



HFA HOLDINGS LIMITED
ABN 47 101 585 737

NOTICE OF GENERAL MEETING AND EXPLANATORY MEMORANDUM

Financial Adviser



This document is an important document.
If you are in any doubt as to how to act,
you should consult your financial or legal
adviser as soon as possible.

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of HFA Holdings Limited ABN 47 101 585 737 (**Company**) will be held at:

**TIME:
11.00 AM
(SYDNEY TIME)**

BUSINESS OF THE MEETING

1. Share Consolidation

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

“That, for the purposes of Section 254H of the Corporations Act, ASX Listing Rule 7.22.1 and for all other purposes, the issued capital of the Company be consolidated on the basis that every four (4) Shares or options on issue be consolidated into one (1) Share or option (as the case may be) to take effect on 1 March 2011 as set out in the Explanatory Memorandum accompanying the Notice of this Meeting, and where this consolidation results in a fraction of a Share or option being held by a Shareholder or optionholder (as the case may be), the Directors be authorised to round that fraction up to the nearest whole Share or option.”

(Refer to the Explanatory Memorandum for further information.)

2. Issue of Convertible Notes, Options and Apollo Performance Rights

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

“That, subject to the passing of Resolutions 3, 4 and 5, for the purposes of Chapter 2E and Item 7 of Section 611 of the Corporations Act and for all other purposes, approval be given for:

- (a) *the Company to issue to the Subscribers US\$75 million of Convertible Notes, enter into such other agreements as are required under the Convertible Notes and the performance of the Company’s obligations under the Convertible Notes and the Note Subscription Agreement, including the issue of fully paid ordinary shares in the capital of the Company to the Subscribers on the conversion of the Convertible Notes (including the conversion of principal amounts arising from the capitalisation of interest), on the terms and conditions of the Convertible Note Deed Poll, the Convertible Note Conditions and the Note Subscription Agreement as summarised in the Explanatory Memorandum accompanying the Notice of this Meeting; and*
- (b) *the Company to grant and issue to the Subscribers 31.25 million Options (on a post-consolidation basis if Resolution 1 is passed) or 125 million Options (if Resolution 1 is not passed), each convertible into one fully paid ordinary share in the capital of the Company at an exercise price of A\$8.00 (on a post-consolidation basis if Resolution 1 is passed) or A\$2.00 (if Resolution 1 is not passed) and exercisable during a period of eight years following*

issue, and the performance of the Company’s obligations under the Options including the issue of fully paid ordinary shares in the capital of the Company pursuant to the exercise of the Options, in accordance with the terms and conditions of the Option Terms and Note Subscription Agreement as summarised in the Explanatory Memorandum accompanying the Notice of this Meeting; and

- (c) *the Company to grant to AP CM one million (on a post-consolidation basis if Resolution 1 is passed) or four million (if Resolution 1 is not passed) Apollo Performance Rights, and the performance of the Company’s obligations in respect of the Apollo Performance Rights, including the issue of fully paid ordinary shares in the capital of the Company pursuant to the exercise of the Apollo Performance Rights, on the terms and conditions as summarised in the Explanatory Memorandum accompanying the Notice of this Meeting.”*

(Refer to the Explanatory Memorandum for further information.)

VOTING EXCLUSION

The Company will disregard any votes cast on this Resolution by the Subscribers and AP CM and any of their respective Associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the proxy decides.

3. Approval of Right of First Refusal Agreement

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

“That, subject to the passing of Resolutions 2, 4 and 5, for the purpose of Item 7 of Section 611 of the Corporations Act and for all other purposes, approval be given for Apollo’s contractual rights in respect of Shares under the Right of First Refusal Agreement which it enters into with the Lighthouse Management Shareholders and any resulting acquisition of Shares under the Right of First Refusal Agreement in accordance with the terms and conditions of that agreement as summarised in the Explanatory Memorandum accompanying the Notice of this Meeting.”

(Refer to the Explanatory Memorandum for further information.)

**DATE:
FRIDAY,
25 FEBRUARY
2011**

**VENUE:
HILTON HOTEL
MEETING ROOM 3
LEVEL 2
488 GEORGE STREET
SYDNEY NSW 2000**

VOTING EXCLUSION

The Company will disregard any votes cast in favour of this Resolution by Apollo and any of its Associates. In addition, the Company will also disregard any votes cast in favour of this Resolution by the Lighthouse Management Shareholders and any of their Associates. This is because Item 7 of Section 611 of the Corporations Act requires that no votes be cast in favour of the Resolution by the persons proposing to make the acquisition and their Associates, or the persons from whom the acquisition is to be made and their Associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the proxy decides.

4. Approval of Escrow Arrangements

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

"That, subject to the passing of Resolutions 2, 3 and 5, for the purpose of Item 7 of Section 611 of the Corporations Act and for all other purposes, approval be given for the Company to acquire a relevant interest in the Escrow Shares of Lighthouse Senior Management as a result of the Company's power to control the exercise of the power to dispose of the Escrow Shares by virtue of the escrow provisions of the Lighthouse Senior Management employment agreements, as set out in the Explanatory Memorandum accompanying the Notice of this Meeting."

(Refer to the Explanatory Memorandum for further information.)

VOTING EXCLUSION

The Company will disregard any votes cast in favour of this Resolution by the Company and any of its Associates. This is because Item 7 of Section 611 of the Corporations Act requires that no votes be cast in favour of the Resolution by the person proposing to make the acquisition and their Associates. In addition, the Company will also disregard any votes cast in favour of this Resolution by the Lighthouse Senior Management and any of their Associates. This is because Item 7 of Section 611 of the Corporations Act requires that no votes be cast in favour of the Resolution by the persons from whom the acquisition is to be made and their Associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or it is cast by the person chairing the General Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the Proxy Form to vote as the proxy decides.

5. Election of Directors

To consider and, if thought fit, pass the following Resolutions as ordinary resolutions:

"That, subject to the passing of Resolutions 2, 3 and 4:

- (a) Grant Kelley, in accordance with Rule 8.1(k)(2) of the Constitution, being eligible and offering himself for election, be elected as a director of the Company;*
- (b) James Zelter, in accordance with Rule 8.1(k)(2) of the Constitution, being eligible and offering himself for election, be elected as a director of the Company; and*
- (c) Anthony Civale, in accordance with Rule 8.1(k)(2) of the Constitution, being eligible and offering himself for election, be elected as a director of the Company."*

(Refer to the Explanatory Memorandum for further information.)

Important Note

Please note that if you appoint a person who is excluded from voting on any Resolution as your proxy and you do not direct them on how to vote in respect of a Resolution on which they cannot personally vote then a vote cast by them on that Resolution will not be counted. If you appoint any such excluded person as your proxy, we strongly urge you to direct them how to vote on the Resolution they are excluded from voting on personally. Alternatively, we suggest that you appoint someone else (such as the person chairing the General Meeting) as your proxy.

Explanatory Memorandum

Accompanying and forming part of this Notice of Meeting is the Explanatory Memorandum that provides Shareholders with background information and further details on the Resolutions to be considered at the General Meeting. The information provided is intended to assist Shareholders in understanding the reasons for and effect of the Resolutions. Terms and abbreviations used in this Notice of Meeting and Explanatory Memorandum bear the same meaning and are defined in the Explanatory Memorandum's Glossary & Interpretation section.

A Proxy Form accompanies this Notice of Meeting.

By order of the Board



Jo Hill
Company Secretary

This document is an important document. If you are in any doubt as to how to act, you should consult your financial or legal adviser as soon as possible.

Purpose of this Explanatory Memorandum

This document is an important document. This Explanatory Memorandum explains the items of business to be considered at the General Meeting and should be read in conjunction with the Notice of Meeting. This Explanatory Memorandum provides Shareholders with the necessary information to assist them in deciding how to vote on the items of business to be considered at the General Meeting.

This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, it should not be relied upon as the sole basis for any decision in relation to the items of business to be considered at the General Meeting. You should read this Explanatory Memorandum in its entirety before making a decision as to how to vote at the General Meeting. If you have any doubt as to what you should do once you have read this Explanatory Memorandum, you should consult your financial or legal adviser as soon as possible.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of this Explanatory Memorandum.

While the Company believes that the expectations reflected in the forward looking statements of the Company in this document are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Disclaimer

No person is authorised to give any information or make any representation in connection with the items of business to be considered at the General Meeting which is not contained in this Explanatory Memorandum.

Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by the Company or the Directors in connection with the items of business to be considered at the General Meeting.

Responsibility for information

The information concerning the Company contained in this Explanatory Memorandum, including information as to the views and recommendations of the Directors, has been prepared by the Company and is the responsibility of the Company. Neither Apollo Global Management nor its Associates or its advisers assume any responsibility for the accuracy or completeness of that information.

Information concerning the Subscribers, Apollo Global Management and their Associates in this Explanatory Memorandum, including information as to the intentions of the Subscribers, has been provided by the Subscribers and Apollo Global Management and is their responsibility. Neither the Company nor its advisers assume any responsibility for the accuracy or completeness of that information.

The Independent Expert has prepared the Independent Expert's Report pertaining to the Proposed Transaction, including the Convertible Notes, Options, Apollo Performance Rights, Right of First Refusal Agreement and Escrow Arrangements, and takes responsibility for the Independent Expert's Report. It has consented to the inclusion of the Independent Expert's Report in this Explanatory Memorandum. The Independent Expert is not responsible for any other information contained within this Explanatory Memorandum. Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made. To the extent that the Independent Expert's Report contains financial forecasts, valuations or other content prepared by the Independent Expert, none of the Directors, the Company or its advisers represent, adopt or otherwise assume any responsibility for that content. Forecasts, valuations and other forward looking statements are by their nature uncertain and dependent on a number of future events.

Each of the Subscribers, Apollo Global Management and the Independent Expert have given and have not withdrawn their consent to the inclusion in this Explanatory Memorandum of the information prepared by them, as indicated above.

ASX and ASIC involvement

A copy of the Notice of Meeting and this Explanatory Memorandum have been lodged with ASX pursuant to the ASX Listing Rules. A copy of the Notice of Meeting and this Explanatory Memorandum has also been lodged with ASIC pursuant to the Corporations Act. Neither ASX, ASIC nor any of their officers takes any responsibility for the contents of this Explanatory Memorandum.

Glossary & Interpretation

Terms and abbreviations used in the Notice of Meeting and this Explanatory Memorandum have the same meaning and are defined in the Explanatory Memorandum's Glossary & Interpretation section, other than in the Independent Expert's Report which contains its own Glossary in Appendix F.

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CORPORATE DIRECTORY	inside back cover



20 January 2011

LETTER FROM THE CHAIRMAN

Dear Shareholder,

On 6 December 2010 HFA Holdings Limited ("**HFA**" or "**Company**") and Apollo Global Management, LLC (together with its affiliates the "**Apollo Group**") announced that they had entered into a Note Subscription Agreement under which HFA will issue US\$75 million of mandatory convertible notes ("**Convertible Notes**") and 31.25 million¹ options to Apollo and a co-investor. HFA and the Apollo Group also concurrently entered into a Marketing Agreement under which an Apollo Group entity will distribute the products of HFA's US-based subsidiary Lighthouse Investment Partners, LLC ("**Lighthouse**") and HFA will grant one million¹ performance rights to the Apollo Group. Completion of the Proposed Transaction is subject to various conditions, including the receipt of Shareholder approval on various Resolutions as outlined in detail in this Explanatory Memorandum.

The Board has assessed and considered a range of strategic alternatives aimed at enhancing HFA's growth outlook, ensuring the retention and motivation of key employees and strengthening the balance sheet. The Board believes that the Proposed Transaction is in the best interests of Shareholders. The benefits of the Proposed Transaction are expected to include:

- improved growth outlook, through access to distribution relationships of the Apollo Group and affiliation with the Apollo Group's widely recognised brand;
- strengthened financial position and more conservative capital structure;
- increased financial flexibility, including an extension of HFA's Loan Facility to a five year maturity; and
- greater ability to attract, retain and motivate key employees.

Shareholders should be aware that the Convertible Notes will ultimately result in the Apollo Group having a shareholding in HFA of at least 39.6%, and potentially more through the other components of the Proposed Transaction. The Apollo Group will also have the benefit of Board representation and consent rights in relation to certain management actions. As a result, the probability of a future takeover by a third party may be reduced following completion of the Proposed Transaction.

The Board believes that the Proposed Transaction creates a powerful relationship with Apollo Group, a recognised global leader in alternative asset management, and at

the same time allows HFA to significantly strengthen its financial position. The strengthened balance sheet, combined with access to Apollo Group relationships and expertise, is expected to enhance Lighthouse's position as an innovative solutions provider in the alternative investment sector, and position HFA for any industry consolidation opportunities that may present themselves.

The Board recommends that, in the absence of a superior proposal, Shareholders vote in favour of the Proposed Transaction and approve each of the Resolutions. It is important that Shareholders wishing to approve the Proposed Transaction vote in favour of each of Resolutions 2, 3, 4 and 5 as they are inter-conditional.

Based on its assessment of the value range for Shareholders before and after the Proposed Transaction, the Independent Expert considers that the Proposed Transaction is both "**fair**" and "**reasonable**". Please refer to Schedule 6 of this Explanatory Memorandum for the report from the Independent Expert.

Concurrently with the Proposed Transaction, HFA proposes to undertake a Share Consolidation in order to reduce the number of Shares on issue. Under the terms of the consolidation every four Shares will be consolidated into one Share. Immediately after implementation of the Share Consolidation (and before any conversion of the Convertible Notes) each Shareholder will still hold the same proportion of Shares as before the consolidation, subject to the effect of any rounding of fractional shareholdings.

Your vote is important. I encourage you to read this important document in its entirety and to vote on the range of Resolutions required to approve the Proposed Transaction. There are risks inherent in proceeding with the Proposed Transaction as outlined in Section 7 of this Explanatory Memorandum.

You can vote by either attending the meeting to be held on **Friday, 25 February 2011** or by completing the proxy form enclosed with the Explanatory Memorandum and returning it as instructed.

The transaction is a compelling opportunity for Shareholders and is strongly endorsed by the Board.

Yours faithfully

Spencer Young
Executive Chairman and Chief Executive Officer
HFA Holdings Limited

¹

Assumes that Resolution 1 is passed and the share consolidation is effected.

1

THE PROPOSED TRANSACTION

WHAT IS THE PROPOSED TRANSACTION?

THE PROPOSED TRANSACTION

Over the past 12 months the Board has assessed a range of strategic alternatives with a view to:

- enhancing HFA's growth outlook;
- ensuring the retention and motivation of key employees; and
- strengthening HFA's balance sheet.

Having considered these alternatives, the Board believes that the Proposed Transaction with the Apollo Group is in the best interests of Shareholders. Under the terms of the Proposed Transaction with the Apollo Group:

- HFA will issue US\$75 million of Convertible Notes and 31.25 million¹ Options to Apollo and PA HH, with US\$65 million of the proceeds from the Convertible Note issue to be used to pay down the Company's Loan Facility to approximately US\$29 million. The proposed investment in the Company represents a strategic investment by the Apollo Group, being undertaken by Apollo at the corporate level.
- Lighthouse will enter into a Marketing Agreement with an Apollo Group entity under which the entity will distribute the investment products and services of Lighthouse;
- HFA will issue one million¹ Apollo Performance Rights to the Apollo Group in order to further align HFA's and the Apollo Group's interests and incentivise performance under the Marketing Agreement;
- Lighthouse Senior Management and Lighthouse will enter into new employment agreements which will include Escrow Arrangements;
- Lighthouse Management Shareholders and the Apollo Group will enter into a Right Of First Refusal Agreement under which the Apollo Group will have the first right to purchase certain Shares being disposed of by a Lighthouse Management Shareholder; and
- The Board will be expanded from five to eight members, with Apollo appointees making up the three new Board members.

A detailed description of the Proposed Transaction is outlined in Section 3. The extent of the Shareholder dilution which will, or may, be caused as a result of each component of the Proposed Transaction is outlined in Section 6.6.

¹ Assumes that Resolution 1 is passed and the share consolidation is effected.

FEATURES OF THE PROPOSED TRANSACTION

Key features of the Proposed Transaction are as follows:

1. The Loan Facility balance will be reduced and the maturity date extended

US\$65 million of the proceeds from the Convertible Note issue will be used to pay down the Company's Loan Facility to approximately US\$29 million. On settlement of the Convertible Notes issue, the residual balance of the Loan Facility will be substantially matched by the Company's cash holdings.

The amended Loan Facility will provide increased financial flexibility, including an extension of the maturity date to five years.

2. Enhanced distribution capabilities

The Marketing Agreement will facilitate access to distribution relationships of the Apollo Group.

Furthermore, Lighthouse's marketing activities are expected to benefit from the affiliation with the globally recognised Apollo brand and the Company's enhanced capital structure.

3. The Apollo Group will obtain a significant shareholding and participate in the management of the Company

Through the Convertible Notes the Apollo Group will have the ability to obtain a shareholding in HFA of between 39.6% and 51.2%, depending on the timing of conversion. Furthermore, through the Options, Apollo Performance Rights and ROFR, the Apollo Group has the potential to acquire or purchase additional Shares up to a shareholding of 70.0% in the Company.

The Apollo Group will participate in the management of HFA through its Board representation. In addition, the Apollo Group will have the benefit of certain information rights and consent rights in relation to certain management actions, including payment of dividends exceeding US\$6 million in any financial year. These special rights will exist while the Convertible Note Subscribers and other Apollo affiliates hold in aggregate Convertible Notes that are convertible into Shares that would comprise more than 20% of the total Shares then on issue.

4. New employment agreements with Lighthouse Senior Management

Lighthouse Senior Management and Lighthouse will enter into new employment agreements. The terms of the proposed employment agreements include a voluntary escrow provision under which the employee must not transfer their Shares until the earlier of two years, Lighthouse reaching trailing 12 month AUM of US\$8.5 billion or termination of the employee's employment.

Shareholders should refer to Sections 6 and 7 for more details of the effects and key implications of the Proposed Transaction.

WHY YOU SHOULD VOTE IN FAVOUR OF THE PROPOSED TRANSACTION

The Board believes that the Proposed Transaction is in the best interests of Shareholders, and recommends that, in the absence of a superior proposal, Shareholders vote in favour of the Proposed Transaction and approve each of the Resolutions.

It is important that Shareholders wishing to approve the Proposed Transaction vote in favour of each of Resolutions 2, 3, 4 and 5 as they are inter-conditional.

The rationale for the Board's recommendation that you vote in favour of the Proposed Transaction is summarised as follows:

- **Improved growth outlook** – The Proposed Transaction has the potential to result in considerable growth over time in Lighthouse's AUM;
- **Strengthened financial position** – The Proposed Transaction will provide the Company with a stronger financial position and more conservative capital structure;
- **Increased financial flexibility** – On settlement of the issue of the Convertible Notes the residual balance of HFA's Loan Facility will be substantially matched by the Company's cash holdings; and
- **Employee retention** – The improved growth outlook and strengthened financial position are expected to enhance the Company's ability to attract, retain and motivate key employees.

Based on its assessment of the value range for Shareholders before and after the Proposed Transaction, the Independent Expert considers that the proposal is both "fair" and "reasonable".

Shareholders should refer to Section 5 for detail on the rationale for the Proposed Transaction.

WHY YOU MAY CHOOSE TO VOTE AGAINST THE PROPOSED TRANSACTION

Shareholders may choose to vote against the Proposed Transaction (Resolutions 2, 3, 4 and 5) for the following reasons:

- **Dilution** – The Convertible Note will significantly dilute the ownership interests of existing Shareholders, and the Apollo Performance Rights and Options may result in further dilution (see Section 6.6);
- **Reduced probability of a third party takeover** – The probability of a future takeover by a third party may be reduced as a result of the Proposed Transaction;
- **Liquidity** – The concentration of ownership of the Company may result in a lower level of liquidity of Shares; and
- **Apollo Group's information and consent rights** – The Apollo Group will have the benefit of certain information rights and consent rights in relation to certain management actions, including payment of dividends beyond US\$6 million in any financial year.

Shareholders should refer to Section 7 for detail on the risks of the Proposed Transaction.

The Share Consolidation

Concurrently with the Proposed Transaction, HFA proposes to undertake a Share Consolidation in order to reduce the number of Shares on issue. Under the terms of the consolidation every four Shares will be consolidated into one Share. Immediately after implementation of the Share Consolidation (and before any conversion of the Convertible Notes) each Shareholder will still hold the same proportion of Shares as before the consolidation, subject to the effect of any rounding of fractional shareholdings.

The Board recommends that Shareholders approve the proposed Share Consolidation by voting in favour of Resolution 1.

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KEY DATES

Event	Date
Date of this Explanatory Memorandum	20 January 2011
Dispatch of Notice of Meeting, Proxy Form and Explanatory Memorandum to Shareholders	25 January 2011
Announcement of the Company's half-year financial results	Monday, 21 February 2011
Date for establishing voting entitlements	11.00 am (Sydney Time), 23 February 2011
Latest time for receipt of Proxy Forms	11.00 am (Sydney Time), 23 February 2011
General Meeting – meeting to vote on Resolutions	11.00 am (Sydney Time) Friday, 25 February 2011
Last day of trading Shares on a pre-consolidation basis	Monday, 28 February 2011
Trading of securities on a deferred settlement basis commences (on a post-consolidation basis): Shares – ASX Code: HFADA	Tuesday, 1 March 2011
Issue of Convertible Notes and Options	Wednesday, 2 March 2011
Last day to register transfers on a pre-consolidation basis	Monday, 7 March 2011
First day to register securities on a post-consolidation basis	Tuesday, 8 March 2011
Dispatch date for notice to Shareholders and new holding statements	Tuesday, 15 March 2011
Deferred settlement trading ends	Tuesday, 15 March 2011
Normal (T + 3) trading commences: Shares – ASX Code: HFA	Wednesday, 16 March 2011
Settlement of trades conducted on a deferred settlement basis and first settlement of trades conducted on a normal (T + 3) basis	Monday, 21 March 2011

Dates are indicative only. The Company reserves the right to vary the times and dates set out above and any variation will be announced and published on its website at www.hfaholdings.com.au.

3

OVERVIEW OF PROPOSED TRANSACTION

3.1 Key elements of the Proposed Transaction

Under the Proposed Transaction, subject to Shareholder approval (amongst other things):

- The Company will issue, and Apollo and PA HH will subscribe for, the Convertible Notes;
- The Company will issue to Apollo and PA HH the Options;
- The Marketing Agreement entered into by Lighthouse and AP CM will commence;
- The ROFR entered into by Lighthouse Management Shareholders and Apollo will commence;
- Apollo approved employment agreements entered into by Lighthouse Senior Management and Lighthouse and containing the Escrow Arrangements will commence;
- The Company will issue to AP CM the Apollo Performance Rights;
- The Board will be expanded from five to eight members, with Apollo appointees making up the three new Board members and at least one of them being appointed to each Board sub-committee; and
- US\$65 million of the US\$75 million raised from the issue of the Convertible Notes will be used by the Company to pay down existing debt.

The Shareholder approvals in relation to the Proposed Transaction (but not the Share Consolidation) are inter-conditional – Resolutions 2, 3, 4 and 5 must be approved in order for the Proposed Transaction to complete, subject to the other conditions.

Concurrently, the Company proposes to undertake a Share Consolidation under which subject to Shareholder approval every four Shares will be consolidated into one Share. Further details about the Share Consolidation are set out in Section 11.1 of this Explanatory Memorandum.

3.2 Convertible Notes

Subject to the Conditions Precedent, the Company will issue, and Apollo and PA HH (collectively, the **Subscribers**) have agreed to subscribe for, unsecured convertible notes with an aggregate face value of US\$75 million (**Convertible Notes**).

Apollo will subscribe for US\$50 million and PA HH for US\$25 million of the Convertible Notes. The face value of each Convertible Note is US\$1 million. Interest of 6% per annum is payable on the outstanding principal amount of the Convertible Notes and will be capitalised by way of an increase in the outstanding principal amount for the first four years of their issue. After the first four years interest may continue to be capitalised, or paid in cash, at the Company's discretion. The Convertible Notes may be converted into Shares by the Subscribers at any time, and at the Company's election in certain circumstances after the first four years. If not converted into Shares by the Subscribers or the Company beforehand, the Convertible Notes must convert into Shares at the end of their term, being eight years after the date on which the Convertible Notes are issued. The Shares issued on conversion will be issued as fully paid ordinary shares and will rank equally in all respects with existing Shares on issue in the Company as at the date of conversion.

The note subscription agreement (**Note Subscription Agreement**) contains customary exclusivity provisions in favour of the Apollo Group, including no shop, no talk and no due diligence provisions. In addition, the Note Subscription Agreement contains a matching right arrangement, and fixed break fee arrangement of US\$750,000 in favour of Apollo that apply in certain circumstances.

A more detailed summary of the terms and conditions of the Convertible Notes (**Convertible Note Deed Poll**) and the Note Subscription Agreement under which the Subscribers subscribe for the Convertible Notes are set out in Schedule 1 to this Explanatory Memorandum. Copies of the Convertible Note Deed Poll and Note Subscription Agreement were lodged in full with the ASX on 6 December 2010.

3.3 Options

Subject to the Conditions Precedent, the Company will issue to Apollo and PA HH an aggregate of 31.25 million Options to acquire by way of issue Shares with an exercise price of A\$8.00 (on a post-consolidation basis, or 125 million Options with an exercise price of A\$2.00 on a pre-consolidation basis) (**Options**).

Each Option entitles the Optionholder to acquire (by way of issue) one (1) Share at the exercise price. Apollo will be issued with 20,833,333 Options and PA HH the remaining 10,416,667 Options (on a post-consolidation basis). The Options may be exercised from the date of issue until the eighth anniversary of the date of their issue, subject to certain limited timing restrictions.

A more detailed summary of the terms of the Options is set out in Schedule 2 of this Explanatory Memorandum. The terms were set out in full in Schedule 1 of the Note Subscription Agreement lodged with ASX on 6 December 2010.

3.4 Marketing Agreement

Subject to various conditions including completion of the Convertible Note issue, Lighthouse (the Company's US-based wholly-owned subsidiary) and AP CM (a subsidiary of Apollo Global Management and an affiliate of Apollo) have entered into an agreement for AP CM to distribute the investment products and services of Lighthouse (**Marketing Agreement**).

The Marketing Agreement's initial term is four years. On the fourth anniversary, the Marketing Agreement will automatically renew for one year periods thereafter unless terminated in accordance with the terms of the agreement. The services contemplated under the Marketing Agreement will commence on the later of the date on which AP CM's status as a registered broker dealer under US securities law is effective and the date the Convertible Notes are issued. Prior to commencement AP CM will assist Lighthouse to implement a marketing plan and prepare for commencement.

Lighthouse will pay AP CM marketing fees for the first three calendar years of each investment in a Lighthouse fund product purchased by an investor introduced by AP CM and of each contract for other advisory services of an investor introduced by AP CM.

A more detailed summary of the terms of the Marketing Agreement is set out in Schedule 3 of this Explanatory Memorandum.

3

OVERVIEW OF PROPOSED TRANSACTION

3.5 Right of First Refusal Agreement (ROFR)

Subject to the approval of Shareholders, the Lighthouse Management Shareholders have agreed to grant a right of first refusal to Apollo to purchase certain of their Shares under a Right of First Refusal Agreement (ROFR). If approved, the ROFR will apply to each Lighthouse Management Shareholder until the second anniversary of his or her ceasing employment or service with the HFA Group.

The ROFR is proposed to apply to all existing Shares owned directly or indirectly by each Lighthouse Management Shareholder as at 31 December 2010 and, where approved by Shareholders, any additional Shares subsequently owned directly or indirectly by a Lighthouse Management Shareholder.

As at the date of this Explanatory Memorandum, Lighthouse Management Shareholders own, directly or indirectly, approximately 35,049,368 Shares (on a post-consolidation basis, or 140,197,472 Shares on a pre-consolidation basis) and 3,268,750 HFA Performance Rights (on a post-consolidation basis, or 13,075,000 on a pre-consolidation basis). The Shares currently on issue represent approximately 30% of HFA's current issued ordinary share capital. Together with the Shares that may potentially be issued under the HFA Performance Rights, this represents approximately 38,318,118 Shares (on a post-consolidation basis, or 153,272,472 Shares on a pre-consolidation basis) or approximately 30.56% of HFA's current fully-diluted ordinary share capital¹ being subject to the ROFR. Resolution 3 seeks Shareholder approval for the ROFR to apply to those Shares.

Those existing HFA Performance Rights were granted to the Lighthouse Management Shareholders in January 2011 under the HFA Employee Performance Rights Plan. They are subject to a vesting condition which requires Lighthouse, on a stand-alone basis, to achieve a minimum of US\$35 million EBITDA in any trailing 12 month period ending on or before 31 December 2013. The Board retains the ability to permit vesting in circumstances where hurdle thresholds are not met but commercial circumstances warrant limited or full vesting. Automatic vesting occurs in a change of control event or on termination of employment by Lighthouse without cause. For the HFA Performance Rights to vest, the employee must remain employed by Lighthouse at the vesting date. Once vested, those HFA Performance Rights are exercisable by the relevant employee for a period of one year.

Under the Note Subscription Agreement, HFA undertakes to seek Shareholder approval to extend the ROFR to apply to additional Shares resulting from future grants to the Lighthouse Management Shareholders under the HFA Employee Performance Rights Plan. Such future grants are not the subject of this Notice of Meeting.

The ROFR does not give Apollo the right to vote or to control the exercise of voting rights attaching to the Shares to which the ROFR applies.

A more detailed summary of the ROFR is set out in Schedule 4 of this Explanatory Memorandum.

3.6 Employment Agreements – Escrow Arrangements

Under the Note Subscription Agreement, it is a Condition Precedent to the Proposed Transaction that the Company has entered into employment agreements with the Lighthouse Senior Management on terms approved by Apollo.

The terms of the proposed employment agreements include a voluntary escrow provision under which the employee must not transfer their Shares held on 31 December 2010 until the earlier of two years from that date, Lighthouse reaching trailing 12 month assets under management (AUM) of US\$8.5 billion or termination of the employee's employment. Certain transfers to family members and their related entities are permitted.

By operation of Chapter 6 of the Corporations Act, the Escrow Arrangements cause the Company to have a relevant interest in excess of 20% of its issued voting share capital and for which it is required to obtain Shareholder approval.

A more detailed description of the Escrow Arrangements is set out in Section 11.4 of this Explanatory Memorandum.

3.7 Apollo Performance Rights

As part of the consideration for the services provided by AP CM under the Marketing Agreement, and subject to the Conditions Precedent, the Company will issue AP CM one million (on a post-consolidation basis, or four million on a pre-consolidation basis) performance rights for Shares (Apollo Performance Rights).

The Apollo Performance Rights are subject to the same general terms as apply to a grant under the HFA Employee Performance Rights Plan and to a vesting condition which requires Lighthouse, on a stand-alone basis, to achieve a minimum of US\$35 million EBITDA in any trailing 12 month period ending on or before 31 December 2013. AP CM will not be able to exercise the Apollo Performance Rights unless this vesting condition is satisfied. Upon satisfaction of this condition the Company will issue one (1) Share to AP CM for every Apollo Performance Right held and exercised by AP CM.

A more detailed summary of the terms of the Apollo Performance Rights is set out in Schedule 5 of this Explanatory Memorandum.

3.8 Board Changes

One of the Conditions Precedent to the Proposed Transaction is that Shareholders must approve an increase in the number of Board members from five to eight through the election of Apollo's nominees as additional Directors. Furthermore, at least one of these new Directors must be appointed to each of the sub-committees of the Board (collectively, the Board Changes). The appointment of the new Directors to Board sub-committees does not require Shareholder approval.

Apollo has nominated Grant Kelley, James Zelter and Anthony Civalo to be its nominees for Board membership.

1

Current fully diluted ordinary share capital consisting of all Shares and performance rights on issue at the date of this Explanatory Memorandum. It does not include the effect of the Convertible Notes, Options, Apollo Performance Rights or any other securities in the Company that may be issued in the future.

3.9 Use of the funds raised from the issue of the Convertible Notes

The US\$75 million received from the issue of the Convertible Notes will be used to partially repay the Company's Loan Facility by US\$65 million. The remaining US\$10 million will first be used to pay transaction fees and expenses of approximately US\$5 million, with the balance being used for working capital.

3.10 Amended Loan Facility and the Subordination Deed

Westpac Facilities Agreement

Westpac has agreed to amend the Westpac Facilities Agreement which was restated on 20 March 2009, by executing a second amendment and restatement deed dated 3 December 2010 (**Westpac Amendment**).

Pursuant to the terms of the Westpac Amendment the previous Facility B is to be fully and finally repaid and Facility A is reduced to a total commitment of approximately US\$29 million.

Under the terms of the Westpac Amendment any repayment of Facility A will be used to reduce the commitment and may not be redrawn for any purpose. The total amount outstanding under Facility A must be repaid in instalments of not less than US\$500,000 payable each quarter commencing from the restatement date and then must be fully and finally repaid on the date which is five years from the restatement date (being the date the US\$65 million proceeds are received by Westpac).

The margins and fees payable in relation to the amended Westpac Facilities Agreement are:

- **Restructure Fee:** US\$500,000 (as reduced by the amount of the "extension fee" received by Westpac from the Company in accordance with the extension letter dated 25 October 2010 from Westpac to the Company).
- **Margin:** 3.00% per annum.

Interest is calculated as the sum of the margin (referred to above) and the LIBOR Base Rate on the basis of a 360 day year.

The interest period is either one, two or three months (or such longer period agreed by Westpac).

The commitment under the Westpac Amendment remains secured against the assets of HFA Holdings (first ranking fixed and floating charge), Admin Pty Ltd (first ranking fixed and floating), HFA Lighthouse Holdings (first ranking security), HFA Lighthouse (first ranking security) and various share pledges and deposit control accounts provided by LHP Investments, LLC and Lighthouse.

Subordination Deed

One of the conditions to the Westpac Amendment was the entry by the Subscribers, the Company and Westpac into the Subordination Deed to regulate the rights between the Subscribers and any subsequent Convertible Noteholders and Westpac as creditors.

Pursuant to the terms of the Subordination Deed, the Convertible Noteholders may not seek to recover any sums payable in accordance with the Convertible Note Deed Poll and Note Subscription Agreement (**Subordinated Debt**) until the "satisfaction date" which is the date on which Westpac has been fully and finally repaid and all commitments cancelled. The exceptions to this exclusion are payments of interest, costs, fees, charges or expenses

forming part of the Subordinated Debt which may be paid by the Company out of subscription money received by it in respect of the issue of non-redeemable shares in its capital to a Convertible Noteholder.

Other restrictions on Convertible Noteholders include that:

- the Convertible Note Deed Poll and Note Subscription Agreement may only be amended in accordance with the requirements of the Westpac Amendment; and
- any money recovered by a Convertible Noteholder before the satisfaction date referred to above, (other than moneys that fall within the exclusion also referred to above or which exceed the Westpac commitment) must be held on trust by the Convertible Noteholder for the benefit of Westpac and be paid to Westpac.

3.11 Conditions Precedent

The Proposed Transaction is subject to the following Conditions Precedent:

- Shareholder approval for the Convertible Notes, Options, ROFR, Escrow Arrangements, Apollo Performance Rights and the Board Changes and other provisions set out in the Notice Subscription Agreement;
- the Company entering into Apollo approved employment agreements with Lighthouse Senior Management which include the Escrow Arrangements. Those employment agreements have been executed conditional upon the Proposed Transaction proceeding;
- Lighthouse Management Shareholders entering into the ROFR. The ROFR has been executed conditional upon the Proposed Transaction proceeding;
- the Westpac Amendment amending and restating the Westpac Facilities Agreement being executed and all conditions precedent under that agreement having been satisfied or waived. As at the date of this Explanatory Memorandum the Westpac Facilities Agreement has been executed and the Company is working towards satisfying the remaining conditions precedent on or before the issue date of the Convertible Notes;
- all necessary ASX and other regulatory approvals (including FIRB) or waivers in connection with the transaction having been obtained and are in effect. The Subscribers have submitted an application for FIRB approval to proceed with the Proposed Transaction;
- provision of the Independent Expert's Report to Shareholders;
- the Independent Expert's Report concluding the transaction is fair and reasonable; and
- on the issue date, the Convertible Notes and Apollo Performance Rights on an as-converted basis represent not less than 38.29% (or another percentage agreed between the Company and Apollo) of the Company's fully diluted share capital.

4

OVERVIEW OF THE SUBSCRIBERS

4.1 Apollo and its affiliates

The Apollo Group is a leading global alternative asset manager with offices in New York, Los Angeles, London, Frankfurt, Luxembourg, Singapore, Mumbai and Hong Kong.

The Apollo Group manages funds on behalf of some of the world's most prominent institutional investors and had assets under management of over \$54 billion as of 30 June 2010, in private equity, credit-oriented capital markets and real estate funds invested across a core group of nine industries where the Apollo Group has considerable knowledge and resources.

Apollo Global Management has many subsidiaries and associated companies. None have operations in Australia.

For more information about the Apollo Group please visit www.agm.com.

Apollo is associated with and managed by an affiliate of Apollo Global Management. Apollo is a special purpose entity created for the purpose of the Proposed Transaction. It is a direct subsidiary of APH VIII, an exempted limited partnership registered in the Cayman Islands and an indirect subsidiary of Apollo Global Management.

Apollo is registered in the Cayman Islands. Its registered office is located at Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-9005, Cayman Islands.

Apollo does not have any subsidiaries. Apollo will be capitalised with funds sourced from existing cash of Apollo Global Management or its subsidiaries.

AP CM is a subsidiary of Apollo Global Management and an affiliate of Apollo. AP CM was registered in the State of Delaware on 11 March 2010. AP CM does not have any subsidiaries.

Each of Apollo, AP CM, APH VIII and Apollo Global Management are ultimately controlled by, and each of Apollo Global Management and APH VIII are ultimately majority beneficially owned in the aggregate by, Leon Black, Josh Harris and Marc Rowan, each a United States citizen.

4.2 The Apollo Group's intentions

The Apollo Group regards the Company's business as an attractive business with good prospects and activities complementary to its own. The Apollo Group will distribute the investment products and services of Lighthouse through the Apollo Group's global distribution network in accordance with the terms of the Marketing Agreement. This arrangement has the potential to result in considerable growth over time in Lighthouse's AUM, which would benefit the continued development of its proprietary managed account program.

The Apollo Group has informed the Company that, apart from nominating appointees to the Board which the Apollo Group expects to make a valuable contribution to the management of the Company, and exercising its negative consent rights, Apollo currently intends to maintain its interest in the Company as a passive investment. However, it is possible that in the future, whether upon maturity of the Convertible Notes or earlier, that Apollo will seek (subject to any requisite regulatory approvals) to expand its ownership stake in the Company, whether through on-market purchases, a tender offer, scheme of arrangement, or otherwise.

Other than as disclosed elsewhere in this Explanatory Memorandum, Apollo's current intention is to:

- (a) preserve the Company's existing business, market, customer base and relationships;
- (b) retain the current management and technical resources; and
- (c) continue to employ the present employees.

The Board composition will be in accordance with the details set out in Sections 6.7 and 11.5 of this Explanatory Memorandum. Where the negative covenants referred to in Section 6.8 apply, Apollo's consent will be required for the Company to declare or pay dividends exceeding US\$6 million in any financial year.

Other than as disclosed elsewhere in this Explanatory Memorandum, Apollo has advised that, upon increasing its relevant interest in the Company following the implementation of the Proposed Transaction, it has no current intention to:

- (a) change the business of the Company;
- (b) inject further capital into the Company (other than as contemplated under the Proposed Transaction);
- (c) change the Company's existing policies in relation to financial matters or dividends; or
- (d) transfer any of the Company's property to Apollo or its Associates.

4.3 PA HH

Apollo will enter into the Proposed Transaction in conjunction with a co-investor, PA HFA Holdings, LLC (**PA HH**), a special purpose entity that was formed for the purpose of participating in the Proposed Transaction and that is managed by an affiliate of Apollo Global Management. The ultimate beneficial owner of PA HH is the South Carolina Retirement System, a US state pension fund.

Apollo has informed the Company that the current intentions of PA HH are the same as those of Apollo.

5

RATIONALE FOR THE PROPOSED TRANSACTION

The Company's rationale for proceeding with the Proposed Transaction can be summarised as follows:

- (a) **Improved growth outlook** – The Proposed Transaction has the potential to result in considerable growth over time in Lighthouse's AUM, which will benefit the continued development of its proprietary managed account program. It is expected that the Marketing Agreement will facilitate access to distribution relationships of the Apollo Group and that Lighthouse will further benefit from the affiliation with the globally recognised Apollo brand and the Company's enhanced capital structure.
- (b) **Strengthened financial position** – US\$65 million of the proceeds from the issue of the Convertible Notes will be used to pay down the Company's Loan Facility. The Convertible Notes will be classified largely as equity on the Company's balance sheet. This event will provide the Company with a stronger financial position and more conservative capital structure.
- (c) **Increased financial flexibility** – The amount drawn on the Company's Loan Facility will be reduced to approximately US\$29 million after the partial repayment and extended for five years. On settlement of the Convertible Notes issue the residual balance of the Loan Facility will be substantially matched by the Company's cash holdings. The terms of the amended Loan Facility provide the Company with greater financial flexibility. A summary of the amendments to the Loan Facility is set out in Section 3.10 of this Explanatory Memorandum.
- (d) **Greater ability to attract and retain employees** – The strengthened financial position and improved growth outlook are expected to support the Company's ability to attract, retain and motivate its employees and key management personnel. The Company believes that equity ownership by employees is a key driver of long-term sustainable growth.

6

THE EFFECT OF THE PROPOSED TRANSACTION

6.1 The effect of the issue of the Convertible Notes and Options and Apollo Performance Rights on the Company

The principal effects of the issue of the Convertible Notes, Options and Apollo Performance Rights on the Company will be to:

- partially repay the Company's Loan Facility by US\$65 million;
- improve the Company's cash flow position as the balance of the Loan Facility (which bears cash interest) will be reduced and the Convertible Notes do not bear cash interest for the first four years after issue;
- increase the Company's cash reserves for general corporate purposes by an amount of approximately US\$5 million, equal to the balance of the proceeds from the issue of the Convertible Notes (US\$75 million) after partial repayment of the Loan Facility (US\$65 million) and the payment of transaction fees and expenses (approximately US\$5 million);
- provide the Company with a stronger financial position and more conservative capital structure as the Convertible Notes will be classified largely as equity on the Company's balance sheet;
- give rise to the Company assuming an obligation to pay interest of 6% per annum on the Convertible Notes, which will be capitalised via increasing the principal amount of the Convertible Notes for the first four years. After the first four years interest may continue to be capitalised, or paid in cash, at the Company's discretion; and
- give rise to the Company assuming an obligation to allow holders of Convertible Notes to participate on a pro rata as-converted basis in dividends to Shareholders exceeding US\$6 million in aggregate in any financial year.

6.2 The effect of the conversion of the Convertible Notes and the exercise of the Options and Apollo Performance Rights on the Company

The principal effects of the conversion of the Convertible Notes, the exercise of the Options and the vesting and exercise of the Apollo Performance Rights on the Company will be:

- the cessation of the Company's obligation to pay interest of 6% per annum on the Convertible Notes, whether capitalised or paid in cash;
- an increase in the number of Shares as a consequence of the issue of new Shares to Apollo, PA HH and AP CM as a result of the conversion of the Convertible Notes, exercise of the Options and the vesting and exercise of the Apollo Performance Rights; and

- increase the Company's cash reserves for general corporate purposes by an amount equal to the proceeds from the exercise of the Options (A\$250,000,000). It should be noted that the exercise price of the Options of A\$8.00 (on a post-consolidation basis) may make it uneconomic for Apollo and PA HH to exercise the Options, in which case they would expire without being exercised.

6.3 The effect of the Escrow Arrangements and ROFR on the Company

The principal effects of the Escrow Arrangements and ROFR on the Company will be:

- under the Escrow Arrangements, to align the interests of the Lighthouse Senior Management with the interests of the Company and its other shareholders by restricting the disposal by Lighthouse Senior Management of their Shares;
- under the ROFR, to provide Apollo with the opportunity to acquire additional Shares in the event that any Lighthouse Management Shareholder wishes to dispose of their Shares, which would result in Apollo increasing its level of ownership of Shares and may result in Apollo and its Associates obtaining or increasing their level of control of the Company; and
- the Escrow Arrangements and ROFR may result in reduced liquidity of Shares by constraining the disposal of Shares by Lighthouse Senior Management and Lighthouse Management Shareholders.

Neither the Escrow Arrangements nor the ROFR will affect the voting or dividend rights of Lighthouse Senior Management or the Lighthouse Management Shareholders.

The number of Shares subject to the Escrow Arrangements amounts to approximately 31,091,245 existing Shares (on a post-consolidation basis, or approximately 124,364,978 Shares on a pre-consolidation basis) or 26.50% of the Shares on issue at the date of this Explanatory Memorandum. All of the existing Shares subject to the Escrow Arrangements are also subject to the ROFR.

The number of existing Shares and HFA Performance Rights subject to the ROFR together represent approximately 38,318,118 Shares (on a post-consolidation basis, or 153,272,472 Shares on a pre-consolidation basis) or approximately 30.56% of HFA's current fully-diluted ordinary share capital¹.

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Current fully diluted ordinary share capital consisting of all Shares and performance rights on issue at the date of this Explanatory Memorandum. It does not include the effect of the Convertible Notes, Options, Apollo Performance Rights or any other securities in the Company that may be issued in the future.

6.4 Effect on Capital Structure of the Company

The effect on the capital structure of the Company of the Proposed Transaction and the subsequent conversion of the Convertible Notes and the exercise of the Options and Apollo Performance Rights is set out below:

	Shares	HFA Performance Rights (issued to HFA and Lighthouse employees) ¹	SY Performance Rights	Convertible Notes	Options	Apollo Performance Rights
Securities on issue before the Proposed Transaction:						
Securities on issue as at the date of this Explanatory Memorandum (pre-consolidation)	469,330,170	16,360,000	15,875,740	–	–	–
Securities on issue if the Share Consolidation is approved:						
Securities on issue post-consolidation ²	117,332,543	4,090,000	3,968,935	–	–	–
Securities on issue on completion of the Proposed Transaction ²	117,332,543	4,090,000	3,968,935	75	31,250,000	1,000,000
Maximum number of Shares to be issued as a result of the Proposed Transaction:²						
Shares in respect of the initial Face Value of the Convertible Notes	76,797,051	–	–	–	–	–
Additional Shares in respect of capitalised interest for first four years of term	20,487,156	–	–	–	–	–
Additional Shares in respect of capitalised interest for remaining four years of term ³	25,952,515	–	–	–	–	–
Securities to be issued if Apollo Performance Rights vest and are exercised	1,000,000	–	–	–	–	–
Securities to be issued if Options are exercised at A\$8.00 per Share	31,250,000	–	–	–	–	–
Total securities on issue including the maximum effect of the Proposed Transaction⁴	272,819,265	4,090,000	3,968,935	–	–	–

- 360,000 HFA Performance Rights (on a pre-consolidation basis) have a vesting date of 31 December 2010 and vesting conditions dependent on financial hurdles or the exercise of the Board's discretion to permit limited or full vesting in other circumstances. The vesting or lapse of those HFA Performance Rights is expected to be determined in conjunction with the finalisation of the Company's financial accounts in February 2011.
- Assumes that the Share Consolidation is approved by Shareholders and is effected. If the Share Consolidation is not approved the number of Shares, Options and performance rights will be four times the number shown.
- Interest may be capitalised or paid in cash at the Company's discretion after the first four years of the term. The Convertible Notes are convertible into Shares at the Company's election from the fourth anniversary of issue if a volume weighted average price hurdle is met.
- Excluding the impact of any future issuances of Shares which may occur, including following the vesting of performance rights not issued as part of the Proposed Transaction.

6.5 Pro Forma Balance Sheets of the Company

6.5.1 Key accounting implications of the Transaction

Change in functional and presentation currency of the HFA Group to US dollars

The functional currency of an entity is the currency of the primary economic environment in which it operates.

The issue of the US\$ denominated Convertible Notes, and resultant economic circumstances of the Company, would result in a change in the functional currency of the Company to US dollars, and consequently the Directors propose to change the presentation currency of the HFA Group.

The key implications for the change in functional currency and presentation currency to US dollars would be:

- The Company and the HFA Group would prepare and present financial reports in US dollars;
- Foreign exchange translation differences currently incurred due to translating Lighthouse results from US dollars to Australian dollars would be eliminated, significantly reducing volatility of the Income Statement; and
- The Company would declare dividends in US dollars, however Australian shareholders would be able to elect to be paid the Australian dollar equivalent.

The change in functional currency and presentation currency would take effect from the issue date of the Convertible Notes.

Accounting treatment of the Convertible Notes

The Convertible Notes are compound instruments for accounting purposes, and the principal amount of the Convertible Notes will be apportioned between debt and equity on the Balance Sheet as follows:

- The carrying amount of the debt component is determined by reference to the fair value of a similar stand-alone debt instrument; and
- The carrying amount of the equity component is the residual amount.

The carrying amount of the debt and equity components is measured at issue date of the Convertible Notes.

The estimated fair value of the debt component of the Convertible Notes at issue date is US\$30.0 million (or 40% of the principal amount), with the equity component estimated at US\$45.0 million (or 60% of the principal amount). However, the actual fair value will be measured at the issue date of the Convertible Notes, and hence this allocation may change by the issue date.

The estimated US\$4.5 million of transaction costs directly relating to issue of the Convertible Notes will be deducted from either debt or equity on the same proportional basis (i.e. 40% debt, 60% equity). The portion which is deducted from debt will then be amortised over the eight year term of the Convertible Notes. On conversion of the Convertible Notes, any unamortised balance of these debt component transaction costs will then be expensed in full.

Issue of options

Issue of the 31.25 million Options (post Share Consolidation) represents a share based payment as part of the consideration for the arrangement and issuance of the Convertible Notes. This share based payment is measured on the date of issue of the Options and represents the fair value of the Options granted. It is estimated that the fair value of the Options at their issue date will be approximately A\$2.4 million, however this valuation may vary when recalculated on the issue date.

The cost of issuing the Options is deemed a borrowing cost and will be accounted for on a similar basis to the other transaction costs incurred on issue of the Convertible Notes.

6.5.2 Key taxation implications of the Transaction

Tax treatment of the Convertible Notes

The Convertible Notes will be treated as equity for tax purposes. As such, the 6% per annum interest and additional interest payable in relation to the Convertible Notes will represent dividend distributions for tax purposes.

Withholding tax

To the extent that there is withholding tax payable in relation to distributions made to the Convertible Noteholders, this withholding tax liability will be incurred by the Convertible Noteholders through either:

- reduction of the interest paid (or capitalised into the principal amount of the Convertible Notes) by the amount of the withholding tax obligation; or
- at the Convertible Noteholders' election, funding of the amount of the withholding tax obligation by the Convertible Noteholders.

Limitations on tax deductions due to Section 382 of United States Internal Revenue Code of 1986, (as amended) for the US entities of the HFA Group

Section 382 is a provision of the Code which limits the amount of net operating losses and other items of built-in deduction a corporation is entitled to utilise in each year after an "ownership change". An ownership change generally will occur if the percentage of stock owned by certain shareholders has increased by more than 50 percentage points over the lowest percentage of stock of the corporation during a certain period of time (generally three years).

The US entities of the HFA Group have net operating losses of approximately US\$82 million as at 30 November 2010. Given the large changes to the significant shareholders of HFA over the previous three years, further changes in HFA's shareholder base, including through a recapitalisation transaction, are likely to trigger a Section 382 limitation on the future deduction of those tax losses.

It is expected that the Convertible Notes will create an indirect interest of approximately 39.6% of issued shares in HFA, and, coupled with changes in significant shareholders in the previous three years, it is expected that there will be a limitation on the future deduction of the US\$82 million net operating losses following issue of the Convertible Notes.

A limitation would mean that following the issue of the Convertible Notes, the US entities of the HFA Group will generally only be able to utilise a relatively small proportion of the pre-existing tax losses each year (until those tax losses expire). The exact quantum of the annual limitation will be dependent on the value of the HFA Lighthouse Holdings Corp stock immediately prior to the time of issue of the Convertible Notes.

In addition, Section 382 of the Code also acts to limit certain future tax deductions for the first five years following the issue of the Convertible Notes. In this case, this means the US entities of the HFA Group will only be able to deduct part of approximately US\$38.7 million applicable for each year relating to future deductible amortisation of intangible assets on the HFA balance sheet in each of the first five years. After these first five years, amortisation of intangible assets will revert to being fully deductible.

The size of the limitations is determined by reference to the stock value of HFA Lighthouse Holdings Corp at the time of change in control. The higher the value of the HFA Lighthouse Holdings Corp Stock at the time of change in control, the lower the impact of the Section 382 limitation.

The amount of the Section 382 limitation is generally equal to the value of the corporation at issue multiplied by the US federal long-term tax-exempt rate, but is subject to adjustment based on certain built-in gains and losses of the corporation at the time of the ownership change.

The limitations under Section 382 of the Code on tax deductions mean that the US entities of the HFA Group are likely to be in a position where they will have current tax liabilities, and hence will be required to pay tax on future earnings, earlier than would otherwise be the case had the tax deductions not been subject to such limitations. The likely impact of any limitations under Section 382 on the Company's future earnings and balance sheet is difficult to quantify, given this will be determined by factors prevailing at the date of change of control in the future. A broad estimate of the potential impact is that if the stock value of HFA Lighthouse Holdings Corp's is US\$70 million at the date of change of control, then the limitation on deductions which may increase future tax payable by the US entities of the HFA Group could be approximately US\$50 million over the next 25 years. Similarly, if the stock value of HFA Lighthouse Holdings Corp is US\$170 million or above then the limitations under Section 382 are expected to be nominal, however use of existing net operating losses and other items of built-in deduction may be utilised over a longer period than may otherwise have been the case.

6.5.3 Pro Forma Balance Sheets of the Company

Set out below are the audited consolidated Balance Sheet as at 30 June 2010 ("the Reported Balance Sheet") and the pro forma consolidated Balance Sheets as at 30 June 2010 for the Company prepared on the basis of the accounting policies adopted by the Company at 30 June 2010 as set out in the Company's 2010 Annual Report available at www.hfaholdings.com.au.

The audited historical and pro forma financial information is presented in an abbreviated form insofar as it does not include all of the disclosures required by Australian Accounting Standards to be included in annual financial statements.

The \$A denominated balances included in the 30 June 2010 Reported Balance Sheet have been converted to US\$ at a rate of 0.9964 to reflect the change in functional currency and presentation currency represented by the Converted Balance Sheet. Pro Forma Balance Sheet 1 is based on the Converted Balance Sheet adjusted to reflect the issue of the Convertible Notes, Options and Apollo Performance Rights as if this had occurred as at 30 June 2010. Pro Forma Balance Sheet 2 is adjusted for pro forma transactions assuming the immediate conversion of the Convertible Notes, the exercise of the Options and the exercise of the Apollo Performance Rights as at 30 June 2010.

Pro forma consolidated balance sheets as at 30 June 2010

	Reported Balance Sheet A\$ millions ¹ 30 June 2010	Converted Balance Sheet US\$ millions ² 30 June 2010	Issue of Convertible Notes, Options and Apollo Performance Rights		Immediate Conversion of Convertible Notes and exercise of Options and Apollo Performance Rights	
			Transaction Adjustments US\$ millions	Pro forma Balance Sheet 1 ³ US\$ millions 30 June 2010	Transaction Adjustments US\$ millions	Pro forma Balance Sheet 2 ⁴ US\$ millions 30 June 2010
Assets						
Cash and cash equivalents	33.0	30.8	5.0	35.8	249.1	284.9
Trade and other receivables	12.8	11.5		11.5		11.5
Current tax assets	0.5	0.5		0.5		0.5
Total current assets	46.3	42.8	5.0	47.8	249.1	296.9
Investments	2.4	2.1		2.1		2.1
Plant and equipment	1.6	1.4		1.4		1.4
Deferred tax assets	0.3	0.3		0.3		0.3
Intangible assets	171.7	146.3		146.3		146.3
Total non-current assets	176.0	150.1	–	150.1	–	150.1
Total assets	222.3	192.9	5.0	197.9	249.1	447.0
Liabilities						
Trade and other payables	7.3	6.5		6.5		6.5
Employee benefits	4.4	3.8		3.8		3.8
Derivatives	1.4	1.2		1.2		1.2
Loans and borrowings	10.3	10.3	(6.2)	4.1	(2.1)	2.0
Total current liabilities	23.4	21.8	(6.2)	15.6	(2.1)	13.5
Employee benefits	0.2	0.2		0.2		0.2
Loans and borrowings	110.3	92.7	(31.5)	61.2	(25.2)	36.0
Total non-current liabilities	110.5	92.9	(31.5)	61.4	(25.2)	36.2
Total liabilities	133.9	114.7	(37.7)	77.0	(27.3)	49.7
Net assets	88.4	78.2	42.7	120.9	276.4	397.3
Total equity attributable to equity holders of the Company	88.4	78.2	42.7	120.9	276.4	397.3

1 The Reported Balance Sheet has been extracted from the audited financial statements of HFA Holdings Limited as at 30 June 2010.

2 A\$ denominated balances included in the Converted Balance Sheet have been converted from A\$ to US\$ at an A\$/US\$ exchange rate of 0.9964 (the Reserve Bank of Australia rate as at 14 January 2011) to reflect the change in functional and presentation currency to be adopted following issue of the Convertible Notes.

3 Pro Forma Balance Sheet 1 has been adjusted to reflect the issue of the Convertible Notes, Options and Apollo Performance Rights. A\$ pro forma transactions have been converted to US\$ at a rate of 0.9964.

4 Pro Forma Balance Sheet 2 has been adjusted to reflect the immediate conversion of the Convertible Notes and exercise of the Options and Apollo Performance Rights. A\$ pro forma transactions have been converted to US\$ at a rate of 0.9964.

Pro forma adjustments

The following assumptions and pro forma adjustments have been made when preparing the Pro Forma Balance Sheets as at 30 June 2010:

The Converted Balance Sheet

- The \$A denominated balances included in the Converted Balance Sheet have been translated to US\$ using an A\$/US\$ exchange rate of 0.9964 (the Reserve Bank of Australia rate as at 14 January 2011), to reflect the change in the Group's functional and presentation currencies to US\$ following the issue of the Convertible Notes.

Pro Forma Balance Sheet 1 – Issue of Convertible Notes, Options and Apollo Performance Rights

- US\$75 million of Convertible Notes will be recognised on the Balance Sheet as a compound instrument, with approximately 60% recognised as an increase in share capital, and approximately 40% recognised as loans and borrowings. This allocation is based on an estimated fair value of US\$30.0 million of the debt component based on the present value of future interest payments, of which US\$2.1 million is classified as a current liability and US\$27.9 million is classified as a non-current liability, with the remaining US\$45.0 million representing the fair value of the equity component of the Convertible Notes.
- US\$65 million of the proceeds from issue of the Convertible Notes are used to reduce the existing loans and borrowings.
- US\$4.5 million of transaction costs are capitalised, with approximately 60% (or US\$2.7 million) reducing share capital and approximately 40% (or US\$1.8 million) recognised as debt establishment costs off-setting loans and borrowings. The US\$1.8 million of debt establishment costs will be amortised over the eight year life of the Convertible Notes.
- The US\$0.5 million restructure fee payable to Westpac is expensed at the time incurred. The amended Westpac facility terms require principal repayments of US\$0.5 million per quarter, and accordingly \$8.3 million of the existing debt is reclassified from a current liability to a non-current liability.
- The issue of the Options is a share based payment and the fair value of the Options is estimated to be approximately A\$2.4 million. Approximately 60% (or US\$1.4 million) of the estimated fair value of the Options is apportioned against share capital, whilst the remaining 40% (or US\$1.0 million) is recognised as a reduction in loans and borrowings.
- The Apollo Performance Rights have an estimated fair value of approximately A\$1.0 million which will be expensed at the time they are issued, however this does not have a material impact on Pro Forma Balance Sheet 1.

Pro Forma Balance Sheet 2 – Immediate conversion of Convertible Notes and exercise of Options and Apollo Performance Rights

- On conversion of the Convertible Notes, the debt component of the Convertible Notes of US\$30.0 million is transferred to share capital.
- On conversion of the Convertible Notes, the unamortised debt establishment costs in relation to transaction costs and issue of the options of US\$2.8 million is written-off.
- All Options are exercised by the Option holders and the Company receives A\$250 million (US\$249.1 million) of cash proceeds, with an equivalent increase in share capital.
- The vesting and exercise of the Apollo Performance Rights does not have a material impact on Pro Forma Balance Sheet 2.

Pro Forma Balance Sheet 2 is prepared on the basis that all Options are immediately exercised. If a significant number of options are not exercised, Pro Forma Balance Sheet 2 would be materially impacted and consequently the basis of preparation of Pro Forma Balance Sheet 2 would no longer be appropriate.

Impact of later conversion of Convertible Notes

Pro Forma Balance Sheet 2 assumes immediate conversion of the Convertible Notes. If the Convertible Notes were assumed to convert:

- after four years, the capitalised 6% per annum interest would result in an additional US\$20.0 million increase in share capital, with the corresponding amount reducing retained earnings.
- after eight years (and assuming the Company had not elected to pay any of the interest in cash) the capitalised 6% per annum interest would result in an additional US\$45.4 million increase in share capital, with the corresponding amount reducing retained earnings.

6.6 The effect on the voting power of Apollo and its Associates

The following table sets out the relevant interests in Shares and maximum voting power that Apollo and its Associates will have if the Proposed Transaction is approved.

Item	Description	Apollo		PA HH		AP CM		Total for Apollo and its Associates ²	
		Number of Shares	Voting Power	Number of Shares	Voting Power	Number of Shares	Voting Power	Number of Shares	Voting Power
1	As at the date of this Explanatory Memorandum	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Conversion of the Convertible Notes (post-consolidation)¹									
2	Initial aggregate US\$75 million face value of the Convertible Notes	51,198,034	26.4%	25,599,017	13.2%	Nil	Nil	76,797,051	39.6%
								(out of 194,129,593 Shares on issue)	
3	Plus capitalised interest for the first four years of term (assuming Item 2 above)	64,856,138	30.2%	32,428,069	15.1%	Nil	Nil	97,284,207	45.3%
								(out of 214,616,749 Shares on issue)	
4	Plus capitalised interest for the remaining four years of term (assuming Items 2 and 3 above) ³	82,157,815	34.2%	41,078,907	17.1%	Nil	Nil	123,236,722	51.2%
								(out of 240,569,265 Shares on issue)	
Vesting and exercise of Apollo Performance Rights¹									
5	Plus vesting and exercise of the Apollo Performance Rights (assuming Items 2, 3 and 4 above)	82,157,815	34.0%	41,078,907	17.0%	1,000,000	0.4%	124,236,722	51.4%
								(out of 241,569,265 Shares on issue)	
Exercise of Options¹									
6	Plus exercise of all Options at A\$8.00 per Share (assuming Items 2, 3, 4 and 5 above)	102,991,148	37.8%	51,495,574	18.9%	1,000,000	0.4%	155,486,722	57.0%
								(out of 272,819,265 Shares on issue)	
Existing ROFR Shares^{1,4}									
7	ROFR Shares existing at the date of this Explanatory Memorandum (assuming Items 2, 3, 4, 5 and 6 above)	138,040,516	50.6%	51,495,574	18.9%	1,000,000	0.4%	190,536,090	69.8%
								(out of 272,819,265 Shares on issue)	
Additional ROFR Shares of Lighthouse Management Shareholders^{1,4,5}									
8	Plus additional ROFR Shares resulting from the vesting and exercise of HFA Performance Rights to which ROFR applies (assuming Items 2, 3, 4, 5, 6 and 7 above)	141,309,266	51.0%	51,495,574	18.6%	1,000,000	0.4%	193,804,840	70.0%
								(out of 276,819,265 Shares on issue)	

- Assumes that the Share Consolidation is approved by Shareholders and is effected. If the Share Consolidation is not approved, the number of Shares will be four times the number shown.
- Excluding the impact of any future issuances of Shares which may occur, including following the vesting of performance rights other than the Apollo Performance Rights and the HFA Performance Rights to which the ROFR applies.
- Interest may be capitalised or paid in cash at the Company's discretion after the first four years of the term. The Convertible Notes are convertible into Shares at the Company's election from the fourth anniversary of issue if a volume weighted average price hurdle is met.
- As discussed in Section 11.3, Apollo will acquire a deemed relevant interest in the Shares subject to the ROFR, even though the ROFR does not confer any voting or dividend rights upon Apollo. Lighthouse Management Shareholders retain all voting and dividend rights in the ROFR Shares unless Apollo becomes the owner of those Shares by exercising its right of first refusal to purchase those Shares in the event of a proposed transfer.
- Also assumes the vesting and exercise of 731,250 HFA Performance Rights (on a post-consolidation basis) on issue at the date of this Explanatory Memorandum to employees of the Lighthouse business other than the Lighthouse Management Shareholders.

6.7 Board Composition

Current Board

The Company's current Board members are as follows:

- Mr Spencer Young (Executive Chairman, CEO)
- Mr Sean McGould (Executive Director)
- Mr FP (Andy) Esteban (Non Executive Director, Independent Director)
- Mr John Larum (Non Executive Director, Independent Director)
- Mr Michael Shepherd (Non Executive Director, Independent Director)

Board Changes

As set out in Sections 3.8 and 3.11, one of the Conditions Precedent to the Proposed Transaction is Shareholders approving an increase in the number of Board members from five to eight through the election of Apollo nominees as additional Directors.

Apollo has nominated Grant Kelley, James Zelter and Anthony Civale to be its nominees for Board membership. As part of the Board Changes, at least one of these individuals must be appointed to each of the sub-committees established by the Board.

The Board will effect the sub-committee changes on completion of the Proposed Transaction.

6.8 Corporate Governance post the Proposed Transaction

Positive Covenants

For so long as the Subscribers and other affiliates of Apollo hold in aggregate Convertible Notes that are outstanding and convertible into Shares that would comprise more than 20% of the total issued Shares, Apollo has, subject to certain restrictions under the Note Subscription Agreement:

- Board observer rights where there is no Apollo nominee on the Board;
- rights to certain Company information, subject to confidentiality restrictions; and
- rights to be notified of events relating to material litigation concerning the Company or particulars of any proposed compulsory acquisition of the Company.

If a change of control event occurs in respect of Apollo such that Apollo ceases to be wholly beneficially owned and controlled by Apollo Global Management or its affiliates, the positive covenants referred to above are immediately cancelled.

Negative Covenants

For so long as the Subscribers and other affiliates of Apollo hold in aggregate Convertible Notes that are outstanding and convertible into Shares that would comprise more than 20% of the total issued Shares, the Company agrees under the Note Subscription Agreement that without Apollo consent the Company will not:

- incur financial indebtedness beyond certain permitted indebtedness;
- issue equity securities in a manner that would require shareholder approval or would not allow the Subscribers to maintain their pre-issuance pro rata ownership interest in the Company on an as-converted basis. The restriction does not apply to dividend reinvestments, issues in lieu of dividends or issues to employees or officers of the HFA Group under an employee share, option or performance rights plan;

- amend, vary or cancel any rights attaching to Shares or undertake a repurchase or certain other reorganisations of equity securities;
- declare or pay dividends exceeding US\$6 million in any financial year;
- consolidate or amalgamate with, or merge with or into, or transfer all or substantially all of its assets to, another entity that is not a Related Body Corporate of the Company subject to certain carve-outs for offers to all Shareholders;
- propose or implement a solvent scheme of arrangement;
- make any capital investment exceeding A\$5 million other than as approved in an annual budget;
- enter into, amend or terminate any contract with a value greater than A\$5 million or commence any new business not engaged in or conducted on or prior to the issue date, other than as approved in an annual budget or in respect of certain permitted indebtedness;
- enter into any transaction with any related entity or any transaction that is not on an arm's length basis and that would require Shareholder approval;
- terminate or amend any material employment terms regarding Lighthouse Senior Management or employ any person to perform a role similar to any member of Lighthouse Senior Management; increase the compensation of any employee outside the ordinary course of business or pay any discretionary bonus, subject to certain carve-outs;
- approve an annual budget, depart intentionally by 10% or more from budgeted total operating expenditure, or incur capital expenditure not in the annual budget in excess of A\$2 million;
- settle any material claim, litigation or other proceeding exceeding A\$2 million;
- make, change or revoke any material tax elections; and
- cause the appointment of more than eight Directors to the Board.

If a change of control event occurs in respect of Apollo such that Apollo ceases to be wholly beneficially owned and controlled by Apollo Global Management or its affiliates, the negative covenants referred to above are immediately cancelled.

6.9 Rights and liabilities attaching to the Convertible Notes

A summary of the key terms of the Convertible Notes is set out below:

- **Face Value:** The total aggregate face value is US\$75 million, with each Convertible Note having a face value of US\$1 million.
- **Issue Date:** The Convertible Notes are expected to be issued to the Subscribers on 2 March 2011 (or such other date as the parties agree) and after the Conditions Precedent are satisfied, but no later than 15 March 2011.
- **Payment of Funds:** The payment of the total aggregate face value of the Convertible Notes will be made by the Subscribers on the issue of the Convertible Notes.
- **Subscription Allocations:** Apollo will subscribe for US\$50 million and PA HH for the remaining US\$25 million.

- **Interest:** 6% per annum, which will be capitalised by way of an increase in the principal amount of the Convertible Notes for the first four years. After the first four years interest may continue to be capitalised, or paid in cash, at the Company's discretion.
 - **Maturity Date:** A maximum term of eight years from the date of issue after which the Convertible Notes will mandatorily convert into Shares.
 - **Conditions Precedent:** The Company will not be required to issue, and the Subscribers will not be required to subscribe for, the Convertible Notes unless the Conditions Precedent are satisfied.
 - **Early Prepayment:** The Company may not prepay any Convertible Note before the end of the term without the prior written consent of the Convertible Noteholders who hold at least 51% in aggregate of the outstanding principal amount of the Convertible Notes.
 - **Participation in Dividends:** If more than US\$6 million is declared and payable in dividends to Shareholders in any financial year then the Convertible Noteholders will be paid a pro rata proportion of the excess amount over US\$6 million, as if their Convertible Notes had been converted.
 - **Conversion:** The Convertible Notes mandatorily convert on maturity. However, a Convertible Noteholder may elect to convert some or all of the Convertible Notes at any time before they mature. The Convertible Notes may also be converted by the Company at semi-annual intervals commencing on the fourth anniversary of their issue, provided the volume weighted average sale price of the Shares for the 30 trading days period prior is in excess of 20% greater than the conversion price or if a change of control event occurs in respect of Apollo. In the event of a change of control event or an event of default in respect of the Company the Convertible Notes will convert.
 - **Conversion Price:** US\$0.9766 on a post-consolidation basis, subject to adjustment under anti-dilution provisions usual for a transaction of this nature and any capital reorganisations by the Company. On conversion of the Convertible Notes, the Company will issue Shares to the Convertible Noteholders. The number of Shares to be issued is calculated as the principal amount of the Convertible Notes divided by the Conversion Price.
 - **Participation Rights:** Each Convertible Noteholder will be entitled to participate in any pro rata equity raising by the Company. The Convertible Noteholder can apply for as many securities as necessary to maintain its pre-issuance ownership.
 - **Voting Entitlements:** The Convertible Notes do not carry any entitlement to attend or vote at a general meeting of Shareholders.
 - **Ranking:** Shares issued on conversion will rank equally in all respects with existing Shares.
 - **Security:** The Convertible Notes will:
 - (a) be unsecured;
 - (b) rank pari passu amongst themselves and any present, future direct, unsubordinated, unconditional and unsecured obligations of the Company;
 - (c) rank ahead of any subordinated liabilities expressed in their terms to rank behind the Convertible Notes (including preference shares, if any); and
 - (d) be subject to the Subordination Deed entered into with Westpac.
 - **Transfer:** The Convertible Notes cannot be transferred within the first four years of issue (except to affiliates, or as required by law, or if the Company has consented). After the fourth anniversary of issue, they can generally only be transferred with the Company's written consent. They may be transferred to unrelated parties after the fourth anniversary of the issue without the Company's consent, as long as the transferee and any affiliates or related bodies of the transferee do not hold more than 20% of the total Shares on issue.
- A more detailed summary of the Convertible Notes is set out in Schedule 1. Complete copies of the Note Subscription Agreement and the Convertible Note Deed Poll detailing the full terms of the Convertible Notes were lodged in full with the ASX on 6 December 2010.
- ## 6.10 Rights and liabilities attaching to the Options
- A summary of the key terms of the Options is set out below:
- **Quantity:** 31.25 million options (on a post-consolidation basis, or 125 million on a pre-consolidation basis) for Shares.
 - **Issue Date:** The Options will be issued to the Subscribers at the same time as the Convertible Notes are issued.
 - **Entitlement:** Each Option entitles the Optionholder to acquire by way of issue one fully paid Share at the exercise price.
 - **Optionholders:** Apollo will be issued with 20,833,333 Options and PA HH with the remaining 10,416,667 Options (on a post-consolidation basis).
 - **Conditions Precedent:** The Company will not be required to issue the Options to the Subscribers unless the Conditions Precedent are satisfied.
 - **Exercise Price:** Options will be exercisable from the exercise date for an exercise price of A\$8.00 (on a post-consolidation basis, or A\$2.00 on a pre-consolidation basis).
 - **Exercise Period:** Options may be exercised from their date of issue until the eighth anniversary of the date of their issue, and after such anniversary they expire.
 - **Exercise Restrictions:** Exercise restrictions apply during the exercise period including exercise limits and no exercising during black out periods.
 - **Transfer:** Options may be transferred with the Company's consent.
 - **Quotation:** Options will not be quoted on ASX.
 - **Ranking:** Shares issued pursuant to the exercise of the Options will rank in all respects (including rights to dividends) equally with the existing Shares at the date of issue.
 - **Dividends:** A Share issued pursuant to the exercise of an Option is only entitled to receive a dividend where that Option is exercised on or before the record date for that dividend.

- **Voting Entitlements:** The Options do not carry any entitlement to attend or vote at a general meeting of Shareholders nor any entitlement to participate in any future issues of Shares by the Company.
- **Notices of Meetings:** The Company must give notices of meetings of members (and any financial reports required to be laid before those meetings) to Optionholders.

A more detailed summary of the Option terms is set out in Schedule 2. A complete copy of the Note Subscription Agreement detailing the terms of the Options was also lodged in full with ASX on 6 December 2010.

6.11 Rights and liabilities attaching to the Apollo Performance Rights

A summary of the key terms of the Apollo Performance Rights is set out below:

- **Quantity:** One million performance rights (on a post-consolidation basis, or four million performance rights on a pre-consolidation basis).
- **Issue Date:** The Apollo Performance Rights will be issued to AP CM on commencement of the Marketing Agreement, being the later of the date on which AP CM's status as a registered broker dealer under US securities law is effective and the date the Convertible Notes are issued.
- **Terms of the Grant:** Same general terms as apply to a grant of performance rights under the HFA Employee Performance Rights Plan, which provides for adjustments for bonus issues and reconstructions of the Company's issued ordinary capital and early vesting in certain circumstances at the Board's determination such as a takeover event.
- **Vesting Conditions:** The Apollo Performance Rights will vest upon satisfaction of Lighthouse, on a stand-alone basis, achieving a minimum of US\$35 million of EBITDA in any trailing 12 month period ending on or before 31 December 2013.
- **Issue of Shares:** If the vesting condition is met the Company will issue one million Shares to AP CM. Notwithstanding the Marketing Agreement expiring or being terminated in accordance with its terms, the Company must still issue the one million Shares to AP CM if the vesting condition is met. The Apollo Performance Rights have a nil exercise price.
- **Voting Entitlements:** The Apollo Performance Rights do not carry any entitlement to attend or vote at a general meeting of Shareholders nor any entitlement to participate in any future issues of Shares by the Company. However, there is a requirement for the parties to discuss and consider the inclusion of AP CM in any further performance rights issues.

A more detailed summary of the Apollo Performance Rights is set out in Schedule 5.

6.12 Rights and liabilities attaching to the Shares issued on conversion of the Convertible Notes and the exercise of the Options and Apollo Performance Rights

The new Shares that would be issued to the Subscribers and AP CM as a result of the conversion of the Convertible Notes, the exercise of the Options and the vesting and exercise of the Apollo Performance Rights will rank equally in all respects with all of the existing Shares.

The following is a summary of the rights and liabilities attaching to the Shares as at the date of this Explanatory Memorandum:

- **Voting:** Each Share confers the right to vote at meetings of Shareholders, subject to any voting restrictions imposed under the Corporations Act and the ASX Listing Rules. On a show of hands, every Shareholder present in person or in proxy has one vote at a meeting. On a poll, every Shareholder who is present in person or by proxy has one vote for each Share that they hold. The quorum required for a meeting of Shareholders is at least five Shareholders present in person or by proxy who are entitled to vote at the meeting.
- **General meetings:** Subject to any specific rights attaching to a particular Share class, each Shareholder is entitled to receive notice of, attend and vote at general meetings of the Company and to receive all notices and other documents required to be sent to Shareholders under the Constitution, Corporations Act or ASX Listing Rules. Under the Corporations Act, while the Company is admitted to the official list of ASX, Shareholders must be provided with at least 28 days notice of a general meeting.
- **Dividends:** The profits of the Company, which the Directors may from time to time determine to distribute by way of dividend, are divisible among the Shareholders in proportion to the number of shares held by them, subject to the rights attaching to any shares with special dividend rights. No Shares with special dividend rights are currently on issue.
- **Further issue of shares and options:** The Directors may (subject to the restrictions on the issue of Shares imposed by the Constitution, ASX Listing Rules and the Corporations Act) issue, grant options in respect of, or otherwise dispose of, further shares on such terms and conditions (including preferential, deferred or special rights, privileges, conditions, or restrictions) as they consider appropriate.
- **Variation of class rights:** Whenever the capital of the Company is divided into separate classes of shares, the rights attached to any class of share may be varied with the written consent of 75% of the holders of that class of share or by special resolution passed at a separate general meeting of the holders of that class of share.

- **Transfer of Shares:** Shareholders may transfer Shares by a written transfer instrument in usual form or in any other form approved by Directors, or by a proper transfer effected in accordance with ASX's clearing and settlement rules and ASX requirements. All transfers must comply with the Constitution, the ASX Listing Rules, ASX's clearing and settlement rules and the Corporations Act. The Directors may refuse to register a transfer of Shares in circumstances permitted by the ASX Listing Rules or ASX. The Directors must refuse to register a transfer of Shares where required to do so by the ASX Listing Rules. The Company will not issue share certificates to Shareholders.
- **Unmarketable parcels of Shares:** In accordance with the ASX Listing Rules, the Company may sell the Shares of a Shareholder who holds less than a marketable parcel of Shares, subject to the Shareholder notifying the Company that their Shares are not to be sold.
- **Plebiscite to approve proportional takeover bids:** A transfer of Shares that gives effect to a contract resulting from a Shareholder accepting an offer for the purchase of their Shares under a proportional takeover bid will not be registered by the Company unless an ordinary resolution of Shareholders approving the proportional takeover bid is obtained. A bidder and any Associate of a bidder under a proportional takeover bid are excluded from voting on the resolution.
- **Dividend reinvestment plan:** The Directors may establish a dividend reinvestment plan under which the whole or any part of a dividend due to Shareholders participating in the plan may be applied in subscribing for or purchasing further Shares in the company or of a Related Body Corporate of the Company at the election of the Shareholder. The Directors may establish a dividend reinvestment plan on any terms they think fit.
- **Directors – appointment and removal:** The minimum number of Directors is four and the maximum number is nine, however, the number of Directors may be varied by an ordinary resolution of Shareholders in a general meeting. Directors other than the chief executive officer and casual appointments will be subject to retirement by rotation and re-election by Shareholders at the annual general meeting of the Company. If there are more than five such Directors, at least one third of those Directors must retire from office at each annual general meeting. If there are five or less such Directors, two Directors must retire from office at each annual general meeting. Retiring Directors are eligible for re-election. No person other than a Director who is the chief executive officer may remain a Director for more than three years without re-election by Shareholders in a general meeting. A Director appointed to fill a casual vacancy will hold office until the conclusion of the next annual general meeting and is eligible for re-election at that meeting.
- **Directors – voting:** Questions arising at a meeting of Directors will be decided by a majority of votes of the Directors present at the meeting and entitled to vote on the matter. In the case of a tied vote, the chairman of the Board has a second or casting vote, unless there are only two Directors present or qualified to vote, in which case the proposed resolution is taken as having been lost.
- **Directors' indemnity:** The Company, to the extent permitted by law, indemnifies each officer of the Company on a full indemnity basis against any liability (including costs and expenses) incurred by that person as an officer of the Company or a Related Body Corporate of the Company. The Company, to the extent permitted by law, may insure each officer of the Company or its subsidiaries against a liability they incur in their capacity as an officer of the Company in connection with the affairs of the Company or a Related Body Corporate, or arising out of the person holding office. The Company cannot insure an officer for liability they incur that arises out of conduct involving a wilful breach of duty in relation to the Company or a contravention of the Corporations Act. The Company may also insure its officers for any costs and expenses incurred by that person in defending or resisting proceedings whatever the outcome.
- **Alteration of Constitution:** Pursuant to the requirements of the Corporations Act, the Constitution may only be amended by a special resolution passed by at least 75% of the votes cast by members present and voting at a general meeting of the Company.
- **Winding up:** Subject to any special resolution or preferential rights attaching to any class or classes of Shares, members will be entitled on a winding up to a share in any surplus assets of the Company in proportion to the number of Shares held by them.
- **Share buy-backs:** Subject to applicable laws, in particular the Corporations Act and the ASX Listing Rules, the Company may buy back Shares on such terms and conditions as may from time to time be determined by the Board.

7

KEY IMPLICATIONS AND RISKS

7.1 Key implications and risks if the Proposed Transaction is approved

Significant dilution

On successful implementation of the Proposed Transaction, the Convertible Noteholders will have the ability to convert the Convertible Notes into an undiluted interest of between 39.6% and 51.2% (depending on the amount of interest capitalised prior to conversion) in the total issued Share capital of the Company.

In addition, the Apollo Group may be issued with additional Shares under the terms of the Apollo Performance Rights, and the Optionholders may exercise the Options to subscribe for new Shares at a price of A\$8.00 (on a post-consolidation basis). Under the Proposed Transaction, including the Convertible Notes, Options, Apollo Performance Rights and ROFR, the Apollo Group could acquire a shareholding of up to 70.0% in the Company.

Potential change of control

Apollo and its Associates, through their rights under the Convertible Notes, Apollo Performance Rights, Options and the ROFR may be able to move to a position whereby they can control the composition of the Board and senior management, and determine the Company's strategic direction and other important factors including dividend policy.

Liquidity and market risks of concentration of ownership

The Proposed Transaction could concentrate a greater proportion of Shares amongst a smaller number of Shareholders. This concentration could result in a lower level of liquidity of Shares.

The presence of Apollo as a significant shareholder with Board representation and existence of the positive and negative covenants under the Note Subscription Agreement may deter other prospective acquirers from making a takeover offer for the Company other than through a transaction supported by Apollo. There is a risk that investors will apply a discounted valuation to the Shares as a result of the perceived change in control of the Company, and the decreased likelihood of a third party making an offer to acquire the Company (referred to as the implied takeover premium).

Expected benefits failing to eventuate

Section 5 outlines the rationale for the Proposed Transaction. There can be no guarantee that the benefits expected to materialise from the Proposed Transaction, including any increase in AUM arising from the Apollo Group's distribution capabilities, will actually eventuate.

Changed governance arrangements

If the Proposed Transaction proceeds, the Board will include three nominees of Apollo and Apollo will have the benefit of the positive and negative covenants set out in Section 6.8.

Furthermore, at least one of these new Directors must be appointed to each of the sub-committees of the Board.

This represents a material change in the governance dynamic of the Company and there is a risk that the new Board will pursue interests which differ from those expected by existing Shareholders.

Minority shareholder risks

If the Apollo Group becomes a substantial shareholder or controller of the Company, its interests may not always be completely aligned with the interests of minority Shareholders. However, in these circumstances minority Shareholders would have the benefit of the following protections provided by applicable law and the Listing Rules in relation to dealings between the Company and Apollo and its Associates:

- a requirement to obtain Shareholder approval for transactions between the Company and Apollo or its Associates in certain circumstances;
- a requirement for all Directors on the Board to comply with applicable laws and Listing Rules relating to conflicts of interest for Directors; and
- in the case of Directors nominated by Apollo to be appointed to the Board, a requirement that they comply with the legal obligations to act in good faith, in the best interests of the Company, and for proper purposes, and have regard to the interests of the Shareholders and the Company as a whole.

7.2 Key implications and risks if the Proposed Transaction is not approved

Assessment of alternatives

If the Proposed Transaction is not approved by Shareholders and therefore does not complete, the Company will continue to operate as it did before the Proposed Transaction was announced.

In this event, the Board will continue to assess the Company's strategic options, including alternative distribution alliances that may support the Company's growth outlook. The Board considers that a strong growth outlook is critical to the retention and motivation of key employees, which is fundamental to the ongoing success of the Company.

In addition, should the Proposed Transaction not complete the Board will continue to assess the suitability of the Company's capital structure and alternatives with respect to further deleveraging.

If the Proposed Transaction is not approved by Shareholders and the conditions precedent to the Westpac Amendment are not satisfied, the existing terms of the Loan Facility will continue unchanged including the existing term maturity of 31 March 2012.

Transaction costs

If the Proposed Transaction is not approved, the Company will not be entitled to capitalise a number of its advisory and other transaction costs relating to the Proposed Transaction, approximately US\$2 million of which have already been incurred.

Under the terms of the Note Subscription Agreement, the Company must pay Apollo a break fee of US\$750,000 (plus any GST) if the Board changes or withdraws its recommendation due to a superior proposal and a party terminates the Note Subscription Agreement following the change or withdrawal of the recommendation.

8

INDEPENDENT EXPERT'S CONCLUSION

To ensure that Shareholders are fully and fairly informed, the Board has sought an Independent Expert's Report from Ernst & Young Transaction Advisory Services Limited on the Proposed Transaction, including the Convertible Notes, Options, Apollo Performance Rights, Right of First Refusal Agreement and Escrow Arrangements.

The Independent Expert has concluded that having considered the various matters outlined in the Independent Expert's Report, the Proposed Transaction is **fair and reasonable** to the Shareholders not associated with the Proposed Transaction.

The Independent Expert's Report is set out in full in Schedule 6 to this Explanatory Memorandum and you are strongly encouraged to read that report as part of your assessment of the Proposed Transaction.

While the Directors support the overall conclusion reached by the Independent Expert, to the extent that the Independent Expert's Report contains financial forecasts, valuations or other content prepared by the Independent Expert, none of the Directors, the Company or its advisers represent, adopt or otherwise assume any responsibility for that content. Forecasts, valuations and other forward looking statements are by their nature uncertain and dependent on a number of future events.

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DIRECTORS' RECOMMENDATIONS AND INTENTIONS

The interests of the Directors in each of the Resolutions are disclosed in Sections 10.3 and 11 of this Explanatory Memorandum.

Having regard to all of the considerations discussed in this Explanatory Memorandum, the Directors consider that, in the absence of a superior proposal, the expected benefits of the Proposed Transaction outweigh its potential disadvantages and risks.

The Directors recommend that, in the absence of a superior proposal, Shareholders vote in favour of the Proposed Transaction and approve each of the Resolutions.

In the absence of a superior proposal, each Director intends to vote all of the Shares in which they have a relevant interest and in respect of which they have the power to vote in favour of each of the Resolutions.

Sean McGould has a material personal interest in Resolutions 3 and 4 as disclosed in Sections 11.3 and 11.4 of this Explanatory Memorandum. Accordingly, he has not participated in the Board's consideration of those Resolutions and is abstaining from making a recommendation to other Shareholders in relation to it. Subject to the absence of Sean McGould in relation to Resolutions 3 and 4, the Directors' recommendations are unanimous.

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ADDITIONAL INFORMATION

10.1 The Company is a disclosing entity

The Company is a disclosing entity under the Corporations Act and is therefore subject to regular reporting and disclosure obligations under both the Corporations Act and the Listing Rules.

Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office.

These reporting and disclosure obligations require the Company to notify ASX of information about specified events and matters as they arise for the purposes of ASX making that information available to the market. In particular, the Company has an obligation under the Listing Rules and the Corporations Act (subject to certain exceptions) to notify ASX immediately of any information of which the Company is, or becomes, aware concerning the Company that a reasonable person would expect to have a material effect on the price or value of securities of the Company.

The Company is also required to prepare and lodge with ASIC and ASX both yearly and half-yearly financial statements accompanied by a Directors' declaration and report and an audit or review report.

10.2 Copies of documents

The Company will provide a copy of any of the following documents, free of charge, upon request by any Shareholder who asks for a copy:

- the 2010 Annual Report lodged with ASIC by the Company – containing the Directors' report and audited financial statements of the Company for the year ended 30 June 2010; and
- any continuous disclosure notices given by the Company to the ASX after lodgement of the 2010 Annual Report and before the lodgement of this Explanatory Memorandum.

The Company has made the following announcements to ASX between the lodgement of the 2010 Annual Report and the date of this Explanatory Memorandum:

Document	Date
Amended Trading Policy	24/12/2010
Response to ASX Price Query	06/12/2010
HFA Holdings – Note Deed Poll	06/12/2010
HFA Holdings – Note Subscription Agreement	06/12/2010
Certitude Media Release	06/12/2010
Apollo – Lighthouse Media Release	06/12/2010
HFA Holdings – Strategic Alliance with Apollo	06/12/2010
HFA Holdings – Results of AGM	30/11/2010
HFA Holdings AGM CEO address	30/11/2010
HFA Holdings AGM Presentation	30/11/2010
HFA – Response to Market Speculation	23/11/2010
Response to an ASX Price Query	23/11/2010
Change in substantial holding – Delaware Street Capital Master Fund LP	15/11/2010
Corporate Loan Facility Update	29/10/2010
Notice of 2010 Annual General Meeting and Proxy form	29/10/2010
Change in substantial holding – UBS AG	18/10/2010

A copy of the 2010 Annual Report and the above announcements may also be obtained through the Company's website at www.hfaholdings.com.au.

10.3 HFA Shares held by or on behalf of Directors

As at the date of this Explanatory Memorandum, the number of Shares held by or on behalf of each of the Directors is as follows:

Director	Number of Shares held by or on behalf of the Director
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 are held indirectly by SGM Holdings, LLC.

3 Shares are held indirectly by Tidala Pty Ltd as Trustee for the Shepherd Provident Fund.

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ITEMS OF BUSINESS

11.1 Resolution 1 – Share Consolidation

Purpose

Shareholder approval is being sought pursuant to Section 254H of the Corporations Act. The Directors are seeking Shareholder approval to consolidate the number of Shares, HFA Performance Rights and SY Performance Rights on issue on a one (1) for four (4) basis.

Section 254H of the Corporations Act

Section 254H of the Corporations Act provides that a company may, by resolution passed at a general meeting of shareholders, convert all or any of its shares into a larger or smaller number of shares. ASX Listing Rule 7.22.1 requires that the number of options on issue be consolidated in the same ratio as the ordinary capital and the exercise price be amended in inverse proportion to that ratio. The HFA Performance Rights and SY Performance Rights are options for the purposes of the ASX Listing Rules.

Effect of Share Consolidation

Subject to this Resolution being passed, the number of Shares on issue will be reduced from 469,330,170 to approximately 117,332,543 and the number of HFA Performance Rights and SY Performance Rights on issue will be reduced from 32,235,740 to approximately 8,058,935 and the exercise price of the HFA Performance Rights and SY Performance Rights will remain as nil.

As from the date this Resolution is passed (being the date of the General Meeting), all holding statements for Shares, HFA Performance Rights and SY Performance Rights will cease to have any effect, except as evidence of entitlement to a certain number of post-consolidation Shares, HFA Performance Rights and SY Performance Rights. After the Share Consolidation becomes effective, the Company will arrange for new holding statements to be issued to Shareholders and notification to holders of the HFA Performance Rights and SY Performance Rights.

The effect the Share Consolidation will have on the capital structure of the Company pre-Proposed Transaction is as follows:

	Shares on issue ¹	HFA Performance Rights on issue ²	SY Performance Rights on issue
Pre-Consolidation	469,330,170	16,360,000	15,875,740
Post-Consolidation	117,332,543	4,090,000	3,968,935

1 This table assumes there are no partly paid Shares and does not take into account any rounding discrepancies or fractional entitlement occurrences.

Not all Shareholders and holders of HFA Performance Rights and SY Performance Rights will hold a number of Shares, HFA Performance Rights and SY Performance Rights which can be exactly divided by four. Where a fractional entitlement occurs, the Directors will round that fraction up to the nearest whole Share, HFA Performance Right or SY Performance Right.

2 360,000 HFA Performance Rights (on a pre-consolidation basis) have a vesting date of 31 December 2010 and vesting conditions dependent on financial hurdles or the exercise of the Board's discretion to permit limited or full vesting in other circumstances. The vesting or lapse of those HFA Performance Rights is expected to be determined in conjunction with the finalisation of the Company's financial accounts in February 2011.

It is not expected that any taxation consequences will arise for Shareholders or holders of the HFA Performance Rights and SY Performance Rights arising from the Share Consolidation. However, Shareholders and holders of the HFA Performance Rights and SY Performance Rights are advised to seek their own tax advice on the effect of the Share Consolidation and neither the Company, nor the Directors (or the Company's advisers) accept any responsibility for the individual taxation consequences arising from the Share Consolidation.

Key Dates

The key dates for the Share Consolidation are set out in Section 2 of this Explanatory Memorandum.

Recommendation of the Directors on Resolution 1

See the recommendation of the Directors set out in Section 9 of this Explanatory Memorandum.

11.2 Resolution 2 – Issue of Convertible Notes, Options and Apollo Performance Rights

Purpose

Item 7 of Section 611 of the Corporations Act

Section 606 of the Corporations Act, generally, provides that a person must not acquire a relevant interest in issued voting shares in a listed company if, because of the acquisition, that person's or someone else's voting power in the Company would increase:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

The voting power of a person in the Company is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's Associates have a relevant interest.

Under Section 608 of the Corporations Act a person will have a "relevant interest" in securities if they:

- are the holder of the securities;
- have power to exercise, or control the exercise of, a right to vote attached to the securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. For the purposes of Section 608 of the Corporations Act, "power" and "control" include:

- power or control that is indirect; and
- power or control that is, or can be, exercised as a result of, by means of or by the revocation or breach of:

- a trust; or
- an agreement; or
- a practice; or
- any combination of them;

whether or not they are enforceable; and

- power or control that is, or can be made, subject to restraint or restriction.

It does not matter whether the power or control is express or implied, formal or informal, exercisable alone or jointly with someone else. It does not matter that the power or control cannot be related to a particular security.

Item 7 of Section 611 of the Corporations Act provides that Section 606 of the Corporations Act does not apply to an acquisition of a relevant interest in the voting shares in a company if the company has agreed to the acquisition by resolution passed at a general meeting at which no votes are cast in favour of the resolution by either:

- the person proposing to make the acquisition or by an Associate of that person; or
- the persons (if any) from whom the acquisition is to be made and their Associates.

Accordingly, the Company is seeking Shareholder approval for the:

- (a) issue of Shares to the Subscribers on the conversion of the Convertible Notes (including conversion of principal amounts arising from the capitalisation of interest);
- (b) issue of Shares pursuant to the exercise of the Options; and
- (c) issue of Shares pursuant to the exercise of the Apollo Performance Rights.

Specific information which is required to be provided to Shareholders under Item 7 of Section 611 of the Corporations Act is set out below.

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act provides, in summary, that a public company must not provide a financial benefit to a "related party" of the public company except with the approval of the company's shareholders unless one of the exceptions to that requirement applies.

For the purposes of Chapter 2E of the Corporations Act, a "related party" includes an entity that controls a public company. For the purposes of Chapter 2E this will include an entity that the public company believes or has reasonable grounds to believe is likely to become a related party of the public company at any time in the future.

For these reasons, Shareholders are being asked to approve the issue of the Convertible Notes, Options and Apollo Performance Rights and the issue of new Shares on conversion of the Convertible Notes, exercise of the Options and vesting and exercise of the Apollo Performance Rights for the purposes of Chapter 2E of the Corporations Act. Specific information which is required to be provided to Shareholders under Chapter 2E of the Corporations Act is set out below.

ASX Listing Rules

ASX Listing Rule 7.1 requires shareholder approval for an issue of equity securities if, over a 12 month period, the amount of equity securities issued is more than 15% of the number of ordinary shares on issue at the start of that 12 month period. ASX Listing Rule 7.2 (Exception 16) provides that Rule 7.1 does not apply if an issue of securities is approved for the purposes of Item 7 of Section 611 of the Corporations Act.

The Company wishes for the issue of new Shares on conversion of the Convertible Notes, exercise of the Options and vesting and exercise of the Apollo Performance Rights not to be included when undertaking the calculation pursuant to ASX Listing Rule 7.1.

Accordingly, it is seeking Shareholder approval in respect of the issue of new Shares on conversion of the Convertible Notes and exercise of the Options and Apollo Performance Rights as required under Item 7 of Section 611 of the Corporations Act.

Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

Specific information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval under Item 7 of Section 611 of the Corporations Act.

This information is summarised below. Shareholders are also referred to Sections 3, 6 and 7 and Schedules 1, 2 and 5 of this Explanatory Memorandum and to the Independent Expert's Report attached as Schedule 6 to and forming part of this Explanatory Memorandum.

Identity of the allottee and any person who will have a relevant interest in the Shares issued on conversion of the Convertible Notes and exercise of the Options and Apollo Performance Rights

Apollo and its Associates, including PA HH and AP CM, will hold a relevant interest in the new Shares issued by the Company on conversion of the Convertible Notes, exercise of the Options and vesting and exercise of the Apollo Performance Rights.

Apollo's Associates as at the date of this Explanatory Memorandum are identified in Section 4 of this Explanatory Memorandum.

Relevant interests and voting power as a result of the conversion of the Convertible Notes and exercise of the Options and Apollo Performance Rights

Particulars of the number and percentage of Shares in which Apollo and its Associates will have a relevant interest, and their resulting voting power, as a result of the conversion of the Convertible Notes, exercise of the Options and vesting and exercise of the Apollo Performance Rights and the other elements of the Proposed Transaction are set out in Section 6.6 of this Explanatory Memorandum.

Board of Directors

The proposed changes to the composition of the Board are set out in Sections 3.8 and 6.7 of this Explanatory Memorandum.

Intentions of Apollo in respect of the Company

The intentions of Apollo in respect of the Company are set out in Section 4.2 of this Explanatory Memorandum.

Contracts or proposed contracts conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the issue of Convertible Notes, Options and Apollo Performance Rights and their respective conversion and exercise

Details of the Note Subscription Agreement, the Convertible Note Deed Poll (including the Company's consent to certain assignments by PA HH), the Marketing Agreement (including the proposed issue of Apollo Performance Rights), the ROFR, the Westpac Facilities Agreement and the Subordination Deed are set out in Section 3 and Schedules 1 to 5 of this Explanatory Memorandum.

Timing

As noted in Sections 3.2, 3.3 and 3.7 of this Explanatory Memorandum, the:

- (a) Convertible Notes mandatorily convert, if not earlier, on the eighth anniversary on the date of their issue;
- (b) the Options may be exercised any time from the date of their issue at an exercise price of A\$8.00 (post-consolidation or A\$2.00 pre-consolidation) until the eighth anniversary of the date of their issue, after which they expire; and
- (c) the Apollo Performance Rights vest upon Lighthouse, on a stand-alone basis, achieving a minimum of US\$35 million EBITDA in any trailing 12 month period ending on or before 31 December 2013.

Reasons for the issue of Convertible Notes, Options and Apollo Performance Rights

The rationale for the Company to undertake the Proposed Transaction is set out in Section 5 of this Explanatory Memorandum.

Directors' interests in Resolution 2

None of the Directors has a personal interest in the outcome of Resolution 2 except as a Shareholder.

If Resolution 2 is not approved

Shareholder approval of Resolution 2 is a Condition Precedent to the Subscribers' obligations to proceed with the Proposed Transaction under the Note Subscription Agreement.

The Proposed Transaction may not proceed if the Resolution is not approved.

Specific information required by Chapter 2E of the Corporations Act

Specific information is required to be provided to shareholders of a company under the Corporations Act when shareholder approval of related party benefits is sought in accordance with Chapter 2E of the Corporations Act.

This information is summarised below. Shareholders are also referred to Sections 3 to 7 of this Explanatory Memorandum and to the Independent Expert's Report annexed to and forming part of this Explanatory Memorandum.

Valuation information relating to the financial benefits

As set out in the Independent Expert's Report, the Independent Expert has made an assessment of the fair market value of the Company before the Proposed Transaction (on a controlling interest basis) and after the Proposed Transaction (on a minority basis). See Schedule 6 for the Independent Expert's Report including details of the valuation approach, analysis and evaluation of the Independent Expert.

Description of related party

As discussed above, Apollo and its Associates, including PA HH and AP CM, are deemed to be related parties of the Company.

Apollo's Associates as at the date of this Explanatory Memorandum are identified in Section 4 of this Explanatory Memorandum.

Details of the financial benefit

The issue of the Convertible Notes and the grant of the Options and the Apollo Performance Rights are considered financial benefits for the purposes of the related party provisions of the Corporations Act.

The rationale for the Company to undertake the Proposed Transaction is set out in Section 5 of this Explanatory Memorandum.

Related party's existing interests in the Company

Apollo and its Associates currently have no interests in the Company other than in respect of the Proposed Transaction.

Dilution effect of the transaction on existing Shareholders' interests

Particulars of the number and percentage of Shares (including the dilution effect) in which Apollo and its Associates will have interests if the Proposed Transaction proceeds are set out in Section 6.6 of this Explanatory Memorandum.

Trading history of Shares

The following table gives details of the volume weighted average price and the highest, lowest and latest closing price of the Shares trading on ASX over the past 12 months ending on 19 January 2011.

Description	Price	Date
VWAP ¹	\$0.224	
Highest	\$0.320	22 December 2010
Lowest	\$0.145	30 June 2010
Latest	\$0.265	19 January 2011

1 VWAP means the volume weighted average price of the Shares for 12 month period beginning on 20 January 2010 and ending on 19 January 2011.

Independent Expert's opinion

Section 8 and Schedule 6 set out the Independent Expert's opinion in respect of the Proposed Transaction.

Recommendation of the Directors on Resolution 2

See the recommendation of the Directors set out in Section 9 of this Explanatory Memorandum.

11.3 Resolution 3 – Approval of Right of First Refusal Agreement

Purpose

As detailed in Section 11.2 of this Explanatory Memorandum, Section 606 of the Corporations Act generally restricts the acquisition of a "relevant interest" in more than 20% of issued voting shares in a company. Section 606 also provides that the restriction does not apply to an acquisition approved by the company's shareholders under Item 7 of Section 611 of the Corporations Act.

It is a Condition Precedent to the Proposed Transaction that the Company obtains Shareholder approval for the ROFR. The ROFR and its terms are summarised in Sections 3.5 and 6.3 and Schedule 4 of this Explanatory Memorandum.

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Apollo has disclosed to the Company that:

- Apollo has entered into the ROFR with the Lighthouse Management Shareholders;
- Apollo will acquire a “relevant interest” in the Shares to which the ROFR applies for the purposes of the Corporations Act by virtue of Apollo’s contractual rights under the ROFR to control the disposal of and to acquire those Shares; and
- it is a condition precedent to the ROFR that the Company obtain Shareholder approval for the ROFR in accordance with Item 7 of Section 611 of the Corporations Act.

The purpose of Resolution 3 is to approve the acquisition by Apollo of a relevant interest in existing Shares held directly or indirectly by the Lighthouse Management Shareholders and Shares that may be issued to Lighthouse Management Shareholders under the existing HFA Performance Rights held by Lighthouse Management Shareholders, by virtue of:

- the contractual rights of Apollo under the ROFR; and
- any resulting acquisition of those ROFR Shares by Apollo under the terms of the ROFR.

Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

Specific information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect to obtaining approval under Item 7 of Section 611 of the Corporations Act.

This information is summarised below. Shareholders are also referred to Sections 3.5 and 6.3 and Schedule 4 of this Explanatory Memorandum and to the Independent Expert’s Report attached as Schedule 6 to and forming part of this Explanatory Memorandum.

Identity of the acquirer and any person who will have a relevant interest in the initial ROFR Shares

Apollo and its Associates will acquire a relevant interest in the Shares subject to the ROFR.

Apollo’s Associates as at the date of this Explanatory Memorandum are identified in Section 4 of this Explanatory Memorandum.

The Lighthouse Management Shareholders will continue to hold relevant interests in the ROFR Shares upon the ROFR coming into effect.

Relevant interests and voting power under the ROFR

Shareholder approval is sought for the ROFR to apply to the existing Shares held directly or indirectly¹ by the Lighthouse Management Shareholders and the Shares that may be issued to Lighthouse Management Shareholders under the existing HFA Performance Rights held by Lighthouse Management Shareholders.

¹ The Company understands that a number of the Lighthouse Management Shareholders hold Shares indirectly through a nominee or custodian that is the registered holder of the Shares. Those registered holders will not be entitled to vote those Shares in favour of Resolution 3.

² Current fully diluted ordinary share capital consisting of all Shares and performance rights on issue at the date of this Explanatory Memorandum. It does not include the effect of the Convertible Notes, Options, Apollo Performance Rights or any other securities in the Company that may be issued in the future.

This equates to approximately 35,049,368 Shares (on a post-consolidation basis, or 140,197,472 on a pre-consolidation basis) plus an additional 3,268,750 Shares (on a post-consolidation basis, or 13,075,000 on a pre-consolidation basis) under the HFA Performance Rights. This equates to approximately 30.56% of the current fully-diluted issued Share capital.²

Particulars of the number and percentage of Shares in which Apollo and its Associates will have a relevant interest, and their resulting voting power, as a result of the ROFR and the other elements of the Proposed Transaction are set out in Section 6.6 of this Explanatory Memorandum.

Board of Directors

The proposed changes to the composition of the Board are set out in Sections 3.8 and 6.7 of this Explanatory Memorandum.

Intentions of Apollo in respect of the Company

The intentions of Apollo in respect of the Company are set out in Section 4.2 of this Explanatory Memorandum.

Contracts or proposed contracts conditional upon, or directly or indirectly dependent on, Shareholders’ agreement to the ROFR

Details of the Note Subscription Agreement, Convertible Note Deed Poll, Marketing Agreement, ROFR, Westpac Facilities Agreement and Subordination Deed are set out in Section 3 and Schedules 1 to 5 of this Explanatory Memorandum.

Timing

As noted above, the ROFR is subject to the condition that Shareholder approval of the Proposed Transaction is obtained.

The vesting and exercise dates for the existing HFA Performance Rights are set out in Section 3.5 of this Explanatory Memorandum.

Reasons for the ROFR

It is a Condition Precedent to the Proposed Transaction that the Company obtains Shareholder approval for the ROFR. The rationale for the Company to undertake the Proposed Transaction is set out in Section 5 of this Explanatory Memorandum.

Directors’ interests in Resolution 3

Sean McGould has an interest in the outcome of Resolution 3 as one of the Lighthouse Management Shareholders. None of the Directors otherwise has a personal interest in the outcome of Resolution 3 except as a Shareholder.

If Resolution 3 is not approved

Shareholder approval of Resolution 3 is a Condition Precedent to the Subscribers’ obligations to proceed with the Proposed Transaction under the Note Subscription Agreement.

The Proposed Transaction may not proceed if the Resolution is not approved.

Recommendation of the Directors on Resolution 3

See the recommendation of the Directors set out in Section 9 of this Explanatory Memorandum.

11.4 Resolution 4 – Approval of Escrow Arrangements

Purpose

As detailed in Section 11.2 of this Explanatory Memorandum, Section 606 of the Corporations Act generally restricts the acquisition of a “relevant interest” in more than 20% of issued voting shares in a company. Section 606 also provides that the restriction does not apply to an acquisition approved by the company’s shareholders under Item 7 of Section 611 of the Corporations Act.

It is a Condition Precedent to the Proposed Transaction that the Company has entered into employment agreements with the Lighthouse Senior Management on Apollo approved terms.

The terms of the employment agreements with the Lighthouse Senior Management include a voluntary escrow provision under which the employee must not transfer their Shares held on 31 December 2010 until the earlier of two years from that date, Lighthouse reaching trailing 12 month assets under management (AUM) of US\$8.5 billion or termination of the employee’s employment (Escrow Arrangements). Certain transfers to family members and their related entities are permitted.

Although the Company does not have any ownership interest in the Escrowed Shares or an ability to control how they are voted, the Company will be considered to acquire a “relevant interest” in the Escrowed Shares for the purposes of the Corporations Act by virtue of the contractual right to restrict the transfer of the Escrowed Shares.

The purpose of Resolution 4 is to approve the acquisition by the Company under the Escrow Arrangements of a relevant interest in the Shares held by the Lighthouse Senior Management.

Specific information required by Item 7 of Section 611 of the Corporations Act and ASIC Regulatory Guide 74

Specific information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect to obtaining approval under Item 7 of Section 611 of the Corporations Act.

This information is summarised below. Some of the information usually relevant to a proposal to acquire relevant interests in voting shares is not relevant to an escrow arrangement under which the Company is deemed to be acquiring a relevant interest in its own shares but will not obtain any power to influence the exercise of a voting right attached to the Escrowed Shares.

Shareholders are also referred to Section 3.6 of this Explanatory Memorandum and to the Independent Expert’s Report attached as Schedule 6 to and forming part of this Explanatory Memorandum.

Relevant interests and voting power under the voluntary escrow arrangement

The approximate number and percentage of Shares in which the Company will acquire a relevant interest as a result of the Escrow Arrangements is as follows:

Number of Shares of Lighthouse Senior Management subject to voluntary escrow with the Company ¹	Percentage of current issued Share capital	Percentage of current fully diluted Share capital ²
31,091,245	26.50%	24.80%
1	On a post-consolidation basis assuming the share consolidation in Resolution 1 is passed. If Resolution 1 is not passed, the unconsolidated number of Shares will be approximately 124,364,978.	
2	Current fully diluted ordinary share capital consisting of all Shares and performance rights on issue at the date of this Explanatory Memorandum. It does not include the effect of the Convertible Notes, Options, Apollo Performance Rights or any other securities in the Company that may be issued in the future.	

Timing

The Escrow Arrangements effectively apply on 31 December 2010, subject to the further condition that Shareholder approval of the Proposed Transaction is obtained.

Reasons for the voluntary escrow

The Company proposes the voluntary escrow arrangement to assist to align the interests of the Lighthouse Senior Management with the interests of the Company and its other Shareholders.

The rationale for the Company to undertake the Proposed Transaction is set out in Section 5 of this Explanatory Memorandum.

Directors’ interests in Resolution 4

Sean McGould has an interest in the outcome of Resolution 4 as one of the Lighthouse Senior Management. None of the Directors otherwise has a personal interest in the outcome of Resolution 4 except as a Shareholder.

If Resolution 4 is not approved

Entry into the revised employment contracts, including the Escrow Arrangements, and Shareholder approval of Resolution 4 are Conditions Precedent to the Subscribers’ obligations to proceed with the Proposed Transaction under the Note Subscription Agreement.

The Proposed Transaction may not proceed if the Resolution is not approved.

Recommendation of the Directors on Resolution 4

See the recommendation of the Directors set out in Section 9 of this Explanatory Memorandum.

11.5 Resolution 5 – Election of Directors

As set out in Sections 3.8 and 6.7 of this Explanatory Memorandum, it is a Condition Precedent to the Proposed Transaction that the Board Changes be made, which include an increase in the number of Board members from five to eight through the election of three Apollo nominees as additional Directors.

Apollo has nominated Grant Kelley, James Zelter and Anthony Civale to be its nominees for Board membership. As part of the Board Changes, at least one of these individuals must be appointed to each of the sub-committees established by the Board.

(a) Election of Grant Kelley

Subject to the passing of Resolutions 2, 3 and 4, Grant Kelley, in accordance with Rule 8.1(k)(2) of the Constitution and, being eligible, offers himself for election as a director of the Company.

Rule 8.1(k)(2) of the Constitution provides that a person is eligible for election to the office of a Director at a general meeting of the Company if the person has been nominated by the Directors for election at that meeting.

Mr Kelley is the Managing Director and Head of Asia for Apollo Global Real Estate. Mr Kelley has over 20 years of experience in corporate strategy, private equity and real estate investment in Australia, Asia, Europe and the United States. Prior to joining Apollo, Mr Kelley was the Founder and CEO of Holdfast Capital, a pan-Asian real estate private equity firm whose operations were acquired by Apollo in February 2010. Prior to founding Holdfast, Mr Kelley was the CEO of Colony Capital Asia from 2004 to 2008, where he played a leading role in numerous real estate, hospitality and mortgage-backed transactions, including the acquisition of Raffles Hotels and Resorts in Singapore in 2005, which received five separate Asian "Deal of the Year" awards. From 2002 to 2004, Mr Kelley was based in Colony's New York offices, where he led major acquisitions in both the United States and Europe. From 2000 to 2002, Mr Kelley was based in Colony's Seoul and Tokyo offices, where he played a lead role in establishing Colony's successful joint venture with the Korean government. Prior to joining Colony in 2000, Mr Kelley was a management consultant at both Bain and Company, and Booz Allen & Hamilton. Mr Kelley holds a Bachelor of Laws degree from the University of Adelaide, a Master of Sciences degree in International Relations from the London School of Economics and Political Science, and an MBA from the Harvard Business School. He is currently a Director of the Sentosa Development Corporation in Singapore.

(b) Election of James Zelter

Subject to the passing of Resolutions 2, 3 and 4, James Zelter, in accordance with Rule 8.1(k)(2) of the Constitution and, being eligible, offers himself for election as a director of the Company.

Rule 8.1(k)(2) of the Constitution provides that a person is eligible for election to the office of a Director at a general meeting of the Company if the person has been nominated by the Directors for election at that meeting.

Mr Zelter joined Apollo in 2006. Mr Zelter is the Chief Executive Officer of Apollo Capital Management, Apollo's multi-billion dollar capital markets business. The funds in the platform include: Apollo Investment Management (AIM), Strategic Value Fund (SVF), Apollo Investment Europe (AIE), Apollo Asia Opportunity Fund (AAOF) and Apollo European Principal Finance Fund (EPF). In addition Mr Zelter is Chairman and Chief Executive Officer of Apollo Investment Corporation (NASDAQ: AINV). Apollo Investment Corporation's portfolio is principally in middle-market private companies. The Company invests primarily in mezzanine loans, senior secured loans and in the equity of portfolio companies. Prior to joining Apollo, Mr Zelter was with Citigroup and its predecessor companies from 1994 to 2006. Most recently, he was responsible for the global expansion and strong financial performance of the Special Situations Investment Group, a proprietary investment group he founded within Citigroup's Fixed Income Division. While with Citigroup, Mr Zelter also served on the Global Fixed Income Management Committee and the Division Planning Committee.

In this role, he oversaw the firm's High Yield Trading, Sales and Capital Market Groups. During this period, Citigroup was the market leader in the origination of high yield bonds and leverage loans. From 2003 to 2005, Mr Zelter was Chief Investment Officer of Citigroup Alternative Investments, and prior to that he was responsible for the firm's Global High Yield franchise. In addition, he was a standing member of the Citigroup Pension Investment Committee, the Salomon Smith Barney Capital Partners Investment Committee and the Citigroup Mezzanine Partners Investment Committee. He also was a member of the Private Equity and Real Estate Investment Oversight Committee. Prior to joining Citigroup in 1994, Mr Zelter was a High Yield Trader at Goldman Sachs & Co. Mr Zelter is a board member of DUMAC, the investment management company that oversees the Duke Endowment and Duke Foundation. Mr Zelter has a degree in Economics from Duke University.

(c) Election of Anthony Civale

Subject to the passing of Resolutions 2, 3 and 4, Anthony Civale, in accordance with Rule 8.1(k)(2) of the Constitution and, being eligible, offers himself for election as a director of the Company.

Rule 8.1(k)(2) of the Constitution provides that a person is eligible for election to the office of a Director at a general meeting of the Company if the person has been nominated by the Directors for election at that meeting.

Mr Civale is a senior partner of Apollo Management, L.P. Mr Civale currently serves on the board of directors of Berry Plastics Group, a leading plastic packaging company in the US. He also serves on the board of directors of Youth INC and is a member of the Board of Trustees of Middlebury College. He has previously served on the boards of directors of Breuners Home Furnishings Corp., Goodman Global, Inc., Harrah's Entertainment and Prestige Cruises. In addition to responsibilities in Apollo's private equity business, Mr Civale co-manages Apollo's senior loan business and also has responsibilities with respect to corporate development for Apollo Global Management, LLC. Prior to joining Apollo in 1999, Mr Civale was employed by Deutsche Bank Securities and Bankers Trust Company in their Financial Sponsors Group within the Corporate Finance division. Mr Civale graduated from Middlebury College with a BA in Political Science.

If Resolution 5 is not approved

Shareholder approval of Resolution 5 is a Condition Precedent to the Subscribers' obligations to proceed with the Proposed Transaction under the Note Subscription Agreement.

The Proposed Transaction may not proceed if the Resolution is not approved.

Recommendation of the Directors on Resolution 5

See the recommendation of the Directors set out in Section 9 of this Explanatory Memorandum.

VOTING INFORMATION

VOTING INFORMATION

1. The required quorum for the General Meeting is at least five (5) Shareholders present in person or by proxy, attorney or representative.
 2. Ordinary Resolutions will be passed if a majority of the votes that are cast by Shareholders entitled to vote on the Resolution are voted in favour of the Resolution.
 3. Voting will be decided on a show of hands unless a poll is demanded by the chairperson or Shareholders entitled to do so before the show of hands is taken, or before or immediately after the declaration of the result on a show of hands.
 4. On a show of hands, every Shareholder in person or by proxy, attorney or representative shall have one vote.
 5. On a poll, each Shareholder present in person or by proxy, attorney or representative shall have one vote for each Share held by that member and in respect of which that member is entitled to vote.
 6. If Shares are jointly held and more than one of the joint holders votes, only the vote of the holder whose name appears first in the Register of Shareholders will be counted.
 7. For more information on voting see Clause 7.8 of the Constitution.
3. An instrument appointing a proxy shall be in writing under the hand of the appointer or of his or her duly appointed attorney. A Proxy Form accompanies the Notice of Meeting and Explanatory Memorandum. Proxy voting instructions are outlined on the back of the Proxy Form.
 4. To be valid, the Proxy Form or attorney and the authority pursuant to which the instrument is signed must be received by no later than 11.00 am (Sydney time) on 23 February 2011 at:
By Post
HFA Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
By Facsimile
Attention: Link Market Services Limited
(HFA Holdings Limited General Meeting)
Facsimile No: +61 2 9287 0309
By Hand
Delivering it to Link Market Services Limited,
Level 12, 680 George Street, Sydney NSW 2000
Enquiries
Link Market Services Limited:
Telephone: 1300 55 44 74 or
Overseas: +61 2 8280 7454

Individuals

If you plan to attend the General Meeting, we ask that you arrive at the venue at least 30 minutes prior to the time designated for the General Meeting so that we may check the number of your Shares and note your attendance.

Voting by Proxy or Attorney

1. A Proxy Form accompanies the Notice of Meeting and Explanatory Memorandum.
2. A Shareholder is entitled to appoint a proxy, attorney or representative (who need not be a Shareholder in the Company) to vote on his or her behalf at the General Meeting. A Shareholder member may appoint no more than two proxies or attorneys. Each proxy or attorney must be appointed to represent a specified proportion of the Shareholder's voting rights. If no proportion is specified each proxy or attorney is entitled to exercise half the Shareholder's votes. Where a Shareholder appoints two proxies or attorneys, neither will be entitled to vote on a show of hands if more than one proxy or attorney attends, and each may only exercise the voting rights the proxy or attorney represents on a poll.

5. Alternatively, Shareholders may lodge their proxy online by visiting the Share Registry's website at www.linkmarketservices.com.au, going to the online voting page and following the prompts and instructions on the website. To use the online lodgements facility, Shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN)) as shown on the front of the Proxy Form.
6. For more information on appointing a proxy or attorney see Clause 7.9 of the Constitution.

Voting by corporations

In order to vote at the General Meeting (other than by proxy), a corporation that is a Shareholder must appoint a person to act as its representative. The appointment must comply with the Corporations Act. A letter of representation must be either lodged with the Share Registry prior to the commencement of the General Meeting or the representative must bring to the General Meeting evidence of his or her appointment including any authority under which it is signed.

Entitlement to vote

The Board has determined that a Shareholder's voting entitlement at the General Meeting will be taken to be the entitlement of the person shown in the Register of Shareholders as at 11.00 am (Sydney time) on 23 February 2011. Accordingly, transactions registered after that time will be disregarded in determining Shareholders entitled to attend and vote at the General Meeting.

GLOSSARY & INTERPRETATION

GLOSSARY & INTERPRETATION

Definitions

The following terms and abbreviations used in this Explanatory Memorandum (including the Notice of Meeting) have the meanings given to them below, unless the context otherwise requires:

AP CM	means AP CM, LLC, a Delaware limited liability company and an indirect subsidiary of Apollo Global Management.
APH VIII	means Apollo Principal Holdings VIII, L.P., a Cayman Islands exempted limited partnership and an indirect subsidiary of Apollo Global Management.
Apollo	means APH HFA Holdings, L.P., a Cayman Islands exempted limited partnership and a direct subsidiary of APH VIII and an indirect subsidiary of Apollo Global Management.
Apollo Global Management	means Apollo Global Management, LLC, a Delaware limited liability company.
Apollo Group	means Apollo Global Management together with its affiliates (including Apollo and AP CM), or any of them as the case requires.
Apollo Performance Rights	means the performance rights to be issued to AP CM on the terms and conditions as summarised in Schedule 5 of this Explanatory Memorandum.
ASIC	means the Australian Securities and Investments Commission.
ASIC Regulatory Guide 74	means the regulatory guide on issue by ASIC as at the date of this Explanatory Memorandum in respect to acquisitions agreed to by shareholders.
Associate	has the meaning given to that term in the <i>Corporations Act</i> .
ASX	means the ASX Limited ACN 008 624 691 or, as the context requires, the financial market operated by it.
ASX Announcement	means the announcement made by the Company to ASX on 6 December 2010 in relation to the Proposed Transaction.
ASX Listing Rules	means the official listing rules of ASX as amended or replaced from time to time, except to the extent of any express written waiver granted by ASX.
AUM	means assets under management.
Board or Directors	means the board of directors of the Company (and each of the directors of the Company as the case may be).
Board Changes	means the changes outlined in Section 3.8.
Company or HFA	means HFA Holdings Limited ABN 47 101 585 737.
Conditions Precedent	means the conditions precedent to the Proposed Transaction as set out in the Note Subscription Agreement and as summarised in Section 3.11 of this Explanatory Memorandum.
Constitution	means the constitution of the Company, as amended from time to time.
Convertible Notes	means the convertible notes, with an agreed aggregate face value of US\$75 million to be issued to the Subscribers pursuant to the Proposed Transaction and in accordance with the Note Subscription Agreement, Convertible Note Deed Poll and Convertible Note Conditions.
Convertible Note Conditions	means the terms and conditions of the Convertible Notes set out in the Convertible Note Deed Poll and summarised in Schedule 1.
Convertible Note Deed Poll	means the deed poll executed by the Company dated 3 December 2010 in favour of the Subscribers and containing the Convertible Note Conditions and as available on ASX with the ASX Announcement.
Convertible Noteholder	means a holder of Convertible Notes.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
EBITDA	means earnings before interest, taxes, depreciation and amortisation.
Escrow Arrangements	means those arrangements relating to the Escrowed Shares as set out in certain Apollo approved employment agreements with the Lighthouse Senior Management and as described in Section 11.4 of this Explanatory Memorandum.
Escrow Shares	means those Shares held in escrow pursuant to the provisions of the Lighthouse Senior Management employment agreements.
FIRB	means the Australian Foreign Investment Review Board.

FUM	means funds under management.
General Meeting	means the general meeting of Shareholders which is the subject of this Notice of General Meeting and accompanying Explanatory Memorandum.
HFA Employee Performance Rights Plan	means the Company's employee incentive plan.
HFA Group	means the Company and its related bodies corporate.
HFA Performance Rights	means the 16,360,000 existing performance rights (on a pre-consolidation basis; 4,090,000 on a post-consolidation basis) granted to employees of the HFA Group pursuant to the HFA Employee Performance Rights Plan. It does not include the SY Performance Rights.
Independent Expert	means Ernst & Young Transaction Advisory Services Limited ABN 87 003 599 844.
Independent Expert's Report	means the report dated 20 January 2011 issued by the Independent Expert, that is set out in Schedule 6 of this Explanatory Memorandum.
Lighthouse	means Lighthouse Investment Partners, LLC, a Delaware limited liability company and wholly-owned subsidiary of the Company.
Lighthouse Senior Management	means Sean McGould, J. Scott Perkins, Kelly Perkins, Robert Swan and Jack Swan.
Lighthouse Management Shareholders	means the following officers and employees of Lighthouse: Ethan Baron, Peter Coates, John Fitzgibbon, Philip Harris, Kevin Kribs, Sean McGould, Mark Nichols, Jim O'Hara, Kelly Perkins, J. Scott Perkins, Clark Prickett, Paul Schwarz, John P. Steinle, Jack Swan and Robert Swan.
Loan Facility	means the cash advance facility provided by Westpac to the Company under the Westpac Facilities Agreement as amended in accordance with the Westpac Amendment.
Marketing Agreement	means the marketing agreement entered into between AP CM and Lighthouse on 3 December 2010 and as summarised in Schedule 3 of this Explanatory Memorandum.
Note Subscription Agreement	means the note subscription agreement for the Convertible Notes and Options between the Company, Apollo and PA HH dated 3 December 2010 and as available on ASX with the ASX Announcement.
Notice of Meeting	means the notice of General Meeting that forms part of this Explanatory Memorandum.
Options	means the 31.25 million options (on a post-consolidation basis, or 125 million on a pre-consolidation basis) to be issued by the Company to the Subscribers to acquire by way of issue of Shares pursuant to the Proposed Transaction and in accordance with the Note Subscription Agreement and Option Terms, as summarised in Schedule 2 of this Explanatory Memorandum.
Option Terms	means the terms and conditions of the Options as set out in the Note Subscription Agreement and summarised in Schedule 2.
Optionholder	means a holder of an Option.
PA HH	means PA HFA Holdings, LLC.
pre-consolidation or pre-consolidation basis	means the basis on which the share capital of the Company is stated before Resolution 1 of the Notice of Meeting is passed by Shareholders and takes effect.
post-consolidation or post-consolidation basis	means the basis on which the share capital of the Company is stated after Resolution 1 of the Notice of Meeting is passed by Shareholders and takes effect.
Proposed Transaction	includes the transactions contemplated under the Transaction Documents and includes the following transactions: <ul style="list-style-type: none"> (a) the issue of the Convertible Notes; (b) the issue of the Options; (c) the issue of the Apollo Performance Rights; (d) entry into the ROFR; (e) effecting the Board Changes; and (f) entering into the Marketing Agreement.
Proxy Form	means the proxy form accompanying the Notice of Meeting and Explanatory Memorandum.

GLOSSARY & INTERPRETATION

Transaction Documents	includes the following: <ul style="list-style-type: none"> (a) Note Subscription Agreement; (b) Convertible Note Deed Poll; (c) Right of First Refusal Agreement; (d) Marketing Agreement; and (e) any other transaction document giving effect to the Proposed Transactions.
Register of Shareholders	means the register of Shareholders of the Company.
Related Body Corporate	has the meaning given to that term in Section 9 of the <i>Corporations Act</i> .
Resolutions	means resolutions 1, 2, 3, 4, 5(a), 5(b) and 5(c) set out in the Notice of Meeting (and each resolution set out in the Notice of Meeting as the case may be).
Right of First Refusal Agreement or ROFR	means the right of first refusal agreement between Apollo and the Lighthouse Management Shareholders dated 20 January 2011.
ROFR Shares	means those Shares which are subject to the ROFR.
Share	means a fully paid ordinary share in the capital of the Company.
Share Consolidation	means the consolidation of the Company's existing Shares, HFA Performance Rights and SY Performance Rights on a 4:1 basis (meaning that every 4 Shares, 4 HFA Performance Rights and 4 SY Performance Rights will become respectively 1 post-consolidation Share, 1 HFA Performance Right and 1 SY Performance Right).
Share Registry	means Link Market Services Limited ABN 54 083 214 537.
Shareholder	means a holder of a Share.
Subordination Deed	means the subordination deed dated on or about the date of the Note Subscription Agreement between the Company, HFA Lighthouse Holdings Limited, the Subscribers and Westpac.
Subscribers	means each of Apollo and PA HH and Subscriber means Apollo and PA HH as the context requires.
SY Performance Rights	means up to a maximum of 15,875,740 performance rights granted to Spencer Young, Executive Chairman and Chief Executive Officer of the Company pursuant to the HFA Employee Performance Rights Plan and approved by Shareholders at the Company's 2010 annual general meeting.
Westpac	means Westpac Banking Corporation ABN 33 007 457 141.
Westpac Amendment	means the Second Amendment and Restatement Deed dated 3 December 2010 between the Company and Westpac and others amending and restating the Westpac Facilities Agreement.
Westpac Facilities Agreement	means the cash advance facility agreement dated 1 November 2007 between the Company, Westpac and others, as amended from time to time.

Interpretation

Terms used in the Notice of Meeting and this Explanatory Memorandum have the meaning (if any) given to them in Chapter 6 of the *Corporations Act* unless that meaning is inconsistent with the context in which the term is used.

In this Explanatory Memorandum:

- (a) headings are for convenience only and do not affect the meaning of the Sections they introduce; and unless the context otherwise requires:
- (b) the singular includes the plural and the other way around;
- (c) words importing any gender include any other genders;
- (d) references to persons include corporations;
- (e) reference to a "Section" is to a section in this Explanatory Memorandum;
- (f) references to A\$ are references to Australian currency;
- (g) references to US\$ are references to United States currency;
- (h) the word "including" or "includes" means "including, but not limited to" or "includes, without limitation";
- (i) references to legislation, rules or other documents include those instruments as amended, supplemented or replaced, and in the case of legislation includes regulations, rules and instruments made under that legislation; and
- (j) references to time are references to time in Sydney.



SCHEDULE 1 – CONVERTIBLE NOTES TERMS

Note Subscription Agreement

This is a summary of the Note Subscription Agreement.

Issuer	The Company
Subscribers	Apollo and PA HH.
Securities	<p>The Convertible Notes and the Options.</p> <p>The Convertible Notes are governed by the terms of the Convertible Note Deed Poll and the Convertible Note Conditions. Accordingly, this summary should be read in conjunction with the summary of the Convertible Note Deed Poll.</p> <p>The terms of the Options are summarised in Schedule 2.</p>
Issue Date	After Shareholder approval for the Proposed Transaction is obtained and other Conditions Precedent are satisfied or waived, but no later than 15 March 2011 (or such later date as agreed between the Company and Apollo).
Use of Proceeds	<ul style="list-style-type: none">– Partial repayment of US\$65 million in principal amount outstanding under the Loan Facility.– Payment of transaction fees and expenses in connection with the Proposed Transaction, expected to be approximately US\$5 million.– Use of the balance (if any) for the Company's own general corporate purposes.
Conditions Precedent	<p>Obligations under the Note Subscription Agreement will not be triggered unless the following conditions precedent are satisfied or waived in accordance with the Note Subscription Agreement:</p> <ul style="list-style-type: none">(a) Shareholder approval is obtained for the Convertible Notes, Options, ROFR, Escrow Arrangements, Apollo Performance Rights and the Board Changes and other provisions set out in the Note Subscription Agreement;(b) the Company entering into employment agreements with Lighthouse Senior Management which include the Escrow Arrangements;(c) Lighthouse Management Shareholders and Apollo entering into the ROFR;(d) the Westpac Amendment amending and restating the Westpac Facilities Agreement being executed and all conditions precedent under that agreement having been satisfied or waived, except for the partial repayment and the satisfaction of the Conditions Precedent under the Note Subscription Agreement;(e) all necessary ASX and other regulatory approvals (including FIRB) or waivers in connection with the transaction having been obtained and are in effect;(f) the Marketing Agreement having been executed; and(g) the Independent Expert's Report having been provided to Shareholders; and(h) the Independent Expert's Report concluding the Proposed Transaction is fair and reasonable; and(i) on the issue date, the Convertible Notes and Apollo Performance Rights on an as-converted basis represent not less than 38.29% (or another percentage agreed between the Company and Apollo) of the Company's fully diluted share capital.
Termination for Unfulfilled Conditions Precedent	<p>Either Apollo or the Company may terminate the Note Subscription Agreement without any liability if Conditions Precedent (a), (b), (d), (e) or (f) referred to above become incapable of being satisfied before 15 March 2011.</p> <p>Apollo may terminate the Note Subscription Agreement without any liability if Conditions Precedent (c), (h) or (i) referred to above become incapable of being satisfied before 15 March 2011.</p> <p>The Company may terminate the Note Subscription Agreement without any liability if Conditions Precedent (g) or (i) above become incapable of being satisfied before 15 March 2011.</p> <p>Either Apollo or the Company may terminate the Note Subscription Agreement on 15 March 2011 without any liability if they are entitled to the benefit of a Condition Precedent referred to above and that condition has not been satisfied or waived on or before 15 March 2011.</p> <p>However, neither Apollo nor the Company will be entitled to terminate the Agreement if the relevant condition has become incapable of satisfaction or has not been satisfied, as a result of a breach of the Note Subscription Agreement by them (or in the case of Apollo, a breach by a Subscriber).</p>

SCHEDULE 1 – CONVERTIBLE NOTES TERMS

Issuer	The Company
Termination Before Issue Date	<p>Prior to the issue date, if either a Subscriber or the Company breaches or fails to comply with or satisfy any of its obligations under the Note Subscription Agreement and the non-defaulting party has given the required notice under the Note Subscription Agreement to the defaulting party, without limiting other rights or remedies available under the Note Subscription Agreement or at law, the non-defaulting party may:</p> <ul style="list-style-type: none"> – terminate the Note Subscription Agreement by notice in writing and seek damages; or – seek specific performance. If specific performance is obtained the non-defaulting party may also seek damages or if specific performance is not obtained, the non-defaulting party may terminate the Note Subscription Agreement and seek damages.
Subscriber Acknowledgments	<p>Each Subscriber acknowledges that:</p> <ul style="list-style-type: none"> – no information memorandum or offering document for the Convertible Notes will be prepared or distributed by the Company; – the holding of the Convertible Note is subject to investment risk; – they have inspected and satisfied themselves with the terms and conditions of the transaction documents including all representations and warranties of the Company in the Transaction Documents; – they have made their own independent investigations regarding the transaction; – they agree to comply with the Corporations Act insider trading provisions or any other insider trading or market abuse provisions of any other relevant securities laws in any jurisdiction in respect of any information provided by the Company that may be relevant to the price or value of its securities.
Issuer Covenants	<p>Positive Covenants on the Company: Apply if the Subscribers and other affiliates of Apollo hold in aggregate Convertible Notes that are outstanding and convertible into Shares that would comprise more than 20% of the total Shares then on issue</p> <ul style="list-style-type: none"> – Board observer rights where there is no Apollo nominee on the Board; – rights to certain Company information, subject to confidentiality restrictions; and – rights to be notified of events relating to material litigation concerning the Company or particulars of any proposed compulsory acquisition of the Company. <p>If a change of control event occurs in respect of Apollo such that Apollo ceases to be wholly beneficially owned and controlled by Apollo Global Management or its affiliates, the positive covenants referred to above are immediately cancelled.</p>

SCHEDULE 1 – CONVERTIBLE NOTES TERMS

Issuer	The Company
Issuer Covenants continued	<p>Negative Covenants on the Company: Apply if the Subscribers and other affiliates of Apollo hold in aggregate Convertible Notes that are outstanding and convertible into Shares would comprise more than 20% of the total Shares then on issue, in which case the Company agrees that it will not without Apollo’s consent:</p> <ul style="list-style-type: none"> – incur financial indebtedness beyond certain permitted indebtedness; – issue equity securities in a manner that would require shareholder approval or would not allow the Subscribers to maintain their pre-issuance pro rata ownership interest in the Company on an as-converted basis. The restriction does not apply to dividend reinvestments, issues in lieu of dividends or issues to employees or officers of HFA Group under an employee share, option or performance rights plan; – amend, vary or cancel any rights attaching to Shares or undertake a repurchase or certain other reorganisations of equity securities; – declare or pay dividends exceeding US\$6 million in any financial year; – consolidate or amalgamate with, or merge with or into, or transfer all or substantially all of its assets to, another entity that is not a Related Body Corporate of the Company subject to certain carve-outs for offers to all Shareholders; – propose or implement a solvent scheme of arrangement; – make any capital investment exceeding A\$5 million other than as approved in an annual budget; – enter into, amend or terminate any contract with a value greater than A\$5 million or commence any new business not engaged in or conducted on or prior to the issue date, other than as approved in an annual budget or in respect of certain permitted indebtedness; – enter into any transaction with any related entity or any transaction that is not on an arm’s length basis and that would require Shareholder approval; – terminate or amend any material employment terms regarding Lighthouse Senior Management or employ any person to perform a role similar to any member of Lighthouse Senior Management; increase the compensation of any employee outside the ordinary course of business or pay any discretionary bonus, subject to certain carve-outs; – approve an annual budget, depart intentionally by 10% or more from budgeted total operating expenditure, or incur capital expenditure not in the annual budget in excess of A\$2 million; – settle any material claim, litigation or other proceeding exceeding A\$2 million; – make, change or revoke any material tax elections; and – cause the appointment of more than eight directors to the Board. <p>If a change of control event occurs in respect of Apollo such that Apollo ceases to be wholly beneficially owned and controlled by Apollo Global Management or its affiliates, the negative covenants referred to above are immediately cancelled.</p>
Further Issue Undertaking	<p>The Company undertakes to, from the date of the Note Subscription Agreement, seek approval from its Shareholders for the purpose of Item 7, Section 611 of the Corporations Act that the ROFR will apply in respect of any rights or Shares issued under the HFA Employee Performance Rights Plan to the Lighthouse Management Shareholders.</p>
Representations and Warranties	<p>The Note Subscription Agreement sets out a number of representations and warranties that each Subscriber makes for the benefit of the Company and which the Company makes for the benefit of each Subscriber or Apollo.</p>
Reimbursement of Apollo’s Transaction Costs	<p>The Company will partially reimburse Apollo for costs and expenses (including those of PA HH and Apollo Global Management) incurred in connection with the transaction as follows:</p> <ul style="list-style-type: none"> – on the date of the Note Subscription Agreement, US\$500,000; and – on the issue date of the Convertible Notes to the Subscribers, US\$1,500,000.
Stamp Duty	<p>The Company is responsible for all stamp duties payable under Australian law.</p>

Issuer	The Company
Requirements of Directors	<p>(Recommendations): The Board must recommend that Shareholders vote in favour of giving the required Shareholder approval, without any qualification other than that the recommendation is subject to no superior proposal being made and the Independent Expert concluding that the transaction is fair and reasonable.</p> <p>(Voting Intentions): The Company must use reasonable endeavours to procure that each Director declares their intention, in the absence of a superior proposal and subject to the Independent Expert concluding that the transaction is fair and reasonable, to vote in favour of giving the required Shareholder approval, without any qualification other than that their recommendation is subject to no superior proposal being made and the Independent Expert concluding that the transaction is fair and reasonable.</p> <p>(Change of recommendation): The Board may change or withdraw its recommendation and the voting obligation ceases if:</p> <ul style="list-style-type: none"> – the Independent Expert report fails to conclude that the transaction is fair and reasonable or changes its opinion to conclude that the transaction is not reasonable; – the Board determines that a competing proposal constitutes a superior proposal; or – the Board determines that failing to change or withdraw the recommendation would likely constitute a breach of the Board’s fiduciary and statutory duties.
Termination if the Board Changes its Recommendation	<p>Either Apollo or the Company may terminate the Note Subscription Agreement at any time if the Board changes or withdraws its recommendation that Shareholders vote in favour of giving the required Shareholder approval.</p>
Exclusivity	<p>(Competing proposals): The Company is not to solicit or invite any competing proposal or initiate discussions with any third party with a view to obtaining any expression of interest, offer or proposal in relation to a competing proposal, during the period from the date of the Note Subscription Agreement until the earlier of:</p> <ul style="list-style-type: none"> – the date the Note Subscription Agreement is lawfully terminated; – the issue date of the Convertible Notes; and – 15 March 2011. <p>This does not restrict the Company from responding to any third party that has initiated a discussion during the exclusivity period.</p> <p>The Company may not, and must ensure that its representatives do not without Apollo’s consent encourage or participate in negotiations relating to a competing proposal, enter into any agreement relating to a competing proposal that would require the Company not to proceed with the Proposed Transaction or provide information to a third party to enable a third party to make a competing proposal, unless in each case the Board, acting in good faith and in order to satisfy its fiduciary or statutory duties determines that the competing proposal is a superior proposal or may reasonably be expected to lead to a superior proposal.</p> <p>(Notification of competing proposals): The Company must notify Apollo if it receives a superior proposal, unless the Board, acting in good faith and in order to satisfy its fiduciary or statutory duties determines that it must not do so.</p> <p>(Right to match): The Company must provide Apollo with all material terms of the superior proposal, unless the Board, acting in good faith and in order to satisfy its fiduciary or statutory duties, determines that it must not do so. For a period of four clear business days, Apollo has the right, but not the obligation, to propose a revised or alternative transaction between the parties that provides a benefit to Shareholders that is at least equal to that of the other proposal.</p>
Break Fee	<p>A break fee of US\$750,000 plus any GST applies. The break fee will be payable by the Company only if both:</p> <ul style="list-style-type: none"> – the Board changes or withdraws its recommendation due to a superior proposal; and – any party terminates the Note Subscription Agreement following the Board changing or withdrawing its recommendation.

SCHEDULE 1 – CONVERTIBLE NOTES TERMS

Issuer	The Company
No Further Liability	<p>Despite anything else contained in the Note Subscription Agreement:</p> <ul style="list-style-type: none"> – no break fee is payable if the Proposed Transaction proceeds to completion; – if the Company becomes liable to pay the break fee and pays it to Apollo, the Company will have no further liability or obligations under the Note Subscription Agreement and any claims or liabilities which had arisen prior to such payment will immediately lapse in respect of the matters as a result of which the Company is liable to pay the break fee.
Limit on Liability	<p>To the maximum extent permitted by law, no party is liable under the Note Subscription Agreement for any loss or damage which is too remote, including:</p> <ul style="list-style-type: none"> – loss of revenue (other than revenue constituting part of the consideration under the Note Subscription Agreement); – loss or denial of opportunity; – loss of access to markets; – loss of goodwill; – loss of business reputation; – increased overhead costs; and – all loss which is unforeseeable, <p>regardless of whether the claim for loss or damage is made for breach of contract or otherwise.</p> <p>This limitation does not apply in respect of:</p> <ul style="list-style-type: none"> – a failure of the Company to issue Convertible Notes to a Subscriber, or to register an issue of Convertible Notes to a Subscriber; – a failure of the Company to issue Shares which a Convertible Noteholder is entitled to receive on the conversion of any of its Convertible Notes in accordance with the relevant conversion notice; – a failure of the Company to pay interest in respect of Convertible Notes; or – the fraud, wilful misconduct or wilful default of the Company. <p>This limitation does not prohibit or preclude a party to a suit for specific performance submitting that damages would be an adequate remedy.</p>
Assignment	<p>The Company may only assign or transfer its rights and obligations under the Note Subscription Agreement with the written consent of each Subscriber and Apollo.</p> <p>Subscribers may assign or transfer any or all of their Convertible Notes or rights and obligations under the Note Subscription Agreement (other than rights in respect to the Company's covenants under the Note Subscription Agreement), upon notice to the Company, to a Related Body Corporate, any person appointed as a custodian for that Subscriber and any other Subscriber and provided for the avoidance of doubt that, the Subscriber remains liable for the actions and performance of the Related Body Corporate or custodian, unless the Related Body Corporate:</p> <ul style="list-style-type: none"> – is a fund or entity that is controlled, owned or managed by the Subscriber or an affiliate of such fund or entity or is the beneficial owner of the investment in any such fund or entity; and – receives the assignment or transfer with the Company's prior written approval. <p>A Subscriber or Apollo may only assign or transfer its rights and obligations under the Note Subscription Agreement to any other person with the prior written consent of the Company.</p>
Governing Law	New South Wales, Australia.

Convertible Note Deed Poll and Convertible Note Conditions

This is a summary of the terms and conditions which govern the Convertible Notes to be issued by the Company as set out in the Convertible Note Deed Poll which includes the Convertible Note Conditions.

Issuer	The Company
Securities	Convertible unsecured notes
Related Documents	The Convertible Notes will be issued to the Subscribers in accordance with the terms of the Note Subscription Agreement. Accordingly, this summary should be read in conjunction with the Terms of Issue and Subscription summary.
Convertible Note Deed Poll	
Undertaking to pay	The Company undertakes to make all payments and perform all other obligations arising under the conditions.
Register of Convertible Noteholders	The Company is to establish and maintain a current register(s) of Convertible Noteholders (one at its principal office and another at a branch register). The Company is to register the Convertible Notes held by Apollo (and affiliates) at the branch register. The Company may transfer the registration of such notes back to the register at its principal office if there is a material adverse tax consequence for the Company as a result of holding it in the branch register.
Governing Law	New South Wales, Australia.
Convertible Note Conditions	
Status and Rights of Convertible Notes	<p>The Convertible Notes:</p> <ul style="list-style-type: none">– are unsecured;– rank pari passu amongst themselves and any present, future direct, unsubordinated, unconditional and unsecured obligations of the Company;– rank ahead of any subordinated liabilities expressed in their terms to rank behind the Convertible Notes (including preference shares, if any); and– are subject to the Subordination Deed.
Participation Rights	Each Convertible Noteholder will be entitled to participate in any pro rata equity raising by the Company (but not issues under any employee or executive share schemes, conversion of Convertible Notes, exercise of any Options, or as a result of any dividend reinvestment). The Convertible Noteholder can apply for as many securities as necessary to maintain its pre-issuance ownership. Adjustments to the conversion price can also be made if the Convertible Noteholder is unable to subscribe for, or if the Company is unable to issue, any additional securities.
Convertible Note Terms	Each Convertible Note will have a face value of \$US1 million, and must be fully paid on application.
No prepayment	The Company may not prepay any Convertible Note prior to the maturity date without prior written consent of Convertible Noteholders who hold at least 51% in aggregate of the outstanding principal amount of the Convertible Notes.
Interest	Each Convertible Note accrues interest from the issue date and ceases accruing on the day prior to the maturity of the Convertible Notes or when they are converted.
Interest during and after Protection Period	<p>Interest will be accrued on each Convertible Note and capitalised at each accrual date (six monthly intervals) during the period from the issue date to the fourth anniversary of such date, referred to as the protection period.</p> <p>After such protection period, interest may at the Company's election either be capitalised at each accrual date or paid to the Convertible Noteholder.</p>
Additional Interest	The Company will be required to pay additional interest on each outstanding Convertible Note where any dividend is declared and the total dividends declared and payable for a financial year already, or will, exceed \$US6 million.
Term/Maturity	The date falling on the eighth anniversary of the issue date, at which time the Convertible Notes automatically convert to Shares.
Noteholder Conversion Rights	A Convertible Noteholder may, at any time, require the conversion of all or some of its outstanding Convertible Notes.
Issuer Conversion Rights	The Company may, following the business day immediately after the fourth anniversary of such date as the Convertible Notes were issued (and on each date six months thereafter) convert all or some of the outstanding Convertible Notes, provided the volume weighted average sale price of the Shares for the 30 trading days period prior is in excess of 20% greater than the conversion price (see below).

SCHEDULE 1 – CONVERTIBLE NOTES TERMS

Issuer	The Company
Conversion Price	(a) US\$0.9766 per Share or (b) if the Share Consolidation is not implemented on or prior to the issue date, US\$0.2442 per Share.
Conversion following a change in control event	<p>If an Issuer Change in Control Event (as defined in the Convertible Note Conditions) occurs, the Company must convert all outstanding Convertible Notes to allow the Convertible Noteholders to participate in any related offer or scheme of arrangement for purchase of Shares by any purchaser.</p> <p>If an Apollo Change of Control Event (as defined in the Note Subscription Agreement) occurs in respect of Apollo, the Company may convert all of the outstanding Convertible Notes.</p>
Entitlement to ordinary shares on conversion	Upon conversion of the Convertible Notes, the Company will issue Shares to the Convertible Noteholder.
Conversion number	<p>The number of Shares that will be redeemed will be calculated as the principal amount of the Convertible Notes divided by the conversion price.</p> <p>In addition, following an Issuer Change of Control Event, or if there is a tax event with respect of the Company which results in the Convertible Noteholder exercising its right of conversion, the principal amount of such Convertible Note will be increased to reflect any interest that would have been accrued and capitalised through to the fourth anniversary of issue date of the Convertible Notes but for the early conversion of the Convertible Notes.</p>
Ordinary Shares issued on conversion	<p>HFA must procure official quotation of the Shares issued on conversion.</p> <p>The Shares will be issued on the date of conversion and rank equally in all respects with existing Shares. US transfer restrictions will apply.</p>
Conversion adjustments	<p>The conversion price will be adjusted if the following adjustment events occur:</p> <ol style="list-style-type: none"> 1. bonus, rights and other issues; 2. off-market buy-backs; 3. return of capital; or 4. capital reconstructions. <p>The effect of the adjustment will be to ensure that the Convertible Noteholder is in an economic position in relation to their Convertible Notes as they were prior to the occurrence of the adjustment event (as far as possible as allowed by the ASX Listing Rules).</p>
Restrictions on transfer	<p>Convertible Noteholders cannot transfer any of their Convertible Notes within four years of their issue (except to affiliates, or if such transfer is required by law, or if the Company has consented to such transfer).</p> <p>After the fourth anniversary of their issue, Convertible Notes can be transferred in the following circumstances:</p> <ol style="list-style-type: none"> (a) if transferred to unrelated parties, without the Company's consent, as long as the transferee and any affiliates or related bodies of the transferee do not hold more than 20% of the total Shares on issue; or (b) with the Company's written consent. <p>The Company has given written consent to PA HH to transfer Convertible Notes to a direct or indirect beneficial owner of PA HH.</p> <p>US law transfer restrictions also apply to the transfer of Convertible Notes.</p>
Registration of Transfer	HFA must register the transferee in the register as the holder of the Convertible Notes if transferred in accordance with the terms of transfer.
Refusal to register	<p>The Company may refuse to register any transfer if it were to breach any of the terms and conditions of the Convertible Notes or any applicable law.</p> <p>The Company must refuse to register any transfer if it is not accompanied by a duly executed Subordination Deed or subordination accession deed (as applicable).</p>
Taxes	<p>The Company must bear any stamp duty and any loan, transaction, registration or similar tax payable in Australia on the issue, subscription and conversion of any Convertible Notes.</p> <p>A Convertible Noteholder will be liable for any taxes in any jurisdiction in connection with any transfer, assignment and other dealing with the Convertible Notes (besides conversion).</p>
Tax classification	It is the intention of the parties to treat the Convertible Notes as equity.

Issuer	The Company
Events of Default	<p>The following are events of default under the Convertible Note Conditions:</p> <ul style="list-style-type: none"> – failure of the Company to pay any amount due under the Note Subscription Agreement, Convertible Note Deed Poll or Convertible Note Conditions within 5 business days when due; – the Company fails to comply in a material respect with: <ul style="list-style-type: none"> (i) obligations owed by it to a Convertible Noteholder under the Convertible Note Deed Poll or Convertible Note Conditions; or (ii) a covenant of the Company under the Note Subscription Agreement, and it continues unremedied for 10 business days upon the Company becoming aware of the failure to comply or having received notice from the Convertible Noteholder of the failure to comply (whichever is earlier); – insolvency event in respect of the Company; – a material provision of the Note Subscription Agreement, Convertible Note Deed Poll or Convertible Note Conditions becomes void, voidable, illegal, unenforceable or of limited force; – default of the Company (or its affiliates) under the Loan Facility (other than due to a change in control which is subsisting for 180 days), or if there is an acceleration by Westpac of moneys owed to it under the Loan Facility; – the Company fails to convert any Convertible Note in accordance with the Convertible Note Conditions; and – the Company has made a representation or a warranty that is untrue in a material respect in the Note Subscription Agreement, Convertible Note Deed Poll or Convertible Note Conditions.
Consequences of an Event of Default	<p>The sole remedy against the Company for each Convertible Noteholder if an event of default (described above) occurs is the conversion of all or some of the outstanding Convertible Notes.</p>
Payments	<p>Payments to the Convertible Noteholders will be in US dollars (except in the case of additional interest which the Company may pay in Australian dollars if it determines (acting reasonably) that making a payment in US dollars would not be practicable), and are without set-off or counterclaim.</p>
Default interest	<p>Default interest will accrue on unpaid payments under a Convertible Note.</p>
Tax Event Cure	<p>A Convertible Noteholder is permitted to cure a tax event by transferring their Convertible Notes to an affiliate.</p>
Amendments	<p>Subject to the Convertible Note Conditions and the Subordination Deed, the terms of the Convertible Note Deed Poll and Convertible Note Conditions can only be amended with the consent in writing of the Company and the Representative.</p>
Representative of the Convertible Notes	<p>The representative of the Convertible Noteholders under the Convertible Note Conditions (Representative) is:</p> <ul style="list-style-type: none"> – the majority Convertible Noteholder (if any), holding 51% or more of the outstanding principal amount of Convertible Notes; or – a person elected by Convertible Noteholders holding in aggregate 51% or more of the outstanding principal amount of Convertible Notes.
Action of Representative	<p>Acts and omissions of the Representative (referred to above) are binding between it and the Company (or any liquidator of the Company), and between the Representative and all other Convertible Noteholders.</p>
Listing and Quotation	<p>As long as Shares are quoted on ASX, the Company must furnish all material as necessary in order to maintain its listing and quotation of Shares on ASX.</p>
Discharge and release	<p>The Company is discharged and released from its liabilities, obligations and covenants under the Convertible Note Deed Poll and Convertible Note Conditions in respect of the Convertible Notes when the Convertible Notes are redeemed and paid in full, or when they are converted.</p>
Governing Law	<p>New South Wales, Australia.</p>

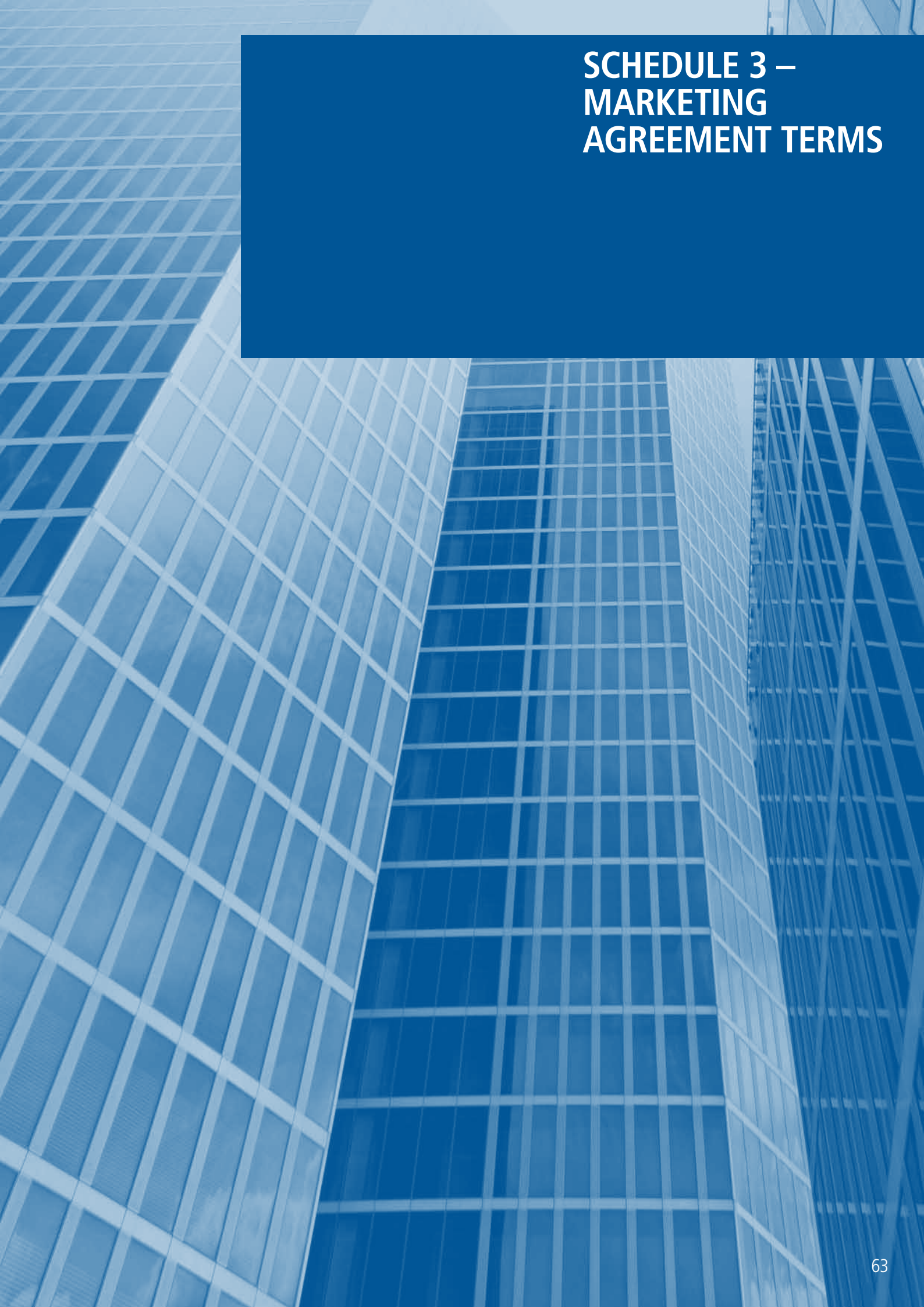
SCHEDULE 2 – OPTION TERMS

This is a summary of the terms and conditions of the Options the Company proposes to issue to the Subscribers under the Note Subscription Agreement.

Issuer	The Company
Optionholders	Apollo and PA HH.
Purpose	In consideration for Apollo agreeing to enter into the Note Subscription Agreement and subject to Shareholder approval, the Company will issue to Apollo and PA HH the Options as set out below.
Conditions Precedent	The issue of the Options, and all other rights of Apollo and PA HH and the obligations of the Company with respect to the Options, only become effective on and from the date the Convertible Notes are issued.
Securities	31,25 million Options (on a post-share consolidation basis), representing: <ul style="list-style-type: none"> – 20,833,333 Options to Apollo; and – 10,416,667 Options to PA HH. <p>If the Share Consolidation is not approved the number of Options issued will be multiplied by four.</p>
Option Entitlement	Each Option entitles the Optionholder to acquire by way of issue one fully paid Share at the exercise price.
Exercise Price	A\$8.00 per Option (as adjusted in the event of a pro rata issue). If the Share Consolidation is not approved the exercise price will be A\$2.00 per Option, as adjusted in the event of a pro rata issue.
Exercise Period	Options may be exercised from date of issue and until 5.00 pm on the eighth anniversary of the date the Convertible Notes were issued.
No Quotation	Options will not be quoted on ASX.
Transfer	The Optionholder may transfer some or all of the Options at any time before the end of the exercise period with the prior written consent of the Company.
Expiry	Options expire at 5.00 pm on the eighth anniversary of the date the Convertible Notes were issued.
Exercise Restrictions	Exercise of the Options is limited to one exercise per quarter for Apollo (and associated) Optionholders (collectively). Exercise of the Options is limited to one exercise per quarter for non-Apollo Optionholders (collectively). Options also cannot be exercised on blackout dates.
Blackout Dates	Blackout dates will include the period from the date which is 10 business days before the last date of: <ul style="list-style-type: none"> – the Company financial year until the date preceding lodgement of the Company’s annual financial reports with ASIC; or – the Company’s financial half-year until the date preceding lodgement of the Company’s half-year financial report with ASIC, <p>or any period during which the Board determines (acting reasonably) that there is “excluded information” that would be required to be included in a notice by the Company under the Corporations Act.</p>
Notices of Meetings	The Company must give notices of meeting of Shareholders (and any financial reports required to be laid before those meetings) to Optionholders.
Ranking/Dividends	All Shares issued pursuant to the exercise of Options will rank in all respects (including rights to dividends) equally with the existing Shares at the date of issue. A Share issued pursuant to the exercise of an Option is only entitled to receive a dividend where that Option is exercised on or before the record date for that dividend.

SCHEDULE 2 – OPTION TERMS

Issuer	The Company
US Selling Restrictions	US selling restrictions apply to those Shares issued on exercise of the Options.
Participation Rights	An Optionholder may only participate in new issues of Shares in the capital of the Company by reason of an Option if the Optionholder exercises that Option prior to the record date.
Adjustments	<p>Pro rata issue – If the Company makes a pro rata issue, the exercise price of each Option will be reduced with the new exercise price of each Option to be calculated in accordance with the formula set out in the Note Subscription Agreement. No change will be made to the number of Shares to which the Optionholder is entitled.</p> <p>Bonus Issue – If the Company makes a bonus issue, the number of Shares issued on exercise of each Option will be increased by the number of bonus Shares that the Optionholder would have received if the Option had been exercised prior to the record date for the bonus issue. No change will be made to the exercise price.</p> <p>Reorganisation – If there is a reorganisation (including consolidation, sub-division, reduction or return) of the Share capital of the Company, the rights of holders in respect of any unexercised Options will be changed to the extent necessary to comply with the ASX Listing Rules.</p>
Governing Law	New South Wales, Australia.



SCHEDULE 3 – MARKETING AGREEMENT TERMS

This is a summary of the terms and conditions of the Marketing Agreement.

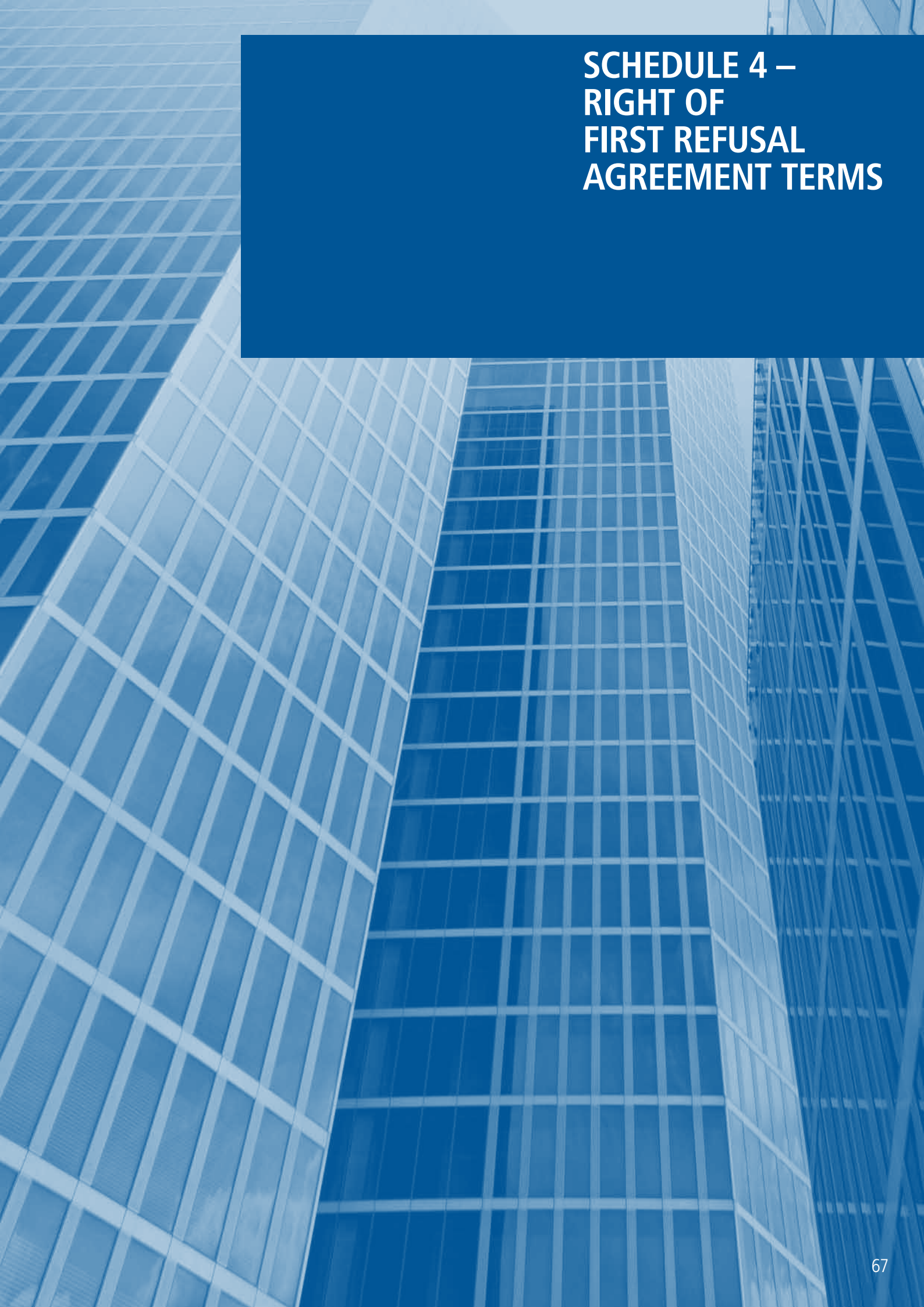
Parties	Lighthouse and AP CM.
Purpose	AP CM to provide certain marketing and placement agent services in connection with the sale of investments in certain investment vehicles sponsored, managed, advised and/or controlled by Lighthouse.
Effective Date	<p>The effective date (i.e. commencement date) is the later of the dates on which:</p> <ul style="list-style-type: none"> – AP CM's status as a registered broker dealer under US securities law is effective; and – the Convertible Notes are issued (i.e. after Shareholder approval and other Conditions Precedent are satisfied, but no later than 15 March 2011). <p>No fees under the Marketing Agreement are payable to AP CM prior to the effective date.</p>
Term	<p>A four year initial term from and including the effective date until the earlier of:</p> <ul style="list-style-type: none"> – the fourth anniversary of the effective date (or the last day of any renewal period); and – the date on which the Marketing Agreement is terminated due to a voluntary termination (discussed below) or a termination event (discussed below). <p>The Marketing Agreement will automatically renew on the fourth anniversary of the effective date for one year periods unless either party provides the other with at least 60 days prior notice of non-renewal.</p>
Termination	<p>Voluntary Termination: Prior to the fourth anniversary of the effective date, AP CM and Lighthouse may terminate the Marketing Agreement by mutual agreement. Either party may terminate on 60 days notice after the fourth anniversary.</p> <p>Termination Events: Either party may terminate the Marketing Agreement by notice in the event of any of the following:</p> <ul style="list-style-type: none"> (a) a willful breach of the Marketing Agreement has occurred and continues after giving notice; (b) a court, arbitration panel or regulatory body or authority has determined that the other party has in fact engaged in a willful breach of the Marketing Agreement, willful misconduct, gross negligence, fraud or bad faith in connection with its activities conducted under the Marketing Agreement or for a Lighthouse fund; (c) a final decision or order revokes, suspends or limits the status, activities, registration or qualification of the other party as an investment adviser, investment manager or broker-dealer, or conviction of the other party of a crime involving securities laws violations or fraud, in each case in a manner that would have a material adverse affect on the activities conducted by that party that relate to the Marketing Agreement or to undertake any other regulated activities required to perform the services set out in the Marketing Agreement; or (d) if there are changes in law or regulation applicable to AP CM, the Company, Lighthouse or its funds or relating to the marketing of Lighthouse funds that cause the Marketing Agreement to become invalid, illegal or unenforceable in any jurisdiction material to the performance of the marketing services.
Effect of Termination	<p>AP CM will cease providing the marketing services under the Marketing Agreement.</p> <p>Neither party is entitled to receive or participate in any manner by virtue of the Marketing Agreement in the income, profits or other benefits derived by the other party with respect to any activities of such other party from and after termination, however, AP CM will continue to be entitled to marketing fees (discussed below) for introduced investors unless the Marketing Agreement is terminated for a termination event described in paragraph (a) or (b) above.</p>

SCHEDULE 3 – MARKETING AGREEMENT TERMS

<p>Marketing Services</p>	<p>Pre-Term Services: From the date of the Marketing Agreement to the effective date, AP CM is to assist Lighthouse in the implementation of a marketing plan. AP CM's assistance is to include:</p> <ul style="list-style-type: none"> – meeting with Lighthouse and engaging in strategic planning; – evaluating and defining goals and timing considerations for the marketing plan; – training AP CM marketing executives and otherwise preparing for the provision of the services contemplated under the Marketing Agreement; and – discussing prospective investors introduced by AP CM and scheduling initial meetings with such investors to take place following the effective date. <p>Services During the Term: AP CM is appointed and retained as Lighthouse's non-exclusive placement agent during the Marketing Agreement's term in connection with:</p> <ul style="list-style-type: none"> – the proposed issuance of interests by Lighthouse funds in private placements; or – other advisory services (i.e. contracts to provide customised alternative investment solutions or services provided by Lighthouse to a client, other than management of Lighthouse funds). <p>AP CM is to perform the following marketing services:</p> <ul style="list-style-type: none"> – assist Lighthouse in implementation of the marketing plan; – assist in the distribution of offering materials describing Lighthouse and the terms of the relevant Lighthouse fund; – contact and introduce prospective investors introduced by AP CM in the relevant Lighthouse fund; – advise and, with the consent of Lighthouse, contact and make presentations to prospective investors introduced by AP CM; – assist Lighthouse in making presentations to prospective investors introduced by AP CM; and – render other services as may be agreed by AP CM and Lighthouse. <p>The Marketing Agreement does not restrict Lighthouse from marketing any of its funds or appointing other agents to promote any of its funds, subject to certain restrictions applicable to those prospective Lighthouse investors introduced by AP CM.</p>
<p>Marketing Fees</p>	<p>Lighthouse will pay AP CM, with respect to each interest in a Lighthouse fund purchased by an investor introduced by AP CM, a management fee based on diminishing percentages of:</p> <ul style="list-style-type: none"> – management fees paid with respect to the investor's interest in a Lighthouse fund for the first three calendar years of such investment; and – fees paid to Lighthouse for contracted advisory services with an investor for the first three calendar years of such advisory services. <p>The marketing fees are payable to AP CM until the earlier of:</p> <ul style="list-style-type: none"> – the end of the three calendar year period; – with respect to an interest in a Lighthouse fund, the investor's complete redemption from that fund; or – the termination of the Agreement by reason of misconduct by AP CM. <p>If AP CM commences any of the marketing services prior to the effective date no fees will be payable to AP CM until after the effective date.</p> <p>Lighthouse retains the sole right to establish the amount of the management fees payable by any investor in the Lighthouse funds and to amend such amounts.</p>

**SCHEDULE 3 –
MARKETING
AGREEMENT
TERMS**

Marketing Expenses	Certain reasonable out-of-pocket expenses incurred by AP CM are to be paid by Lighthouse. Expenses in excess of US\$50,000 in aggregate in any calendar quarter shall be reimbursed only if either the consent of Lighthouse was obtained prior to the incurrence thereof or Lighthouse determines in good faith that such expenses were reasonably incurred. AP CM shall be responsible for all legal and accounting expenses incurred by it in connection with the marketing services.
Regulatory Obligations	The Marketing Agreement requires Lighthouse and AP CM to comply, in all material respects, with the applicable laws and regulations of any jurisdictions in which Lighthouse funds conduct business.
AP CM Obligations	The Marketing Agreement places a number of obligations and requirements on AP CM with respect to using the offering materials for Lighthouse funds and the performance of marketing services including remaining a registered broker dealer and maintaining all licenses and registrations necessary under applicable laws and regulations to provide the marketing services.
Lighthouse Obligations	The Marketing Agreement places a number of obligations and requirements on Lighthouse including: <ul style="list-style-type: none"> – preparing offering materials to enable AP CM to provide the marketing services; – complying with applicable laws in the offer and sale of interests in its funds or other advisory services; – remaining registered as an investment adviser under US securities law.
Use of Agents	AP CM is licensed to perform the marketing services in the United States only and may, with Lighthouse approval, engage other third party placement and marketing agents to perform any marketing services in other jurisdictions.
Representations and Warranties	The Marketing Agreement sets out representations and warranties given by Lighthouse and AP CM including in relation to licensing and regulatory matters.
Assignment	Neither party may assign or transfer the obligations under the Marketing Agreement except with the prior written consent of the other party, which will not be unreasonably withheld, conditioned or delayed.
Restraints	There are restrictions on the parties on soliciting employees of each other.
Governing Law	The laws of the State of New York.
No Partnership	The contractual relationship is not a partnership or joint venture between Lighthouse (and/or HFA) and AP CM.
Limitation on Exclusivity	Lighthouse and AP CM may engage in or possess interests in other business ventures of any kind, nature or description, independently or with others, for their own account or for the account of others.



**SCHEDULE 4 –
RIGHT OF
FIRST REFUSAL
AGREEMENT TERMS**

This is a summary of terms and conditions of the ROFR.

SCHEDULE 4 – RIGHT OF FIRST REFUSAL AGREEMENT TERMS

Parties	Apollo Lighthouse Management Shareholders
Condition Precedent	The Company obtaining Shareholder approval in accordance with Item 7 of Section 611 of the Corporations Act. Valid Shareholder approval for the ROFR is a condition precedent to Apollo's obligation to purchase the Convertible Notes.
Right of First Refusal	Subject to Shareholder approval being obtained, Apollo is granted the right, but not the obligation, to purchase certain Shares that a Lighthouse Management Shareholder proposes to transfer. For a proposed on-market sale, Apollo may purchase some or all of the ROFR Shares proposed to be sold. For off-market transfers where the proposed sale is contingent on the purchase of all of the Shares proposed to be transferred, Apollo may only purchase all of those Shares. A transfer includes any direct or indirect: <ul style="list-style-type: none"> – sale, offer to sell, assignment, conveyance, pledge, encumbrance, hypothecation, grant of an option, short sale, transfer or other disposition of the Shares or any interest in them; – agreement or commitment contemplating any of the above; or – reduction in a Lighthouse Management Shareholder's beneficial ownership of, or interest in, the Shares. <p>While the transfer restriction extends to hedging arrangements it will not prevent Lighthouse Management Shareholders from using the Shares as security if the person entitled to the benefit of the security agrees to be bound by the ROFR.</p> <p>The transfer restriction does not apply to certain transfers required by law or to family members, private foundations and affiliates, as long as the recipient of the Shares agrees to be bound by the ROFR.</p>
ROFR Shares	The ROFR applies to all Shares owned directly or indirectly by any Lighthouse Management Shareholder: <ul style="list-style-type: none"> – as at 31 December 2010; and – as at any later date (including in connection with any option exercise, lapsing of restrictions on or other vesting of restricted shares or any similar occurrence, share split, share dividend, recapitalisation, reorganisation), where Shareholder approval has been obtained to permit the Shares to be subject to the ROFR. <p>Under the Note Subscription Agreement, HFA undertakes to seek shareholder approval to extend the ROFR to apply to additional Shares resulting from future grants to the Lighthouse Management Shareholders under the HFA Employee Performance Rights Plan.</p>
Term	The right of first refusal ends for a Lighthouse Management Shareholder on the second anniversary of the date the Lighthouse Management Shareholder ceases to be an employee, consultant or remunerated service provider to the HFA Group.
Purchase Price	In respect to proposed on-market transfers, the last traded (closing) price per Share trading on the ASX at the close of business on the proposed transfer date, excluding certain crossings and overseas trades. For off-market transfers, the price per ROFR Share offered by the proposed transferee.
Holding Lock	Each Lighthouse Management Shareholder consents to a holding lock in respect of their ROFR Shares.
No Voting Rights	The ROFR does not confer upon Apollo the right to vote or to control the exercise of voting rights attaching to the ROFR Shares.
Amendment	The ROFR may be amended, modified or terminated and any term may be waived by a written instrument executed by Apollo and Lighthouse Management Shareholders holding at least 50% of the ROFR Shares. Except with the written consent of an affected Lighthouse Management Shareholder, a modification, termination or waiver must apply to all Lighthouse Management Shareholders, in all material respects in the same fashion.
Assignment	The terms and conditions of the ROFR inure to the benefit of and are binding on the respective successors and permitted assigns of the parties. Lighthouse Management Shareholders may not assign the ROFR without Apollo's prior written consent.
Termination	The ROFR automatically terminates for each Lighthouse Management Shareholder 20 days after the second anniversary of the date the Lighthouse Management Shareholder ceases to be an employee, consultant or remunerated service provider to the HFA Group.



**SCHEDULE 5 –
APOLLO
PERFORMANCE
RIGHTS TERMS**

This is a summary of terms and conditions of a side letter to the Marketing Agreement between the Company, Lighthouse and AP CM, whereby the Company agrees to grant the Apollo Performance Rights for Shares in the Company.

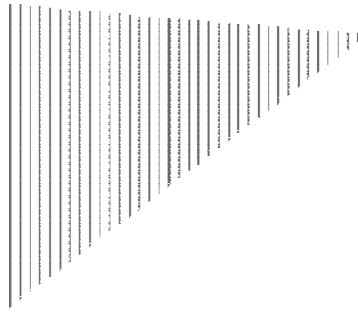
Parties	The Company, Lighthouse and AP CM.
Purpose	Additional compensation for AP CM's performance of services under the Marketing Agreement.
Related Documents	The Marketing Agreement between Lighthouse and AP CM.
Grant	The Company is to grant four million performance rights (on a pre-consolidation basis, or one million on a post-consolidation basis) for Shares in the Company.
Date of Grant	Commencement of the Marketing Agreement, being the later of the date on which AP CM's status as a register broker dealer under US securities law is effective and the date the Convertible Notes are issued.
Terms of Grant	To be granted on the same general terms as apply to a grant of performance rights under the HFA Employee Performance Rights Plan, subject to such other administrative terms and documentation as that would generally apply to participants in the HFA Employee Performance Rights Plan.
Vesting Conditions	All of the Apollo Performance Rights will vest upon satisfaction of Lighthouse, on a stand-alone basis, achieving a minimum of US\$35 million of EBITDA in any trailing 12 month period ending on or before 31 December 2013.
Issue of Shares	Upon satisfaction of the vesting condition (discussed above), the Company will issue one fully paid Share to AP CM for every Apollo Performance Right held by AP CM. As such, on satisfaction of the vesting condition (discussed above), four million Shares are to be issued to AP CM (on pre-consolidation basis or one million Shares on a post-consolidation basis). Notwithstanding the Marketing Agreement expiring or being terminated in accordance with its terms, the Company must still issue such Shares to AP CM if the vesting condition is met.
Further Performance Rights Issues	The parties agree to discuss and consider the inclusion of AP CM in any further performance rights issues, whether pursuant to the HFA Employee Performance Rights Plan or to any substitute, replacement or additional plan, in amounts and on terms to be reasonably agreed by the parties following such discussion and consideration.
Governing Law	The laws of the State of New York.

SCHEDULE 5 – APOLLO PERFORMANCE RIGHTS TERMS



**SCHEDULE 6 –
INDEPENDENT
EXPERT’S REPORT**

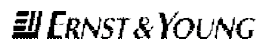
**SCHEDULE 6 –
INDEPENDENT
EXPERT’S REPORT**



**Independent Expert's Report and Financial
Services Guide**

In relation to the proposed Transaction with Apollo Global
Management, LLC

20 January 2011





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Advisory Services Limited**
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PART 1 - INDEPENDENT EXPERT'S REPORT

The Directors
HFA Holdings Limited
Level 5,
151 Macquarie Street
Sydney NSW 2000

20 January 2011

Dear Directors

Independent Expert's Report in relation to the proposed Transaction with Apollo Global Management, LLC

Introduction

On 23 November 2010 HFA Holdings Limited (HFA) announced to the Australian Securities Exchange (ASX) that as part of its ongoing assessment of strategic direction and options, it had held discussions with a party in relation to a potential transaction.

Subsequently, on 6 December 2010, HFA and Apollo Global Management, LLC (together with its affiliates Apollo) announced that they had entered into a number of conditional agreements (the Transaction Agreements or the Transaction) including a Note Subscription Agreement, under which HFA will issue US\$75 million of mandatory convertible notes (Convertible Notes) and 1.25¹ million options (Options) with a strike price of \$2.00 per ordinary share to Apollo and a co-investor, PA HFA Holdings, LLC (PA HH). Furthermore, HFA and Apollo concurrently entered into a Marketing Agreement under which AP CM, LLC, an affiliate of Apollo, will distribute the products of HFA's US based subsidiary, Lighthouse Investment Partners, LLC (Lighthouse) and HFA will grant 4 million performance rights to AP CM, LLC.

If approved and implemented these Transaction Agreements will result in Apollo and PA HH injecting a total of US\$75 million into HFA in return for the Convertible Note investment, and Apollo becoming a distributor of Lighthouse products through its global network. Apollo will also be incentivised to achieve increases in Lighthouse's assets under management and profitability through the grant of performance rights. Completion of the Transaction is subject to various conditions, including the receipt of HFA shareholder approval on various resolutions as outlined in the accompanying Explanatory Memorandum.

The Convertible Notes would ultimately convert into at least 39.6% of HFA's expanded issued share capital, and potentially up to 51.2% depending upon the timing of conversion of the Convertible Notes and amount of capitalised interest. Apollo and PA HH will also hold Options that, if exercised, will further increase their shareholding. In addition, Apollo has the right to acquire additional shares in HFA in accordance with an

¹ On a pre share consolidation basis



agreement between Apollo and various Lighthouse management shareholders referred to as a Right of First Refusal Agreement, which may further increase its shareholding if those management shareholders seek to sell their shares. The potential shareholdings of Apollo, based on the various scenarios, are set out in the table on page vi of this letter. Further details of the Transaction Agreements and conditions precedent are set out in section 1 of our report, and detailed in the accompanying Explanatory Memorandum.

Under section 606 of the Corporations Act, 2001 (the Act) an entity is generally prohibited from increasing its interest in the voting shares of a listed company to greater than 20%. An exception to the prohibition is for the increase to be approved by shareholders of the company under item 7 of section 611 of the Act. Accordingly, approval from HFA shareholders (HFA Shareholders or Shareholders) for the issue of the Convertible Notes and grant of Options to Apollo and PA HH under the Transaction is being sought pursuant to item 7 of section 611 of the Act.

In addition, approval under section 611 of the Act is being sought for:

- ▶ the grant of performance rights to AP CM, LLC (Apollo Performance Rights)
- ▶ the execution of a Right of First Refusal Agreement, the effect of which is to enable Apollo and PA HH to acquire additional shares in HFA from various Lighthouse management shareholders in the event those shareholders seek to sell their shares
- ▶ the escrow arrangements (Escrow Arrangements) set out in the proposed employment agreements with Lighthouse senior management, the effect of which is that HFA will have a relevant interest in itself in excess of 20% of the voting share capital, which requires the approval of Shareholders in order to give effect to the arrangement

Furthermore, approval of HFA Shareholders for the Transaction including the benefits provided to Apollo is being sought under Chapter 2E of the Act in relation to related party transactions.

In order to assist HFA Shareholders to assess the Transaction, the directors of HFA have commissioned the preparation of an independent expert's report. This report therefore provides our opinion as to whether the Transaction (including the Convertible Notes, Options, Apollo Performance Rights, Right of First Refusal Agreement and Escrow Arrangements) is fair and reasonable to the company's shareholders not associated with the Transaction.

Concurrently, HFA proposes to undertake a share consolidation in order to reduce the number of shares on issue. Under the terms of the consolidation every four shares will be consolidated into one share in HFA. All references to numbers of shares in this report refer to shares pre this consolidation unless otherwise indicated.

In preparing our report we have had regard to Australian Securities and Investments Commission (ASIC) Regulatory Guide 111, *Content of expert reports* (RG 111). RG 111.21 requires that where the transaction being considered for the purposes of item 7 of section 611 has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase a controlling interest in another entity. As the Transaction may in effect give Apollo and PA HH the right to move to a minimum of 39.6% of HFA's expanded issued capital, and potentially a much higher percentage, in our view the Transaction represents a control transaction as intended under RG 111 and as such has been assessed on a basis consistent with a takeover bid.

In this regard, RG 111.10 provides that *"an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer"*. RG 111.62 provides that an expert should usually give a range of values for the securities that are the subject of the offer. In this independent expert's report, we consider that, if the value of the consideration offered by Apollo and PA HH for the Convertible Notes, Options and Apollo Performance Rights, falls within the range of values assessed for an HFA share, the issue of the Convertible Notes, Options and Apollo Performance Rights would be fair.

Under RG 111.11 *"an offer is 'reasonable' if it is fair"*. It might also be 'reasonable' if, despite being 'not fair', there are sufficient reasons for security holders to accept the offer in the absence of any superior proposal.

On 6 December 2010, the Board of Directors of HFA unanimously recommended that HFA Shareholders approve the Transaction in the absence of a superior proposal and subject to an independent expert concluding that the Transaction is fair and reasonable.

Basis of evaluation

RG 111 allows the independent expert to consider a control transaction to be akin to a takeover by assessing the value of the "target", in this instance HFA, as if the control transaction was successful.

Under this analysis, the value of the "consideration" would be taken to be the fair market value of HFA assuming the Transaction proceeds and the value of the interest notionally being disposed of as being the fair market value of HFA prior to the Transaction on a controlling interest basis. If the fair market value after the Transaction (on a minority basis) is greater than the fair market value before (on a controlling interest basis), then the Transaction would be considered to be fair.

In forming our opinion, we have considered:

- ▶ Whether the Transaction is fair by assessing the value of an ordinary HFA share before the Transaction (on a control basis) and comparing that to the value of one share in HFA (on a minority basis) post the Transaction
- ▶ The strategic rationale for the Transaction and Apollo's intentions with respect to HFA
- ▶ The impact of the Transaction upon HFA's business, future growth prospects and risk profile
- ▶ The likelihood of an alternative superior proposal being received and impact, if any, on potential future transactions for HFA Shareholders such as a takeover
- ▶ The existence of other alternatives available to HFA
- ▶ The likely impact on HFA's share price and other potential implications in the event that the Transaction is not approved
- ▶ Other qualitative factors that Shareholders should consider in assessing whether to approve the Transaction



Summary of opinion

We have compared the value of an ordinary HFA share on a control basis pre the Transaction with the value of one ordinary HFA share on a minority basis post the Transaction in order to assess whether the Transaction is fair. The conclusions, on a pre share consolidation basis, are as follows:

	Reference	Low	High
Value per HFA share (control basis pre Transaction)	6.7	A\$0.19	A\$0.23
Value per HFA share (minority basis post Transaction)	7.7	A\$0.22	A\$0.26

As shown in the above table, the range of values for an HFA share post the Transaction is either within or above the assessed range of values for an HFA share pre the Transaction. Accordingly we consider the terms of the Transaction to be fair.

In accordance with RG 111.11, as we have concluded that the terms of the Transaction are fair, we also consider them to be reasonable. In addition to the valuation comparison outlined above, we have also considered the following factors in assessing the reasonableness of the Transaction (refer to section 8 of this report for further discussion in relation to these matters):

Advantages

A stronger financial position

HFA currently has a greater level of debt than many other asset management companies. A large part of this debt arose as a result of the acquisition of Lighthouse in 2008. The Transaction and the proposed repayment of approximately US\$65 million in debt is expected to result in a residual debt balance being substantially matched by HFA's cash holdings, depending on the foreign exchange rate at the time of repayment. This will significantly reduce the financial risks associated with HFA to be more in line with other market participants, and may therefore improve client and market risk perceptions of HFA. Furthermore, its stronger financial position and enhanced flexibility under the new loan facility, may enable HFA to resume dividend payments to Shareholders sooner than if the Transaction does not proceed.

Improved growth outlook

In recent years HFA, through its US based subsidiary Lighthouse, has been focusing on transitioning its business from having a fund of funds model to a managed account model and has made substantial progress in this regard. HFA has more recently been focussing on improving the distribution of its products.

The Transaction has the potential to improve the growth outlook for the business and also to reduce the associated risks for the following reasons:

- ▶ The Marketing Agreement with Apollo and the fact that Apollo, through its holdings of Convertible Notes, Options and Apollo Performance Rights, will be incentivised to increase the distribution of HFA products and improve HFA's assets under management (AUM) inflows. Consequently, as a scalable business, its earnings may similarly improve above that which may be achieved currently. We note that the key performance hurdle for the issue of HFA shares pursuant to the Apollo Performance Rights is the achievement by Lighthouse, on a stand alone basis, of US\$35 million in EBITDA, which is significantly higher than the estimated \$19 million achieved in FY10.

- ▶ The reduced financial leverage and improved client and market perception referred to above.
- ▶ A condition of the Note Subscription Agreement is that five specified employees of Lighthouse enter into new employment agreements with HFA. We understand that these agreements have longer terms than the remaining periods on their existing contracts. We also note that these employees are also shareholders in HFA. These revised arrangements, together with the fact that HFA will be in a stronger financial position with improved growth prospects and enhanced financial flexibility, may enhance its ability to attract and retain key personnel.

Limited alternative equity raising options

The Transaction in effect results in HFA issuing Convertible Notes which will ultimately convert into ordinary shares at a price of US\$0.2442 per share² while at the same time resulting in Lighthouse having a new and significant distribution network for its products. We understand that the Board of HFA has previously given consideration to various options for achieving a reduction in HFA's debt levels including rights issues or placements of shares. As a result of HFA's historic share price performance and the fact that a significant rights issue was undertaken in 2007 at \$2.00 per share it is likely that the Transaction is occurring on terms that are better than could be achieved by way of an issue of ordinary shares.

Shareholders will continue to participate in possible future increases in the value of HFA

Our valuation reflects assumptions in relation to potential future growth opportunities available to HFA as a result of the Transaction. While our valuation gives recognition to the fact that HFA's growth prospects will improve as a result of the Transaction, it also recognises that the extent to which this will occur is uncertain. To the extent that HFA exceeds the expectations reflected in our valuation, existing Shareholders will continue to participate in any future increases in the value of HFA shares.

Greater market capitalisation

The potential for improved performance as a result of the Marketing Agreement with Apollo and the shares that will be issued when the Convertible Notes convert (and further if the Options are ultimately exercised) have the potential to significantly increase the market capitalisation of HFA which, ordinarily, can have a positive impact on investor interest in a security.

In this case, however, as Apollo and PA HH will in aggregate hold at least 39.6% of HFA's expanded share capital and will therefore be excluded from the "free float", which is a key determinant of a stock's index representation, there can be no certainty that HFA will be included in any key market index.

Disadvantages

Attraction as a takeover target

If the Transaction is approved, the issuance of Convertible Notes, Options and Apollo Performance Rights to Apollo and PA HH, may act as a deterrent to any other parties in making a takeover offer as Apollo and PA HH would in effect have to support a transaction to allow any other party to gain control.

Transaction costs

As set out in the Explanatory Memorandum HFA will incur a break fee of US\$750,000 in the event that the HFA Board changes its recommendation and the Note Subscription Agreement is terminated. In addition HFA has estimated that it will incur total transaction costs of approximately US\$5.0 million, a proportion of which will have been incurred prior to the date of the General Meeting of Shareholders.

² This equated to a conversion price of around \$0.25 based on the exchange rate on the date of the HFA announcement

Other factors

Potential for alternative proposals to emerge

It is possible that in the absence of this Transaction an alternative proposal involving HFA could emerge. However we understand that HFA has been considering its strategic options throughout the global financial crisis and that Management considers the proposed Transaction to be attractive as it offers both potential distribution benefits and a strengthening of HFA's balance sheet. We also note that the terms of the Note Subscription Agreement provide appropriate flexibility for the Board to consider any competing proposals that emerge prior to completion.

Apollo and PA HH shareholding and liquidity

We note that in the event that the Transaction proceeds there may be no immediate impact on the number of HFA shares available to trade on the ASX. Furthermore, there can be no certainty as to the ultimate shareholding in HFA that will be held by Apollo and PA HH. This will be dependent upon a range of factors including when the Convertible Notes are converted into ordinary shares, whether Apollo and PA HH ultimately exercise their Options and the extent to which additional shares are ultimately granted under the Apollo Performance Rights or acquired from specified HFA Shareholders pursuant to the Right of First Refusal Agreement.

The table below sets out an estimate of the shareholding that Apollo and PA HH may ultimately hold based on the following assumptions:

- ▶ the Convertible Notes are converted either immediately, in 4 years, or in 8 years, with all interest capitalised up until the date of conversion
- ▶ performance rights issued to Lighthouse employees vest within 4 years
- ▶ the Apollo Performance Rights vest by 2013
- ▶ the Options are exercised in full within either 4 years, or 8 years, which would involve HFA receiving \$250 million of additional proceeds
- ▶ the specified shareholders sell all of their HFA shares and Apollo exercises the right of first refusal in relation to these shares
- ▶ any future issuances of shares that may occur are excluded, such as following the vesting of performance rights not issued as part of the Transaction, other than as set out in the table below

Potential Apollo and PA HH shareholding

	Holding assuming immediate conversion	Holding assuming conversion in 4 years	Holding assuming conversion in 8 years
Conversion of Convertible Notes	39.6%	45.3%	51.2%
Lighthouse performance rights	-	44.5%	50.4%
Apollo Performance Rights	-	44.8%	50.6%
Options	-	51.6%	56.2%
Right of First Refusal	-	66.9%	70.0%

Source: Management and EY analysis

The conversion of the Convertible Notes held by Apollo and PA HH and the exercise of Options (if this ultimately occurs) will not reduce the number of HFA shares available to trade on the ASX. It will however reduce the proportion of HFA's share capital that is available to trade given Apollo and PA HH will hold at least 39.6% of HFA's share capital, or more in the event that the Options are exercised, shares are issued under the Apollo Performance Rights and shares are acquired under the Right of First Refusal Agreement.

Greater exposure to offshore operations and exchange rate risk

The Transaction has the potential to result in significant growth in HFA's US operations. As such, the business may become more exposed to the US market and foreign exchange movements. We note however that the Lighthouse operations already contributed around 89% of earnings in the financial year ended 30 June 2010.

Share price if the Transaction is not approved

While we are unable to ascertain with any degree of certainty how HFA's share may trade if the Transaction does not proceed, in the absence of an alternative proposal, it is likely that HFA's share would trade below its current price. This may reflect that a significant proportion of the premium that appears to be currently reflected in HFA's share price would cease to be priced into HFA's share price, causing it to decline, perhaps significantly. We note that subsequent to the announcement of the Transaction on 6 December 2010, HFA's share price has increased approximately 49% from \$0.205 per share to a high of \$0.305 per share as at 23 December 2010. The last closing price prior to the date of this report was \$0.275 per share.

In the event that the Transaction does not proceed, unless another alternative emerges and is implemented, HFA will continue to operate in its existing form. However, under the terms of the Note Subscription Agreement a break fee of US\$750,000 would be payable by HFA to Apollo if the termination resulted from a change in recommendation of HFA's Board. Other transaction costs will also have been incurred by HFA of up to US\$3 million.

Furthermore, there may be uncertainty with respect to whether an alternative proposal will emerge as well as a requirement to raise other sources of long term funding for the business. One of the potential alternatives could include an equity raising which could result in the dilution of existing Shareholders.

Conclusion

Having considered the various matters outlined in this independent expert's report, in our opinion, the Transaction is fair and reasonable.



Other Matters

This independent expert's report has been prepared specifically for the HFA Directors and HFA Shareholders. Neither Ernst & Young, Ernst & Young Transaction Advisory Services Limited, nor any member or employee thereof, undertakes any responsibility to any person, other than the HFA Directors and HFA Shareholders, in respect of this independent expert's report, including any errors or omissions howsoever caused.

This independent expert's report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of HFA Shareholders. As such our opinion should not be construed as a recommendation as to whether to approve or not approve the Transaction. The decision as to whether to vote in favour or against the Transaction is a matter for individual HFA Shareholders based on their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions. HFA Shareholders should have regard to the Explanatory Memorandum prepared by the directors and management of HFA in relation to the Transaction.

HFA Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional advisers.

Our opinion is made as at the date of this letter and reflects circumstances and conditions as at that date. This letter must be read in conjunction with the full independent expert's report as attached.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Stuart Bright'.

Stuart Bright
Director and Representative

A handwritten signature in black ink, appearing to read 'Julie Wolstenholme'.

Julie Wolstenholme
Representative

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Part 2 - Financial Services Guide



1. Details of the Transaction

1.1 Terms of the Transaction

On 23 November 2010 HFA announced to the Australian Securities Exchange (ASX) that as part of its ongoing assessment of strategic direction and options, it had held discussions with a party in relation to a potential transaction.

Subsequently, on 6 December 2010, HFA and Apollo Global Management, LLC (together with its affiliates Apollo) announced that they had entered into a number of conditional agreements (the Transaction Agreements or the Transaction) including a Note Subscription Agreement, under which HFA will issue US\$75 million of mandatory convertible notes (Convertible Notes) and 125³ million options (Options) with a strike price of \$2.00 per ordinary share to Apollo and a co-investor, PA HFA Holdings, LLC (PA HH). Furthermore, HFA and Apollo concurrently entered into a Marketing Agreement under which AP CM, LLC, an affiliate of Apollo, will distribute the products of HFA's US based subsidiary, Lighthouse Investment Partners, LLC (Lighthouse) and HFA will grant 4 million performance rights to AP CM, LLC.

If approved and implemented these Transaction Agreements will result in Apollo and PA HH injecting a total of US\$75 million into HFA in return for the Convertible Note investment, and Apollo becoming a distributor of Lighthouse products through its global network. Apollo will also be incentivised to achieve increases in Lighthouse's assets under management and profitability through the grant of performance rights. Completion of the Transaction is subject to various conditions, including the receipt of HFA shareholder approval on various resolutions as outlined in the accompanying Explanatory Memorandum.

The Convertible Notes would ultimately convert into at least 39.6% of HFA's expanded issued share capital, and potentially up to 51.2% depending upon the timing of conversion of the Convertible Notes and amount of capitalised interest. Apollo and PA HH will also hold Options that, if exercised, will further increase their shareholding in HFA. In addition, in accordance with a Right of First Refusal Agreement between various Lighthouse management shareholders, Apollo has the right to acquire additional shares in HFA if those management shareholders seek to sell their shares. The Transaction Agreements are described in detail in the accompanying Explanatory Memorandum.

HFA also intends to seek approval for a 1 for 4 share consolidation at the same time as it seeks Shareholder approval for the Transaction. All references to numbers of shares in this report refer to shares pre this consolidation unless otherwise indicated. All amounts in this report are expressed in Australian dollars (\$) unless otherwise stated.

The following is a summary of the key impacts of the Transaction Agreements as they are relevant to this report. The key aspects of the Transaction Agreements include:

- ▶ HFA proposes to issue, and Apollo and PA HH will subscribe for, Convertible Notes with a face value of US\$75 million. Apollo will subscribe for US\$50 million and PA HH for US\$25 million of the Convertible Notes. In accordance with the terms of the Note Subscription Agreement, the Convertible Notes are interest bearing and convertible into ordinary shares in HFA no later than eight years after the issue date depending on various conditions. Noteholders may convert the Convertible Notes at any time, and

³ On a pre share consolidation basis

HFA may trigger conversion every six months after four years from the date of issue subject to certain conditions as discussed in section 1.2. If not converted prior, the Convertible Notes must convert into ordinary shares eight years after the date of issue.

The Convertible Notes will be unsecured and subordinated to HFA's remaining loan facility (or any replacement or refinancing thereof), and will rank *pari passu* with all other unsecured obligations of HFA. Further details on the terms of the Convertible Notes are set out in section 1.2 and in Schedule 1 of the Explanatory Memorandum.

- ▶ The Convertible Notes are expected to convert into at least 39.6% of HFA's expanded issued share capital. In the event that the Convertible Notes are not converted for eight years, and if all future interest is capitalised, the noteholders' combined shareholding could increase to approximately 51.2%. Apollo and PA HH will also subscribe for Options that, if exercised, may further increase their combined shareholding in HFA. These Options may be exercised at any time from the date of issue until the eighth anniversary of the date of issue, subject to certain limitations. Section 8 of this report provides further information in relation to the shareholding that Apollo and PA HH could ultimately hold as a result of the Transaction.
- ▶ Lighthouse and AP CM, LLC (AP CM), an affiliate of Apollo Global Management, LLC have also entered into a Marketing Agreement. Pursuant to this Marketing Agreement, AP CM will distribute the investment products and services of Lighthouse through Apollo's global distribution network. Apollo is further incentivised to maximise the opportunities for Lighthouse investment products and services through the grant of 4 million performance rights which can convert into shares in HFA subject to Lighthouse generating EBITDA of US\$35 million in any trailing twelve month period ending on or before 31 December 2013. Services to be provided by Apollo under the Marketing Agreement include the development of a comprehensive plan for the distribution of Lighthouse products and assisting with distribution efforts across Apollo's relationships. The Marketing Agreement is discussed further in section 7 of this report.
- ▶ The proceeds to be received by HFA for the issuance of the Convertible Notes will be used for the partial repayment of HFA's loan facility to an amount of US\$65 million, as well as payment of certain fees incurred by HFA and re-imburement of expenses incurred by Apollo in connection with the Transaction. The balance will be used for working capital purposes. As set out in the Explanatory Memorandum HFA expect that the total costs associated with the Transaction will be approximately US\$5 million.
- ▶ Apollo is entering into the Transaction in conjunction with a co-investor, PA HH. PA HH is a special purpose entity that was formed for the purpose of participating in the Transaction, the ultimate beneficial owner of which is the South Carolina Retirement System.



Key terms of the Transaction, including pre-implementation steps and conditions precedent, are summarised in the accompanying Explanatory Memorandum. These include, amongst others:

- ▶ The approval of HFA's Shareholders for the Transaction and entry into the Transaction Agreements
- ▶ HFA entering into new employment agreements with specified Lighthouse senior management, which include various escrow arrangements. Those employment agreements have been executed conditional upon the Transaction proceeding
- ▶ The entry into a Right of First Refusal Agreement between certain Lighthouse management Shareholders. The effect of this is to enable Apollo to acquire further ordinary shares in HFA through a right of first refusal over disposals of ordinary shares currently held by certain Lighthouse management Shareholders. These are all current employees of HFA who collectively currently hold approximately 30% of HFA's issued share capital. The Right of First Refusal Agreement has been executed conditional upon the Transaction proceeding
- ▶ On the issue date, the Convertible Notes and Apollo Performance Rights on an as-converted basis represent not less than 38.29% (or another percentage agreed between HFA and Apollo) of HFA's fully diluted share capital
- ▶ The appointment of three Apollo representatives as directors of HFA
- ▶ The receipt of necessary ASX and other regulatory approvals or waivers, and
- ▶ An independent expert providing a report to HFA Shareholders which determines that the Transaction is fair and reasonable.

HFA will remain an ASX listed company with Apollo and PA HH expected to become major shareholders upon conversion of the Convertible Notes into ordinary shares.

The Board of HFA has unanimously recommended that HFA's Shareholders approve the Transaction subject to no superior proposal being received and the independent expert concluding that the Transaction is fair and reasonable to the Shareholders of HFA.

In the event that the Board changes its recommendation as a result of a superior proposal emerging, and the proposed Transaction is subsequently terminated, HFA will be required to pay to Apollo a break fee of US\$750,000. Further details of this are set out in the Explanatory Memorandum.

1.2 Key terms of the Convertible Notes

The key terms of the Convertible Notes include the following:

- ▶ A face value of US\$75 million.
- ▶ Interest bearing at a rate of 6% per annum on the face value of the Convertible Notes payable semi-annually. Interest will be capitalised by way of an increase in the outstanding principal amount for the first four years of their issue. After the first four years, interest may continue to be capitalised, or paid in cash, at the sole discretion of HFA.

- ▶ Initially convertible at a conversion price of US\$0.2442, and thereafter as adjusted.
- ▶ May not be prepaid by HFA without the prior written consent of Convertible Note holders holding 51% or more of the aggregate principal amount outstanding of Convertible Notes.
- ▶ The Convertible Notes are able to be converted, in whole or in part, into fully paid ordinary shares of HFA at the conversion ratio at any time, or from time to time, prior to maturity at the sole discretion of the holders.
- ▶ To the extent not converted earlier by the holders, HFA may convert all or some of the Convertible Notes on the fourth anniversary of the issuance of the Convertible Notes (and every six months thereafter) if the volume weighted average share price of HFA shares for the 30 days preceding such date is in excess of 20% greater than the prevailing conversion price⁴.
- ▶ Unless previously converted, repurchased or cancelled in accordance with the terms thereof, the Convertible Notes must be converted on the eighth anniversary of the date of issuance of the Convertible Notes based on the conversion ratio.
- ▶ The Convertible Notes will be eligible to participate in any extraordinary dividends⁵ on an as-converted basis.
- ▶ Where Apollo holds Convertible Notes that may be convertible into more than 20% of HFA's issued voting capital and Apollo has no nominated directors on the Board, Apollo has the right to nominate one representative to attend and observe each Board meeting.
- ▶ The Convertible Notes have participation rights, on an as-converted basis, in any pro rata issuance of ordinary shares or similar securities (or securities convertible into or exchangeable for ordinary shares or similar securities) by HFA or any subsidiary, other than with respect to HFA employees under employee share, option or performance right schemes.
- ▶ HFA is to comply with certain negative and positive covenants outlined in the Note Subscription Agreement in Schedule 1 of the Explanatory Memorandum.
- ▶ Further details on the terms of the Convertible Notes are set out in Schedule 1 of the Explanatory Memorandum.

⁴ Based on the average US\$:A\$ foreign exchange rate over that 30 day trading period as determined by an independent investment bank of international repute acting as expert

⁵ Extraordinary dividends are defined as the amount by which total dividends payable in respect of ordinary shares in any financial year exceed US\$6 million in aggregate



1.3 Background on Apollo

Apollo is a leading global alternative asset manager. Based in the US, Apollo currently manages US\$54 billion of assets in private equity, credit-oriented capital markets and real estate sectors. Apollo's investor base is largely comprised of institutional investors including pension funds and endowments, with a track record in investing for over twenty years.

As highlighted in section 4 of the Explanatory Memorandum, Apollo considers HFA's business activities to be complementary to its own and undertakes to distribute the investment services of Lighthouse through Apollo's global distribution network in accordance with the Marketing Agreement. Further, as set out in section 4.2 of the Explanatory Memorandum, Apollo has advised that it currently intends to:

- ▶ Preserve HFA's existing business, market, customer base and relationships
- ▶ Retain the current management and technical resources
- ▶ Continue to employ the present employees

While Apollo currently intends to maintain its interest as a passive investment, as indicated by Apollo management, it is possible that in the future, whether upon maturity of the Convertible Notes or earlier, Apollo will seek (subject to any requisite regulatory approvals) to expand its ownership stake in HFA.

2. Scope of the independent expert's report

2.1 Purpose of the independent expert's report

Under section 606 of the Corporations Act, 2001 (Cth) (the Act), an entity is generally prohibited from increasing its interest in the voting shares of a listed company to greater than 20%. An exception to the prohibition is for the increase to be approved by shareholders of the company under item 7 of section 611 of the Act.

As a consequence of the Transaction, Apollo and PA HH are acquiring Convertible Notes and receiving Options which, when converted or exercised, will increase the voting interest of Apollo and PA HH in HFA to in excess of 20%. As such shareholder approval for the issuance of the Convertible Notes and grant of Options under the Transaction is being sought pursuant to item 7 of section 611 of the Act.

In addition, approval under section 611 of the Act is being sought for:

- ▶ the grant of performance rights to AP CM, LLC (Apollo Performance Rights)
- ▶ the execution of a Right of First Refusal Agreement the effect of which is to enable Apollo and PA HH to acquire additional shares in HFA from various Lighthouse management shareholders in the event those shareholders seek to sell their shares
- ▶ the escrow arrangements (Escrow Arrangements) set out in the proposed employment agreements with Lighthouse senior management, the effect of which is that HFA will have a relevant interest in itself in excess of 20% of the voting share capital, which requires the approval of Shareholders in order to give effect to the arrangement

Furthermore, approval of HFA Shareholders for the Transaction including the benefits provided to Apollo is being sought under Chapter 2E of the Act in relation to related party transactions.

Section 611 of the Act requires that the Shareholders of HFA are provided with information material to the decision as to how to vote on the resolutions. Furthermore, as outlined in section 3.11 of the Explanatory Memorandum, the recommendation of the Transaction by the directors of HFA is subject to an independent expert finding that the Transaction is fair and reasonable.

The directors of HFA have therefore commissioned the preparation of an independent expert's report to assist Shareholders in assessing the merits of the Transaction. This report therefore provides our opinion as to whether the Transaction is fair and reasonable to the Shareholders of HFA not associated with the Transaction.

This report has been prepared to accompany the Explanatory Memorandum to be distributed to HFA's Shareholders.

2.2 Meaning of fair and reasonable

Our report has been prepared on a basis consistent with legislative requirements and other Australian Securities and Investments Commission (ASIC) guidance relevant to independent expert's reports considering a transaction under section 611 of the Act.



In preparing our report we have had regard to ASIC Regulatory Guide 111, *Content of expert reports* (RG 111). RG 111.21 requires that where the transaction being considered for the purposes of item 7 of section 611 has a similar effect on the company's shareholding as a takeover bid then the transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase a controlling interest in another entity.

The shareholding that Apollo and PA HH ultimately receive in HFA will be dependent upon the date at which the conversion of the Convertible Notes occurs and whether or not the Options are ultimately exercised. In the event that the Convertible Notes were to be converted immediately upon issue Apollo and PA HH would together hold approximately 39.6% of HFA's expanded share capital. In the event that they were converted eight years from the issue date (and all interest capitalised rather than paid in cash), and the Options were also exercised, Apollo and PA HH would hold approximately 56.2%⁶ of HFA's expanded share capital.

While Apollo and PA HH's shareholdings could ultimately be less than 50% we are of the view that, given the level of influence that Apollo would exert even at these lower levels, the Transaction ought to be considered to be a control transaction to which RG 111.21 applies and should therefore be analysed on a basis consistent with a takeover bid. In the context of a takeover bid the meaning of "fair and reasonable" is outlined in RG 111 paragraphs 111.9 to 111.14. This guidance makes it clear that, in the context of a takeover offer, "fair" and "reasonable" are two distinct concepts. Under this approach:

- ▶ An offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer. The comparison is to be made assuming 100% ownership of the target and it is "inappropriate to apply a discount on the basis that the shares being acquired represent a minority or 'portfolio' parcel of shares".
- ▶ An offer is "reasonable" if it is fair. It might also be "reasonable" if, despite being "not fair", the expert believes that there are other significant factors which justify the acceptance of the offer in the absence of a higher bid. RG 111.12 lists a number of items which experts may consider when assessing the reasonableness of an offer.

RG 111.62 provides that an independent expert should usually give a range of values for the securities that are the subject of the offer. If the value of the consideration offered falls within the range of values of the securities, the offer is considered to be fair.

2.3 Fair market value

We have assessed the value of HFA on a fair market value basis. Fair market value in this context is considered to be:

"the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing but not anxious buyer and a knowledgeable, willing but not anxious seller acting at arm's length."

Fair market value does not incorporate any special value. Special value is the additional value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

⁶ Excluding all shares that may be acquired by Apollo under the Right of First Refusal Agreement

2.4 Basis of evaluation

RG 111 allows the independent expert to consider a control transaction to be akin to a takeover transaction by assessing the value of the “target”, in this instance HFA, as if the control transaction was successful. Under this analysis, the value of the “consideration” would be taken to be the fair market value of HFA assuming the Transaction proceeds and the value of the interest notionally being disposed of as being the fair market value of HFA prior to the Transaction on a controlling interest basis. If the fair market value after the Transaction (on a minority basis) is greater than the fair market value before (on a controlling interest basis), then the Transaction would be considered to be fair.

In assessing whether the Transaction is reasonable to HFA Shareholders we have considered the advantages and disadvantages for HFA Shareholders of the Transaction. Specifically we have considered the following matters:

- ▶ The strategic rationale for the Transaction and Apollo’s intentions with respect to HFA
- ▶ The impact of the Transaction upon HFA’s future growth and business risks
- ▶ The impact of the Transaction on HFA, particularly:
 - ▶ Financial indicators such as earnings per share and leverage
 - ▶ The potential liquidity of HFA’s shares
 - ▶ Intended management and Board arrangements
- ▶ The likelihood of a superior proposal being received and impact, if any, on potential future transactions for HFA Shareholders such as a takeover
- ▶ The existence of other alternatives available to HFA
- ▶ The likely impact on HFA’s share price and other potential implications in the event that the Transaction is not approved
- ▶ Other qualitative factors that Shareholders should consider in assessing whether to approve the Transaction

Our assessment of the Transaction is based on the economic, market and other conditions prevailing as at the date of this independent expert’s report. As evidenced in recent years these conditions can change significantly over relatively short periods of time.

2.5 Shareholders’ decisions

This independent expert’s report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of HFA Shareholders. The decision to approve or not approve the Transaction is a matter for individual Shareholders. Shareholders should consider the advice in the context of their own circumstances, investment objectives, preferences, risk profiles and expectations of future market conditions. Shareholders should also have regard to the Notice of Meeting and Explanatory Memorandum prepared by the directors and management of HFA in relation to the Transaction. Shareholders who are in doubt as to the action they should take in relation to the Transaction should consult their own professional adviser.



Ernst & Young Transaction Advisory Services Limited has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.6 Limitations and reliance on information

We have considered a number of sources of information in preparing our report and arriving at our opinion. These sources of information are detailed in *appendix B - sources of information*.

This independent expert's report is based upon financial and other information provided by HFA. We have considered and relied upon this information. The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the Transaction is fair and reasonable to HFA Shareholders. However, we do not warrant that our enquiries have identified all of the matters that an audit, an extensive examination or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of HFA. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and Australian equivalents to International Financial Reporting Standards as applicable.

In forming our opinion we have also assumed that:

- ▶ Matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed
- ▶ The information set out in the Notice of Meeting and Explanatory Memorandum and accompanying documents to be sent by HFA to Shareholders is complete, accurate and fairly presented in all material respects
- ▶ The publicly available information relied upon by us in our analysis was accurate and not misleading
- ▶ The Transaction will be implemented in accordance with its terms

To the extent that there are legal issues relating to assets, properties or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading. This report should be read in conjunction with the declaration outlined in the qualifications and declarations in *appendix A - qualifications and declarations*.

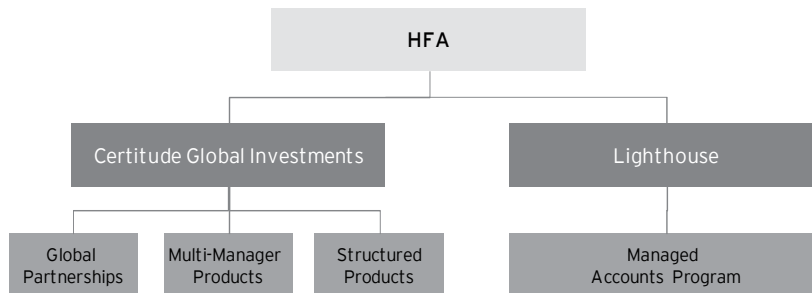
We provided draft copies of this independent expert's report to the directors and management of HFA for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this independent expert's report as a result of this review by the directors and management of HFA have not changed the methodology or conclusions reached by us.

3. Overview of HFA Holdings Limited

HFA is a diversified global fund manager with AUM of \$5.2 billion as at 31 October 2010. HFA's funds management business was established in 1998 as HFA Asset Management Limited (now known as Certitude Global Investments Limited), a provider of absolute return⁷ fund products primarily to retail investors in Australia. The business was listed on the ASX in April 2006.

HFA's business was subsequently transformed following its acquisition in January 2008 of Lighthouse, a substantially larger US investment manager. Lighthouse was acquired for total consideration of around \$674.5 million and funded by a mix of HFA shares, a two for five renounceable rights issue and bank loans. As a result of the acquisition, HFA's current business is comprised of its heritage Australian fund management operations and Lighthouse. The current group structure is depicted in the chart below.

HFA group structure



Source: HFA 2010 annual report

⁷ Absolute return funds aim to provide a positive return regardless of market conditions. This is contrasted with most traditional funds which aim to provide a return which is greater than a particular market index

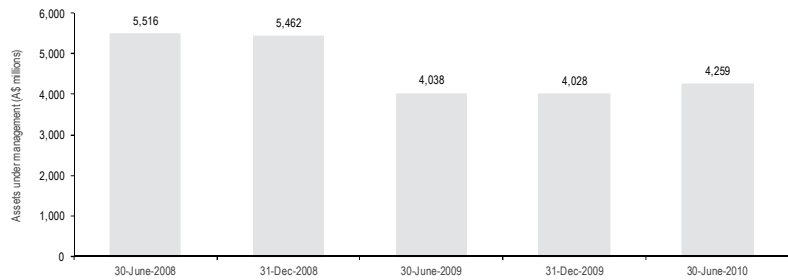
3.1 Lighthouse

Based in the US, Lighthouse is a specialist provider of funds of hedge fund portfolios and managed accounts. Historically, the business was focussed on providing absolute return fund products with its flagship fund, the Lighthouse Diversified Fund, having been launched in 1996. The funds offered by Lighthouse employ a range of strategies with its investor base largely comprised of high net worth individuals, foundations, endowments, benefit plans and institutions.

However, since around 2005, Lighthouse has actively sought to enhance its managed accounts offering. These accounts allow direct ownership of the underlying assets by the Lighthouse funds rather than having to hold them via other pooled fund vehicles. The benefits of the greater transparency, liquidity and security afforded through a managed account program are evident following the impact of the global financial crisis, with the collapse of certain funds and redemption freezes and illiquidity in others. Consequently, during FY10 around 70% of new subscriptions in Lighthouse's funds were received into funds operating solely under the managed account programs.

As with other investment managers, Lighthouse experienced a reduction in AUM in FY09 reflecting lower underlying asset values impacted by the global financial crisis. However, during FY10 Lighthouse's AUM has increased driven by net inflows and positive performance relative to its benchmarks. In this respect we note that since its inception, the Lighthouse Diversified Fund has generally outperformed the market including throughout the global financial crisis. Growth in Lighthouse's AUM has continued in FY11 with Management having recently announced that Lighthouse experienced positive net inflows of \$78 million between July 2010 and October 2010⁹. However as a result of the Australian dollar exchange rates, the uplift in AUM in Australian dollars is not as material. A summary of Lighthouse's AUM trend is depicted in the chart below.

Lighthouse's AUM since 30 June 2008

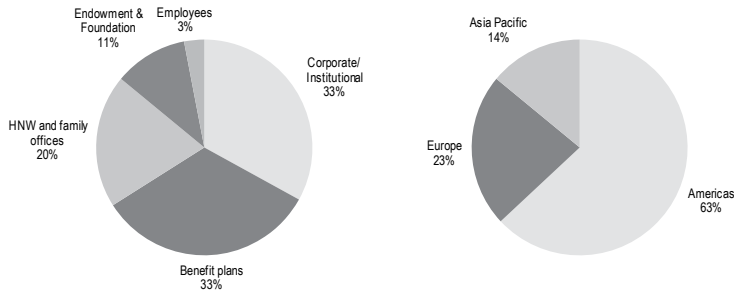


Source: HFA results presentations

⁹ HFA Annual General Meeting presentation dated 30 November 2010

Lighthouse currently manages eight fund products that are exclusively comprised of managed accounts, representing around 65% of AUM. It manages assets for a range of investors, including institutional investors, endowment plans and high net worth individuals. A breakdown of its current investors by type and geography is depicted below.

Breakdown of Lighthouse's AUM by investor type and region as at 30 September 2010



Source: Lighthouse website

Lighthouse currently contributes the majority of HFA's earnings, accounting for 89% of EBITDA in FY10⁹. The business is expected to remain key to HFA's future growth, focussing on the development and distribution of its managed accounts program, and broadening its distribution not only geographically but also deeper into the large institutional space¹⁰.

3.2 Certitude Global Investments

Historically, HFA's funds management activities in Australia focussed on providing a range of absolute return fund products. These products included open-ended funds such as managed investment schemes, primarily for retail investors, as well as structured products. Its structured products generally comprised closed-end funds which utilised leverage as part of their objective in providing enhanced returns.

In recent years Certitude's business has been impacted by a reduction in AUM. As at 30 June 2010 its AUM had declined to \$1.3 billion, largely reflecting:

- ▶ Active deleveraging within Certitude's funds as indicated in the chart on the following page with the AUM (which includes leverage) declining significantly. As at 30 June 2010, only \$27 million in leverage remained
- ▶ Lower investment performance of its funds as a result of the global financial crisis. We note however that its largest fund, the HFA Diversified Investments Fund, has outperformed the major market indices since the market peak in October 2007¹¹
- ▶ \$235 million of withdrawals from the HFA Diversified Investments Fund. Redemptions from this fund were suspended in December 2008 following changes to redemption payments in underlying funds, however these restrictions were removed in mid 2010

⁹ Excluding foreign exchange losses on an intercompany loan

¹⁰ HFA Annual Report 2010

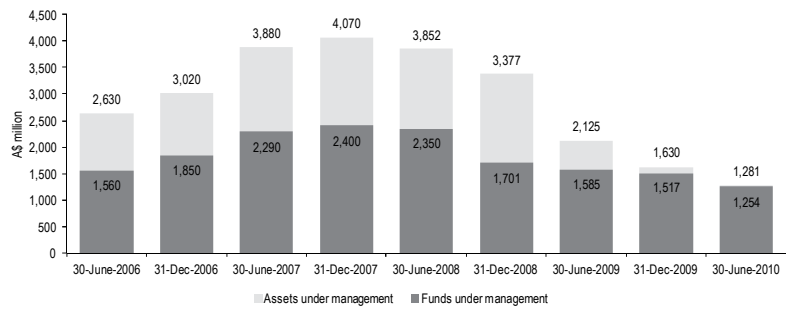
¹¹ HFA Annual General Meeting presentation dated 30 November 2010

- ▶ The discontinuation of a \$78 million investment management agreement with Signature Capital Investments Limited in February 2010

HFA has experienced further outflows of \$102 million in the four months to 31 October 2010. Additional outflows are expected in future as its existing structured products mature over the next 6 years¹².

The movement of Certitude's AUM and funds under management (which excludes leverage) is shown in the graph below.

Certitude's AUM since 30 June 2006



Source: HFA results presentations

Management is currently seeking to reposition the business to focus on a broader range of products that may be attractive to a wider investor base. The first of these new products, Certitude Asian Opportunities Fund, was introduced in mid 2010. Certitude has announced plans to introduce new products with new product partners over the next two years. Management anticipate the successful implementation of the new strategy will lay the foundations for renewed AUM growth and profitability over the medium term.

¹² Certitude website

3.3 Financial performance

The table below summarises HFA's historical financial performance for the last four financial years.

Financial performance

<i>Currency: AS 000s</i>	FY07A	FY08A	FY09A	FY10A
Management fee income	36,016	89,077	110,369	71,149
Performance fee income	38,630	9,175	844	1,252
Entry commissions	(2)	-	-	-
Origination fees	-	344	1,642	175
Total revenue	74,644	98,596	112,855	72,576
Investment management & distribution costs	(30,625)	(22,323)	(17,312)	(11,956)
Net income from operating activities	44,019	76,273	95,543	60,620
Other income	30	86	216	4
Foreign exchange gain/(loss)	-	8,913	1,214	119
Expenses	(13,761)	(26,110)	(44,325)	(34,404)
Equity settled transactions	(125)	(553)	(12,396)	(2,250)
EBITDA	30,163	58,609	40,252	24,090
Depreciation	(176)	(361)	(804)	(536)
Amortisation intangible assets	(835)	(6,349)	(13,512)	(10,699)
Impairment - intangible assets	-	-	(596,119)	-
Impairment - financial assets	-	-	(3,418)	-
EBIT	29,153	51,899	(573,601)	12,854
Interest on bank deposits	629	3,305	796	541
Interest expense on financial liabilities	(834)	(4,315)	(7,659)	(7,090)
Profit before tax	28,947	50,889	(580,464)	6,305
Income tax (expense)/benefit	(8,668)	(15,719)	7,280	(1,604)
Net profit after tax	20,279	35,170	(573,184)	4,701
<i>For information only</i>				
Total assets under management (\$ millions)	3,880	9,365	6,163	5,540
Total funds under management (\$ millions)	2,290	7,873	5,623	5,513
EBIT margin (%)	39.1%	52.6%	na	17.7%
Net profit margin (%)	27.2%	35.7%	na	6.5%

Source: HFA Annual Reports

As discussed earlier in this report, HFA's business was significantly transformed as a result of its acquisition of Lighthouse on 3 January 2008. The contribution from Lighthouse to HFA's financial performance is included in the above table for six months of FY08, with the full year impact seen in FY09. We have therefore focussed our analysis of HFA's underlying trends and financial performance on the latter two years noted above. In relation to HFA's financial performance we note the following:

- ▶ Although management fee income has historically risen, largely reflecting the acquisition of Lighthouse, HFA's management fees fell in FY10 due to lower average AUM. While Lighthouse experienced positive AUM growth throughout FY10, its average AUM was 10% lower than the prior year, thereby reducing its management fees. In addition, lower management fees were derived from Certitude reflecting its significantly lower AUM.
- ▶ As a consequence of both the Lighthouse acquisition, where only a small proportion of Lighthouse funds are eligible to earn performance fees, and the negative impacts on



fund performance due to the global financial crisis, management fees now comprise virtually all of HFA's revenues, compared with around 50% in FY07.

- ▶ Performance fees are inherently volatile and difficult to predict and generally based on achieving outperformance above previous "high watermark" performance. HFA generated significant performance fees in FY07 from Certitude although it has since reduced its reliance on this income stream. In addition, the lower level of performance fees may also reflect the difficult and volatile markets as a result of the global financial crisis.
- ▶ Origination fees are similarly volatile and dependent upon transactional activity.
- ▶ Investment management and distribution costs consist of fees payable to investment advisors, as well as rebates and trailing commissions payable to financial advisors and product distributors. These have substantially reduced as a proportion of revenues following the acquisition of Lighthouse, which effectively brought in-house many of the investment advisory services that Lighthouse had previously provided to HFA.
- ▶ HFA's expenses largely comprise employee compensation. Expenses increased in FY09 reflecting the full year inclusion of Lighthouse. Overall expenses reduced in FY10 due to higher average Australian dollar exchange rates and active cost management.
- ▶ Equity settled transactions relate to employee incentive schemes which grant HFA and Lighthouse employees performance rights and shares in HFA. Equity settled transactions are non-cash expenses and the amount recognised as an expense reflects a corresponding increase in equity over the vesting period of the performance rights and shares. The performance rights are discussed in further detail in *section 3.6*.
 - ▶ In FY09, \$12.2 million of HFA's equity settled transactions related to the incentive plan for Lighthouse which was established by SGM Holdings, LLC (SGM Holdings) on 1 July 2008. SGM Holdings is a related entity of HFA's executive director Sean McGould and is not part of HFA. Grants made under the plan are funded by SGM Holdings. However as SGM Holdings is a shareholder of HFA, accounting standards require HFA to recognise an expense associated with the shares granted under the plan with a corresponding increase in HFA equity to recognise the contribution of SGM Holdings as a shareholder.
 - ▶ In FY10, \$2.0 million of HFA's equity settled transactions related to the granting of 8.5 million shares to Lighthouse employees in partial settlement of their bonus entitlements. These shares were granted based on the performance of Lighthouse.
- ▶ Amortisation expenses relate to the amortisation of management rights and customer relationships acquired from Lighthouse. Amortisation is recognised on a straight line basis over the useful life of the intangible assets, other than for goodwill, and is a non-cash expense.
- ▶ An impairment loss of \$585.6 million was recognised in FY09 in relation to the goodwill arising on the acquisition of Lighthouse. This reduction in goodwill reflected the significantly lower expected future net cash flows from Lighthouse compared to the business at the time of acquisition. No additional losses were recorded in FY10 as Management considered that the expected future cash flows for Lighthouse have materially improved since FY09. In addition, an impairment loss of \$13.9 million was recognised in FY09 in relation to the goodwill and other intangible assets, non-current product receivables and investments held by its Australian business.

- ▶ Net finance expense increased in FY09 due to the significantly higher debt levels in financing the acquisition of Lighthouse. HFA has subsequently reduced its debt levels resulting in a decrease in net interest expense in FY10.

3.4 Market guidance for FY11

While HFA has not provided any earnings guidance for FY11, Management stated in an ASX announcement on 23 November 2010 that it did not anticipate "operating results before abnormal items and income tax for the half year ending 31 December 2010 will vary by more than 15% versus the previous corresponding period". However, Management also noted that fluctuations in the Australian dollar exchange rates and the potential generation of performance fees from funds managed by HFA may have an impact on the actual operating result for the period.

In its presentation at the annual general meeting on 30 November 2010, HFA advised that its AUM had fallen slightly from \$5.5 billion as at 30 June 2010, to \$5.2 billion on 31 October 2010. However this largely reflects movements in exchange rates with Lighthouse experiencing net inflows during this period.

3.5 Financial position

HFA's financial position as at 30 June 2010 and the prior year are presented in the table below.

Financial position		
<i>Currency: A\$ 000s</i>	FY09A	FY10A
Cash and cash equivalents	29,290	32,977
Trade and other receivables	19,391	12,817
Current tax asset	307	500
Investments, including derivatives	2,319	2,373
Plant and equipment	1,893	1,615
Deferred tax assets	496	293
Intangible assets	191,959	171,683
Total assets	245,655	222,258
Trade and other payables	9,294	7,252
Interest bearing loans and borrowings - current	7,879	10,322
Derivatives	3,455	1,359
Employee benefits	5,520	4,571
Interest bearing loans and borrowings - non current	137,039	110,351
Total liabilities	163,187	133,855
Net assets	82,468	88,403
Issued capital	504,730	504,730
Reserves	113,987	112,971
Retained earnings/(accumulated losses)	(536,249)	(529,298)
Total equity	82,468	88,403

Source: HFA's Annual Reports

In relation to HFA's financial position as at 30 June 2010, we note:

- ▶ HFA held \$33.0 million of cash and cash equivalents.
- ▶ Investments are comprised of shares in Signature Capital Investments Limited of \$0.1 million and other financial assets designated at fair value of \$2.2 million.



- ▶ Plant and equipment includes furniture, computers and leasehold improvements.
- ▶ Intangible assets are comprised of:
 - ▶ \$110.1 million of residual goodwill
 - ▶ \$59.2 million of management rights and customer relationships which are being amortised over 5 to 10 years
 - ▶ \$2.0 million of trademarks amortised over 20 years
 - ▶ \$0.5 million of capitalised software which is amortised over 5 years

The goodwill, management rights and customer relationships, trademarks and capitalised software were acquired as part of the Lighthouse acquisition.

- ▶ As at 30 June 2010 HFA had loans and borrowings of \$120.7 million. This is comprised of a \$119.6 million facility denominated in US dollars to fund the acquisition of Lighthouse and a working capital facility of \$1.1 million. HFA announced on 29 October 2010, that the term of these facilities had been extended from November 2011 to March 2012. Both facilities are secured by first ranking fixed and floating charges over all of the assets of HFA. HFA must also comply with a number of covenants which are tested quarterly and are based on the preceding twelve months:
 - ▶ EBITDA of at least 1.5 times the interest expense in the period
 - ▶ Assets under management are not less than US\$2.6 billion

In FY10, HFA repaid \$17.7 million of its loans and borrowings.

- ▶ Derivatives include interest rate swaps used to hedge HFA's interest rate risk.
- ▶ Employee benefits include liability for annual leave and long service leave.

3.6 Capital structure and shareholders

HFA's capital structure is comprised of ordinary shares on issue. In addition, the company has granted various performance rights that entitle the holder to receive fully paid ordinary shares in the company. These are further discussed on the following page.

3.6.1 Ordinary share capital

As at 30 June 2010, HFA had a total of 469,330,170 ordinary shares outstanding. The ordinary shares have the right to receive dividends and are entitled to one vote per share.

The table below sets out the substantial shareholders as at 20 August 2010.

Substantial shareholders	
	% of issued shares
Delaware Street Capital Master Fund, LP ¹	17.26%
Sean McGould	16.56%
Bank of America Corporation	10.21%
UBS AG ²	8.11%

Source: Management

¹ Delaware Street Capital Master Fund has since announced that it has increased its holding to 18.97%

² UBS AG has since announced that it has increased its holding to 9.12%

3.6.2 Performance rights

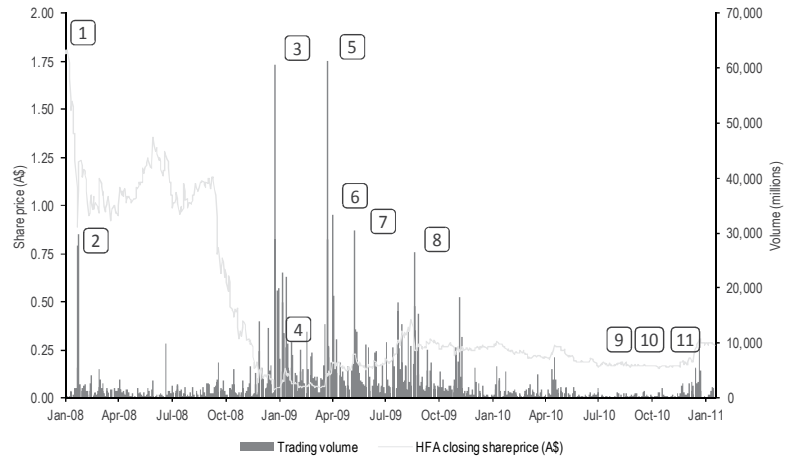
HFA has the following performance rights on issue:

- ▶ 360,000 performance rights (HFA Performance Rights) on issue to HFA employees. Each HFA Performance Right entitles the employees to be issued one share in HFA for no consideration. These HFA Performance Rights were granted to employees of HFA's Australian business on 12 March 2008. The HFA Performance Rights have a vesting date of 31 December 2010, subject to various conditions, including the individual remaining an employee of HFA at the vesting date and the meeting of performance hurdles for HFA relating to AUM, base revenues and EBITDA. The HFA Board of Directors retains the ability to permit vesting in various circumstances including where the performance hurdles have not been met. The vesting or lapse of these HFA Performance Rights is expected to be determined in February 2011 in conjunction with the finalisation of HFA's financial accounts.
- ▶ 16,000,000 performance rights on issue to Lighthouse employees subject to vesting criteria including the achievement of US\$35 million of EBITDA by 31 December 2013.
- ▶ up to 15,875,740 performance rights were approved to be issued to Spencer Young at HFA's 2010 annual general meeting subject to meeting the relevant performance criteria.

3.7 Recent share price performance

The graph below shows the daily share price and trading volumes for HFA since 1 January 2008.

Daily share price and trading volume for HFA



Source: Bloomberg, ASX announcements, HFA website

In relation to HFA's share price performance and trading volume, we note the following:

1. On 3 January 2008 HFA acquired Lighthouse.
2. On 21 January 2008, the share price of HFA fluctuated between \$0.67 and \$1.18 per share before closing at \$1.10. In an ASX announcement dated 21 January 2008, HFA stated that it "believes the recent fall in the company's share price is due to speculation of a potential sale by the MFS Group, of its approximately 12% holding in HFA."
3. On 23 December 2008, HFA announced that it had frozen redemptions in the HFA Diversified Investments Fund, the HFA Octane Fund and the HFA Octane Fund Series 2 "due to deteriorating liquidity in underlying investments and the need to ensure compliance with the Corporations Act."¹³
4. On 25 February 2009, HFA announced that it had impairment losses totalling \$596 million, largely related to the acquisition of Lighthouse.
5. On 23 March 2009, HFA announced that it had extended its loan facility from Westpac to November 2011.
6. On 2 April 2009, Delaware Street Capital Master Fund announced it had become a substantial shareholder holding a 5.3% interest in HFA.
7. On 8 May 2009 HFA announced its FY09 profit guidance.

¹³ HFA ASX announcement - 23 December 2008

8. On 20 August 2009, HFA released its FY09 results.
9. On 19 August 2010, HFA released its FY10 results.
10. On 29 October 2010, HFA announced that its loan facility had been extended to March 2012.
11. On 6 December 2010, HFA announced the Transaction.

3.8 Trading volume

As indicated in the chart depicted in section 3.7 of this report, HFA's trading volume has been volatile. During FY09 and the first half of FY10, volumes of trading in HFA shares were relatively high, albeit possibly reflecting the volatility in the asset management industry during the global financial crisis. In particular, in FY09, trading volumes increased significantly in December 2008 and March 2009 following HFA's announcement of the suspension of redemptions in some of its funds and the extension of its bank loan facility, respectively.

However, in the last twelve months, the trading volumes have fallen substantially. As such, the shares appear to lack deep liquidity, which may imply that the traded price is not necessarily reflective of fair market value. Our analysis is supported by:

- ▶ The median volume of shares traded on a daily basis over the last twelve months represents 0.1% of the shares outstanding.
- ▶ Over the same period 0.5 times the total number of shares on issue were traded.
- ▶ Management of HFA holds approximately 30% of the existing share capital. As such its free float is less than 70%.
- ▶ There is limited analyst coverage of HFA.

4. Asset management market overview

The asset management market is comprised of a diverse range of companies managing funds on behalf of investors. The funds managed may be pooled and invested in various assets including equities, bonds and alternative assets dependent upon the specified goals of the investors and terms of the investment management mandate. Various asset managers also specialise in a particular asset class or strategy. Investors may comprise institutions such as insurance companies, pension funds and corporations, or private investors via various forms of collective investment schemes, mutual funds and exchange traded funds.

In the US, mutual funds represent a significant proportion of the market, as do retail superannuation funds in Australia. These funds typically buy assets (ie. long only) and attempt to match (index funds), or outperform, the return of the market, or a certain segment thereof. In addition, alternative asset managers exist such as hedge funds, funds of funds and managed accounts. These alternative asset managers typically have a wider investment mandate such as long/short investment strategies as well as the usage of derivatives and leverage in order to enhance returns. HFA is an alternative asset manager with the aim of generating absolute returns irrespective of prevailing market conditions.

4.1 Industry revenue

Asset managers typically derive revenue by charging management fees based on a percentage of assets under management. Management fees are therefore dependent upon levels of net inflows into a fund as well as the underlying growth in the value of investments. In addition, asset managers may be entitled to charge performance fees where the achieved return exceeds certain stipulated benchmarks.

As noted above, movements in AUM are impacted by the performance of the underlying fund investments as well as by the net inflows into managed funds. The performance of managed funds is therefore dependent on market conditions and the strategies adopted by the asset manager. As such, there is strong competition for managers with a track record, and retaining and compensating employees appropriately is a critical success factor for asset managers.

Strong performance in the form of high and consistent investment returns may also attract investors into managed funds over traditional savings vehicles. Similarly, a decline in performance and increasing uncertainty may lead investors to withdraw from managed funds in favour of less risky investments. A recent global hedge fund survey completed by Ernst & Young and Greenwich Associates¹⁴ found that 59% of investors cited long term investment performance as one of the top three criteria in selecting a hedge fund. The survey also found that 40% of investors considered the hedge fund management team as one of the top three selection criteria.

¹⁴ Restoring the balance - 2010 global hedge fund survey - Ernst & Young and Greenwich Associates

4.2 Industry performance

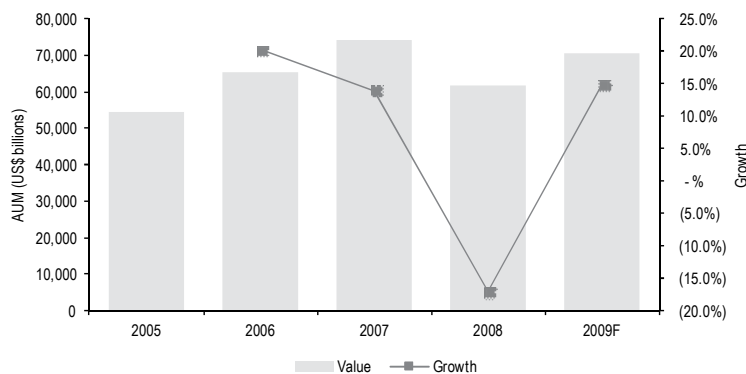
In Australia, the demand for managed funds has grown following the introduction of compulsory superannuation contributions in 1992 and superannuation tax benefits in 2007. Similarly, in the US, investments into managed funds have been driven by the growth of defined contribution retirement plans established by employers known as corporate 401(k). Analysts anticipate that this will continue to support growth in AUM as the “baby boomer” generation ages and demand for suitable retirement savings vehicles such as managed funds increases.

Demand for managed funds also increases with real gross domestic production (GDP) growth. Higher disposable incomes, savings, and employment levels determine the amount of funds investors have available to invest in managed funds. Furthermore, real GDP growth contributes to rising asset values and the possibility of positive investment returns.

Datamonitor¹⁵ estimates that the global asset management industry grew at a compound annual growth rate of 6.9% between 2005 and 2009 as reflected in the graph below. Datamonitor defines this sector as mutual funds, open-ended investment companies, closed-ended investment funds, investment trusts and asset managers.

Growth during this period was volatile as a result of the global financial crisis. The failure of Lehman Brothers and the bailouts of other major financial firms in 2008 heightened investors’ fears of a financial system meltdown. The significant decline in global markets resulted in a 17.1% decrease in global AUM from US\$74.3 trillion in 2007 to US\$61.6 trillion in 2008 as asset values fell, investor confidence declined, and various investors sought to withdraw their funds.

Global asset management and custody banks sector - AUM



Source: Datamonitor - Global asset management and custody banks industry profile - March 2010

The large outflow of funds led some asset managers to employ strategies to limit redemptions, with around a third of hedge fund managers limiting withdrawals during the

¹⁵ Datamonitor - Global asset management and custody banks industry profile, March 2010

financial crisis¹⁶. This had flow on impacts for fund of funds asset managers who subsequently also were required to limit redemptions due to reduced liquidity.

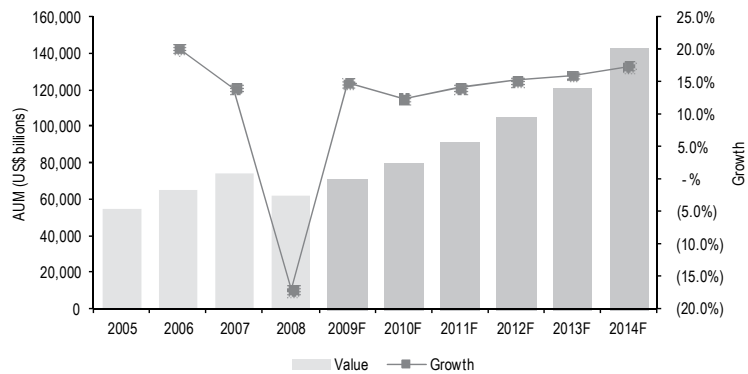
Standard & Poor's Industry Survey¹⁷ notes that AUM has since commenced a recovery. As consumer confidence is gradually returning and companies in many sectors have reported improved performance in corporate earnings, the equity markets have experienced some gains. Recent net cash flows to mutual funds have also been positive, other than for some domestic US equities funds.

The industry has also experienced increased acquisition activity driven by the more onerous regulatory environment in the US and the need for economies of scale. Large diversified financial services firms such as Bank of America Corporation, Barclays Capital and Morgan Stanley, have recently divested their asset management businesses in order to raise capital and focus on their core operations. Analysts anticipate that this trend may continue as firms seek to gain scale or diversify their product offerings. A recent survey¹⁸ further supported this view, with 34% of hedge funds indicating that they expect the consolidation of smaller funds to be a major development in the asset management industry over the next two years.

4.3 Industry outlook

As reflected in the graph below, Datamonitor estimates that the global asset management industry may grow at a compound annual growth rate of 15.0% between 2009 and 2014.

Global asset management and custody banks sector - AUM



Source: Datamonitor - Global asset management and custody banks industry profile - March 2010

Analysts indicate that in the near term, the economic recovery will have a greater impact on AUM levels than net investment inflows. However AUM is also expected to be bolstered by changes to 401(k) legislation, allowing employers to automatically enrol employees into defined contribution plans. This is expected to increase contributions into 401(k) plans in the US which are typically invested into managed funds. Analysts also anticipate this will increase the importance of institutional investors for asset managers particularly as institutional investors may tend to have a longer term investment horizon.

¹⁶ Restoring the balance - 2010 global hedge fund survey - Ernst & Young and Greenwich Associates

¹⁷ Industry Surveys - Investment Services - Standard & Poor's - 6 May 2010

¹⁸ Restoring the balance - 2010 global hedge fund survey - Ernst & Young and Greenwich Associates

The global financial crisis has also resulted in changes to investor demands. Investors are now demanding greater transparency, with 36% of investors citing greater transparency as the most appealing criteria in awarding a large mandate¹⁹. Recent surveys also suggest that investors are increasingly pressuring hedge funds to lower fees and offer more favourable liquidity terms.

These changes in the market in terms of increased transparency and liquidity have resulted in a greater demand for exchange traded funds (ETFs). ETFs are investment companies which are traded on stock exchanges and offer investors a proportionate share in a portfolio of stocks, bonds and other securities. Most managers attempt to replicate the return on a market index. The popularity of ETFs have grown as they provide lower expense ratios, lower trading costs and greater liquidity.

The industry has also responded to investors' demand for greater liquidity and transparency through the use of managed accounts. Managed accounts allow direct ownership of the underlying assets, rather than holding the assets via other pooled fund vehicles. The ownership of the underlying assets provides investors with a greater level of transparency and control over how and when any particular asset is liquidated. Consequently, investors are not impacted by redemption suspension decisions of external fund managers such as those experienced during the global financial crisis.

There is strong support within the industry for managed accounts, with 55% of hedge funds recently surveyed²⁰ stating that they are considering offering managed accounts to investors in order to attract larger institutional mandates. In contrast, only 11% of investors perceive this as being the most attractive option to increase their mandate.

¹⁹ Restoring the balance - 2010 global hedge fund survey - Ernst & Young and Greenwich Associates

²⁰ Restoring the balance - 2010 global hedge fund survey - Ernst & Young and Greenwich Associates

5. Valuation approach

A number of valuation approaches may be applied in determining the fair market value of an investment or business with the appropriate approach dependent upon the specific circumstances. Details of the various accepted approaches are outlined in *appendix C – valuation approaches* and typically comprise the income, market and cost approaches.

Having regard to the nature of HFA's business and the available information, we have applied the capitalised earnings approach as our primary methodology. We have adopted this approach for the following reasons:

- ▶ The established nature of the business and track record of profitability (as adjusted for non-cash impairment losses).
- ▶ The availability of information in respect of broadly comparable companies. There are a number of quoted asset management companies and recent transactions such that trading and transaction multiples are able to be drawn from the market to be applied to an assessment of HFA's earnings.
- ▶ The lack of long term financial forecasts that may be relied upon for this purpose with forecasts for this industry being particularly difficult to predict.

The capitalised earnings methodology requires an assessment of the following:

- ▶ The earnings stream that may be considered representative for the business. In this respect we have adopted EBITDA as the appropriate earnings basis for our analysis as:
 - ▶ The depreciation policies adopted by comparable companies may be inconsistent.
 - ▶ Amortisation expense, which is driven by intangible assets recognised in the statement of financial position, can be significantly different across companies. We note that HFA's reported results are significantly impacted by material non-cash deductions for the amortisation of intangible assets as a result of its acquisition of Lighthouse.
 - ▶ Differing gearing levels and working capital requirements of companies impact on the interest expense. In particular we note that HFA currently has significantly higher debt levels than the comparable asset management companies that typically have low or zero debt.
 - ▶ Different tax rates and assessment of deductible expenses in various jurisdictions.

Our selected EBITDA is after the deduction of equity settled transaction expenses. In arriving at our value per share we then relied upon the actual numbers of shares outstanding. We did also consider the impact on values per share using EBITDA before deduction of equity settled transaction expenses, and instead using diluted numbers of shares, to arrive at a value per share. We note however that using the latter approach would not result in a different opinion with respect to the Transaction.

- ▶ An appropriate earnings multiple to apply to the EBITDA, having regard to comparable listed companies, relevant comparable transactions, growth prospects and other factors specific to HFA.

- ▶ The normalised net debt attributable to HFA. This also requires an assessment of changes in net debt of HFA in the event that the Transaction is approved.
- ▶ Any other assets, liabilities and contingent liabilities that are not reflected in the value determined by the capitalisation of EBITDA.

In applying this methodology we considered:

- ▶ The fair market value of one share in HFA before the Transaction on a control basis, being the value of the interest notionally being disposed of. We cross checked our range of fair market values to the historical share price of HFA (noting the lack of liquidity) prior to the announcement of the Transaction, as adjusted for a control premium. Our assessment of the appropriate control premium is discussed further in section 6.2.3 of this report. We cross checked our range of fair market values based on the percentage of AUM of HFA compared to the AUM percentages of the quoted comparable companies.
- ▶ The fair market value of HFA on a minority basis assuming the Transaction proceeds. We cross checked our range of fair market values based on the percentage of AUM as well as recent share price performance.



6. Value of HFA (pre Transaction)

6.1 Assessment of EBITDA

In assessing the level of earnings to apply in our valuation, we had regard to the following key factors:

- ▶ The historical financial performance of HFA as set out in section 3.3 of this report. HFA's historic earnings have displayed significant volatility, impacted by the acquisition of Lighthouse, structural changes in the business and the global financial crisis. As such its historic earnings may not be reflective of future expected performance.
- ▶ The reduction in average AUM since FY10. HFA's AUM has declined from an average of \$5.6 billion²¹ in FY10, to \$5.2 billion as at 31 October 2010. As such, it is expected that HFA's EBITDA in FY11 would be lower than the \$24.0 million achieved in FY10.
- ▶ In FY10 HFA generated performance fees of \$1.3 million. While we understand that several of HFA's funds are at, or close to, their high watermarks, and that performance fees of around \$0.4 million have been generated in FY11, there is a risk that the level of performance fees may be lower than achieved in FY10.
- ▶ HFA has not provided market guidance regarding its expected level of earnings for the twelve months to 30 June 2011 in light of the inherent difficulty in predicting EBITDA for businesses of this nature. HFA management has however indicated that it does not expect that its "operating results before abnormal items and income tax for the half year ending 31 December 2010 will vary by more than 15% versus the previous corresponding period"²². We have discussed with Management its guidance and note that:
 - ▶ The higher average A\$:US\$ exchange rate, lower average AUM and lower performance fees to date in FY11 suggest that the earnings may be lower than achieved in FY10;
 - ▶ Management's guidance was in respect of operating profit before abnormal items and tax, whilst we are concerned with EBITDA in our analysis;
 - ▶ We note that HFA's EBITDA for the first six months of FY10 was \$11.4 million. However, various additional deductions would likely be made in order to arrive at a full year estimate in FY11²³, such as equity settled transaction expenses, which were not approved, and therefore not able to be reflected in Management's guidance for the first six months of FY11.
- ▶ We have had regard to the reduction in average AUM since FY10 as discussed above. Assuming HFA's revenue margins on AUM are broadly the same as achieved in FY10 and with expenses held constant, this would imply EBITDA of around \$18.0 million. Excluding the impact of \$1.3 million in performance fees generated in FY10 implies an FY11 EBITDA of approximately \$17.0 million. However these estimates assume that

²¹ Average of AUM as at 31 December 2009 and 30 June 2010

²² HFA ASX announcement dated 23 November 2010

²³ Accruals for equity settled transaction expenses had been included in the prior corresponding period, however minimal expenses related to equity settled transactions were included in Management's guidance for the six months to 31 December 2010 as the compensation arrangements had not been approved at the time

the average AUM is not further reduced in FY11 and that foreign exchange rates remain at current levels.

As such, based on our discussions with Management and the factors considered above, we have selected normalised FY11 EBITDA of between \$17.0 million and \$19.0 million as a basis for our fair market valuation of HFA. This EBITDA has then been capitalised at a multiple that we consider reasonably reflects the growth prospects of HFA.

We note that as at the date of this independent expert's report analyst consensus forecasts for HFA's FY11 EBITDA is \$20.9 million. However we note that HFA's stock is not well covered, with only one advisor covering the stock, and as such we have not placed significant emphasis on this estimate.

6.2 Earnings multiples

In assessing an appropriate earnings multiple to apply in valuing HFA on a control basis, we considered the current trading multiples of companies that may be considered broadly comparable to HFA. In addition we analysed the multiples implied from recent acquisitions of asset managers globally.

6.2.1 Trading multiples

There are few companies that may be considered directly comparable to HFA. Consequently, in our analysis, we have considered a range of global asset management companies reflecting that the majority of HFA's business is outside of Australia and that asset managers typically invest globally and are therefore impacted by somewhat similar global issues.

The table on the following page summarises the trading multiples of the selected comparable companies as at 14 January 2011. The multiples are based on the observed share prices of minority parcels of shares and are therefore not reflective of a premium for control.

Descriptions of the comparable companies presented in the table on the following page are provided in *appendix D - asset management company multiples*.

Trading multiples

Company	Market cap (\$ million)	EV/ EBITDA FY10	EV/ EBITDA FY11	EV/FUM %	EV/AUM %
HFA Holdings Ltd	131	9.0	10.5	na	4.2%
Platinum Asset Management Ltd	2,751	14.2	12.2	14.8%	na
Perpetual Ltd	1,404	8.2	9.0	4.6%	na
IOOF Holdings Ltd	1,792	10.1	7.5	1.6%	na
BT Investment Management Ltd	445	10.2	8.5	1.1%	na
Hunter Hall International Ltd	154	6.9	7.7	7.2%	na
Treasury Group Ltd	114	9.6	nm	0.7%	na
AllianceBernstein Holding LP	2,409	na	nm	na	0.5%
Affiliated Managers Group Inc	5,464	16.0	15.4	na	2.4%
Calamos Asset Management Inc	316	nm	nm	na	1.1%
Eaton Vance Corp	3,789	10.8	9.1	na	2.2%
Franklin Resources Inc	27,457	11.8	9.0	na	3.6%
Invesco Ltd	11,682	12.3	11.4	na	2.0%
T Rowe Price Group Inc	17,557	16.4	13.5	na	3.8%
Waddell & Reed Financial Inc	3,217	13.2	10.8	na	4.2%
Legg Mason Inc	5,586	10.9	9.5	na	0.9%
Ashmore Group PLC	4,084	10.4	9.1	na	9.4%
Aberdeen Asset Management PLC	4,057	10.1	10.2	na	1.5%
Schroders PLC	8,261	10.5	8.4	1.9%	na
Man Group PLC	9,296	10.6	10.6	11.8%	na
Polar Capital Holdings PLC	170	nm	10.2	na	4.6%
Mean		11.2	10.1	5.5%	3.1%
Median		10.6	9.8	3.3%	2.4%

Source: Bloomberg, Capital IQ, Company reports

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6.2.2 Transaction multiples

The following table summarises the multiples implied from recent transactions where the target operates within the asset management industry and for which information is available publicly:

Date	Target	Acquiror	Target Country	Acquired	EV (LCU)	AUM (LCU)	EV/EBITDA	EV/AUM %
Oct-10	GLG Partners Inc	Man Group PLC	US	100%	1,629	23,700	20.1	6.9%
Oct-10	BlueBay Asset Management	Royal Bank of Canada	UK	100%	963	40,000	18.6	2.4%
Sep-10	Thames River Capital LLP	F & C Asset Management PLC	UK	100%	54	4,210	na	1.3%
Jan-10	Certain businesses of RBS Asset Management	Aberdeen Asset Management PLC	UK	100%	85	13,500	8.5	0.6%
Oct-09	Morgan Stanley Investment Management (incl Van Kempen)	Invesco	US	100%	1,500	119,000	7.7	1.3%
Aug-09	Delaware Investments	Macquarie Group	US	100%	428	125,000	11.6	0.3%
Jul-09	Goldman Sachs JBWere (Private Wealth Management business)	National Australia Bank	AUS	80%	124	38,000	na	0.3%
Jun-09	DB Zwirn & Co	Fortress Investment Group	US	100%	51	2,000	na	2.6%
Nov-08	Australian Wealth Management Ltd	IOOF Holdings Ltd	AUS	100%	545	60,400	9.2	0.9%
Jul-08	LWI Financial	Werba Reinhard Holdings	Canada	79%	139	6,000	24.0	2.3%
Dec-07	Marble Bar Asset Management	EFG International	UK	100%	517	4,400	na	11.8%
Jul-07	Lighthouse	HFA	US	100%	707	8,000	11.0	8.8%
Jun-07	Quellos fund of funds business	BlackRock	US	100%	1,700	17,400	na	9.8%
Mean							13.8	3.8%
Median							11.3	2.3%

Source: Company reports, press articles

LCU: Local currency unit

As all of these transactions are of controlling interests the implied multiples are reflective of a takeover premium. Descriptions of the above transactions are provided in *appendix E - recent transactions*.

6.2.3 Assessment of earnings multiples

In assessing an appropriate range of earnings multiples to apply in valuing HFA pre the Transaction on a controlling basis, we considered the following factors:

- ▶ HFA's Australian funds management operations have suffered a reduction in AUM due to the deleveraging of the funds, as well as some redemptions. Furthermore, the impending maturity of various closed-end funds may impact on the Australian operations' overall future growth prospects. We note that the comparable companies are forecasting earnings growth averaging 17% in FY12, with median growth estimates also at 17%. As highlighted in the *asset management market overview* these comparable company growth rates may assume a recovery in global market conditions and continued inflows from superannuation and pension plans. HFA's growth prospects are expected to be lower in the short term in the absence of the Transaction.



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In addition, we note that the selected asset management companies are forecasting growth in EBITDA in FY11 averaging 15%²⁴. In contrast, HFA's FY11 earnings are forecast to decline. While we have considered this decline in HFA's earnings in our selection of EBITDA, our analysis indicates the potential for lower growth for HFA compared with its peers.

- ▶ HFA is highly leveraged compared to the other comparable listed companies. As shown in the table in *appendix D - asset management company multiples*, HFA's average debt to equity ratio over the last two years is 108%. This is significantly higher than all of the selected comparable companies whose gearing ratios²⁵ (excluding HFA) average 7%. HFA's higher leverage has the potential to reduce the comparative attractiveness of HFA particularly where investors may be more concerned with liquidity following the impacts of the financial crisis.
- ▶ In the event that the Transaction is not approved there may be a requirement to raise other sources of long term funding for the business. One of the potential alternatives could include an equity raising which could result in the dilution of existing Shareholders.
- ▶ HFA is highly reliant upon certain key individuals with the loss of key employees representing a risk to the business.
- ▶ We also note that a number of the comparable companies are significantly larger than HFA. However in light of the relatively narrow range of multiples this may indicate that size is not a major factor within this industry.
- ▶ The multiples in section 6.2.1 are based on the market price for minority or portfolio holdings of shares and do not include a premium for control. A premium for control is applicable when the acquisition of control of a company or business would give rise to benefits such as:
 - ▶ The ability to realise synergistic benefits, for example by merging the target company's operations with those of the acquiring entity
 - ▶ Access to cash flows
 - ▶ Access to tax benefits
 - ▶ Control of the board of directors and the direction of the company

As the Transaction is considered a control transaction, under RG 111 we are required to consider the value of HFA inclusive of a premium for control. Evidence from studies indicates that control premiums on successful takeovers have frequently been in the range of 20% to 40% and that the premium will vary significantly from circumstance to circumstance. In assessing the control premium that may be applicable to HFA we note that:

- ▶ Control premia implied in acquisitions of asset management companies globally over the past two years averaged 35%²⁶, with a median of 26%. We note however that few transactions were completed during this period which may limit the reliability of this data.
- ▶ Within the financial services sector, between October 2009 and September 2010 the control premia averaged 51%, with a median of 37%.

²⁴ Excluding Polar Capital as an outlier

²⁵ Gearing calculated as average net debt divided by the average market value of equity

²⁶ Control premium data sourced from FactSet Mergerstat LLC quarterly control premium publications

- ▶ The median global control premia for transactions for the quarter ending September 2010 was 34%, and for the twelve months to September 2010 was 36%.

The nature of the asset management industry is such that businesses are relatively scalable such that synergistic benefits may be achieved.

Based on the foregoing we have adopted an FY11 EBITDA multiple on a control basis of 9.5x normalised FY11 EBITDA. This reflects a discount (after recognising the control premium discussed above) to many of the comparable companies for the reasons noted above.

6.3 Net debt

In order to arrive at the equity value, it is necessary to deduct the net debt from the enterprise value calculated for HFA. As at 30 June 2010 HFA had net debt of \$87.7 million as set out below.

Net debt as at 30 June 2010

<i>Currency: A\$ 000s</i>	30 June 2010
Interest bearing loans and borrowings - current	10,322
Interest bearing loans and borrowings - non current	110,351
Total debt	120,673
less: Cash and cash equivalents	(32,977)
Net debt	87,696

Source: HFA 2010 annual report

We understand that HFA's net debt has since reduced to \$70.0 million²⁷ as at 31 October 2010 reflecting the exchange rate impact on its US\$ denominated borrowings as well as some repayments.

6.4 Assets and liabilities not included in the enterprise value

Management of HFA have advised that as at the date of this report there are no other surplus assets or liabilities (other than Transaction expenses) which require inclusion in the valuation.

6.5 Transaction expenses

Expenses relating to the Transaction are estimated at around US\$5.0 million, of which HFA estimates that up to US\$3.0 million will have been incurred prior to the date of the General Meeting of Shareholders. We have therefore deducted these expenses in arriving at our equity value.

6.6 Shares outstanding

As detailed in section 3.6.1, the number of ordinary shares outstanding for HFA is currently 469,330,170. We recognise that there are HFA Performance Rights outstanding as well as other performance rights detailed in section 3.6.2 of this report, however as the normalised EBITDA is after deducting equity settled transaction expenses it is appropriate to use the basic number of shares outstanding.

²⁷ Exchange rate assumption of US\$: A\$ of 0.9888 as at 14 January 2011

6.7 Summary of valuation analysis

We summarise our fair market valuation of issued shares in HFA as follows:

HFA value per share - pre Transaction

	Reference	Low	High
FY11 EBITDA (after equity settled transactions) (\$ 000)	6.1	17,000	19,000
FY11 EV/EBITDA multiple (control basis)	6.2	9.5	9.5
Enterprise value (\$ 000)		161,500	180,500
less: transaction expenses (\$ 000)	6.5	(3,034)	(3,034)
less: net debt (\$ 000)	6.3	(70,047)	(70,047)
Equity value 100% (\$ 000)		88,419	107,419
Shares outstanding (basic) ('000)	6.6	469,330	469,330
Equity value per share (control basis) (\$)		0.19	0.23

Source: EY analysis

The above valuation reflects the value of one share in HFA inclusive of a premium for control.

6.8 Valuation cross checks

6.8.1 Comparison to trading market prices

We have considered the reasonableness of our valuation by cross checking the value per share to recent traded prices in HFA shares prior to the announcement of the Transaction.

Set out below is a summary of the prices at which HFA has recently traded on the ASX. As these reflect trading prices of minority interests, we have increased the observable share prices by 30% to reflect an assumed control premium. The resulting ranges support the upper end of our valuation range. However, we note that HFA's share price increased almost 19% on 19 November 2010, being prior to the announcement of a possible transaction, and as such its subsequent share price may already reflect some element of a control premium. Furthermore, HFA's share price further increased to \$0.305 as at 23 December 2010, an increase of approximately 49% since the announcement of the Transaction on 6 December 2010. The last closing price prior to the date of this report was \$0.275 per share.

However, as highlighted in section 3.8 of this report, there is limited liquidity in HFA's shares or publicly available information as to its future prospects. Therefore we would not place significant reliance on this cross check.

Cross check to share price immediately before announcement

Currency: \$	Share price	With 30% control premium
Trading one day prior to announcement (3 December 2010)	0.205	0.267
VWAP 5 trading days prior to announcement	0.192	0.250
Trading one day prior to ASX query (22 November 2010)	0.190	0.247
VWAP 5 trading days prior to ASX query	0.181	0.235
VWAP 30 trading days prior to ASX query	0.170	0.221

Source: Bloomberg

6.8.2 Comparison to percentage of AUM

As is common in the asset management industry, we also considered the enterprise value as a percentage of AUM. As set out in the table below, our enterprise value²⁸ implies an AUM percentage of between 3.1% and 3.5%.

The comparable companies' AUM percentages average 5.3% with a median of 3.0%²⁹. These percentages are impacted by a number of factors, including growth prospects, operating margins (reflecting the types of assets managed and management fees) and scale of business. Nonetheless, the implied AUM percentages for HFA based on our valuation do not appear unreasonable.

AUM cross check to comparable companies

	Reference	Low	High
Enterprise value (control basis) (\$ 000)	6.7	161,500	180,500
AUM (\$ 000)		5,200,000	5,200,000
Implied enterprise value to AUM (%)		3.1%	3.5%
Average of comparable companies (control basis) (%)		5.3%	5.3%
Median of comparable companies (control basis) (%)		3.0%	3.0%

Source: EY analysis

Based on the above, we consider the historical share prices and the above factors indicate that our valuation range is reasonable for the purposes of this report.

²⁸ Enterprise value is calculated as equity value plus net debt

²⁹ Where FUM is disclosed and no separate AUM is available for comparable companies, we have relied upon the FUM in this analysis



7. Valuation of HFA (post Transaction)

7.1 Approach

We have considered the value of HFA post the Transaction using the capitalised earnings approach, specifically a capitalisation of normalised EBITDA.

7.2 Marketing agreement

Lighthouse has entered into a Marketing Agreement with AP CM, LLC, an affiliate of Apollo Global Management, LLC. Pursuant to this Marketing Agreement, AP CM will distribute the investment products and services of Lighthouse through Apollo's global distribution network. Specifically, the services to be provided by Apollo include:

- ▶ Assisting Lighthouse in the formulation and implementation of a marketing plan for the distribution of Lighthouse products
- ▶ Assisting in the distribution of various offering materials on Lighthouse and its relevant funds
- ▶ Contacting and introducing clients of Apollo as prospective investors in Lighthouse funds, and
- ▶ Advising, and with the consent of Lighthouse, making presentations to, or assisting Lighthouse in its presentations to, potential investors

From our discussions with Management of HFA, we understand that Lighthouse and Apollo have already collaborated in formulating a marketing plan. We also understand that Apollo has held discussions with several of its large institutional investors with respect to Lighthouse's funds. Based on these initial discussions, and the increased demand for managed account programs as a result of the financial crisis, Management considers there is a real prospect of inflows in the near term, as a result of the Marketing Agreement.

As part of the Transaction Apollo will also be granted performance rights which may convert to ordinary shares in HFA upon Lighthouse, on a standalone basis, achieving US\$35 million of EBITDA on or before 31 December 2013 on a trailing twelve month basis. With Lighthouse having generated an estimated \$19.0 million³⁰ of EBITDA in FY10 this would represent a significant increase in EBITDA over the next three years. Lighthouse will also pay to AP CM marketing fees for a period of three years based on fund products purchased by investors introduced by AP CM.

The Marketing Agreement is for an initial term of four years, and will thereafter automatically renew for one year periods unless terminated. The Marketing Agreement may be terminated by either Apollo or Lighthouse in circumstances such as wilful breach of any of its terms, securities violations or fraud, changes in laws or regulations impacting the services or mutual agreement by the parties.

³⁰ Estimated based on earnings (excluding inter-segment revenue) of the US reportable segment sourced from HFA's annual report 2010

7.3 Estimate of EBITDA

As noted above it is difficult to quantify the nature and timing of any such fund inflows that may be derived through its Marketing Agreement or the resultant impact on HFA's future EBITDA. As such, we have considered HFA's future growth prospects in our assessment of the multiple, rather than an explicit adjustment to the normalised EBITDA.

7.4 Estimate of appropriate multiple

In selecting an appropriate multiple for HFA post the Transaction we have taken into account the following factors:

- ▶ The Transaction will reduce HFA's currently high debt levels resulting in a capital structure more in line with the market and a significantly reduced risk profile. This may therefore improve client and market risk perceptions of HFA.
- ▶ As a result of the Marketing Agreement, HFA's growth prospects may be higher than many of the selected comparable companies. Market consensus estimates indicate that the selected asset management companies are forecasting growth in EBITDA in FY12 averaging 17%. Such growth may reflect an improvement in market conditions as well as net inflows in these businesses. However in respect of HFA:
 - ▶ In order to meet the EBITDA performance target of US\$35 million as discussed above, Lighthouse's required growth rate is higher than the average of the comparable companies;
 - ▶ Apollo has already commenced discussions with several of its large institutional investors in relation to Lighthouse's funds; and
 - ▶ Additional scale and funds under management may result in additional earnings growth given the relatively fixed cost nature and scalability of these businesses.

As a result of the above factors HFA's future growth prospects may exceed the general market growth.

- ▶ HFA is likely to be of a larger size increasing its ability to attract and retain employees. Furthermore, a condition of the Note Subscription Agreement is that five specified employees of Lighthouse enter into new employment agreements with HFA. We understand that these agreements have longer terms than the remaining periods on their existing contracts, which reduces the key man risk in the business, at least in the medium term.
- ▶ The potential for improved performance as a result of the Marketing Agreement with Apollo and the shares that will be issued when the Convertible Notes convert (and further if the Options are ultimately exercised) have the potential to significantly increase the market capitalisation of HFA which ordinarily can have a positive impact on investor interest in a security.

As existing shareholders will remain minority investors, we have considered the appropriate multiple on a minority interest basis.

Based on our assessment of the likely impact on the business as a result of the Transaction and its future growth prospects we have adopted an FY11 earnings multiple on a minority basis of 11.0x to 12.0x normalised FY11 EBITDA.

7.5 Net debt and other adjustments

In arriving at the equity value, we made the following adjustments:

- ▶ Deducted current net debt of \$70.0 million as set out in section 6.3 of this report.
- ▶ Transaction costs estimated at US\$5.0 million or \$5.1 million based on current exchange rates.
- ▶ Included cash received by HFA of US\$75.0 million (\$75.9 million)³¹ upon subscription of the Convertible Notes.

7.6 Shares outstanding

In order to reflect the potential future dilution that arises from the conversion of the Convertible Notes into ordinary shares, we have first calculated the face value of Convertible Notes likely to be on issue assuming conversion in four years time, inclusive of the capitalised interest over the first four years. Our calculation of the face value of the Convertible Notes outstanding in four years is as follows:

Face value of Convertible Notes including accumulated interest

Face value of Convertible Notes (\$US 000)	75,000
Interest rate (per annum) ¹	6.0%
Face value of Convertible Notes including capitalised interest for four years (\$US 000)	95,008

Source: Management

¹ payable semi annually

In addition, as the equity settled costs of the Apollo Performance Rights are not captured in our assessment of normalised EBITDA we have instead included the additional ordinary shares in our calculation of shares outstanding. This assumes that Apollo meets the minimum performance criteria for conversion into ordinary shares.

Our calculation of the shares likely to be on issue is as follows:

Assessment of shares on conversion four years from issue

	Reference	
Face value Convertible Notes (incl capitalised interest for 4 years) (US\$ 000)	7.6	95,008
Share price at conversion (US\$)		0.2442
Number of shares issued on conversion of Convertible Notes ('000)		389,137
Performance rights issued to Apollo ('000)		4,000
Current basic shares outstanding ('000)	6.6	469,330
Total shares outstanding (assuming conversion after four years) ('000)		862,467

Source: EY analysis

We have assumed that Apollo and PA HH do not exercise their Options. This is on the basis that the exercise price of \$2.00 per Option is well in excess of the current share price with that price needing to increase approximately seven times from the current level for it to be economic for a holder of the Options to exercise them.

However recognising that Apollo and PA HH are receiving long dated Options which have some value, we deducted the estimated value of Options from our assessed enterprise

³¹ Exchange rate assumption of US\$: A\$ of 0.9888 as at 14 January 2011

value. Our indicative value of the Options was derived using a commonly accepted methodology, the Black-Scholes option valuation methodology, and is based on the following key assumptions:

Options - key assumptions

	Low	High
Risk free rate	5.55%	5.55%
Current share price as at 14 January 2011	0.28	0.28
Strike price (\$)	2.00	2.00
Expiry date	8 Years	8 Years
Volatility	45%	45%
Dividend Yield	4%	6%

Source: EY analysis

Based on these assumptions, the indicative value of the Options is between \$1.6 million and \$2.3 million.

7.7 Summary of valuation analysis

We summarise our fair market valuation of issued shares in HFA post the Transaction on a minority basis as follows:

Value of HFA - Post transaction

	Reference	Low	High
FY11 EBITDA (after equity settled transactions) (\$ 000)	7.3	17,000	19,000
FY11 EV/EBITDA multiple (minority basis)	7.4	11.0	12.0
Enterprise value (\$ 000)		187,000	228,000
add: cash from Apollo (\$ 000)	7.5	75,850	75,850
less: transaction expenses (\$ 000)	7.5	(5,057)	(5,057)
less: net debt (\$ 000)	6.3	(70,047)	(70,047)
less: indicative value of Options (\$000)	7.6	(2,300)	(1,600)
Equity value 100% (minority basis) (\$ 000)		185,446	227,146
Shares outstanding (basic) ('000)	7.6	862,467	862,467
Equity value per share (minority basis) (\$)		0.22	0.26

Source: EY analysis

Based on our analysis, the estimate of value of one share in HFA post the Transaction falls in the range \$0.22 to \$0.26 per share.

However HFA Shareholders should be aware that the estimated value per share does not necessarily reflect the price at which the shares will trade if the Transaction is approved. The share price at which HFA will trade depends on a range of factors including the proposed share consolidation, the extent to which HFA benefits from the Marketing Agreement with Apollo, the supply and demand for HFA's shares, the extent and liquidity of market trading in HFA's shares, foreign exchange rates and future economic conditions.

7.8 Valuation cross checks

7.8.1 Comparison to trading market prices

Subsequent to the announcement of the Transaction on 6 December 2010, the HFA closing share price has ranged between \$0.185 and \$0.305 per share, and as at 14 January 2011



was \$0.280 per share which is above the upper end of our valuation range. The share prices have continued to be based on relatively low volumes of trading.

As noted in section 7.2, the Transaction and in particular the Marketing Agreement with Apollo has the potential to lead to a significant increase in the assets under management and profitability of HFA. The timing and extent of any increase is however uncertain. Consequently, the valuation of HFA post the Transaction is subjective and investors will have differing views as to the likely future performance of HFA and consequently value. Based on the above factors we do not consider our assessed range of values to be unreasonable in the context of trading prices for HFA shares subsequent to the announcement of the Transaction.

7.8.2 Comparison to percentage of AUM

We have considered the reasonableness of our valuation range by considering the enterprise value as a percentage of AUM. As set out in the table below, our enterprise value³² implies an AUM percentage of between 3.6% and 4.4%. This compares with the average of the comparable companies, on a minority basis, of 4.0% and a median of 2.4%³³. As such, our value range is not unreasonable considering HFA's potential for higher AUM growth as a result of the Transaction.

Valuation cross check

	Reference	Low	High
Enterprise value (minority basis) (\$ 000)	7.7	187,000	228,000
AUM (\$ 000)		5,200,000	5,200,000
Implied enterprise value to AUM (%)		3.6%	4.4%
Average of comparable companies (minority basis) (%)		4.0%	4.0%
Median of comparable companies (minority basis) (%)		2.4%	2.4%

Source: EY analysis

³² Enterprise value is calculated as equity value plus net debt

³³ Where FUM is disclosed and no separate AUM is available for comparable companies, we have relied upon the FUM in this analysis.

8. Evaluation of the Transaction

8.1 Fairness

We have compared the value of an HFA share (on a control basis) pre the Transaction to the estimated value of an HFA share (on a minority basis) post the Transaction in order to assess whether the Transaction is fair. The following table summarises this comparison:

	Reference	Low	High
Value per HFA share (control basis pre Transaction)	6.7	A\$0.19	A\$0.23
Value per HFA share (minority basis post Transaction)	7.7	A\$0.22	A\$0.26

As shown in the above table, the range of values for an HFA share post the Transaction is either within or above the assessed range of values for an HFA share pre the Transaction. Accordingly we consider the terms of the Transaction to be fair.

8.2 Reasonableness

In accordance with RG 111.11, as we have concluded that the terms of the Transaction are fair, we also consider them to be reasonable.

8.3 Other factors

Other factors that HFA Shareholders should consider in forming their views as to whether or not to vote in favour of the Transaction are set out below:

8.3.1 Advantages

A stronger financial position

HFA currently has a greater level of debt than many other asset management companies. A large part of this debt arose as a result of the acquisition of Lighthouse in 2008. The Transaction and the proposed repayment of approximately US\$65 million in debt is expected to result in a residual debt balance being substantially matched by HFA's cash holdings, depending on the foreign exchange rate at the time of repayment. This will significantly reduce the financial risks associated with HFA to be more in line with other market participants, and may therefore improve client and market risk perceptions of HFA. Furthermore, its stronger financial position and enhanced flexibility under the new loan facility, may enable HFA to resume dividend payments to Shareholders sooner than if the Transaction does not proceed.

Improved growth outlook

In recent years HFA, through its US based subsidiary Lighthouse, has been focusing on transitioning its business from having a fund of funds model to a managed account model and has made substantial progress in this regard. HFA has more recently been focussing on improving the distribution of its products.

The Transaction has the potential to improve the growth outlook for the business and also to reduce the associated risks for the following reasons:

- ▶ The Marketing Agreement with Apollo and the fact that Apollo, through its holdings of Convertible Notes, Options and Apollo Performance Rights, will be incentivised to increase the distribution of HFA products and improve HFA's assets under management



(AUM) inflows. Consequently, as a scalable business, its earnings may similarly improve above that which may be achieved currently. We note that the key performance hurdle for the issue of HFA shares pursuant to the Apollo Performance Rights is the achievement by Lighthouse, on a stand alone basis, of US\$35 million in EBITDA, which is significantly higher than the estimated \$19 million achieved in FY10.

- ▶ The reduced financial leverage and improved client and market perception referred to above.
- ▶ A condition of the Note Subscription Agreement is that five specified employees of Lighthouse enter into new employment agreements with HFA. We understand that these agreements have longer terms than the remaining periods on their existing contracts. We also note that these employees are also shareholders in HFA. These revised arrangements, together with the fact that HFA will be in a stronger financial position with improved growth prospects and enhanced financial flexibility, may enhance its ability to attract and retain key personnel.

Limited alternative equity raising options

The Transaction in effect results in HFA issuing Convertible Notes which will ultimately convert into ordinary shares at a price of US\$0.2442³⁴ per share while at the same time resulting in Lighthouse having a new and significant distribution network for its products. We understand that the Board of HFA has previously given consideration to various options for achieving a reduction in HFA's debt levels including rights issues or placements of shares. As a result of HFA's historic share price performance and the fact that a significant rights issue was undertaken in 2007 at \$2.00 per share it is likely that the Transaction is occurring on terms that are better than could be achieved by way of an issue of ordinary shares.

Shareholders will continue to participate in possible future increases in the value of HFA

Our valuation reflects assumptions in relation to potential future growth opportunities available to HFA as a result of the Transaction. While our valuation gives recognition to the fact that HFA's growth prospects will improve as a result of the Transaction, it also recognises that the extent to which this will occur is uncertain. To the extent that HFA exceeds the expectations reflected in our valuation, existing Shareholders will continue to participate in any future increases in the value of HFA shares.

Greater market capitalisation

The potential for improved performance as a result of the Marketing Agreement with Apollo and the shares that will be issued when the Convertible Notes convert (and further if the Options are ultimately exercised) have the potential to significantly increase the market capitalisation of HFA which, ordinarily, can have a positive impact on investor interest in a security.

In this case, however, as Apollo and PA HH will in aggregate hold at least 39.6% of HFA's expanded share capital and will therefore be excluded from the "free float", which is a key determinant of a stock's index representation, there can be no certainty that HFA will be included in any key market index.

³⁴ On a pre share consolidation basis

8.3.2 Disadvantages

Attraction as a takeover target

If the Transaction is approved, the issuance of Convertible Notes, Options and Apollo Performance Rights to Apollo and PA HH, may act as a deterrent to any other parties in making a takeover offer as Apollo and PA HH would in effect have to support a transaction to allow any other party to gain control.

Transaction costs

As set out in the Explanatory Memorandum HFA will incur a break fee of US\$750,000 in the event that the HFA Board changes its recommendation and the Note Subscription Agreement is terminated. In addition HFA has estimated that it will incur total transaction costs of approximately US\$5.0 million, a proportion of which will have been incurred prior to the date of the General Meeting of Shareholders.

8.3.3 Other Factors

Potential for alternative proposals to emerge

It is possible that in the absence of this Transaction an alternative proposal involving HFA could emerge. However we understand that HFA has been considering its strategic options throughout the global financial crisis and that Management considers the proposed Transaction to be attractive as it offers both potential distribution benefits and a strengthening of HFA's balance sheet.

Apollo and PA HH shareholding and liquidity

We note that in the event that the Transaction proceeds there may be no immediate impact on the number of HFA shares available to trade on the ASX. Furthermore, there can be no certainty as to the ultimate shareholding in HFA that will be held by Apollo and PA HH. This will be dependent upon a range of factors including when the Convertible Notes are converted into ordinary shares, whether Apollo and PA HH ultimately exercise their Options and the extent to which additional shares are ultimately granted under the Apollo Performance Rights or acquired from specified HFA Shareholders pursuant to the Right of First Refusal Agreement.

The table on the following page sets out an estimate of the shareholding that Apollo and PA HH may ultimately hold based on the following assumptions:

- ▶ the Convertible Notes are converted either immediately, in 4 years, or in 8 years, with all interest capitalised up until the date of conversion
- ▶ the Apollo Performance Rights vest by 2013
- ▶ the Options are exercised in full within either 4, or 8 years, which would involve HFA receiving \$250 million of additional proceeds
- ▶ the specified shareholders sell all of their HFA shares and Apollo exercises the right of first refusal in relation to these shares
- ▶ any future issuances of shares that may occur are excluded, such as the vesting of performance rights not issued as part of the Transaction, other than as set out in the following table

Potential Apollo and PA HH shareholding

	Holding assuming immediate conversion	Holding assuming conversion in 4 years	Holding assuming conversion in 8 years
Conversion of Convertible Notes	39.6%	45.3%	51.2%
Lighthouse performance rights	-	44.5%	50.4%
Apollo Performance Rights	-	44.8%	50.6%
Options	-	51.6%	56.2%
Right of First Refusal	-	66.9%	70.0%

Source: Management and EY analysis

The conversion of the Convertible Notes held by Apollo and PA HH and the exercise of Options (if this ultimately occurs) will not reduce the number of HFA shares available to trade on the ASX. It will however reduce the proportion of HFA's share capital that is available to trade given Apollo and PA HH will hold at least 39.6% of HFA's share capital, or more in the event that the Options are exercised, shares are issued under the Apollo Performance Rights and shares are acquired under the Right of First Refusal Agreement.

Greater exposure to offshore operations and exchange rate risk

The Transaction has the potential to result in significant growth in HFA's US operations. As such, the business may become more exposed to the US market and foreign exchange movements. We note however that the Lighthouse operations already contributed around 89% of earnings in the financial year ended 30 June 2010.

Share price if the Transaction is not approved

While we are unable to ascertain with any degree of certainty how HFA's share may trade if the Transaction does not proceed, in the absence of an alternative proposal, it is likely that HFA's share would trade below its current price. This may reflect that a significant proportion of the premium that appears to be currently reflected in HFA's share price would cease to be priced into HFA's share price, causing it to decline, perhaps significantly. We note that subsequent to the announcement of the Transaction on 6 December 2010, HFA's share price has increased approximately 49% from \$0.205 per share to a high of \$0.305 per share as at 23 December 2010. The last closing price prior to the date of this report was \$0.275 per share.

In the event that the Transaction does not proceed, unless another alternative emerges and is implemented, HFA will continue to operate in its existing form. However, under the terms of the Note Subscription Agreement a break fee of US\$750,000 would be payable by HFA to Apollo if the termination resulted from a change in recommendation of HFA's Board. Other transaction costs will also have been incurred by HFA of up to US\$3 million.

Furthermore, there may be uncertainty with respect to whether an alternative proposal will emerge as well as a requirement to raise other sources of long term funding for the business. One of the potential alternatives could include an equity raising which could result in the dilution of existing Shareholders.

8.4 Conclusion

Having considered the various matters outlined in this independent expert's report, in our opinion, the Transaction is fair and reasonable.

Appendix A Qualifications and declarations

Ernst & Young Transaction Advisory Services Limited, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The representatives of Ernst & Young Transaction Advisory Services Limited responsible for this report have not provided financial advice to HFA, Apollo or PA HH.

Prior to accepting this engagement we considered our independence with respect to HFA, Apollo and PA HH with reference to ASIC Regulatory Guide 112 *independence of experts*. Ernst & Young, and global affiliates thereof, have not provided any services to either party in relation to the Transaction other than the preparation of this report. In our opinion we are independent of HFA, Apollo and PA HH.

This report has been prepared specifically for the non-associated shareholders of HFA. Neither Ernst & Young Transaction Advisory Services Limited, Ernst & Young, nor any member or employee thereof, undertakes responsibility to any person, other than a non-associated shareholder of HFA, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. We have no reason to believe that any information supplied to us was false or that any material information has been withheld from us. We have evaluated the information provided to us by HFA as well as other parties, through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. We do not imply and it should not be construed that we have audited or in any way verified any of the information provided to us, or that our inquiries could have verified any matter which a more extensive examination might disclose.

HFA has provided an indemnity to us for any claims arising out of any misstatement or omission in any material or information provided to us in the preparation of this report.

We provided draft copies of this report to the directors and management of HFA for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of us alone. Changes made to this report as a result of this review by the independent directors and management of HFA have not changed the methodology or conclusions reached by us.

We will receive a professional fee based on time spent in the preparation of this report, estimated at approximately \$165,000 inclusive of GST. We will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

The principal persons responsible for the preparation of this report are Stuart Bright and Julie Wolstenholme.

Stuart Bright, a director and representative of Ernst & Young Transaction Advisory Services Limited and a partner of Ernst & Young, has assumed overall responsibility for this report. He has 20 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.



Julie Wolstenholme, a representative of Ernst & Young Transaction Advisory Services Limited and an executive director of Ernst & Young, has also been involved in the preparation of this report. She has 10 years experience in providing financial advice and valuation advice and has professional qualifications appropriate to the advice being offered.

The preparation of this report has had regard to relevant ASIC Regulatory Guides and APES 225 *Valuation Services* issued by the Accounting Professional and Ethical Standards Board Limited in July 2008. It is not intended that the report should be used for any other purpose other than to accompany the Explanatory Memorandum sent to HFA Shareholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of our opinion as to whether or not the Transaction is fair and reasonable to the HFA Shareholders.

Any forward looking information prepared by HFA used as a basis for the preparation of this report reflects the judgement of HFA management based on present circumstances, as to both the most likely set of conditions and the course of action it is most likely to take. It is usually the case that some events and circumstances do not occur as expected or are not anticipated. Therefore, actual results during the relevant future period will almost always differ from the forward looking information and such differences may be material. To the extent that our conclusions are based on such forward looking information, we express no opinion on the achievability of that information.

We consent to the issue of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Memorandum to be sent to HFA Shareholders.

SCHEDULE 6 – INDEPENDENT EXPERT'S REPORT

Appendix B Sources of information

In preparing this report, we have had regard to the following sources of information:

- ▶ Annual reports for the years ending 30 June 2006 to 30 June 2010
- ▶ Management accounts for the 3 months ended 30 September 2010
- ▶ HFA results presentations
- ▶ Analyst reports for HFA
- ▶ Draft copies of the following documents:
 - ▶ Note Subscription Agreement
 - ▶ Marketing Agreement
 - ▶ Right of First Refusal Agreement
 - ▶ Mandatory Convertible Note Deed Poll
 - ▶ Agreement in relation to the grant of Performance Rights to Apollo in respect of the Marketing Agreement
 - ▶ Draft terms of the escrow requirements under the employment agreements
- ▶ HFA website
- ▶ Analysts reports and websites of comparable companies
- ▶ External information sources including Bloomberg, Factiva
- ▶ Standard & Poor's Investment Services Industry Surveys
- ▶ Restoring the balance - 2010 global hedge fund survey by Ernst & Young and Greenwich Associates

In addition we held discussions and corresponded with various members of senior management of HFA.

Appendix C Valuation approaches

Most valuation approaches can be categorised under one or more of the following broad approaches:

- ▶ The income approach under which an asset is valued as the present value of the future net economic benefits that are expected to accrue to the owner from the use or sale of the asset
- ▶ The market approach under which an asset is valued by reference to evidence (if any) of prices obtained in sales of interests in the asset that is the subject of the valuation, or by reference to the value of comparable assets related to some common variable such as earnings, cash flow or revenue
- ▶ The cost approach under which an asset is valued by reference to its historical cost or replacement cost.

Each of these approaches is appropriate in certain circumstances. The decision as to which approach and methodology to utilise generally depends on the availability of appropriate information and type of business.

Income approach

The most common methodology within the income approach is the DCF methodology. The DCF methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a rate that reflects the time value of money and the risk inherent in the cash flows.

This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life. The utilisation of this methodology generally requires management to be able to provide long term cash flows for the company, asset or business.

Market approach

The main methodology within the market approach is the capitalisation of earnings methodology. This involves capitalising the earnings of a business at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology requires consideration of the following factors:

- ▶ Estimation of normalised earnings having regard to historical and forecast operating results, abnormal or non-recurring items of income and expenditure and other factors. The normalised earnings are generally based on net profit after tax, EBIT, EBITA or EBITDA.
- ▶ Determination of an appropriate earnings multiple reflecting the risks inherent in the business, growth prospects and other factors. Multiples may be derived from quoted comparable trading companies and well as implied from recent acquisitions of similar companies.
- ▶ Earnings multiples applied to net profit after tax are known as price earnings multiple and are commonly used in relation to listed public companies. Earnings multiples applied to EBIT, EBITA or EBITDA are known, respectively, as EBIT, EBITA or EBITDA multiples, and are commonly used in respect of companies comprising a number of

businesses where debt cannot be precisely allocated or in acquisition scenarios where the purchaser is likely to control gearing.

- ▶ An adjustment for financial debt, in the event that maintainable earnings are based on EBIT, EBITA or EBITDA.
- ▶ An assessment of any surplus assets and liabilities, being those which are not essential to the generation of the future maintainable earnings.

This methodology is appropriate where a company or business is expected to generate a relatively stable record of earnings.

Cost approach

The main method within the cost approach is the net realisable value of assets methodology. This involves the determination of the net realisable value of the assets of a business or company, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair market value.

This methodology is appropriate for asset intensive businesses, or where a business does not generate an adequate return on its assets.

Appendix D Asset management company multiples

The following table provides an overview of the current trading multiples of listed asset management companies based on share prices as at 14 January 2011.

Comparable companies trading multiples as at 14 January 2011

Company	Market cap (\$ million)	EV/ EBITDA FY10	EV/ EBITDA FY11	EV/FUM %	EV/AUM	Average % leverage
HFA Holdings Ltd	131	9.0	10.5	na	4.2%	108%
Platinum Asset Management Ltd	2,751	14.2	12.2	14.8%	na	0%
Perpetual Ltd	1,404	8.2	9.0	4.6%	na	11%
IOOF Holdings Ltd	1,792	10.1	7.5	1.6%	na	0%
BT Investment Management Ltd	445	10.2	8.5	1.1%	na	0%
Hunter Hall International Ltd	154	6.9	7.7	7.2%	na	0%
Treasury Group Ltd	114	9.6	nm	0.7%	na	0%
AllianceBernstein Holding LP	2,409	na	nm	na	0.5%	0%
Affiliated Managers Group Inc	5,464	16.0	15.4	na	2.4%	26%
Calamos Asset Management Inc	316	nm	nm	na	1.1%	7%
Eaton Vance Corp	3,789	10.8	9.1	na	2.2%	8%
Franklin Resources Inc	27,457	11.8	9.0	na	3.6%	0%
Invesco Ltd	11,682	12.3	11.4	na	2.0%	29%
T Rowe Price Group Inc	17,557	16.4	13.5	na	3.8%	0%
Waddell & Reed Financial Inc	3,217	13.2	10.8	na	4.2%	0%
Legg Mason Inc	5,586	10.9	9.5	na	0.9%	45%
Ashmore Group PLC	4,084	10.4	9.1	na	9.4%	0%
Aberdeen Asset Management PLC	4,057	10.1	10.2	na	1.5%	8%
Schroders PLC	8,261	10.5	8.4	1.9%	na	0%
Man Group PLC	9,296	10.6	10.6	11.8%	na	0%
Polar Capital Holdings PLC	170	nm	10.2	na	4.6%	0%
Mean		11.2	10.1	5.5%	3.1%	
Median		10.6	9.8	3.3%	2.4%	

Source: Bloomberg, Capital IQ, Company reports and analysts notes

na: not available

nm: not meaningful

Average leverage calculated as net debt divided by equity value over the last two years

A brief overview of the comparable companies is provided below.

Platinum Asset Management Ltd (Platinum)

Platinum is a large Australian asset manager which currently manages in excess of \$18 billion of AUM for its predominantly retail investors.

Perpetual Ltd (Perpetual)

Perpetual provides a diverse range of services and financial advice as well as trustee and fiduciary services. Its investment management and private wealth management business comprised around 76% of after tax profits as at 30 June 2010, with its investor base comprised of retail, institutional and high net worth investors.

IOOF Holdings Ltd (IOOF)

IOOF is an Australian financial services provider, specialising in investment and superannuation management and administration, largely for retail investors.

BT Investment Management Ltd (BTIM)

BTIM provides investment management services to retail and institutional clients. BTIM is 60% owned by Westpac Banking Corporation Limited (Westpac) and also manages retail funds and superannuation trusts for Westpac.

Hunter Hall International Ltd (Hunter Hall)

Hunter Hall is an Australian based investment management business with a market capitalisation of around \$154 million. It currently manages four retail equities funds as well as a retail public offer superannuation fund.

Treasury Group Ltd (Treasury Group)

Treasury Group is a funds management company with equity interests in eight boutique fund managers. These fund managers specialise in Australian and international equities as well as alternative investments and infrastructure. Treasury Group also provides business support services such as risk management, legal and regulatory compliance, accounting and finance, investment operations oversight and administration services to these fund managers.

AllianceBernstein Holding LP (AllianceBernstein)

AllianceBernstein is a US based provider of research and investment products, including retail funds and separately managed accounts, to a range of institutional investors, retail clients, trusts and estates.

Affiliated Managers Group Inc (AMG)

Based in the US, AMG is a global asset manager with equity investments in numerous boutique investment managers. In addition, AMG advises mutual funds and provides asset management services to institutional and high net worth investors. During FY10, AMG made a number of acquisitions which increased its FUM by \$49.4 billion.

Calamos Asset Management Inc (Calamos)

Calamos is a diversified investment management business offering a range of equity, fixed income, convertible and alternative investment strategies. It provides its services to institutions and individuals via separately managed accounts, open-end and closed-end funds.

Eaton Vance Corp (Eaton Vance)

Eaton Vance is a US based investment manager aimed at institutional and retail investors.

Franklin Resources Inc (Franklin Resources)

Franklin Resources is a large global investment manager with a market capitalisation of over \$27.0 billion. It provides a range of mutual fund products, retirement savings vehicles and college saving plans to individuals, institutions, pension plans, trusts and partnerships.

Invesco Ltd (Invesco)

Invesco is a large global investment management company offering a diverse range of equities, money market, fixed income and alternative investment products. Its clients include retail, institutional and high net worth investors. In May 2010, Invesco acquired another asset manager, Van Kampen.

T Rowe Price Group Inc (T Rowe)

T Rowe is a US provider of investment advisory services to individual and institutional investors. It manages a range of international equities, fixed income and money market mutual funds and other investment portfolios. It also offers separately managed investment portfolios.



Waddell & Reed Financial Inc (W&R)

Based in the US, W&R provides a diverse range of investment management, investment product underwriting and distribution, and shareholder administration services to mutual funds, institutional investors and separately managed accounts.

Legg Mason Inc (LM)

LM provides investment management and related services to institutional and individual clients, company sponsored mutual funds and other investment vehicles. It offers these products and services directly and through various financial intermediaries.

Ashmore Group PLC (Ashmore)

Ashmore is a UK based specialist emerging markets fund manager that invests in debt and equities.

Aberdeen Asset Management PLC (Aberdeen)

Aberdeen is a UK based asset manager involved in funds management for institutions and individuals. In January 2010, Aberdeen acquired the asset management business of Royal Bank of Scotland, which added £13.5 billion in AUM.

Schroders PLC (Schroders)

Based in the UK, Schroders is a diversified asset management company offering advisory services, equity products, fixed income securities and alternative asset classes, such as property, commodities, private equity and funds of hedge funds. Schroders also operates as a private bank for high net worth individuals, which accounted for around 10% of its FUM in FY09. Schroders reported strong results for the nine months to 30 September 2010 with its FUM increasing by £33.1 billion, of which £11.6 billion was attributable to investment returns and £21.5 billion due to net inflows.

Man Group PLC (Man)

Man is an alternative investment manager offering a range of managed futures funds as well as a multi manager fund. Man has reported eight consecutive quarters of net funds outflows which may have impacted on its share price. In addition, in October 2010 Man acquired GLG Partners Inc, a hedge fund manager, with approximately \$24 billion in FUM and as such its historical EBITDA multiple is not meaningful.

Polar Capital Holdings PLC (Polar)

Polar is a specialist investment manager for retail and institutional investors. As at 31 March 2010, it managed nine funds and nine managed accounts.

Appendix E Recent transactions

The table below shows recent acquisitions of asset management companies globally:

Transaction multiples								
Date	Target	Acquiror	Target Country	Acquired	EV (LCU)	AUM (LCU)	EV/ EBITDA	EV/ AUM %
Oct-10	GLG Partners Inc	Man Group PLC	US	100%	1,629	23,700	20.1	6.9%
Oct-10	BlueBay Asset Management	Royal Bank of Canada	UK	100%	963	40,000	18.6	2.4%
Sep-10	Thames River Capital LLP	F&C Asset Management PLC	UK	100%	54	4,210	na	1.3%
Jan-10	Certain businesses of RBS Asset Management	Aberdeen Asset Management PLC	UK	100%	85	13,500	8.5	0.6%
Oct-09	Morgan Stanley Investment Management (incl Van Kempen)	Invesco	US	100%	1,500	119,000	7.7	1.3%
Aug-09	Delaware Investments	Macquarie Group	US	100%	428	125,000	11.6	0.3%
Jul-09	Goldman Sachs JBWere (Private Wealth Management business)	National Australia Bank	AUS	80%	124	38,000	na	0.3%
Nov-08	Australian Wealth Management Ltd	IOOF Holdings Ltd	AUS	100%	545	60,400	9.2	0.9%
Jul-08	Loring Ward International Ltd	Werba Reinhard, Inc	Canada	79%	139	6,000	24.0	2.3%
Dec-07	Marble Bar Asset Management	EFG International	UK	100%	517	4,400	na	11.8%
Jul-07	Lighthouse	HFA	US	100%	707	8,000	11.0	8.8%
Jun-07	Quellos fund of funds business	BlackRock	US	100%	1,700	17,400	na	9.8%
Mean							13.8	3.9%
Median							11.3	1.8%

Source: Company reports, analysts reports and news articles

LCU: Local currency unit

Note: HFA's acquisition of Lighthouse represents a forward multiple

In relation to these transactions, we note the following:

- ▶ In October 2010, Man acquired GLG Partners Inc, a global asset manager offering investment products and managed account services to institutions and high net worth individuals. The offer represented a 55% premium to GLG's closing share price the day prior to the announcement.
- ▶ In October 2010, the Royal Bank of Canada announced that it would acquire BlueBay Asset Management Plc, a UK based fixed income asset manager. The acquisition represented a 29% premium to BlueBay Asset Management's closing share price the day prior to the announcement.
- ▶ In September 2010, F&C Asset Management Plc acquired Thames River Capital LLP, a specialist asset manager based in the UK investing in credit, fixed income and property. F&C Asset Management paid an initial consideration of £33.6 million and a conditional consideration of up to £20 million based on certain financial performance targets.
- ▶ In January 2010, Aberdeen Asset management PLC announced that it would acquire certain funds management businesses and contracts from Royal Bank of Scotland (RBS) for £84.7 million. The acquired business included multi manager funds, fund of hedge funds, as well as private equity and real estate funds of funds. As part of the



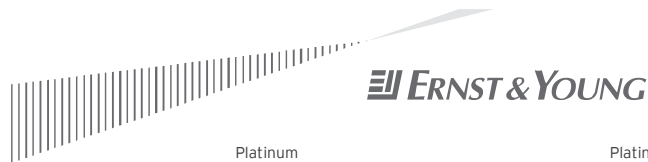
acquisition, Aberdeen also entered into a long term distribution agreement with RBS Wealth Management.

- ▶ In October 2009, Invesco announced that it would acquire Morgan Stanley's investment management business including Van Kampen. The acquired business managed equities, fixed income, alternatives and unit investment trusts on behalf of retail and institutional investors.
- ▶ In August 2009, Macquarie Group announced that it would acquire Delaware Investments from Lincoln Financial Group. Delaware Investments is an asset manager based in the US that provides managed accounts, separate accounts, mutual funds, retirement accounts and other products to retail and institutional investors.
- ▶ In July 2009, National Australia Bank Limited announced that it would acquire 80.1% of Goldman Sachs JBWere's private wealth management business in Australia and New Zealand (GSJBW), for \$99 million with additional performance related consideration over a period of three years. GSJBW provides wealth advisory, funds management and managed funds to retail and institutional investors.
- ▶ In November 2008, Australian Wealth Management announced that it would merge with IOOF Holdings Ltd. Australian Wealth Management provides funds management services and financial advice to individuals and institutional investors as well as superannuation services.
- ▶ In July 2008, Werba Reinhard Inc announced that it would acquire Loring Ward International Limited for a cash offer of US\$18.00 per share. The price represents a 57.9% premium to the price the day prior to the initial offer from Werba Reinhard. Loring Ward is an investment management business offering mutual funds as well as investment advice for individuals, small companies, institutions and other investment advisers.
- ▶ In May 2008, EFG International announced that it would acquire Marble Bar Asset Management for an initial consideration of \$517 million, of which \$400 million would be invested into Marble Bar Asset Funds to be paid out, subject to performance over a six year period. EFG International expects future payments in the range of \$300 million to \$800 million. Marble Bar Asset Management is an investment manager specialising in long/short equity strategies, serving institutional clients and high net worth individuals.
- ▶ In July 2007, HFA announced that it would acquire Lighthouse through a cash and share offer.
- ▶ In June 2007, Blackrock announced that it would acquire Quellos funds of funds business through \$562 million in cash and \$188 million in BlackRock shares. Quellos' fund of funds business manages hedge fund, private equity and real estate fund of funds, as well as specialty and hybrid offerings on behalf of institutional and individual investors worldwide.

SCHEDULE 6 – INDEPENDENT EXPERT'S REPORT

Appendix F Glossary

Term	Meaning
A\$ or \$	Australian dollars
Aberdeen	Aberdeen Asset Management PLC
Act	The Corporations Act 2001 (Cth)
AllianceBernstein	AllianceBernstein Holding LP
AMG	Affiliated Managers Group Inc
AP CM	AP CM, LLC a Delaware limited liability company and an indirect subsidiary of Apollo Global Management, LLC
Apollo	Apollo Global Management, LLC and its affiliates
Apollo Performance Rights	Performance rights to be issued to AP CM
Ashmore	Ashmore Group PLC
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange or ASX Limited
AUM	Assets under management
BTIM	BT Investment Management Ltd
Calamos	Calamos Asset Management Inc
Convertible Notes	The convertible notes, with an agreed aggregate face value of US\$ 75 million to be issued to Apollo in accordance with the Note Subscription Agreement, Convertible Note Deed Poll and Convertible Note Conditions
Eaton Vance	Eaton Vance Corp
EBITDA	Earnings before interest, tax, depreciation and amortisation
Ernst & Young Transaction Advisory Services, "we" or "us"	Ernst & Young Transaction Advisory Services Limited
Escrow Arrangements	Arrangements relating to escrowed shares as set out in certain employment agreements with Lighthouse senior management
Escrow Shares	Shares held in escrow pursuant to the provisions of the Lighthouse Senior Management employment agreements
ETF	Exchange traded funds
Franklin Resources	Franklin Resources Inc
FUM	Funds under management
FYXX	Financial year ended 30 June 20XX
GDP	Gross domestic production
HFA or the company	HFA Holdings Limited
HFA Performance Rights	Existing performance rights granted to HFA employees pursuant to the HFA employee performance rights plan
HFA Shareholders	Shareholders of HFA
Hunter Hall	Hunter Hall International Ltd
Independent Expert's Report	This report
Invesco	Invesco Ltd
IOOF	IOOF Holdings Ltd
LCU	Local currency unit
Lighthouse	Lighthouse Investment Partners, LLC a Delaware limited liability company and wholly-owned subsidiary of HFA
Lighthouse Senior Management	Sean McGould, J. Scott Perkins, Robert Swan and Jack Swan
LM	Legg Mason Inc
Man	Man Group PLC
Marketing Agreement	Marketing agreement entered into between Lighthouse and AP CM dated 3 December 2010
Note Subscription Agreement	Note subscription agreement for the Convertible Notes and Options between HFA, Apollo and PA HH dated 3 December 2010
Options	125 million of options (on a pre consolidation basis) to be issued by HFA to Apollo and PA HH to acquire ordinary shares in HFA
PA HH	PA HFA Holdings, LLC
Perpetual	Perpetual Limited



Platinum	Platinum Asset Management Ltd
Polar	Polar Capital Holdings PLC
RG 111	ASIC Regulatory Guide 111, <i>Content of expert reports</i>
Right of First Refusal Agreement	Agreement between Apollo and certain specified Shareholders of HFA, the effect of which is to enable Apollo to acquire further ordinary shares in HFA through a right of first refusal over disposals of ordinary shares currently held by certain specified HFA shareholders
Schroders	Schroders PLC
SGM Holdings	SGM Holdings, LLC
Shareholder	Holder of a share in HFA
T Rowe	T Rowe Price Group Inc
Transaction	Proposed entry into various Transaction Agreements with Apollo and PA HH
Transaction Agreements	These include the Note Subscription Agreement, Convertible Note Deed Poll, Marketing Agreement, Right of First Refusal Agreement, revised employment agreements with specified Lighthouse employees, Agreement to issue performance rights to AP CM, LLC
Treasury Group	Treasury Group Ltd
UK	United Kingdom
US\$	US dollar
VWAP	Volume weighted average share price
W&R	Waddell & Reed Financial Inc
Westpac	Westpac Banking Corporation Limited

**SCHEDULE 6 –
INDEPENDENT
EXPERT’S REPORT**

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT EXPERT'S REPORT**

20 January 2011

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

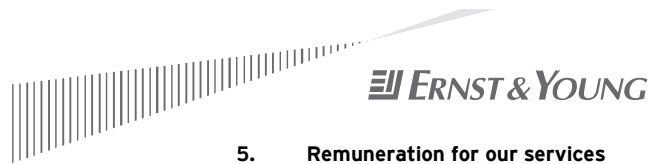
In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$165,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572.

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HFA Holdings Limited

Level 5
151 Macquarie Street
Sydney NSW 2000

Financial Adviser

UBS AG, Australia Branch
Level 16, Chifley Tower
2 Chifley Square
Sydney NSW 2000

Legal Adviser

Clayton Utz
Level 28, Riparian Plaza
71 Eagle Street
Brisbane QLD 4000

Taxation Adviser

KPMG
147 Collins Street
Melbourne VIC 3000

Independent Expert

Ernst & Young Transaction Advisory Services Limited
Ernst & Young Centre
680 George Street
Sydney NSW 2000

**CORPORATE
DIRECTORY**



HFA Holdings Limited
ABN 47 101 585 737

LODGE YOUR VOTE

ONLINE > www.linkmarketservices.com.au

By mail:
HFA Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

By fax: +61 2 9287 0309

All enquiries to: Telephone: 1300 554 474 Overseas: +61 2 8280 7454



X99999999999

SHAREHOLDER VOTING FORM

I/We being a member(s) of HFA Holdings Limited and entitled to attend and vote hereby appoint:

STEP 1 **APPOINT A PROXY**

the Chairman of the Meeting (mark box) **OR** if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered shareholder) you are appointing as your proxy

or failing the person/body corporate named, or if no person/body corporate is named, the Chairman of the Meeting, as my/our proxy and to vote for me/us on my/our behalf at the General Meeting of the Company to be held at 11:00am (Sydney Time) on Friday, 25 February 2011, at the Hilton Hotel, Meeting Room 3, Level 2, 488 George St, Sydney NSW 2000 and at any adjournment or postponement of the meeting.

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the meeting. Please read the voting instructions overleaf before marking any boxes with an **X**

STEP 2 **VOTING DIRECTIONS**

	For	Against	Abstain*		For	Against	Abstain*
Resolution 1 Share Consolidation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 5(a) Election of Grant Kelley as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 Issue of Convertible Notes, Options and Apollo Performance Rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 5(b) Election of James Zelter as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 Approval of Right of First Refusal Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Resolution 5(c) Election of Anthony Civale as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 Approval of Escrow Arrangements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 **SIGNATURE OF SHAREHOLDERS - THIS MUST BE COMPLETED**

Shareholder 1 (Individual) <input type="text"/>	Joint Shareholder 2 (Individual) <input type="text"/>	Joint Shareholder 3 (Individual) <input type="text"/>
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

HFA PRX101



HOW TO COMPLETE THIS PROXY FORM

Your Name and Address

This is your name and address as it appears on the company's share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your shares using this form.**

Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person in Step 1. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a shareholder of the company. A proxy may be an individual or a body corporate.

Votes on Items of Business - Proxy Appointment

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together.

Signing Instructions

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

Corporate Representatives

If a representative of the corporation is to attend the meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the company's share registry.

Lodgement of a Proxy Form

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by 11:00am (Sydney Time) on Wednesday, 23 February 2011, being not later than 48 hours before the commencement of the meeting. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Select the 'Proxy Voting' option on the top right of the home page. Choose the company you wish to lodge your vote for from the drop down menu, enter your holding details as shown on this form, and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the proxy form).



by mail:

HFA Holdings Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



by fax:

+61 2 9287 0309



by hand:

delivering it to Link Market Services Limited, Level 12, 680 George Street, Sydney NSW 2000.

If you would like to attend and vote at the General Meeting, please bring this form with you.
This will assist in registering your attendance.