investments
- note 13 - utilisation of tax losses
- note 15 - measurement of the recoverable amounts of cash-generating units containing goodwill
- note 19 - measurement of share based payments
- note 25 - valuation of financial instruments

(e) Changes in accounting policies

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Accounting for business combinations
- Determination and presentation of operating segments
- Presentation of financial statements

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, except as explained in notes 2(e), 3(a)(i), 3(q) and 3(r) which address changes in accounting policies.

(a) Basis of consolidation

The consolidated financial statements are those of the Group, 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) Business combinations

Change in accounting policy

The Group has adopted revised AASB 3 Business Combinations (2008) and amended AASB 127 Consolidated and Separate Financial Statements (2008) which would be relevant to the Group's operations in the event of any future changes to its business combinations. The change in accounting policy is applied prospectively and had no material impact on earnings per share.

For every business combination, the Group identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(i) Business combinations (continued)

Measuring goodwill

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value of any contingent consideration and share-based payment awards of the acquiree that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognised in other expenses.

Transaction costs

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. 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. The financial statements of subsidiaries are prepared for the same reporting period as the parent company.

(iii) 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, a financial liability designated as a qualifying cash flow hedges, which are recognised directly in equity (see (c)(ii) below).

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(b) Foreign currency (continued)

(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 date 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

The Group initially recognises financial instruments on the date that they are originated. All other financial instruments (including instruments designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire and derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial instruments

<u>Cash and cash equivalents</u>

Cash and cash equivalents comprise cash balances and call deposits.

<u>Trade and other receivables</u>

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value, and then subsequently are measured at amortised cost less impairment losses (see accounting policy (g)).

<u>Available-for-sale financial assets</u>

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.

<u>Financial assets at fair value through profit or loss</u>

A financial asset 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 assets 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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

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.

Loans and borrowings

Loans and borrowings are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

(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) Share Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(d) Plant and equipment (continued)

(ii) Depreciation

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

Furniture and equipment	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.

(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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(f) Intangible assets (continued)

(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.

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").

3. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Non-financial assets (continued)

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.

(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

(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 benefits 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) Defined contribution plans

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 an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be measured reliably.

(iv) 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”).

The grant date fair value of share-based payment awards granted to employees is recognised as an equity settled transaction expense in the profit or loss, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

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.

Share based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Group.

(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.

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) Finance income and finance costs

Finance income comprises interest income on funds invested, 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 costs 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.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(n) Income tax (continued)

Tax consolidation (continued)

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 consolidated statement of financial position.

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.

(q) Segment reporting

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the Group's CEO and board of directors, who are the Group's chief operating decision makers. This change in accounting policy is due to the adoption of AASB 8 Operating Segments. Previously operating segments were determined and presented in accordance with AASB 114 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of the standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other segments. All operating segments' operating results are regularly reviewed by the Group's CEO and board of directors to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Notes to the consolidated financial statements

For the year ended 30 June 2010

3. Significant accounting policies (continued)

(q) Segment reporting (continued)

Segment results that are reported to the CEO and board of directors include items directly attributable to a segment.

Unallocated items comprise assets and liabilities relating to HFA Holdings Limited and Admin Pty Ltd (the Australian parent and service entities), corporate expenses and amounts that are eliminated on consolidation of the Group.

(r) Presentation of financial statements

The Group applies revised AASB 101 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(s) 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 2010, but have not been applied in preparing this financial report:

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.
- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.
- AASB 2009-5 *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 2011 financial statements, are not expected to have a significant impact on the financial statements.
- AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transactions* resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 - Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

Notes to the consolidated financial statements

For the year ended 30 June 2010

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 acquired in a business combination 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. The fair value is determined for disclosure purposes.

Derivatives

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 equity settled share-based payment transactions 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.

The fair value of cash settled share-based payment transactions is based on the market value of the shares on settlement date.

Notes to the consolidated financial statements

For the year ended 30 June 2010

5. Risk management

Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

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

Risk management policies are established to identify and analyse the risks faced by the 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 Group's activities. The Group, through its training, employee manuals and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The board of directors has overall responsibility for the establishment and oversight of the risk management framework and oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework.

(a) Financial risk management

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.

<u>Trade and other receivables</u>
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 68% 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.

<u>Investments</u>
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 the Group. 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.

As detailed in note 20 to the financial statements, the Group has various bank facilities in place. Under current arrangements, these facilities are due to mature in November 2011. The Group has processes in place to ensure the terms and conditions of borrowing arrangements continue to be met. In the normal course, the facilities will be renegotiated or refinanced prior to maturity.

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.

Notes to the consolidated financial statements

For the year ended 30 June 2010

5. Risk management (continued)

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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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 25.

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, Certitude 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 scheme property, up to a maximum of $5 million. Certitude's position is actively monitored to ensure compliance with this requirement. The requirement was complied with throughout the year.

Notes to the consolidated financial statements

For the year ended 30 June 2010

5. Risk management (continued)

(b) Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative.

This objective is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

6. Operating segments

The Group has two reportable segments, as described below, which are the Group's strategic business units. The strategic business units are based on the Group's two principal geographic locations, being Australia and the United States. For each of the strategic business units, the Group's CEO and board of directors review internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- *Australia*. Includes the Australian Certitude business, which acts as the Responsible Entity of schemes and other products which are provided to retail, wholesale and institutional investors throughout Australia.
- *United States*. Includes the US based Lighthouse Group, which acts as a global absolute return funds manager for US and Cayman Island based funds.

$485 million (2009: $629 million) of the Assets under Management which are managed by Certitude are invested in funds managed by the Lighthouse Group. This cross investment results in management fee rebates between the Australian and US operating segments.

Information regarding the results of each reportable segment is included below. Performance is measured on segment results before foreign exchange losses on the intercompany loan (which eliminate on consolidation of the Group) as included in the internal management reports that are reviewed by the Group's CEO and board of directors.

Comparative segment information has been represented in conformity with the requirement of AASB 8 *Operating Segments*.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

6. Operating segments (continued)

Information about reportable segments

2010	Reportable segments			Reconciliation to consolidated totals		
in thousands of AUD	**Australia**	**United States**	**Total reportable segments**	**Corporate / service entities**	**Elimination entries**	**Consolidated totals**
External revenue	17,038	55,538	72,576	-	-	72,576
Inter-segment revenue	-	2,945	2,945	-	(2,945)	-
Investment management costs	(3,940)	(10,961)	(14,901)	-	2,945	(11,956)
Net income from operating activities	**13,098**	**47,522**	**60,620**	**-**	**-**	**60,620**
Other Income	-	2	2	2	-	4
Expenses						
- Depreciation and amortisation expense	-	(11,046)	(11,047)	(189)	-	(11,235)
- Other expenses	(9,021)	(23,761)	(32,781)	(1,374)	-	(34,156)
Results from operating activities before impairment expense and equity settled transactions	**4,077**	**12,717**	**16,794**	**(1,561)**	**-**	**15,233**
Impairment (expense) / reversal	-	-	-	24,812	(24,812)	-
Equity settled transactions	-	(2,009)	(2,009)	(241)	-	(2,250)
Results from operating activities	**4,077**	**10,708**	**14,785**	**23,010**	**(24,812)**	**12,983**
Finance income / (costs)						
- Interest income on bank deposits	459	8	467	74	-	541
- Net foreign exchange gain / (loss)	-	(26,824)	(26,824)	-	26,943	119
- Interest expense (external)	-	(7,427)	(7,427)	(248)	585	(7,090)
- Interest expense (internal)	-	(3,545)	(3,545)	1,195	2,350	-
- Other finance costs	(2)	(300)	(302)	639	(585)	(248)
Profit / (loss) before tax	**4,534**	**(27,380)**	**(22,846)**	**24,670**	**4,481**	**6,305**
Profit / (loss) before tax (eliminating foreign currency movements on intercompany loan)	4,534	(439)	4,095	24,670	(22,460)	6,305
Income tax (expense) / benefit	(1,360)	(77)	(1,437)	(167)	-	(1,604)
Segment assets	20,939	198,646	219,585	124,174	(121,501)	222,258
Segment liabilities	(3,318)	(129,730)	(133,048)	(2,438)	1,631	(133,855)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

6. Operating segments (continued)

Information about reportable segments

2009	**Reportable segments**			**Reconciliation to consolidated totals**		
in thousands of AUD	**Australia**	**United States**	**Total reportable segments**	**Corporate / service entities**	**Elimination entries**	**Consolidated totals**
External revenue	36,140	76,715	112,855	-		112,855
Inter-segment revenue	-	9,512	9,512	-	(9,512)	-
Investment management costs	(10,807)	(16,017)	(26,824)	-	9,512	(17,312)
Net income from operating activities	**25,333**	**70,210**	**95,543**	**-**	**-**	**95,543**
Other Income	88	116	204	4	-	208
Expenses						
- Depreciation and amortisation expense	(668)	(13,393)	(14,061)	(255)	-	(14,316)
- Other expenses	(10,353)	(29,447)	(39,800)	(3,519)	-	(43,319)
Results from operating activities before impairment expense and equity settled transactions	**14,400**	**27,486**	**41,886**	**(3,770)**	**-**	**38,116**
Impairment (expense) / reversal	(11,446)	(585,621)	(597,067)	(435,156)	432,686	(599,537)
Equity settled transactions	-	(12,177)	(12,177)	(219)	-	(12,396)
Results from operating activities	**2,954**	**(570,312)**	**(567,358)**	**(439,145)**	**432,686**	**(573,817)**
Finance income / (costs)						
- Interest income on bank deposits	279	201	480	316	-	796
- Dividend income on available-for-sale financial assets	-	-	-	8	-	8
- Net foreign exchange gain / (loss)	-	45,654	45,654	110	(44,550)	1,214
- Interest expense (external)	-	(7,196)	(7,196)	(530)	67	(7,659)
- Interest expense (internal)	-	(19,965)	(19,965)	15,161	4,804	-
- Other finance costs	(2)	(1,170)	(1,172)	233	(67)	(1,006)
Profit / (loss) before tax	**3,231**	**(552,788)**	**(549,557)**	**(423,847)**	**392,940**	**(580,464)**
Profit / (loss) before tax (eliminating foreign currency movements on intercompany loan)	3,231	(597,338)	(594,107)	(423,847)	437,490	(580,464)
Income tax (expense) / benefit	(969)	(3,749)	(4,718)	(4,598)	16,596	7,280
Segment assets	17,915	220,610	238,525	103,850	(96,720)	245,655
Segment liabilities	(3,595)	(393,662)	(397,257)	(9,055)	243,125	(163,187)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

6. Operating segments (continued)

Major revenue source

9% (2009: 12%) and 50% (2009: 45%) of the Group's total revenue relates to management and performance fees earned on the HFA Diversified Investments Fund and Lighthouse Diversified Fund respectively.

7. 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:

in thousands of AUD	2010	2009
(a) Revenue		
Management fee income	71,149	110,369
Performance fee income	1,252	844
Origination fees	175	1,642
Total revenue	**72,576**	**112,855**
(b) Other income		
Sundry income	4	208
Total other income	**4**	**208**
(c) Expenses		
Personnel expenses[1]	(24,648)	(31,584)
Professional fees	(1,894)	(2,920)
Depreciation	(536)	(804)
Amortisation intangible assets	(10,699)	(13,512)
Occupancy expenses	(2,378)	(2,987)
Marketing and promotion costs	(81)	(263)
Travel costs	(1,198)	(1,384)
Other expenses	(3,957)	(4,181)
Total expenses	**(45,391)**	**(57,635)**
(d) Impairment losses		
Impairment losses - intangible assets	-	(596,119)
Impairment losses - financial assets	-	(3,418)
Total impairment losses	**-**	**(599,537)**
(e) Equity settled transactions		
Equity settled transactions	(2,250)	(12,396)
Total equity settled transactions	**(2,250)**	**(12,396)**

[1] includes consolidated contributions to defined contribution plans of $717 thousand (2009: $1,019 thousand).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

8. Finance income and costs

(a) Recognised directly in profit or loss

in thousands of AUD	2010	2009
Finance income		
Interest income on bank deposits	541	796
Dividend and distribution income on available-for-sale financial assets	-	8
Net foreign exchange gain	119	1,214
Total finance income	**660**	**2,018**
Finance costs		
Interest expense on financial liabilities measured at amortised cost	(7,090)	(7,659)
Finance costs	(135)	(726)
Net change in fair value of financial assets at fair value through profit or loss	(113)	(280)
Total finance costs	**(7,338)**	**(8,665)**
Net finance costs recognised in profit or loss	**(6,678)**	**(6,647)**

(b) Recognised directly in other comprehensive income

in thousands of AUD	2010	2009
Foreign currency translation difference for foreign operations	(3,187)	178,436
Effective portion of changes in fair value of cash flow hedges	2,096	(6,207)
Change in fair value of available-for-sale financial assets transferred to profit or loss	107	7
Income tax on income and expense recognised directly in equity	(32)	(24,094)
Finance income attributable to equity holders recognised directly in equity, net of tax	**(1,016)**	**148,142**

in thousands of AUD	2010	2009
Recognised in:		
Translation reserve	(3,187)	153,206
Hedging reserve	2,096	(5,068)
Fair value reserve	75	4
	1,016	**148,142**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

9. Income tax expense

(a) Recognised in the income statement

in thousands of AUD	2010	2009
Current tax expense		
Current year	(1,422)	(7,471)
Deferred tax expense		
Origination and reversal of temporary differences	12,744	217,486
Tax losses for which no deferred tax was recognised	(15,133)	(15,295)
Change in unrecognised temporary differences	2,207	(187,440)
Income tax (expense) / benefit reported in income statement	**(1,604)**	**7,280**

(b) Income tax recognised in other comprehensive income

in thousands of AUD	2010			2009		
	Before tax	Tax (expense) benefit	Net of tax	Before tax	Tax (expense) benefit	Net of tax
Foreign currency translation difference for foreign operations	(3,187)	-	(3,187)	178,436	(25,230)	153,206
Effective portion of changes in fair value of cash flow hedges	2,096	-	2,096	(6,207)	1,139	(5,068)
Change in fair value of available-for-sale financial assets	107	(32)	75	7	(3)	4
Income tax benefit / (expense) recognised in equity	**(984)**	**(32)**	**(1,016)**	**172,236**	**(24,094)**	**148,142**

(c) Reconciliation of effective tax rate

in thousands of AUD	2010	2009
Accounting profit / (loss) before tax	6,305	(580,464)
Income tax using the domestic corporation tax rate of 30% (2008: 30%)	(1,891)	174,139
Effect of tax rates in foreign jurisdictions *	3,383	42,771
Non-deductible expenses	1,176	(7,069)
Tax benefits not included in accounting profit	(6,738)	131,853
Tax losses for which no deferred tax is recognised	(15,133)	(15,295)
Changes in unrecognised temporary differences	17,733	(319,293)
Under/(Over) provided in prior periods	(134)	174
Income tax (expense) / benefit on pre-tax net profit	**(1,604)**	**7,280**

***** The Group's US subsidiaries operate in a tax jurisdiction with higher tax rates.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

9. Income tax expense (continued)

(c) Reconciliation of effective tax rate

The Group's consolidated effective tax rate for the year ended 30 June 2010 was 25.4% (for the year ended 30 June 2009: 1.3%). The effective tax rate for the year ended 30 June 2010 was impacted by the following factors:

- tax losses incurred for the financial year by the US Lighthouse Group, which have not been recognised as a deferred tax asset. In particular, the current financial year tax losses for the US Lighthouse Group include an interest expense in relation to the intercompany loan that existed between the parent entity, HFA Holdings Limited, and its wholly-owned subsidiary, HFA Lighthouse Holdings Corp. No deferred tax asset has been recognised in relation to this interest expense, and hence no corresponding income tax benefit is included in the income statement. However, the equivalent interest income is assessable to the Australian tax consolidation group in the financial year ended 30 June 2010, resulting in an income tax expense in relation to the interest without an off-setting income tax benefit. 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 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.

10. Cash and cash equivalents

in thousands of AUD	**2010**	**2009**
Cash at bank	16,431	27,865
Call deposits	16,546	1,425
	32,977	**29,290**

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.

Call deposits includes $577 thousand of funds that are held in nominated accounts in relation to security deposits for the lease of office premises.

The fair value of cash and cash equivalents is $32,977 thousand (2009: $29,290 thousand).

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 25.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

11. Trade and other receivables

in thousands of AUD	2010	2009
Current		
Receivables due from Group managed products	11,389	17,893
Other receivables and prepayments	1,428	1,498
	12,817	**19,391**

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

Impairment of non-current receivables

During the 2009 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. This reduction in the carrying value of non-current receivables was recognised in “impairment losses” in the financial statements of the Group.

There has been no further impairment of non-current receivables in the 2010 year.

The Group’s exposure to credit and currency risk and impairment losses related to trade and other receivables is disclosed in note 25.

12. Investments

in thousands of AUD	2010	2009
Non-current		
Available-for-sale financial assets	191	84
Financial assets designated at fair value through profit or loss	2,182	2,235
	2,373	**2,319**

Available-for-sale financial assets consist of investments in ordinary shares (refer to note 29 for transactions with related parties).

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

Impairment of available-for-sale financial assets

HFA Holdings Limited holds 562 thousand shares in Signature Capital Investments Limited (formerly HFA Accelerator Plus Limited) with a cost base of $534 thousand (95 cents per share). As at 30 June 2009, the fair value of these shares was $84 thousand (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 was recognised and is included in “impairment losses” in the profit or loss of the Group for the year ended 30 June 2009.

As at 30 June 2010, the fair value of these shares was $191 thousand (34 cents per share), therefore no further impairment loss has been recognised for the year ended 30 June 2010. The increase in the fair value has been recognised in a separate component of equity (refer note 3(c)(i)).

The Group’s exposure to credit, liquidity and market rate risks related to other investments is disclosed in note 25.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

13. Tax assets and liabilities

a) Current tax assets and liabilities

The current tax asset for the Group of $500 thousand (2009: $307 thousand) 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.

b) Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets	
in thousands of AUD	**2010**	**2009**
Consolidated		
Amortisation / depreciation	51	-
Available-for-sale financial assets	(30)	2
Other receivables	(5)	-
Trade creditors	67	168
Employee benefits	149	235
Deferred revenue	-	-
Other provisions	61	91
Net tax assets / (liabilities)	**293**	**496**

c) Unrecognised deferred tax assets

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

in thousands of AUD	**2010**	**2009**
Deductible temporary differences	275,758	293,202
Tax losses	29,746	15,295
	305,504	**308,497**

These deferred tax assets arise as a result of impairment losses recognised in the prior 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 consolidated financial statements (continued)

For the year ended 30 June 2010

14. Plant and equipment

in thousands of AUD	Furniture and Equipment	Computer Equipment	Leasehold Improvements	Total
Cost				
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 rates	175	127	83	385
Balance at 30 June 2009	**1,246**	**1,352**	**958**	**3,556**
Balance at 1 July 2009	1,246	1,352	958	3,556
Additions	201	283	41	525
Disposals	(261)	(38)	(180)	(479)
Effect of movement in exchange rates	(56)	(35)	(33)	(124)
Balance at 30 June 2010	**1,130**	**1,562**	**786**	**3,478**
Depreciation				
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)
Balance at 30 June 2009	**(364)**	**(957)**	**(342)**	**(1,663)**
Balance at 1 July 2009	(364)	(957)	(342)	(1,663)
Depreciation charge for the year	(152)	(268)	(116)	(536)
Disposals	177	34	70	281
Effect of movement in exchange rate	18	29	8	55
Balance at 30 June 2010	**(321)**	**(1,162)**	**(380)**	**(1,863)**
Carrying amounts				
At 1 July 2008	955	611	792	2,358
At 30 June 2009	**882**	**395**	**616**	**1,893**
At 1 July 2009	882	395	616	1,893
At 30 June 2010	**809**	**400**	**406**	**1,615**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

15. Intangible assets

in thousands of AUD	Goodwill	Mgmt rights / Customer Relationships	Trademarks	Software	Total
Cost					
Balance at 1 July 2008	520,946	88,203	1,974	831	611,954
Additions	-	-	-	-	-
Written off	-	(34)	-	-	(34)
Effect of movement in exchange rates	96,699	14,209	368	155	111,431
Balance at 30 June 2009	**617,645**	**102,378**	**2,342**	**986**	**723,351**
Balance at 1 July 2009	617,645	102,378	2,342	986	723,351
Additions	-	-	-	-	-
Written off	-	-	-	-	-
Effect of movement in exchange rates	(29,542)	(4,341)	(113)	(47)	(34,043)
Balance at 30 June 2010	**588,103**	**98,037**	**2,229**	**939**	**689,308**
Amortisation and impairment losses					
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
Balance at 30 June 2009	**(502,042)**	**(28,878)**	**(176)**	**(296)**	**(531,392)**
Balance at 1 July 2009	(502,042)	(28,878)	(176)	(296)	(531,392)
Amortisation for the year	-	(10,410)	(107)	(182)	(10,699)
Impairment losses	-	-	-	-	-
Effect of movement in exchange rate	23,995	459	4	8	24,466
Balance at 30 June 2010	**(478,047)**	**(38,829)**	**(279)**	**(470)**	**(517,625)**
Carrying amounts					
At 1 July 2008	520,946	80,668	1,925	747	604,286
At 30 June 2009	**115,603**	**73,500**	**2,166**	**690**	**191,959**
At 1 July 2009	115,603	73,500	2,166	690	191,959
At 30 June 2010	**110,056**	**59,208**	**1,950**	**469**	**171,683**

15. 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, intangible assets with an indefinite life and intangible assets that are not yet available for use 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:

in thousands of AUD	**2010 Carrying amount**	**2009 Carrying amount**
Australian based funds management		
Goodwill	-	-
Management rights	-	-
US based funds management		
Goodwill	110,056	115,603
Management rights/customer relationships	59,208	73,500
Trademarks	1,950	2,166
Software	469	690
	171,683	**191,959**

a) 30 June 2010 impairment testing

Australian based funds management cash generating unit (AUS CGU)

As noted in the table above, the 30 June 2010 carrying value for intangible assets allocated to the AUS CGU was $Nil. Therefore no further impairment testing for the AUS CGU was carried out as at 30 June 2010.

US based funds management cash generating unit (US CGU)

Impairment testing carried out on the US CGU as at 30 June 2010 did not result in the recognition of any additional impairment losses.

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

To calculate this, cash flow projections were based on the financial budget for the US business agreed by the executive directors for the 2011 to 2013 financial years. Forecasts for 2014 and 2015 were based on revenue growth that was broadly consistent with the approved growth rates for the 2011 to 2013 period and normalised cost percentages.

A long term growth rate of 4.4% was used in the terminal value component of the calculation. This rate was based on a 2.4% CPI long term forecast plus 2.0% 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 15.3%.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

15. Intangible assets (continued)

b) Impairment testing for the year ended 30 June 2009

The GFC, 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 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.

Australian based funds management cash generating unit (AUS CGU)

As a result of the testing carried out on the AUS CGU during the year ended 30 June 2009, 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 was recognised and is included in "impairment losses" for that period.

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

To calculate this, cash flow projections were 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%.

US based funds management cash generating unit (US CGU)

As a result of the testing carried out on the US CGU during the year ended 30 June 2009, 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 was recognised and is included in "impairment losses" for that period. The impairment loss was allocated fully against goodwill.

This loss reflects 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%.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

16. Trade and other payables

in thousands of AUD	2010	2009
Current		
Trade creditors	1,716	1,859
Other creditors and accruals	5,536	7,435
Total trade and other payables	**7,252**	**9,294**

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 25.

17. Employee benefits

in thousands of AUD	2010	2009
Current		
Salaries and wages accrued	4,037	4,704
Liability for annual leave	362	599
Total employee benefits – current	**4,399**	**5,303**
Non-current		
Liability for long service leave	172	217
Total employee benefits – non-current	**172**	**217**

18. Derivatives

in thousands of AUD	2010	2009
Current		
Derivatives used for hedging	1,359	-
Non-current		
Derivatives used for hedging	-	3,455
Total Derivatives	**1,359**	**3,455**

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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

19. 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 the Group 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

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	(953,750)
Issued during the period in relation to Tranche 1	(901,250)
Outstanding at 30 June 2009	**2,100,000**
Outstanding at 1 July 2009	2,100,000
Forfeited during the period	(1,330,750)
Issued during the period in relation to Tranche 2	(299,250)
Outstanding at 30 June 2010	**470,000**

Tranche 1 of the performance rights 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 non-cash expense recognised in relation to Tranche 1 for the year ended 30 June 2009 totalled $219 thousand.

Tranche 2 of the performance rights plan vested at 31 December 2009, with 30% of the shares (299,250) available under the tranche for eligible employees being issued due to the satisfaction of the base revenue performance hurdle. The board did not exercise its discretion to vest any additional shares under Tranche 2. The non-cash expense recognised in relation to Tranche 2 for the year ended 30 June 2010 totalled $241 thousand.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

19. Share-based payments (continued)

2008 HFA Employee Performance Rights Plan (continued)

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 executive director Sean McGould and is not part of the HFA Holdings Limited Group. Grants made under the plan will be funded by SGM Holdings, LLC not the HFA Holdings Limited Group. However, as SGM Holdings, LLC is shareholders of HFA Holdings Limited, accounting standards require that the Company recognise an expense associated with the shares granted under the plan with a corresponding increase in the Company'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 transferred to eligible employees during the year ended 30 June 2009 (9,904,925 shares), with the non-cash expense recognised by the Group for that year totalling $12,177 thousand.

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 consolidated financial statements (continued)

For the year ended 30 June 2010

19. Share-based payments (continued)

Lighthouse Investment Partners Short Term Incentive Plan

Employees of Lighthouse Investment Partners, LLC are entitled to participate in a short term incentive (STI) plan which is based on the performance of the Lighthouse Group

For the year ended 31 December 2009, Lighthouse employees were granted shares in HFA Holdings Limited in partial settlement of their bonus entitlements. No consideration was payable by employees upon issue of the shares. The total number of HFA Holdings Limited shares issued to Lighthouse employees under this incentive plan was 8,547,009.

The fair value of the ordinary shares granted under the plan was based on the market value of the shares on the 31 December 2010 grant date. The non-cash expense recognised by the Group in relation to this plan for the year ended 30 June 2010 was $2,009 thousand (2009: $Nil).

20. Loans and borrowings

in thousands of AUD	2010	2009
Current		
Bank loan – secured		
Facility A – USD	10,322	5,885
Facility B – AUD	-	1,994
	10,322	**7,879**
Non-current		
Bank loan – secured		
Facility A – USD	109,293	132,247
Facility B – AUD	1,058	4,792
	110,351	**137,039**
Total loans and borrowings	**120,673**	**144,918**

Current loans and borrowings are the portion of bank loans expected to be paid within one year.

Terms and debt repayment schedule

The terms and conditions of the outstanding loans as at 30 June 2010 were as follows:

			2010		2009	
	Nominal interest rate	**Date of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
			AUD $000's	AUD $000's	AUD $000's	AUD $000's
Facility A	LIBOR + 2.25%	1/11/ 2011	120,116	119,615	139,357	138,132
Facility B	BBSY + 2.25%	1/11/ 2011	1,087	1,058	6,899	6,786
Total loans and borrowings			**121,203**	**120,673**	**146,256**	**144,918**

20. Loans and borrowings (continued)

Financing arrangements

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

- 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 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. The facilities mature in November 2011.

HFA Holdings Limited, Admin Pty Ltd, Certitude Global Investments 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 USD 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 loans and borrowings is disclosed in note 25.

Bank loans are denominated in both Australian dollars and US dollars. The bank loan amounts in current liabilities comprises the portion of the Group's bank loans payable and the expected amount to be paid within one year (2010: $10,322 thousand) (2009: $7,879 thousand).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

21. Capital and reserves

Movement in ordinary shares on issue

in thousands of shares	2010	2009
Balance at beginning of financial year	460,484	459,583
Exercise of performance rights - 6 March 2009	-	901
Shares issued under the Lighthouse Investment Partners Short Term Incentive Plan - 9 February 2010	8,547	-
Exercise of performance rights - 11 February 2010	299	-
Balance at end of financial year	**469,330**	**460,484**

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 performance rights 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.

Tranche 2 of the performance rights plan vested at 31 December 2009, with 30% of the shares (299,250 shares) available under the tranche for eligible employees being issued due to the satisfaction of the base revenue performance hurdle. The board did not exercise its discretion to vest any additional shares under Tranche 2.

For the year ended 31 December 2009, Lighthouse employees were granted shares in HFA Holdings Limited in partial settlement of their bonus entitlements under the Lighthouse Investment Partners Short Term Incentive Plan. The total number of HFA Holdings Limited shares issued to Lighthouse employees under this incentive plan was 8,547,009.

Nature and purpose of reserves

in thousands of AUD	2010	2009
Fair value reserve	75	-
Translation reserve	114,255	117,442
Hedging reserve	(1,359)	(3,455)
	112,971	**113,987**

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 consolidated financial statements (continued)

For the year ended 30 June 2010

21. Capital and 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
Declared and paid during the 2010 financial year				
Final 2009 ordinary	-	-	-	N/A
Interim 2010 ordinary	-	-	-	N/A
Total amount		-		
Declared and paid during the 2009 financial year				
Final 2008 ordinary	3.5	16,085	Franked	26 September 2008
Interim 2009 ordinary	-	-	-	N/A
Total amount		16,085		

Franked dividends declared and paid during the 2009 year were fully 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 2010.

Dividend franking account	The Company	
in thousands of AUD	**2010**	**2009**
30% franking credits available to shareholders of HFA Holdings Limited for subsequent financial years.	11,213	10,140

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.

In accordance with the tax consolidation legislation, the Company as the head entity in the tax-consolidated group has also assumed the benefit of $11,213 thousand (2009: $10,140 thousand) franking credits.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

22. Earnings per share

The calculation of basic earnings per share and diluted earnings per share at 30 June 2010 was based on profit attributable to ordinary shareholders of $4,701 thousand (2009: loss of $573,184 thousand) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2010 of 463,900 thousand and 464,085 thousand respectively (2009: 459,869 thousand and 460,484 respectively), calculated as follows:

in thousands of AUD	2010	2009
Earnings from operations used in calculating basic earnings per share	4,701	(573,184)
Earnings from operations used in calculating diluted earnings per share	4,701	(573,184)

in thousands of shares	Note	2010	2009
Weighted average number of shares issued			
Issued ordinary shares at 1 July	21	460,484	459,583
Effect of shares issued 6 March 2009			286
Effect of shares issued 9 February 2010		3,302	-
Effect of shares issued 11 February 2010		114	-
Weighted average number of ordinary shares used in calculating basic earnings per share		463,900	459,869
Effect of performance rights issued 12 March 2008		185	615
Weighted average number of ordinary shares used in calculating diluted earnings per share		464,085	460,484
Basic earnings per share (cents per share)		1.013	(124.641)
Diluted earnings per share (cents per share)		1.013	(124.474)

On 11 February 2010 and 6 March 2009 the Company issued 299,250 and 901,250 shares respectively for no consideration in relation to the 2008 Employee Performance Rights Plan offered to employees on 12 March 2008.

On 9 February 2010 the Company issued 8,547,009 shares for no consideration in relation to the Lighthouse Investment Partners Short Term Incentive Plan for the twelve months ended 31 December 2009.

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 consolidated financial statements (continued)

For the year ended 30 June 2010

23. Parent entity disclosures

As at, and throughout the financial year ended 30 June 2010, the parent company of the Group was HFA Holdings Limited.

	Company	
in thousands of AUD	**2010**	**2009**
Result of the parent entity		
Profit / (loss) for the period	24,577	(422,877)
Other comprehensive income	75	4
Total comprehensive income for the period	**24,652**	**(422,873)**
Financial position of the parent at year end		
Current assets	2,496	6,747
Total assets	122,618	102,032
Current liabilities	(411)	(2,454)
Total liabilities	(1,514)	(7,831)
Total equity of the parent comprising of:		
Share capital	504,730	504,730
Fair value reserve	75	-
Retained earnings	(383,701)	(410,529)
Total equity	**121,104**	**94,201**

Parent entity contingent liabilities

GST and current tax liabilities of other entities within the Australian GST group are transferred to the parent entity and are included in the current liabilities disclosed above.

Please refer to note 27 for comments regarding contingent liabilities.

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has entered into a deed of cross guarantee with the effect that the Company guarantees the bank loan facility held by subsidiary HFA Lighthouse Holdings Corp under the Cash Advance Facilities Agreement with Westpac Banking Corporation.

Further details of the deed of cross guarantee and the subsidiaries subject to the deed, are disclosed at note 20.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

24. Reconciliation of cash flows from operating activities

in thousands of AUD	Note	2010	2009
Cash flows from operating activities			
Net profit/(loss) for the period (after tax)		4,701	(573,184)
Adjustments for:			
Depreciation expense	7 (c)	536	804
Impairment losses	7 (d)	-	599,537
Amortisation of intangible assets	7 (c)	10,699	13,512
Interest expense on financial liabilities measured at amortised cost	8 (a)	7,090	7,659
Net loss on disposal of plant & equipment		199	127
Finance costs	8 (a)	135	726
Equity-settled transactions	7 (e)	2,250	12,396
Income tax expense/(benefit)		76	(17,211)
Profit on disposal of written off investment		(310)	-
Fair value gain/(loss) on financial assets at fair value through profit or loss	8 (a)	113	280
Foreign currency (gain) / loss		(471)	113
Operating cash flow before changes in working capital and provisions		**25, 018**	**44,759**
(Increase)/decrease in receivables		6,223	5,235
(Increase)/decrease in other assets		22	(174)
Increase/(decrease) in payables		(1,129)	(2,116)
Increase/(decrease) in provisions and employee benefits		(736)	(3,696)
Increase/(decrease) in deferred income		-	(1,467)
Net cash from operating activities		**29,398**	**42,541**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. Financial instruments

Exposure to credit, liquidity, currency, equity price and interest rate risk arises in the normal course of the Group's business.

Credit risk

Exposure to credit risk

The carrying amount of the Group's financial assets at reporting date represents the maximum credit exposure:

in thousands of AUD	Note	Carrying amount 2010	2009
Cash and cash equivalents	10	32,977	29,290
Trade and other receivables	11	12,817	19,391
Available-for-sale financial assets	12	191	84
Financial assets at fair value through profit or loss	12	2,182	2,235
Total financial assets		**48,167**	**51,000**

The Group's exposure to credit risk for trade and other receivables predominantly relates to management fees, performance fees and other related fees from products managed by the Group. At reporting date, 89% of the Group's loans and receivables related to management fees, performance fees and other related fees owing from products managed by the Group (2009: 92%); 47% of receivables relate to the Lighthouse Diversified Fund and Lighthouse Global Long Short Fund (2009: 43%).

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 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.

Impairment losses

Based on historic default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables. 96% of the trade receivables balance is not past due (2009: 94%). Payment for the 4% of trade receivables past due was received on 9 July 2010.

<u>Impairment of non-current receivables</u>

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

in thousands of AUD	2010	2009
Balance at 1 July	2,968	-
Impairment loss recognised	-	2,968
Balance at 30 June	2,968	2,968

During the 2009 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. This reduction in the carrying value of non-current receivables was recognised in "impairment losses" in the financial statements of the Group.

There has been no further impairment of non-current receivables in the 2010 year.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. Financial instruments (continued)

Impairment losses (continued)

Impairment of available-for-sale financial assets

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

in thousands of AUD	2010	2009
Balance at 1 July	450	-
Impairment loss recognised	-	450
Balance at 30 June	450	450

HFA Holdings Limited holds 562 thousand shares in Signature Capital Investments Limited (formerly HFA Accelerator Plus Limited) with a cost base of $534 thousand (approximately 95 cents per share). As at 30 June 2009, the fair value of these shares was $84 thousand (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 was recognised and is included in “impairment losses” in the profit or loss of the Group for the year ended 30 June 2009.

As at 30 June 2010, the fair value of these shares was $191 thousand (0.34 cents per share), therefore no further impairment loss has been recognised for the year ended 30 June 2010. The increase in the fair value has been recognised in a separate component of equity (refer note 3(c)(i)).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. 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:

		2010						2009					
in thousands of AUD	Note	Fair Value	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Non derivative financial liabilities:													
Loans and borrowings	20	121,203	(8,923)	(4,495)	(113,862)	-	-	146,256	(4,340)	(10,320)	(11,384)	(130,935)	-
Trade and other payables	16	7,252	(7,252)	-	-	-	-	9,294	(9,294)	-	-	-	-
		128,455	**(16,175)**	**(4,495)**	**(113,862)**	**-**	**-**	**155,550**	**(13,634)**	**(10,320)**	**(11,384)**	**(130,935)**	**-**

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:

		2010						2009					
in thousands of AUD	Note	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Fair value	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Interest rate swaps:													
Liabilities	18	1,359	(1,459)	-	-	-	-	3,455	(1,240)	(1,428)	(1,640)	-	-
		1,359	**(1,459)**	**-**	**-**	**-**	**-**	**3,455**	**(1,240)**	**(1,428)**	**(1,640)**	**-**	**-**

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. Financial instruments (continued)

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 $695 thousand (2009: $617 thousand).

The following significant exchange rates applied during the year:

	Average Rate		Reporting date spot rate	
	2010	**2009**	**2010**	**2009**
AUD: USD	0.8830	0.7456	0.8523	0.8114

Sensitivity analysis

A 10% appreciation (depreciation) in the Australian dollar against the US dollar at 30 June 2010 would have increased (decreased) the Group's profit or loss by $45 thousand (2009: $40 thousand). This analysis assumes that all other variables remain constant.

Equity price risk

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

in thousands of AUD	Note	Carrying amount 2010	Carrying amount 2009
Available-for-sale financial assets	12	191	84
Financial assets designated as fair value through profit or loss	12	2,182	2,235
		2,373	**2,319**

Sensitivity analysis

Available-for-sale financial assets

A 10% increase (decrease) in equity prices would have increased (decreased) the fair value of available-for-sale financial assets by $13 thousand (2009: $6 thousand). The equity value of the Group would have been affected by a corresponding amount.

Financial assets designated as fair value through profit or loss

A 10% increase in the fair value of investments at reporting date would have increased the Group's profit by $129 thousand (2009: $121 thousand). A 10% decrease would have decreased the Group's profit by $129 thousand (2009: $138 thousand).

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. Financial instruments (continued)

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 interest rate profile of financial liabilities is detailed in note 20. 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 Group's interest bearing financial instruments were:

in thousands of AUD	Note	Carrying Amount 2010	2009
Fixed rate instruments			
Interest rate swap liabilities	18	(1,359)	(3,455)
Variable rate instruments			
Cash and cash equivalents	10	32,977	29,290
Loans and borrowings	20	(120,673)	(144,918)

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 change of 100 basis points in interest rates would have increased (decreased) the Group's equity by $186 thousand (2009: $1,087 thousand).

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.

Fair values

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

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quotes prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

25. Financial instruments (continued)

Fair value hierarchy (continued)

In thousands of AUD	Note	Level 1	Level 2	Level 3	Total
30 June 2010					
Available-for-sale financial assets	12	191	-	-	191
Financial assets at fair value through profit or loss	12	-	2,182	-	2,182
Derivative financial liabilities	18	-	(1,359)	-	(1,359)
		191	**823**	**-**	**1,014**
30 June 2009					
Available-for-sale financial assets	12	84	-	-	84
Financial assets at fair value through profit or loss	12	-	2,235	-	2,235
Derivative financial liabilities	18	-	(3,445)	-	(3,445)
		84	**(1,210)**	**-**	**(1,126)**

26. 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:

in thousands of AUD	2010	2009
Within one year	1,574	1,603
After one year but not more than five years	4,177	3,526
More than five years	2,395	263
	8,146	**5,392**

27. Contingent liabilities

Litigation

The Group is defending an action bought against it by a former employee as a result of an employee share offer at the time of the initial public offering.

The Group strongly denies any liability or wrongdoing. The directors do not expect the outcome of the action to have a material effect on the Group's financial position.

In the directors' opinion, disclosure of any further information would be prejudicial to the interest of the Group.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

28. Auditor's remuneration

in AUD	2010	2009
Audit services:		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	123,200	183,750
Overseas KPMG Firm:		
Audit and review of financial reports	135,900	189,780
	259,100	**373,530**
Services other than statutory audit:		
Auditors of the Company		
KPMG Australia:		
Other assurance services	12,900	24,480
Taxation services	137,912	123,902
Other advisory services	9,000	10,000
	159,812	**158,382**

29. Related Parties

Remuneration of Key Management Personnel

The key management personnel compensation included in "personnel expenses" and "equity settled transactions" (see note 7) is as follows:

in AUD	2010	2009
Short-term employee benefits	3,846,450	6,667,447
Post employment benefits	130,167	214,074
Termination benefits	325,000	113,771
Share-based payments	893,288	171,366
	5,194,905	**7,166,658**

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' interests existing at year-end.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

29. Related Parties

Remuneration of Key Management Personnel (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:

2010	Balance 1 July 2009	Granted as compensation	Vested during the year	Other changes*	Balance 30 June 2010
Directors	-	-	-	-	-
Mr Spencer Young	-	-	-	-	-
Mr Sean McGould	-	-	-	-	-
Mr F P (Andy) Esteban	-	-	-	-	-
Mr John Larum	-	-	-	-	-
Mr Michael Shepherd	-	-	-	-	-
Executives					
Mr Craig Mowll	-	-	-	-	-
Ms Amber Stoney	150,000	-	(21,000)	(49,000)	80,000
Mr Oscar Martinis	337,500	-	(47,250)	(290,250)	-
Mr Robert White	337,500	-	(47,250)	(290,250)	-
Mr Jonathan Pain	187,500	-	-	(187,500)	-
Mr Scott Perkins	-	-	-	-	-
Mr Kelly Perkins	-	-	-	-	-
Mr Robert Swan	-	-	-	-	-

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

2009	Balance 1 July 2008	Granted as compensation	Vested during the year	Other changes*	Balance 30 June 2009
Directors	-	-	-	-	-
Mr Spencer Young	-	-	-	-	-
Mr Sean McGould	-	-	-	-	-
Mr F P (Andy) Esteban	-	-	-	-	-
Mr John Larum	-	-	-	-	-
Mr Brett Howard	-	-	-	-	-
Mr Robert Fraser	-	-	-	-	-
Executives					
Ms Amber Stoney	200,000	-	(50,000)	-	150,000
Mr Oscar Martinis	450,000	-	(112,500)		337,500
Mr Robert White	450,000	-	(112,500)	-	337,500
Mr Jonathan Pain	250,000	-	(62,500)	-	187,500
Mr Rodney Hughes	200,000	-	(50,000)	(150,000)	-
Mr Scott Perkins	-	-	-	-	-
Mr Kelly Perkins	-	-	-	-	-
Mr Robert Swan	-	-	-	-	-

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

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

29. Related parties (continued)

Options and rights over equity instruments (continued)

No performance rights held by key management personnel are vested and exercisable, or vested but not exercisable at 30 June 2010 or 2009. No additional performance rights were granted to key management personnel during the reporting period as compensation. Refer to below reconciliation of movements in shares for shares that were granted to key management personnel during the reporting period as compensation.

Further details of performance rights and shares 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 19-20 and 24-27.

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:

2010	Balance 1 July 2009	Purchases	Sales	Net Change Other	Balance 30 June 2010
Directors					
Mr Spencer Young[1]	25,516,951	-	(3,000,000)	-	22,516,951
Mr Sean McGould[2]	77,752,335	-	-	-	77,752,335
Mr FP (Andy) Esteban	8,354	-	-	-	8,354
Mr John Larum	-	36,400	-	-	36,400
Mr Michael Shepherd[3]	-	100,000	-	-	100,000
Executives					
Mr Craig Mowll	-	-	-	-	-
Ms Amber Stoney[4]	700,491	-	-	21,000[6]	721,491
Mr Oscar Martinis	909	-	-	47,250[6]	N/A[5]
Mr Robert White	117,807	-	-	47,250[6]	N/A[5]
Mr Jonathan Pain	204,281	-	-	-	N/A[5]
Mr Scott Perkins	10,848,612	-	-	897,436[7]	11,746,048
Mr Kelly Perkins	17,931,675	-	-	1,175,214[7]	19,106,889
Mr Robert Swan	10,848,612	-	-	897,436[7]	11,746,048

1 Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust.
2 77,744,335 shares are held indirectly by SGM Holdings, LLC.
3 Shares are held indirectly by Tidala Pty Ltd as Trustee for the Shepherd Provident Fund.
4 649,582 shares are held indirectly by AJ Stoney Family Trust.
5 No longer Key Management Personnel as at 30 June 2010.
6 Being shares issued under the 2008 HFA Performance Rights Plan.
7 Being shares issued under the Lighthouse Investment Partners Short Term Incentive Plan for the calendar year ended 31 December 2009.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

29. Related parties (continued)

Movements in shares (continued)

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

1 Shares are held indirectly by Spencer Young as Trustee for the Spencer Young Family Trust.
2 77,744,335 shares are held indirectly by SGM Holdings, LLC.
3 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 HFA 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.
4 649,582 shares are held indirectly by AJ Stoney Family Trust.
5 No longer Key Management Personnel as at 30 June 2009.
6 Being shares issued under the 2008 HFA Performance Rights Plan.

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 Group 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.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

29. Related parties (continued)

Key management personnel and director transactions (continued)

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

Signature Capital Investment Limited ("Signature") (Formerly HFA Accelerator Plus Limited)

Signature Capital Investments Limited is a listed investment company that was managed by Certitude, a wholly owned subsidiary of HFA Holdings Limited, until 19 February 2010 pursuant to a management agreement.

During the financial year:

(i) The Company purchased no additional shares in Signature. The fair value of the holding of 561,692 shares as at 30 June 2010 is $190,975 (2009: $84,254)

(ii) The Company received dividends of $Nil (2009: $8,425 fully franked) from its shareholding in Signature.

(iii) Certitude recognised management and performance fees paid or payable of $759,644 (2009: $6,083,506) from Signature. Amounts receivable from Signature at 30 June 2010 were $460,286 for which payment was received on 9 July 2010 (2009: $1,610,977).

Certitude Global Investments Limited

Certitude is a wholly owned subsidiary of the Group and responsible entity of a number of managed investment schemes.

During the financial year Certitude recognised management and performance fees paid or payable of $16,102,818 (2009: $28,413,896) from managed investment schemes for which it acts as the Responsible Entity.

Amounts receivable from schemes for which Certitude acts as the Responsible Entity as at 30 June 2010 were $3,018,887 (2009: $4,913,433).

Lighthouse Investment Partners, LLC

Lighthouse Investment Partners, LLC (LIP) is a wholly owned subsidiary of the Group and 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.

During the financial year the following related party transactions occurred:

(i) LIP recognised management and performance fees paid or payable of $55,537,514 (2009: $76,715,320) from investment products for which LIP acts as general partner and investment manager. Amounts receivable from these products at 30 June 2010 were $7,893,217 (2009: $11,109,344).

(ii) LIP holds the following investments in products in which they act as general partner and investment manager:

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

29. Related parties (continued)

Key management personnel and director transactions (continued)

in AUD **Product**	**Fair Value 30 June 2010**	**Fair Value 30 June 2009**
Lighthouse Composite Series	218,127	230,303
Lighthouse Global Series	206,724	223,810
Lighthouse Trend Series	212,644	224,188
Lighthouse Healthcare Series	185,723	171,741
Lighthouse Low Volatility Fund QP II, LP	11,436	205,568
Lighthouse Aggressive Growth Fund	151,456	138,945
Lighthouse Enhanced Global Series	49,341	62,545
Lighthouse Credit Opportunities Fund, LP	591,376	520,131
LH Strategies Master Fund SPC LH Enhanced Global Master Segregated Portfolio	98,918	109,774
Lighthouse Enhanced Yield Fund LP	-	283,642
Lighthouse Navigator Fund LP	269,824	63,949
LLVF SLV LLC	10,301	-
Lighthouse Credit Compass Series	59,743	-
Lighthouse Prime Series	57,609	-
Lighthouse Global Long Short Fund LP Series B	58,665	-
	2,181,887	**2,234,596**

The above investments as classified as financial assets designated at fair value through profit or loss (refer note 12).

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 2010, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties. An assessment is undertaken each financial year of the financial position of the related party and the market in which the related party operates in, and when required, the Group raises such a provision.

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2010

30. 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 2010	% Equity interest 2009
Certitude Global Investments Limited[1]	Australia	100	100
Admin Pty Ltd[2]	Australia	100	100
A.C.N 122 776 550 Pty Ltd	Australia	100	100
A.C.N 143 806 651 Limited[3]	Australia	100	-
HFA Lighthouse Holdings Corp	United States	100	100
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

[1] Formerly HFA Asset Management Limited
[2] Formerly HFA Admin Pty Limited
[3] Incorporated 21 May 2010

31. 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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

For the year ended 30 June 2010

1. In the opinion of the directors of HFA Holdings Limited (the "Company"):

   (a) the consolidated financial statements and notes, and the remuneration report in the directors' report, set out on pages 17 to 27, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its 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; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 2010.

3. The directors draw attention to Note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Dated at Sydney this 19th day of August 2010

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

Report on the financial report

We have audited the accompanying financial report of the Group comprising HFA Holdings Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year. The financial report comprises the consolidated statement of financial position as at 30 June 2010, and consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 31 and the directors' declaration.

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, 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 Group's financial position and of its performance.

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

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

(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 included in section 5.8 of the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of HFA Holdings Limited for the year ended 30 June 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane
19 August 2010