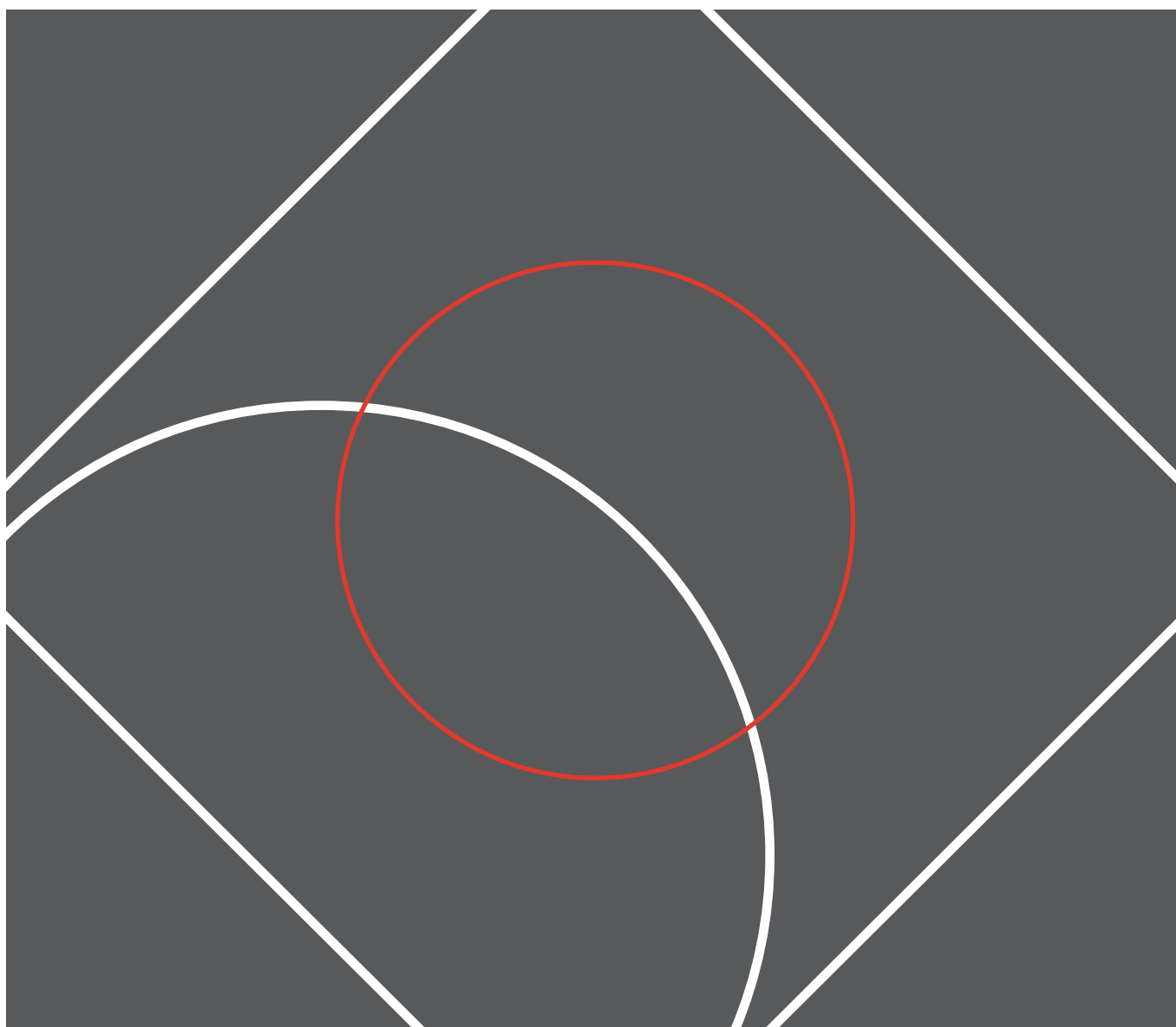


HYPERION
FLAGSHIP
INVESTMENTS

ANNUAL REPORT 2012



Hyperion Flagship Investments Limited

ABN 99 080 135 913

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FINANCIAL CALENDAR FINANCIAL YEAR END

30 June 2012

BOOKS CLOSE

28 September 2012

DIVIDEND PAYMENT

12 October 2012

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of
Hyperion Flagship Investments Limited.

WILL BE HELD AT:

The office of
McCullough Robertson Lawyers
Level 11, Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

TIME:

11.00am (Qld Time)

DATE:

Thursday 18 October 2012

INVESTING IN HYPERION FLAGSHIP INVESTMENTS LIMITED

Investors can purchase shares in
Hyperion Flagship Investments Limited
through the Australian Securities Exchange.

ASX code: **HIP**

Hyperion Flagship Investments Limited
ABN 99 080 135 913
Registered in Queensland
23 September 1997



HYPERION FLAGSHIP INVESTMENTS LIMITED DIRECTORS (from left to right)
Henry Smerdon AM, Dominic McGann, Sophie Mitchell, Dr Manny Pohl and Patrick Corrigan AM

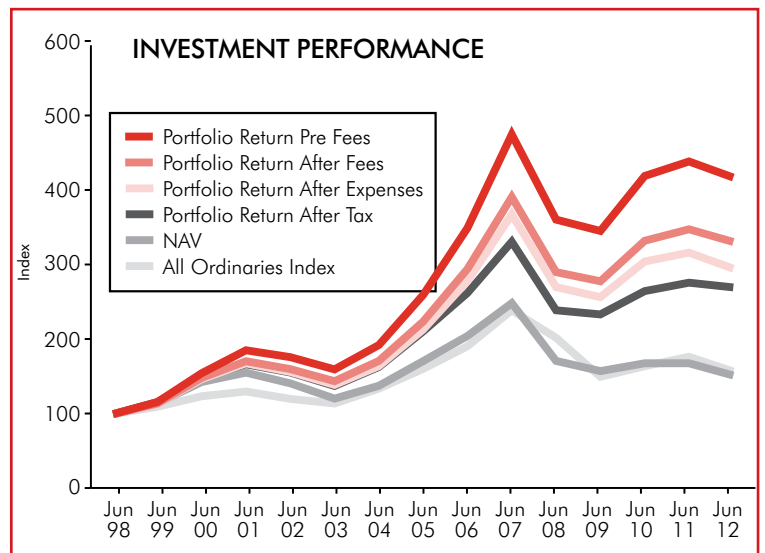


Highlights for the year ending June 2012

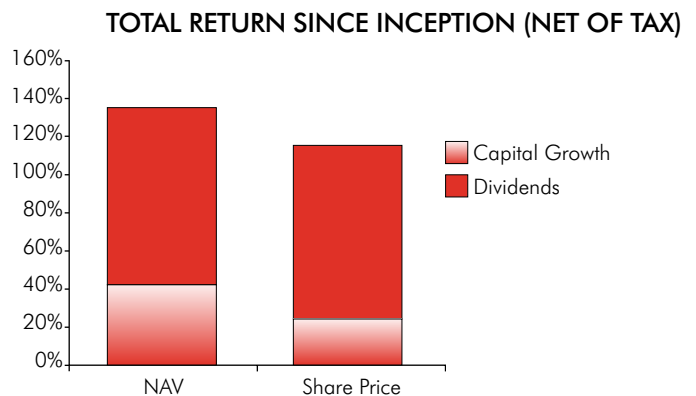
- The portfolio before fees and tax declined by 4.9% versus an 11.3% decline in the All Ordinaries Index over the twelve month period.
- The investment performance is reflected in the Net Asset Value (NAV) per share which decreased by 8.2% after tax (on realised gains only).
- The annual dividend of 6.0 cents comprising 3.0 cents interim (2012) and 3.0 cents final (2012).
- On-market buy-back – bought 673,721 shares at an average price of \$1.23 (\$826,006).



Relative Performance History



Total return since inception to June 2012





Hyperion Flagship Investments Performance vs. the All Ordinaries Index

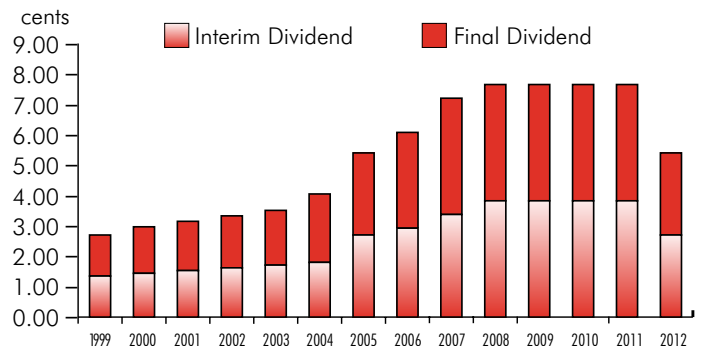
ANNUAL PERCENTAGE GAIN				
Year to	Portfolio Return Pre Fees	Portfolio Return After Fees	NAV	All Ordinaries Index
June 1999	16.4%	14.4%	14.6%	10.1%
June 2000	33.6%	30.4%	25.3%	12.9%
June 2001	20.0%	15.2%	8.8%	5.1%
June 2002	-5.0%	-6.3%	-9.3%	-7.6%
June 2003	-9.4%	-10.2%	-14.6%	-5.2%
June 2004	20.5%	19.0%	14.4%	17.7%
June 2005	35.1%	31.0%	24.1%	19.8%
June 2006	34.7%	31.6%	19.8%	19.0%
June 2007	35.9%	32.8%	21.6%	25.4%
June 2008	-24.1%	-25.8%	-31.3%	-15.5%
June 2009	-4.2%	-4.2%	-8.0%	-26.0%
June 2010	21.4%	19.6%	6.7%	9.5%
June 2011	4.6%	4.6%	-1.7%	7.7%
June 2012	-4.9%	-4.9%	-8.2%	-11.3%

Note: Fees include Performance Fees and Under-writing Fees.



Dividends per share

COMPOUND ANNUAL GROWTH RATE 5.5%



Major Investments June 2012

MAJOR INVESTMENTS % OF PORTFOLIO		
	Jun 12	Jun 11
Commonwealth Bank	7.5%	7.3%
Woolworths	7.3%	6.6%
SEEK	6.7%	6.0%
Cochlear	6.0%	5.8%
BHP Billiton	6.0%	6.7%
Rio Tinto	5.8%	7.5%
Carsales.com	5.7%	3.9%
ANZ Banking Group	5.6%	4.0%
REA Group	5.1%	3.9%
TOTAL	55.7%	51.7%

Note: Investments greater than 5% of Portfolio.

COMPANY PROFILE

Hyperion Flagship Investments Limited (the "Company") is a listed investment company providing investors with access to a diversified Australian investment portfolio.

The composition and performance of the investment portfolio is monitored by the Board of Directors, which comprises business people with many years of experience in the business, investment and funds management.

The Manager's investment strategy centres on the view that investing in high quality business franchises with the ability to grow sales and earnings at rates above GDP will produce superior investment returns over the long-term. The Company's portfolio of investments comprises companies whose operations cover a wide spectrum of business activities.

The portfolio is constructed from the perspective of a business owner by investing in well managed companies and not simply by tracking the index weighting of various component stocks.

There is no fixed management fee. The Manager receives a fee which is performance based and payable annually in arrears if the Company's investments outperform the returns on a cash investment. If the Company's net performance is less than the returns on a cash investment, no performance fee is payable.

OBJECTIVES

The investment objectives of Hyperion Flagship Investments Limited are:

- ◉ To achieve medium to long-term capital growth and income through investing in a diversified portfolio of Australian companies;
- ◉ To preserve and enhance the NAV per share after allowing for inflation; and
- ◉ To provide Company Shareholders ("Shareholders") with a fully franked dividend which, over time, will grow at a rate in excess of the rate of inflation.

INVESTOR BENEFITS

The benefits for investors in Hyperion Flagship Investments Limited are:

- ◉ Reduced share investment risk through a diversified investment portfolio;
- ◉ Professional, disciplined management of an investment portfolio;
- ◉ Fully franked dividend income;
- ◉ Access to available tax advantages of Listed Investment Company Capital Gains when available;
- ◉ Access to a Dividend Reinvestment Plan;
- ◉ No fixed management fees - the Fund Manager is remunerated on a performance basis;
- ◉ No entry or exit charges made by the Company; and
- ◉ Easy access to information via the Company's head office or website www.hyperionfi.com.au.

INVESTMENT MANAGER

The management of the Company's investment portfolio is undertaken by Hyperion Asset Management Limited.

The Board has been considering the option of agreeing to the novation of the current Management Services Agreement from Hyperion Asset Management Limited to EC Pohl & Co Pty Ltd. The Board intends to recommend to Shareholders at the AGM that changes be made to the Management Services Agreement, which would formalise a new relationship with Dr E C Pohl and Hyperion Asset Management Limited.

Dear Investor,

I am pleased to present the 15th Annual Chairman's Report for Hyperion Flagship Investments Limited for the financial year ended 30 June 2012.

Overall it has been a year of continuing uncertainty and fragility with stock markets around the world reactive and volatile. The Australian stock market is not immune from these vagaries of World markets despite the more positive economic performance and outlook generally for Australia.

There is no doubt that there has been heightened frustration and concern within financial markets about the capacity of the key Governments, particularly in Europe, to find credible long-term solutions to the fundamental problems that confront them and this weighed heavily on the minds of investors both in Australia and overseas. Financial markets are likely to continue to be volatile until there is a greater degree of confidence that a credible plan on the way forward has been developed and agreed by all parties and importantly, is seen as capable of implementation in a reasonable time frame.

Our Performance

Overall the portfolio return for the year before taxes, fees and charges was a negative 4.9%. The All Ordinaries Index for the same period declined by 11.3%. The portfolio's performance is therefore quite acceptable in a relative sense, but obviously the Board would have much preferred a positive return for the portfolio rather than a decline in value, albeit at a lesser rate than the market generally.

Our Managing Director, Dr Manny Pohl, continued to manage the portfolio in a manner consistent with the fundamental investment strategy that has served the company well over the years and which has produced consistent outperformance since inception of our Company.

The Outlook

The outlook for equity markets generally, including Australia, will continue to be driven by the success or otherwise of efforts to find realistic solutions to the European financial crisis.

The Australian economy is expected to continue to experience good growth prospects and demand for Australian resources particularly from China is likely to remain buoyant. While there is now a more moderate growth outlook for the Chinese economy which will have some impact on demand for Australian resources as well as some downward pressure on prices, the Australian economy is well positioned for the inevitable upturn in the World economic outlook.

The companies in which we are invested are generally well positioned to benefit from the strength of the economic outlook with good growth prospects over the five year investment horizon that is a fundamental part of our investment strategy.

I invite you to read the report by our Managing Director who will cover the investment issues in more detail.

Our Profit for the Year

Net profit before income tax was \$1,000,000 compared with \$717,000 in the previous financial year, an increase of 40.2%. Dividend income decreased marginally from \$1,484,000 in 2010/11 to \$1,416,000 a decline of 4.6%.

On the expense side, there was a marginal decline in the level of Other Expenses to \$422,000 compared with \$426,000 in the previous year.

There was no performance fee payable to the Manager again this year as the benchmark Cash rate of return was not achieved.

The increase in net profit before income tax for the year, largely was driven by the fact that profitability in 2010/11 was affected by a loss of \$357,000 on sale of financial assets.

Excluding the loss on sale of financial assets in 2010/11, the net profit in 2011/12 was marginally lower than the previous year.

We do not expect any significant change in profitability in our normal operations, although there is some evidence of an upward trend in dividend payments generally, as companies report better earnings growth and there is a greater level of confidence in the Australian economy's growth story.

Dividend Policy

The Board has endeavoured over the years to provide to our Shareholders a reasonable and consistent dividend stream.

In more recent times, the prolonged effects of the GFC on Company earnings and the more conservative dividend policies adopted by many companies as they sought to rebuild their balance sheets in the face of continuing economic uncertainty, has meant that our capacity to continue the dividend policy of the past has had to be reviewed.

The 3 cents per share fully franked interim dividend this year reflected the Board's concern about the sustainability of previous dividend levels going forward.

Until there is more clear evidence of increased dividend payments from companies in which we are invested, the Board believes that it must continue with a more conservative dividend strategy reflective of the reality of our current dividend income streams.

The Board has therefore approved a final dividend payment for the year of 3 cents per share fully franked making a full dividend of 6 cents per share fully franked for the year.

The Board is currently reviewing possible options to our investment strategy which would generate a higher dividend income flow without compromising the overall integrity of our investment philosophy.

Again, as in the recent past, there is no Listed Investment Company (LIC) attributable capital gains deduction available for Shareholders this year and this is likely to be the scenario for the foreseeable future.

Our Share Price

As might be expected, the price of the Company's shares has declined in line with the decline in the market generally. The share price at 30 June 2012 was \$1.10 compared with a price of \$1.34 at 1 July 2011, a decline of 18%.

As has been said on previous occasions, the market price does not adequately reflect the real value of the underlying assets. At 31 July 2012, the net asset backing for the shares was \$1.314 per share and \$1.221 per share if estimated tax on realised gains and losses is taken into account. These values are well in excess of the current trading price for the Company's shares of around \$1.10.

Clearly the market has difficulty accepting the important role LICs, such as our Company, can play in providing a professionally managed equity market exposure for the small investor.

A share buy-back operation was in operation for the major part of 2011/12. It concluded on 17 July 2012 and was reinstated on 24 July 2012 for a further 12 months.

During 2011/12, 673,721 shares were acquired under the share buy-back scheme at an average cost of \$1.23 per share.

Potential Changes to Our Investment Management Arrangements

Our Investment Manager since inception has been Hyperion Asset Management Limited (Hyperion). A new five year Management Services Agreement (MSA) covering the relationship was approved by Shareholders at the 2010 AGM.

Hyperion was originally set up by our Managing Director Dr Manny Pohl and has consistently reflected Manny's investment beliefs. Manny has been largely responsible for building the very successful investment management team at Hyperion and growing Hyperion to the point where it has more than \$3.5 billion under management and a reputation as an award winning manager.

During the entire period of association with Hyperion, Manny has been our Company's Fund Manager and has done an outstandingly successful job for us.

Manny took the decision to resign from Hyperion effective from 2 July 2012, since he believed that he had taken Hyperion to the point where it now had a long-term sustainable position in the market place. He believed he could now devote his time to areas

where his skills and talents in building a business might be better employed on a more personal basis with various Individually Managed Accounts (IMAs) as well as take advantage of what were in his view, increasingly attractive opportunities in the private equity space.

Manny has continued to manage the IMAs with the high net worth clients agreeing to novate the portfolios to E C Pohl & Co, a new investment entity established by Manny.

The Board has been examining the option of agreeing to a novation of the current MSA from Hyperion to E C Pohl & Co. Under such arrangements, Manny would continue to manage the portfolio as he has done since inception and for the remaining period of the MSA, Hyperion would continue to provide investment research to Manny as well as carry out the obligations under the MSA on Manny's behalf.

Hyperion has reassured the Board that it is happy with the arrangement and that it would be happy to continue to provide all of the services under the MSA, if the Company so chooses. Hyperion understands and appreciates the long direct association of the Company with Manny.

In discussions with Manny, the Board is satisfied that, with any new arrangement with Manny, the investment fundamentals so strongly and consistently espoused by Manny will still underpin the investment strategy, but that there will be greater opportunity to take advantage of the up to 10% of the portfolio being invested in unlisted entities and with a capacity to invest in much smaller companies that had increasingly not been taken up by Hyperion, because of its higher investment threshold benchmarks.

The Board intends to recommend to Shareholders at the AGM that changes be made to the MSA, which would formalise a new relationship with Manny and Hyperion.

The Board will also be recommending that the Company change its name to "Flagship Investments Limited".

The Board believes that the new arrangements represent an exciting opportunity for the Company.

I want to place on record our appreciation of the relationship we have had with Hyperion since our inception and the fact that we have performed so well over the years, is testament to the skills and abilities of the Hyperion team working with Manny.

Our Board

I am very fortunate to serve on the Board with such a talented and committed group of professionals. Their commitment to the Company and its interests is something to be truly thankful for. It has been a difficult period for us and I have appreciated the support they have given to me.

Sophie Mitchell and Dominic McGann are offering themselves for re-election to the Board and I strongly endorse their candidature.

Concluding Remarks

It has been a challenging and interesting year and one that potentially heralds significant change for the Company going forward.

My fellow Board members and I look forward to continuing to serve the Company and Shareholders to the best of our ability.

No one can make promises about the future, but the proposed new investment and management arrangements if approved by shareholders, will potentially herald a new and exciting and profitable era for the Company.

Yours sincerely,



Henry R Smerdon AM

Chairman



During the past year, sentiment in the Australian share market was little changed from that of the previous year when politics in the Eurozone failed to find a solution to the reality of borrowing in a market where liquidity is tight and the economy is slowly edging towards a period of decline. On the international front, the market once again reflected concern about the potential default of Greece, Italy, Portugal and Spain on their sovereign and bank debt repayments. Locally, the Australian Parliament passed the carbon and mining tax legislation, while nervous consumers and companies continued to strengthen their balance sheets by reducing consumption expenditure and paying off debt. All of these factors set the scene for a very subdued world and Australian economy.

As an indicator of global market performance, the MSCI (as measured in US dollar terms) closed at 1235.7 in June 2012 which was an overall decline of 7.2% for the twelve months to 30 June 2012. In Australian dollar terms, the MSCI declined by 2.9% over the same period, reflecting the slight weakening in the Australian dollar compared to the US dollar over the twelve months. The US market performed relatively better than the other major markets with the S&P 500 increasing by 3.1% in US dollar terms for the twelve months to the end of June 2012.

During the same twelve month periods, the Australian share market, as represented by the All Ordinaries Index, declined by 11.3%. By comparison our portfolio outperformed the market, declining by only 4.9% over the twelve months while the NAV declined by 8.2% after paying a dividend of 7.25 cents per share to shareholders during the year.

Unfortunately, during this period, high quality businesses were not recognized as such by the market and have not been marked up, as has been the case with the highly speculative resource companies. Our portfolio construction process, which focuses on high quality growth businesses which have the ability to grow dividends in spite of economic headwinds, means that the average price earnings ratio of our companies through time is normally above the market average price earnings ratio. In times of uncertainty, higher price earnings companies tend to be sold down more heavily than lower priced companies. The recent credit market and stock market turmoil has resulted in debt and equity risk premiums moving to multi-decade highs. Once credit markets and equity markets stabilize, risk premiums will decline to more sustainable levels and the average price earnings ratio of the stock market will expand and push stock prices higher.

When this happens, in addition to the growth in earnings and dividends, our portfolios will receive a further boost from the re-establishment of the price earnings premium that high quality growth businesses normally enjoy.

Our investment portfolio comprises quality, low capital intensive growth companies and currently has a small to

mid-cap bias identified through our three stage process.

The first or primary stage filters for investment grade companies are:

- 1) Historical sales growth;
- 2) Return on equity; and
- 3) Interest cover.

The first filter tests whether a company is growing. Only those companies with sales that have been growing faster than the Australian Economy (as measured by Nominal Gross Domestic Product) are accepted. The principle here is that we don't want to own businesses that are stagnant or shrinking.

The second filter tests whether a company's management has been successful in obtaining excellent returns on equity. Only companies showing an annual return on equity of 15% or greater are considered. To put this another way, if an investor can get a return of 5% on government bonds that are relatively risk free, we believe that 15% is the minimum that an investor in a company should receive for the extra risk of owning equity. This represents an equity premium of 10%.

The third filter tests for security of clients' funds. Only those companies whose pre-tax profits cover their annual interest bill on their borrowings by four times or greater are considered. That is, company profits have to drop by more than 75% before they are going to have trouble servicing their debt.

When these three filters are applied together to all the Australian listed companies, we are left with 80 to 100 companies to consider for investment. The common traits these companies share are that they are growth orientated with a strong business franchise, and in particular, those that we believe have a sustainable competitive advantage.

A sustainable competitive advantage is like having a moat around a company's business. It protects a business from competitors and new entrants to its market. Companies with a sustainable competitive advantage usually have workforces that are incentivized for business success. The company's suppliers are not usually in a dominant bargaining position, so the company has access to well priced and consistent inputs.

Before we actually buy a stock we ask ourselves the question. "Would we buy all of this business if we had the money?" That is, we buy shares in the business as a business owner, not as a trader of shares.

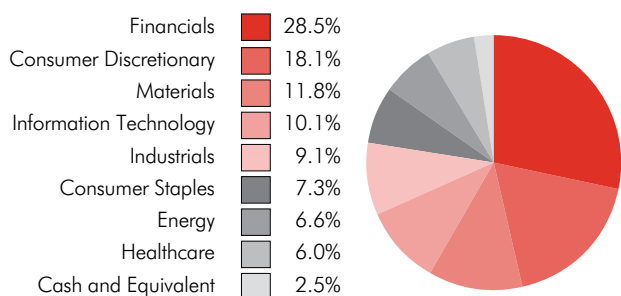
However, we will consider selling at certain times. For example:

- ☉ If there is a major change in management and we feel that there is insufficient continuity of management to be associated with the track record, we may sell.
- ☉ If there is a major takeover or merger.

- ☉ If the company loses its sustainable competitive advantage we will sell its shares.
- ☉ If the market valuation of the company exceeds certain thresholds, then we may sell the shares to achieve a lower weighting.
- ☉ If a company's cash flow deteriorates to a point where it no longer is four times the interest paid, we would seek to understand why and if the answer was unacceptable, we may sell the shares.

CHART 1: DISTRIBUTION OF ASSETS AS AT 30 JUNE 2012

The overall portfolio distribution of assets is shown in Chart 1.



In the portfolio there have been additions in recent years, all of which comply with our investment philosophy. In keeping with my intention of providing shareholders with information on the investments in the portfolio, I have included a comment on Domino's Pizza Enterprises.

DOMINO'S PIZZA ENTERPRISES LIMITED

ASX Code: DMP

DMP is the largest pizza chain in Australia/New Zealand in terms of both network store numbers and network sales. Store numbers were expected to have been 570 at the end of FY 2012, of which approximately 80 were company-owned stores and 490 were franchised. The company also has the exclusive master franchise rights for the Domino's brand in France, Belgium, the Netherlands and the Principality of Monaco, where approximately 360 stores were open as at the end of FY 2012, of which 30 were company-owned and 330 were operated by franchisees.

Sustainable Competitive Advantage

Customers buy pizzas from DMP because its offering is affordable and it is convenient. DMP's value proposition to the customer has improved significantly in recent years. Price inflation has been kept to a minimum with the company having reinvested scale and efficiency benefits into keeping prices low, whilst other fast food operators and restaurateurs have had to raise prices to offset cost inflation. DMP has also invested

heavily into its digital platform to the point where approximately 50% of sales now come from online, which is being driven by customer convenience.

Organic Growth Options

In challenging economic times DMP's value proposition should lead to solid same store revenue growth. In addition, we believe DMP is less than 50% through its store rollout in the territories in which it operates, so the store rollout should continue to fuel growth. And finally, due to the success of DMP and by the fact that the management team is held in high regard by Domino's Pizza Inc, there is the possibility they will be awarded further master franchise regions.

CLOSING COMMENTS

Our investment horizon of five years is longer than most investors and we believe there is significant capital appreciation potential for the portfolio once risk premiums decline to be more in line with long-term historical averages.

The portfolio return profile remains attractive in historical terms and the complete details of all the investments that were held at the end of the financial year are detailed later in the Annual Report. Suffice to say that Commonwealth Bank (7.5%), Woolworths (7.3%) and SEEK (6.7%) were the three largest investments held at the June 2011 year-end and it is these three investments that we believe have the best risk adjusted return profiles.

Dr Emmanuel (Manny) C Pohl

Managing Director



Directors' Report

Your Directors present their report on Hyperion Flagship Investments Limited for the financial year ended 30 June 2012.

1. DIRECTORS

The following persons were Directors of Hyperion Flagship Investments Limited from the beginning of the financial year until the date of this report, unless otherwise stated:

H Smerdon AM, Dr E Pohl, S Mitchell, P Corrigan AM and D McGann.

2. INFORMATION ON DIRECTORS



Henry R Smerdon AM

B.Com, B.Econ, FCPA, MAICD,
Fdn DFP, HonD (Griffith University)

Non-Executive Chairman

*Chairman of Remuneration and
Nomination Committee*

*Member of Audit and Compliance
Committee*

Experience and expertise

Director since 2000.

Extensive experience as a previous board member/CEO of Queensland Investment Corporation, Chairman of Q-Invest Ltd, member of various private and Government boards and as Under Treasurer of the Queensland Treasury.

Other Current directorships

Chairman of AustSafe Super.
Chairman of board of Currumbin Wildlife Sanctuary.
Chairman of the Queensland Performing Arts Trust.
Director of Queensland Education Leadership Institute Limited.
Deputy Chancellor of Griffith University.
Member of Public Trust Office Investment Board.
Principal of Strategic and Financial Consulting Services

Former Listed Company directorships in last 3 years

None.

Interest in Shares

54,808 ordinary shares



Dr Emmanuel (Manny) C Pohl

Pr Eng, B.Sc (Eng), MBA, DBA,
FAICD, MSSA, SA Fin

Managing Director

*Member of Remuneration and
Nomination Committee*

Experience and expertise

Managing Director since the inception of the Company in 1997. Extensive experience in the funds management industry.

Other current directorships

Chairman of Hyperion Fund Company B.S.C. (c).
Director of Hyperion Principal Investments Pty Ltd.
Director of Global Masters Fund Limited.
Director of EC Pohl & Co Private Equity Limited.
Director of EC Pohl & Co Holdings Pty Ltd.
Director of Huysamer International Holdings (Pty) Ltd.
Director of Pohl Pty Ltd.
Alternate Director of Athelney Trust Plc.
Member of Bond University, Institute of Sustainable Development & Architecture Academic Advisory Panel.

Former Listed Company directorships in last 3 years

None.

Interest in Shares

6,606,807 ordinary shares

Has a relevant interest in shares in the Company over which he holds a Power of Attorney arrangement with a number of Shareholders.



Sophie A Mitchell

*B.Econ, GAICD, SF Fin
Non-Executive Director
Chair of Audit and Compliance
Committee
Member of Remuneration and
Nomination Committee*

Experience and expertise

Appointed a Non-Executive Director on 11 June 2008.
Management and industry experience as an Executive Director of RBS Morgans, former portfolio manager Seymour Funds Management (2007), and Head of Research RBS Morgans (1996-2007).

Other current directorships

Director of Silver Chef Limited.
Director of Expressions Dance Company.
Director of Corporate and Special Projects RBS Morgans.
Director of RBSM Foundation.
Trustee of the Queensland Performing Arts Trust.
Member of the Takeovers Panel.

Former Listed Company directorships in last 3 years

None.

Interest in Shares

30,000 ordinary shares



Patrick Corrigan AM

*HonD (Bond University)
Non-Executive Director*

Experience and expertise

Appointed a Non-Executive Director on 1 May 2009.

Extensive business experience having founded, run and sold two international freight forwarding businesses and subsequently taken on Non-Executive Directorships with a number of leading Australian corporations and arts bodies, made a Member in the Order of Australia (2000) and awarded an Honorary Doctorate of Bond University (2007).

Other current directorships

Chairman of UBI Logistics (Australia) Pty Ltd.
Chairman of Qantas Art Scholarship Committee.
Chairman of Gold Coast Regional Art Gallery.
Deputy Chair of Air Freight Export Council of NSW.
Director of Global Masters Fund Limited.
Director of Better Read Pty Ltd.
Director of Gold Coast Art Centre.
Director of Community Radio Station Jazz Radio Limited.
Director of Aboriginal Benefits Foundation Limited.

Former Listed Company directorships in last 3 years

None.

Interest in Shares

2,055,523 ordinary shares



Dominic M McGann

*Solicitor of the Supreme Court of Queensland, LLB (QUT), LLM (Sydney University), LLM (Bond University)
Non-Executive Director
Member of Audit and Compliance
Committee*

Experience and expertise

Appointed Non-Executive Director on 8 October 2009.

Extensive experience as a Partner with McCullough Robertson Lawyers and a Solicitor with the Supreme Court of Queensland.

Other current directorships

None.

Former Listed Company directorships in last 3 years

None.

Interest in Shares

Nil ordinary shares

3. PRINCIPAL ACTIVITIES

The principal activity of the Company is investing in securities listed on the Australian Securities Exchange. There have been no significant changes in the nature of this activity during the year.

4. REVIEW OF OPERATIONS

The sentiment in the Australian equity market during the past twelve months was generally positive until the last quarter when investors became extremely nervous. Unfortunately during this period, high quality businesses were not recognised as such by the market and have not been marked up. When the credit or equity markets stabilise, risk premiums will decline to more sustainable levels and the average price earnings ratio of the equities market will expand and push equity prices higher.

As our investment horizon is five years, we believe there is significant capital appreciation potential for the portfolio.

During the year:

- ☉ The All Ordinaries Index decreased by 11.3% for the year.
- ☉ The portfolio value before fees and taxes decreased by 4.9%.
- ☉ Total dividends received by the Company were down 4.6% compared with 2011.
- ☉ Total dividends paid to Shareholders during the year were 7.25 cents per share.

The Net Asset Value (after tax on realised gains only) decreased from \$1.419 (30 June 2011) to \$1.302 (30 June 2012).

The Net Asset Value (after tax on realised and unrealised gains) decreased from \$1.361 (30 June 2011) to \$1.204 (30 June 2012).

The Directors are committed to increasing the Net Asset Value per share and to maintaining the alignment between the market price and the Net Asset Value per share. The on-market buy-back was reinstated for another twelve month period effective 18 July 2011 and subsequently continued again effective 24 July 2012.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs of the Company during the financial year were as follows:

- ☉ The value of the portfolio before fees and taxes decreased by 4.9% following a downturn in the equity markets in the last six months of the year.
- ☉ The on-market buy-back programme was reinstated on 18 July 2011 and ceased on 17 July 2012. The on-market buyback programme resulted in 673,721 shares (\$826,006) being bought back. The programme was reinstated effective from 24 July 2012.
- ☉ The Board agreed to adopt Accounting Standards AASB 9 early effective 1 July 2011. This resulted in all realised gains from the investment portfolio being recognised directly in Equity through "Other Comprehensive Income" in the Statement of Comprehensive Income. Therefore, the realised gain for the year of \$21,000 is not included in the profit or loss, but is in the reserve in Equity.

6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Following the resignation of Dr E C Pohl on 2 July 2012 from Hyperion Asset Management Limited, the Board has been examining the option of agreeing to a novation of the Management Services Agreement from Hyperion Asset Management Limited to EC Pohl & Co Pty Ltd (a company associated with Dr E C Pohl).

The Board intends to recommend to Shareholders at the AGM that changes be made to the Management Services Agreement which would formalise a new relationship with Dr E C Pohl and Hyperion Asset Management Limited.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Directors do not expect the novation of the Management Services Agreement (if agreed by Shareholders) to have any adverse effect on the results in subsequent years. There are no planned changes to principal activities. Any continuing general decline in equity markets may have an adverse effect on results in future years.

8. ENVIRONMENTAL ISSUES

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

9. DIVIDENDS PAID

Type	Cents per share	Total amount \$'000's	Date of payment
Dividends paid to Shareholders during the financial year were as follows:			
Final	4.25	1,046	September 2011
Interim	3.00	733	May 2012
	7.25	1,779	
Dividends paid by the Company during the preceding year were:			
Final	4.25	1,119	September 2010
Interim	4.25	1,120	March 2011
	8.50	2,239	

The final dividend paid in September 2011 was franked to 3.75 cents per share. The dividend paid in May 2012 was fully franked.

In addition to the above dividends, since the end of the financial year the Directors have recommended the payment of a franked final dividend of \$732,000 (3.0 cents per share) to be paid on 12 October 2012.

There is no LIC attributable amount attached to this dividend.

10. EARNINGS PER SHARE

	2012 Cents	2011 Cents
Basic earnings per share	4.22	3.35
Diluted earnings per share	4.22	3.35

11. COMPANY SECRETARY

Ian W Harrison B.Bus (Acc), FCPA, CSA (Affiliate)

Company Secretary since inception of the Company in 1997.

Ian has 33 years experience in the accounting and finance industries. He is the Company Secretary for Hyperion Asset Management Limited and was previously the Company Secretary for Wilson HTM Investment Group Ltd and its associated entities.

12. MEETINGS OF DIRECTORS

The number of Directors' meetings attended by each of the Directors of the Company during the financial year are:

Director	Board		Audit and Compliance Committee		Remuneration and Nomination Committee	
	Eligible to attend	Attend	Eligible to attend	Attend	Eligible to attend	Attend
H R Smerdon AM	5	5	4	4	1	1
Dr E C Pohl	5	5	-	-	1	1
S A Mitchell	5	5	4	4	1	1
P Corrigan AM	5	5	-	-	-	-
D M McGann	5	5	4	3	-	-

Decided on a new layout of 13, A, B, C & D below and some changed paragraphs. Now starting points 14 onwards on next page

13. REMUNERATION REPORT (AUDITED)

The remuneration report is set out under the following main headings:

- (A) Principles used to determine the nature and amount of remuneration
- (B) Details of remuneration

(C) Service agreements

(D) Share-based compensation

(A) Principles used to determine the nature and amount of remuneration

Fees and payments to Directors reflect the demands which are made on, and the responsibilities of, the Directors. The Board has established a Remuneration and Nomination Committee. The Committee reviews the remuneration of Directors annually. No remuneration consultants were engaged during the year.

There has been no change to remuneration. The current per annum remuneration of the Directors is:

☉ Chairman	\$40,000
☉ Chairman – Audit Committee	\$30,000
☉ Other Directors	\$25,000

Remuneration of Directors is determined by the Board within the maximum amount of \$200,000 previously approved by the Shareholders.

The Director fees paid to Manny Pohl were paid to his previous employer in accordance with that employer's policies.

There is no performance based remuneration for Directors.

(B) Details of remuneration

Details of the remuneration of each Director of Hyperion Flagship Investments Limited and the executives of the Company are set out in the following table.

DETAILS OF REMUNERATION								
Director	Year	Short-term Benefits			Post-Employment	Equity		Total
		Fees	Performance Fees	Non-monetary benefits	Super	Shares	Options	
		\$	\$	\$	\$	\$	\$	
H R Smerdon AM Non-Executive Chairman	2012	40,000	-	-	-	-	-	40,000
	2011	40,000	-	-	-	-	-	40,000
Dr E C Pohl Managing Director	2012	25,000	-	-	-	-	-	25,000
	2011	25,000	-	-	-	-	-	25,000
S A Mitchell Non-Executive Director	2012	30,000	-	-	-	-	-	30,000
	2011	30,000	-	-	-	-	-	30,000
P Corrigan AM Non-Executive Director	2012	25,000	-	-	-	-	-	25,000
	2011	25,000	-	-	-	-	-	25,000
Dominic M McGann Non-Executive Director	2012	25,000	-	-	-	-	-	25,000
	2011	25,000	-	-	-	-	-	25,000
Total Directors Remuneration	2012	145,000	-	-	-	-	-	145,000
	2011	145,000	-	-	-	-	-	145,000

(C) Service agreements

As the Company does not employ any staff there are no employment service agreements entered into by the Company.

The Company Secretary is employed by the Investment Manager. During the year the Managing Director was employed by the Investment Manager.

(D) Share-based compensation

No share-based compensation exists.

END OF REMUNERATION REPORT (AUDITED)

14. GENERAL TRANSACTIONS

Other than Director's remuneration, the Company does not directly contract with any of the Directors.

15. LOANS

There are no loans issued to any of the Directors (30 June 2011 – Nil).

16. OPTIONS

No options have been issued during or since the financial year (30 June 2011 – Nil).

17. INSURANCE OF OFFICERS AND/OR AUDITORS

During the financial year the Company insured the Directors and Officers against certain liabilities as permitted by the *Corporations Act 2001*. The insurance policy prohibits disclosure of the nature of the cover, the amount of the premium, the limit of liability and other terms.

The Company has entered into an agreement for the purpose of indemnifying Directors and Officers, to the extent permitted by law, against any liability (including the costs and expenses of defending actions for an actual or alleged liability) incurred in their capacity as a Director and Officer of the Company.

The Company has not during or since the financial year indemnified or paid any insurance premiums to indemnify the auditors.

18. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceeding to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

19. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd) for audit and non-audit services provided during the year are set out in Note 16 to the Financial Statements.

The Directors have considered the position and are satisfied that the provision of any non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Committee is satisfied that the provision of any non-audit services by the auditor, would not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- ☉ All non-audit services are reviewed by the Audit and Compliance to ensure they do not impact the impartiality and objectivity of the auditor; and
- ☉ None of the services undermine the general principles relating to auditor independence as set out in APES 110, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the Auditors' Independence Declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

20. ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Class Order 98/100 issued by the Australian Securities and Investments Commission. Accordingly, amounts in the Financial Statements and Directors' Report have been rounded to the nearest \$1,000.

This report is made in accordance with a resolution of the Directors.



Dr Emmanuel (Manny) C Pohl
Managing Director

BRISBANE
17 August 2012

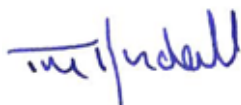
Mr H Smerdon AM
Chairman
Hyperion Flagship Investments Limited
Level 22
307 Queen Street
BRISBANE QLD 4000

Dear Henry

**DECLARATION OF INDEPENDENCE BY TIM KENDALL TO THE DIRECTORS OF HYPERION
FLAGSHIP INVESTMENTS LIMITED**

As lead auditor of Hyperion Flagship Investments Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.



Tim Kendall
Director
BDO Audit Pty Ltd

Brisbane, 17 August 2012

This statement outlines the main corporate governance practices that were in place throughout the financial year unless otherwise stated.

The ASX Listing Rules require listed companies to include in their annual report a statement detailing the extent to which they have followed the ASX best practice recommendations in their reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the Company's action.

A checklist summarising the ASX recommendations and compliance is on pages 21 and 22.

1. BOARD OF DIRECTORS

The Board is responsible for the overall corporate governance of the entity and its overriding objective is to protect and increase Shareholder value. The Board guides and monitors the business to ensure that the Company is properly managed in the best interest of Shareholders. The Board is accountable to its Shareholders.

A charter setting out the Board's role and responsibilities, composition etc has been established.

The Board comprises four Non-Executive Directors (including the Chairman) and one Executive Director (being the Managing Director).

The names of the current Directors are set out below:

Mr Henry R Smerdon AM

Chairman

Chair of the Remuneration and Nomination Committee

Member of Audit and Compliance Committee

Mr Smerdon AM is a Company Director and has been a Director since 2000.

Dr Emmanuel (Manny) C Pohl

Managing Director

Member of the Remuneration and Nomination Committee

Dr Pohl has been the Managing Director of the Company since the Company was established in 1997.

Sophie A Mitchell

Non-Executive Director

Chair of the Audit and Compliance Committee

Member of the Remuneration and Nomination Committee

Ms Mitchell is an Executive Director of RBS Morgans, and has been a Director since 2008.

Patrick Corrigan AM

Non-Executive Director

Mr Corrigan AM is a Company Director and has been a Director since May 2009.

Dominic M McGann

Non-Executive Director

Member of the Audit and Compliance Committee

Mr McGann is a Partner of McCullough Robertson and has been a Director since October 2009.

The Company's Board reviews Board effectiveness and membership on an ongoing basis and retains flexible criteria for nominations to fill Board vacancies in the light of the Company's current circumstances and the skills, knowledge, gender and experience of the current Board members.

The Board has established a diversity policy which it is responsible for. For the purposes of the policy, diversity covers gender, age, ethnicity, cultural background, impairment or disability, sexual preference or religion.

The purpose of the diversity policy is to ensure that:

- ☉ A safe and supportive workplace is provided where differences are valued and respected;
- ☉ Workplace structures, systems, policies and procedures help employees balance their work, family and other responsibilities effectively;
- ☉ Employees have the ability to contribute and access opportunities based on merit; and
- ☉ Employment decisions are transparent, equitable and procedurally fair.

Because of the size of the Company and the limited number of employees, the Board is responsible for:

- ☉ Workplace structures, systems, policies and procedures;
- ☉ Establishing and monitoring the Company's overall diversity strategy and policy;
- ☉ Setting targets on diversity which will include gender;
- ☉ Monitoring achievement of diversity targets; and
- ☉ Include gender diversity objectives in Board recruitment, Board performance evaluation and succession planning processes.

The Board has set a target of diversity on the Board of one third of the independent Directors with a focus on women. There is currently one female director (25% of the independent Directors).

Independence

The Board has adopted the test of Director independence as set out in the ASX Principles. Having regard to this definition, the Board considers a Director to be independent if he or she is not a member of management and is free of any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with a Director's ability to act in the best interests of the Company. No Directors except the Managing Director and Patrick Corrigan AM hold a material interest in the issued shares of the Company. The Board has not adopted any quantitative thresholds in relation to dealing with entities in which a Director may have a financial interest and instead performs assessments on a case by case basis.

Conflicts of Interest

Directors are required to declare any conflicts of interest and, where deemed necessary, do not participate in any discussions or any decisions which relate to the conflict. The Board regularly assesses the independence of the Non-Executive Directors based on their disclosure of interests. As at the date of this report, the independent Directors are Henry Smerdon AM, Sophie Mitchell, Patrick Corrigan AM and Dominic McGann.

Directors and Board Committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required which will not be unreasonably withheld.

Review of Board and Director Performance

A formal review of the performance of the Board and Audit and Compliance Committee is undertaken yearly. A review was undertaken in late 2011 with any issues raised addressed at subsequent Board meetings.

The Board has determined the responsibilities of the Chairman and Managing Director. A summary of these responsibilities are:

Chairman

The Chairman's responsibilities are:

- ☉ The overall leadership of the Board.
- ☉ Communication with Shareholders.
- ☉ Keeping Directors informed with accurate, timely and relevant information.
- ☉ Evaluating the performance of the Board and individual Directors, including the Managing Director.
- ☉ Managing the business of the Board.
- ☉ Ensuring the effective operation of Board Committees.
- ☉ Ensuring appropriate standards for corporate governance are in place and complied with.
- ☉ Monitoring conflicts of interest.
- ☉ Ensuring effective communication with the Managing Director.

In particular, the Chairman will:

- ☉ Be responsible for the efficient organization and conduct of Board business, including chairing meetings, briefing Directors on issues relevant to the Board, establishing appropriate agendas for meetings.
- ☉ Facilitate the effective contribution of all Directors to, at and between meetings.
- ☉ Be the spokesperson for the Company at the Annual General Meeting particularly in regard to policy and strategic issues.
- ☉ Chair the Nominations Committee.
- ☉ Ensure that the performance of the Investment Manager/service provider is formally reviewed by the Audit and Compliance Committee at least once per year.
- ☉ Ensure, in conjunction with the Managing Director, that corporate and strategic priorities and objectives for the Company are developed and considered by the Board on an annual basis.

Managing Director

The responsibility of the Managing Director is broadly to work with the Board and the Chairman to achieve the Company's corporate and strategic objectives and to undertake those duties not specifically assigned to the Board or the Chairman and generally are:

- ☉ Day to day management of the business.
- ☉ Implementing decisions of the Board and reporting to the Board on progress/outcomes.
- ☉ Providing the Chairman and other Board members with accurate and timely information on all matters relevant to the business and operations of the Company.
- ☉ Ensuring that there is effective communication between himself, the Chairman and other Directors.
- ☉ Ensuring that the services provided to the Company are consistent with the needs of the Company as assessed by the Board and that the service provided is regularly evaluated for efficiency and value for money.
- ☉ Reporting to the Board regularly on the performance of the business against strategic priorities and objectives.

Terms of office and appointment of new Directors

The Company's constitution specifies that all Directors (with the exception of the Managing Director) must retire from office no later than the third Annual General Meeting (AGM) following their last election. Where eligible, a Director may stand for re-election.

There are no set terms of office or retirement ages for individual Directors.

Details of the Directors' qualifications, expertise and experience are set out in the Directors' Report on pages 12 and 13.

Prospective candidates for election to the Board are reviewed by the Nominations Committee. The Nominations Committee considers the experience, skills, gender and background of the candidates, diversity policy and the requirements of the Board, to ensure the Board's overall composition enables it to discharge its responsibilities and lead the Company effectively.

2. DEALINGS IN THE COMPANY'S SHARES

The constitution permits Directors to acquire shares in the Company. The Company has established a policy that requires that all Directors and employees obtain approval from the Chairman in respect to any dealings. The Chairman requires prior approval of the Chairman of the Audit and Compliance Committee in advance of any proposed dealing in the Company shares.

Following this approval, the Director or employee is able to trade in securities EXCEPT in the period from the 1st of the month until notification of financial information to the ASX such as NAV, profit information or announcements of share issues or capital raisings, or if a Director or employee is in possession of any price sensitive information.

3. COMMITTEES

Due to the size and nature of the operations of the Company, the Board as a whole carries out the roles often assigned to committees.

☉ Audit and Compliance Committee

The Board has established an Audit and Compliance Committee. The Board has agreed that the Committee is to consist solely of independent Directors. The Committee consists of the following independent Directors:

S A Mitchell (Chair)

H R Smerdon AM

D M McGann

A charter, setting out the Committee's role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate has been established. Included in its role is an ongoing review of the performance of the Manager and the services it provides.

The role of the Committee is to oversee the preparation and audit of the financial statements, review the financial statements and monitor the establishment and maintenance of an internal control framework, risk management systems and appropriate ethical standards. The Committee has appropriate financial and risk expertise and all members are financially literate and have an appropriate understanding of the industry in which the Company operates. All matters determined by the Committee are submitted to the full Board as recommendations for Board decision.

Minutes of the Committee meetings are tabled at the subsequent Board meeting.

☉ Remuneration and Nomination Committee

The Board has established a Remuneration and Nomination Committee. The Committee consists of the following Directors:

H R Smerdon AM (Chairman)

Dr E C Pohl

S Mitchell

The Committee has met during the year.

A Charter setting out the Committees' role, responsibilities and composition has been established.

The role of the Committee is to assess the skills required on the Board and review remuneration matters.

All matters determined by the Committee are submitted to the full Board as recommendations for Board decision.

Minutes of the Committee meetings are tabled at the subsequent Board meeting.

4. REMUNERATION

☉ Directors

The total quantum of Directors' fees payable by the Company has been determined by Shareholders in general meeting.

The Board has delegated the responsibility for determining the remuneration of individual Directors to the Remuneration and Nomination Committee.

☉ Executives

The only executives of the Company are the Managing Director and Company Secretary. During the year the Company Secretary did not receive any remuneration from the Company. The Managing Director did receive remuneration as a Director and was employed and paid by the Manager during the period he was employed by them. The services of the Company Secretary are provided by the Manager as per the Management Services Agreement. These services are reviewed as part of the Investment Manager review.

5. ETHICAL STANDARDS

The Board supports the need for Directors and employees to observe the highest standards of behaviour and business ethics. The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all Directors and employees. The Code reflects the high standards of behaviour and professionalism expected of Directors and employees and the practices necessary to maintain confidence in the Company's integrity. The Code requires that at all times all Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Company policies. Any unethical practices are to be reported to the Chairman. A copy of the Code is available on the Company's website.

In particular, the Code requires that executives and employees:

- ☉ Do not disclose or use in any improper manner confidential information about the Company, its clients or employees;
- ☉ Avoid conflicts of interest; and
- ☉ Protect any Company assets under their control and not use Company assets for personal purposes, without prior Company approval.

6. COMPLIANCE AND CONTINUOUS DISCLOSURE

The Company is committed to maintaining the highest standard of integrity and seeks to ensure all its activities are undertaken with efficiency, honesty and fairness.

As a listed entity, the Company has an obligation under the ASX Listing Rules to maintain an informed market with respect to its securities. Accordingly, the Company keeps the market advised of all information required to be disclosed under the rules which it believes would have a material effect on the price or value of the Company's securities.

The Company aims to keep Shareholders informed of the Company's

performance and all major developments in an ongoing manner. Information is communicated to Shareholders through:

- ☉ The Annual Report, which is available to all Shareholders.
- ☉ The Interim Financial Report which contains summarised financial information and review of the operations of the entity during the period.
- ☉ Quarterly Shareholder newsletters.
- ☉ Other correspondence regarding matters impacting on Shareholders, as required.

All documents that are released publicly are made available on the Company's website www.hyperionfi.com.au

Shareholders are also encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals. Important issues are presented to Shareholders as single resolutions.

The Shareholders are responsible for voting on the appointment and aggregate remuneration of Directors, any changes to the Company's constitution and changes to the entity which may impact on share ownership rights.

7. RISK MANAGEMENT

The Company considers risk management as a critical discipline and core competency that enables it to meet its strategic and business-level objectives. A detailed Risk Management Framework has been established and is reviewed annually by the Audit and Compliance Committee. The Framework documents the risks which the Board has identified. Reporting is provided to the Audit and Compliance Committee in accordance with the Framework and enables the evaluation of the effectiveness of the management and mitigation of the Company's material business risks. A summary of the Risk Management Framework is available on the website.

The Board also reviews its Outsourcing Policy annually, in particular the processes to monitor the internal controls and risk management of its major service providers continue to be appropriate.

The Investment Manager, Hyperion Asset Management Limited, has provided an audited report setting out the control objectives and procedures for the key operating areas of asset management, investment administration and information technology which is reviewed and discussed with the Investment Manager.

The Company seeks to reduce investment risk by a policy of diversification of investments across industries and companies operating in various sectors of the market.

Other risk management issues are considered by the Board in addition to the risks which are managed by the Investment Manager who is providing all operational activities. The Investment Manager reviews risks as part of its normal risk management process.

The Board receives regular reports about the financial condition and operational results of the Company.

The Managing Director and Chief Financial Officer are required to provide formal statements to the Board each financial year that in all material respects:

- ☉ The Company's financial statements present a true and fair view of the Company's financial condition and operational results, and
- ☉ The risk management and internal compliance and control systems are sound, appropriate and operating efficiently and effectively.

The Company Secretary is required to provide a formal statement to the Board each financial year that in all material respects the regulatory and secretarial compliance requirements are operating efficiently and effectively.

8. EXTERNAL AUDITORS

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs by the Audit and Compliance Committee. BDO Audit Pty Ltd (BDO) were appointed as the external auditors in 1998 and have been retained following completion of a tender process in 2009.

It is BDO's policy to rotate audit engagement partners on listed companies at least every five years.

The Company's external auditor attends the Annual General Meeting and is available to answer Shareholder questions.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in Notes 5 and 17 to the financial statements.

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS			
ASX Principle	Reference	Compliance	
Principle 1: Lay solid foundations for management and oversight			
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	1	Comply
1.2	Disclose the process for evaluating the performance of senior executives.	4	Comply
1.3	Provide the information indicated in the Guide to reporting on Principle 1.	1 and 4	Comply
Principle 2: Structure the board to add value			
2.1	A majority of the board should be independent directors.	1	Comply
2.2	The chair should be an independent director.	1	Comply
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	1	Comply
2.4	The board should establish a nomination committee.	1	Comply
2.5	Disclose the process for evaluating the performance of the board, its committees and individual directors.	1	Comply
2.6	Provide the information indicated in Guide to reporting on Principle 2.	1 and Director's Report	Comply
Principle 3: Promote ethical and responsible decision-making			
3.1	Establish a code of conduct and disclose the code or a summary of the code as to:		
	☉ The practices necessary to maintain confidence in the company's integrity.	5	Comply
	☉ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.	5	Comply
	☉ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	5	Comply
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	1	Comply
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	1	Comply
3.4	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	1	Comply
3.5	Provide the information indicated in Guide to reporting on Principle 3.	1	Comply

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS			
ASX Principle	Reference	Compliance	
Principle 4: Safeguard integrity in financial reporting			
4.1	Establish an audit committee.	3	Comply
4.2	The audit committee should be structured so that it:		
	☉ Consists only of non-executive directors.	3	Comply
	☉ Consists of a majority of independent directors.	3	Comply
	☉ Is chaired by an independent chair, who is not chair of the board.	3	Comply
	☉ Has at least three members.	3	Comply
4.3	The audit committee should have a formal charter.	3	Comply
4.4	Provide the information indicated in Guide to reporting on Principle 4.	3, Director's Report and website	Comply
Principle 5: Make timely and balanced disclosure			
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	6	Comply
5.2	Provide the information indicated in Guide to reporting on Principle 5.	6 and website	Comply
Principle 6: Respect the rights of shareholders			
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of the policy.	6	Comply
6.2	Provide the information indicated in Guide to reporting on Principle 6.	6 and website	Comply
Principle 7: Recognise and manage risk			
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	7 and website	Comply
7.2	Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	7	Comply
7.3	Disclose whether the board has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	7	Comply
7.4	Provide the information indicated in Guide to reporting on Principle 7.	7 and website	Comply
Principle 8: Remunerate fairly and responsibly			
8.1	The board should establish a remuneration committee.	3 and 4	Comply
8.2	The remuneration committee should be structured so that it:	4	Comply
	☉ Consists of a majority of independent directors.		
	☉ Is chaired by an independent chair.		
	☉ Has at least three members.		
8.3	Clearly distinguish the structure of non executive directors' remuneration from that of executive directors and senior executives.	4	Comply
8.4	Provide the information indicated in Guide to reporting on Principle 8.	3, 4 and Remuneration Report	Comply

Note 1: Reference refers to the relevant sections of this Corporate Governance Statement or to the Director's Report.

CONTENTS OF FINANCIAL REPORT:	
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This financial report covers Hyperion Flagship Investments Limited as an individual entity. There are no controlled entities.

Hyperion Flagship Investments Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Hyperion Flagship Investments Limited
Level 22
307 Queen Street
Brisbane Qld 4000

The financial report was authorised for issue by the Directors on 17 August 2012.

A description of the nature of the entity's operations and its principal activities is included in the Managing Director's report on page 10.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All media releases, financial reports and other information are available from the Company at the above address or from our website:

www.hyperionfi.com.au

Financial Report

HYPERION FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
Gains/(Losses) on sale of Available-For-Sale Financial Assets		-	(357)
Other Revenue	4	1,422	1,500
Performance Fee		-	-
Other Expenses	5	(422)	(426)
Profit/(Loss) before income tax		1,000	717
Income tax (Expense)/Benefit	6	38	155
Net Profit/(Loss) for the year		1,038	872
Other Comprehensive Income			
Changes in fair value of Financial Assets at fair value through Other Comprehensive Income		(3,147)	-
Changes in fair value of Available-For-Sale Financial Assets		-	822
Income Tax (Expense)/Benefit relating to components of Other Comprehensive Income		937	(247)
Other Comprehensive Income/(Loss) for the year		(2,188)	575
Total Comprehensive Income/(Loss) for the year		(1,150)	1,447

Earnings per share:

		Cents	Cents
Basic earnings per share	20	4.22	3.35
Diluted earnings per share	20	4.22	3.35

The above statement of financial position should be read in conjunction with the notes to the financial statements.

HYPERION FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
ASSETS			
Cash and Cash Equivalents	7	604	626
Trade and Other Receivables	8	151	162
Financial Assets at fair value through Other Comprehensive Income	9	28,758	-
Available-For-Sale Financial Assets	10	-	32,961
Deferred Tax Assets	11	2,384	1,409
Total Assets		31,897	35,158
LIABILITIES			
Trade and Other Payables	12	57	37
Total Liabilities		57	37
Net Assets		31,840	35,121
EQUITY			
Contributed Equity	13	33,941	34,293
Other Reserves	14	(2,304)	(116)
Retained Earnings		203	944
Total Equity		31,840	35,121

The above statement of financial position should be read in conjunction with the notes to the financial statements.

HYPERION FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Contributed Equity \$'000	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Asset Realisation Reserve \$'000	TOTAL \$'000
Balance at 1 July 2010		37,110	2,311	(691)	-	38,730
Total Comprehensive Income						
Profit for Year		-	872	-	-	872
Other Comprehensive Income		-	-	575	-	575
Total Comprehensive Income		-	872	575	-	1,447
Transactions with Owners in their capacity as owners						
Shares issued during period	13(b)	479	-	-	-	479
Shares bought back on market	13(b)	(3,296)	-	-	-	(3,296)
Dividends paid or provided for	15(a)	-	(2,239)	-	-	(2,239)
		(2,817)	(2,239)	-	-	(5,056)
Balance at 30 June 2011		34,293	944	(116)	-	35,121
Balance at 1 July 2011		34,293	944	(116)		35,121
Total Comprehensive Income						
Profit for Year		-	1,038	-	-	1,038
Other Comprehensive Income		-	-	(2,188)	-	(2,188)
Total Comprehensive Income		-	1,038	(2,188)	-	(1,150)
Transfers between Reserves						
Transfer to Asset Realisation Reserve		-	-	(15)	15	-
Total Transfers between Reserves		-	-	(15)	15	-
Transactions with Owners in their capacity as owners						
Shares issued during period	13(b)	474	-	-	-	474
Shares bought back on market	13(b)	(826)	-	-	-	(826)
Dividends paid or provided for	15(a)	-	(1,779)	-	-	(1,779)
		(352)	(1,779)	-	-	(2,131)
Balance at 30 June 2012		33,941	203	(2,319)	15	31,840

The above statement of changes in equity should be read in conjunction with the notes to the financial statements.

HYPERION FLAGSHIP INVESTMENTS LIMITED
STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
Cash flows from operating activities			
Dividends received		1,427	1,477
Interest received		6	11
Other payments		(402)	(1,122)
Net cash inflow/(outflow) from operating activities	19	1,031	366
Cash flows from investing activities			
Proceeds from sale of investments		2,739	6,732
Payment for investments		(1,661)	(1,933)
Net cash inflow/(outflow) from investing activities		1,078	4,799
Cash flows from financing activities			
Dividends paid	15(a)	(1,305)	(1,759)
Buy-back of shares		(826)	(3,296)
Net cash inflow/(outflow) from financing activities		(2,131)	(5,055)
Net increase/(decrease) in cash and cash equivalents		(22)	110
Cash and cash equivalents at the beginning of the year		626	516
Cash and cash equivalents at end of period	7	604	626

The above statement of cash flows should be read in conjunction with the notes to the financial statements.

HYPERION FLAGSHIP INVESTMENTS LIMITED NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*.

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report of Hyperion Flagship Investments complies with International Financial Reporting Standards (IFRS).

These financial statements have been prepared under the historical cost convention, except for Financial Assets at fair value through Other Comprehensive Income and Available-For-Sale Financial Assets, which are measured at fair value.

Unless otherwise stated, all amounts are presented in Australian dollars. Hyperion Flagship Investments Limited is a for-profit entity for the purpose of preparing these financial statements.

(B) BALANCE SHEET FORMAT

The Statement of Financial Position is in a liquidity format. The adoption of a liquidity format results in the removal of the terms "current asset" and "non current asset" from the Statement of Financial Position, in favour of the general term "assets".

(C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax (GST). The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities as follows:

(i) Dividend Revenue

Dividend revenue is recognised when the right to receive the dividend has been established.

(ii) Interest Revenue

Interest revenue is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest revenue. Interest revenue on impaired loans is recognised using the original effective interest rate.

(D) INCOME TAX

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and tax liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(E) FINANCIAL INSTRUMENTS

Financial Assets At Fair Value Through Profit Or Loss

Financial assets at fair value through profit or loss are assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term, or if so designated by management and within the requirement of AASB 9 *Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the profit or loss in the period in which they arise.

Financial Assets At Fair Value Through Other Comprehensive Income

The Company is a long-term investor in equity instruments. Under AASB 9, these investments are classified as fair value through Other Comprehensive Income. After initial recognition at fair value (being cost), the Company has elected to present in Other Comprehensive Income changes in the fair value of equity instrument investments.

Unrealised gains and losses on investments are recognised in the Asset Revaluation Reserve until the investment is sold or otherwise disposed of, at which time the cumulative gain or loss is transferred to the Asset Realisation Reserve.

The Company derecognises an investment when it is sold or it transfers the investment and the transfer qualifies for derecognition in accordance with AASB 9. Upon derecognition, unrealised gains/losses net of tax relating to the investment are transferred from the revaluation reserve to the realisation reserve.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

Available-For-Sale Financial Assets

These investments are measured at fair value.

Unrealised gains and losses arising from changes in the fair value of these assets are taken directly to Other Comprehensive Income and accumulated in Equity.

When these financial Assets are sold, the accumulated fair value adjustments are reclassified from Equity to the profit or loss as gains and losses on sale.

Available-For-Sale-Financial assets are assessed at each reporting date to determine whether there is any objective evidence that it is impaired. In the case of Available-For-Sale Financial Instruments, a significant or prolonged decline in the value of the instrument below cost is considered to be evidence of whether or not impairment has arisen.

Any cumulative impairment loss in respect of an Available-For-Sale Financial Assets previously recognised in equity is reclassified to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For Available- For-Sale Financial Assets that are debt securities, the reversal is recognised in profit or loss. For equity securities, the reversal is recognised in Other Comprehensive Income.

Loans and Receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of loans and receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the profit or loss in other expenses.

Fair Value Estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and securities) is based on quoted market prices at the Statement of Financial Position date. The quoted market price used for financial assets held by the Company is the current bid price. The appropriate quoted market price for financial liabilities is the current bid price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(F) CASH AND CASH EQUIVALENTS

For Statement of Cash Flows purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

(G) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Other liabilities are measured at amortised cost using the effective interest method.

(H) CONTRIBUTED EQUITY

Ordinary shares are classified as Equity.

Incremental costs directly attributable to the issue of new shares or options are shown in Equity as a deduction, net of tax, from the proceeds.

(I) DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Company, on or before the end of the reporting period but not distributed at the end of the reporting period.

(J) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(K) ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, unless otherwise stated.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

(L) KEY JUDGEMENTS

The preparation of financial reports in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. This requires the Board to exercise their judgement in the process of applying the Company's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB 112 *Income Taxes*, deferred tax liabilities and deferred tax assets have been recognised for Capital Gains Tax (CGT) on the unrealised gains/losses in the investment portfolio at current tax rates.

As the Directors do not intend to dispose of the portfolio, this tax liability/benefit may not be crystallised at the amount disclosed in Note 11. In addition, the tax liability/benefit that arises on disposal of these securities may be impacted by changes in tax legislation relating to treatment of capital gains and the rate of taxation applicable to such gains/losses at the time of disposal.

The Company has an investment process (see below for explanation) which is anticipated will deliver medium to long-term capital growth – minimum investment period is five years. The deferred tax asset has been carried forward as it believed that this process will deliver growth over this period to utilise the deferred tax asset.

The Company does not hold any securities for short term trading purposes. Therefore the investment portfolio is classified as Financial Assets at fair value through Other Comprehensive Income.

(M) KEY ASSUMPTIONS AND SOURCES OF ESTIMATION UNCERTAINTY

There are no key assumptions or sources of estimation uncertainty that have a risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period as investments are carried at their market value.

(N) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

NEW AND AMENDED STANDARDS AND INTERPERATIONS

The Company has early adopted AASB 9 *Financial Instruments* (AASB 9) with initial application from 1 July 2011. The Standard has not been applied retrospectively.

In accordance with AASB 9 the Company has designated its investments in equity securities that were formerly designated as "Available-For-Sale", as "fair value through Other Comprehensive Income" as disclosed in Note 1 (E). This results in all realised and unrealised gains and losses from the investment portfolio being recognised directly through Other Comprehensive Income in the Statement of Comprehensive Income. Dividend income is recognised in the profit or loss.

In 2011 and prior years the investments in equity securities were designated as Available-For-Sale Financial Assets. This is in accordance with the accounting policies detailed in Note 1 (E).

The impact of the change in policy is that for 2012 the realised gains of \$21,000 were recognised directly through Other Comprehensive Income and not in profit or loss. There was no impact on the Statement of Financial Position as the assets already reflected the fair value of the investments and were transferred from the Available-For-Sale Financial Assets account to the Financial Assets at fair value through Other Comprehensive Income account.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2012.

New and amended standards dealing with Consolidated Financial Statements, Separate Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities and Fair Value Measurement have been released. These standards are effective from 1 January 2013. The Company does not plan to adopt these standards early nor has the extent of their impact been determined.

2. FINANCIAL RISK MANAGEMENT

The activities of the Company expose it to a variety of financial risks as discussed below:

The Company's overall risk management program focuses on the volatility of the financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. Risk governance is managed through the Board which provides direct oversight on the Company's risk management framework and overall risk management performance. The Board provides written principles for risk management covering investment portfolio composition. Risk is managed by the professional, disciplined management of the investment portfolio by Hyperion Asset Management Limited (the Manager).

The Company held the following financial instruments:

	30 June 2012 \$'000	30 June 2011 \$'000
Financial assets		
Cash and cash equivalents	604	626
Trade and Other Receivables	151	162
Financial Assets at fair value through Other Comprehensive Income/ Available-For-Sale	<u>28,758</u>	<u>32,961</u>
Total	<u>29,513</u>	<u>33,749</u>
Financial liabilities		
Trade and Other Payables	57	37
Total	<u>57</u>	<u>37</u>

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

(A) MARKET RISK

(i) Foreign exchange risk

The Company operates entirely within Australia and is not exposed to material foreign exchange risk.

(ii) Equity market risk

The Company is exposed to risk of market price movement through its investments in Australian listed equity securities. Equity investments held by the Company are classified on the Statement of Financial Position as Financial Assets at fair value through Other Comprehensive Income and any movement in the listed equity securities is reflected in Other Comprehensive Income (2011: Available-For-Sale Financial Assets – refer Note 1).

The risk to Shareholders is that adverse equity securities market movements have the potential to cause losses in Company earnings or the value of its holdings of financial instruments. The Manager's investment strategy centres on the view that investing in proven high quality businesses with growth opportunities arising from their sustainable competitive advantage will outperform over the longer-term. Consistent with this approach, the Manager has an established risk management framework that includes procedures, policies and functions to ensure constant monitoring of the quality of the investee companies. The objective of the risk management framework is to manage and control risk exposures within acceptable parameters while optimising returns.

Equity market risk is measured as a percentage change in the value of equity instruments held in the portfolio, as compared to the total market index for the same period.

The Company's exposure to equity market risk over the Manager's investment horizon at end of reporting period is:

	2012	2011
Portfolio five year return	-2.6%	4.6%
All Ordinaries Index five year return	-8.1%	-1.5%

Sensitivity Analysis

Increases/decreases in an equity securities price, affect the Company's asset revaluation reserve and Other Comprehensive Income for the year. The analysis is based on the assumption that the Financial Assets at fair value through Other Comprehensive Income had increased/decreased by 5% (2011 - 5%) with all other variables held constant.

Impact on Equity and Other Comprehensive Income for the year:-

2012 +/- \$1,438,000

2011 +/- \$1,648,000

Impact on profit or loss is nil.

(iii) Cashflow interest rate risk

The Company is exposed to cash flow interest rate risk from holding cash and cash equivalents at variable rates. The objective of the Company is to minimise the potential adverse effects of interest rate risk.

In order to minimise the potential adverse effects of this risk, the Manager reviews the interest rate exposure as part of cash flow management and takes into consideration liquidity and yields as part of cash flow management. The cash and cash equivalents held are subject to an insignificant level of risk of changes in value.

As at the reporting date, the Company had the following cash and cash equivalents:

30 June 2012: Balance \$604,000
 Weighted average interest rate 2.84%

30 June 2011: Balance \$626,000
 Weighted average interest rate 3.16%

(B) RELATIVE PERFORMANCE RISK

The Manager aims to outperform the risk free cash rate over the long-term. However, as the portfolio consists of equity investments these will tend to be more volatile than cash, so there will likely be periods of relative under and over performance compared to the benchmark risk free rate.

Over the long-term the Manager is confident that the portfolio can achieve outperformance through an investment selection process that invests in companies that have a sound business model, display a sustainable competitive advantage and have proven quality management.

(C) CREDIT RISK

Credit risk is the risk of a counterparty defaulting on their financial obligations resulting in a loss to the Company. The objective of the Company is to minimise credit risk exposure. Credit risk arises from cash and cash equivalents and Financial Assets at fair value through Other Comprehensive Income. Credit risk is managed by the Manager.

Credit risk arising from cash and cash equivalents is managed by only transacting with counterparties independently rated with a minimum rating of A. The providers of financial services to the Company are rated as AA by Standard and Poor's. Credit risk on cash and cash equivalents is deemed to be low.

Credit risk arising from Financial Assets at fair value through Other Comprehensive Income relates to the risk of counterparties on the ASX defaulting on their financial obligations on transactions for Australian listed equity securities. The credit risk for these transactions is deemed to be low.

The maximum credit risk exposure of the Company at year end is the carrying value of the assets in the Statement of Financial Position.

There is no concentration of credit risk with respect to financial assets in the Statement of Financial Position.

(D) LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The objective of the Company is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, under both normal and distressed conditions.

Prudent liquidity risk management implies maintaining sufficient cash and marketable Australian listed equity securities.

The Manager controls liquidity risk by continuously monitoring the balance between equity securities and cash or cash equivalents and the maturity profiles of assets and liabilities to ensure this risk is minimal.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

(E) FAIR VALUE MEASUREMENTS

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

AASB 7 *Financial Instruments: Disclosures*, requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The following table presents the Company's assets and liabilities measured and recognised at fair value as 30 June 2012.

Company – at	Level	Level	Level
30 June 2011	1	2	3
Assets	\$'000	\$'000	\$'000
Available-For-Sale			
Financial Assets			
Listed Equity Securities	32,961	-	-
Total	32,961	-	-
Company – at			
30 June 2012	1	2	3
Assets	\$'000	\$'000	\$'000
Financial Assets			
at fair value through Other			
Comprehensive Income			
Listed Equity Securities	28,758	-	-
Total	28,758	-	-

(F) CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The capital structure of the Company consists of equity attributable to members of the Company. The Board monitors the return on capital, which is defined as net operating income divided by total Shareholders' Equity. The Board also monitors the level of dividends to Shareholders.

The capital of the Company is invested by the Investment Manager in accordance with the investment policy established by the Board. The Company has no borrowings. It is not subject to any externally imposed capital requirements.

The Company has continued the on-market buy-back of its own shares during the year. This assists in maintaining the alignment between the market price and the Net Asset Value of the Company.

There were no changes in the Company's approach to capital management during the year.

3. SEGMENT INFORMATION

OPERATING SEGMENT

The Company operates in the investment industry. Its core business focuses on investing in Australian equities to achieve medium to long-term capital growth and income.

Operating segments have been determined on the basis of reports reviewed by the Managing Director. The Managing Director is considered to be the chief operating decision maker of the Company. The Managing Director considers the business from both a product and geographic perspective and assesses performance and allocates resources on this basis. The Managing Director considers the business to consist of just one reportable segment.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	Notes	2012 \$'000	2011 \$'000
4. REVENUE			
Dividends		1,416	1,484
Interest		6	11
Other		-	5
Total		1,422	1,500
5. EXPENSES			
Profit/(Loss) before income tax includes the following specific expenses:			
Performance fees		-	-
ASX listing and other fees		35	35
Audit fees		25	22
Directors fees		145	145
Insurance		29	32
Share registry		27	29
Other		161	163
Total		422	426
6. INCOME TAX EXPENSE			
(a) Income tax expense			
Deferred tax		(38)	(155)
Under/(over) provided in prior years		-	-
Total income tax expense in profit or loss		(38)	(155)
Deferred income tax (benefit)/expense included in income tax expense comprises:			
Decrease (increase) in deferred tax assets	11	(33)	(159)
(Decrease) increase in deferred tax liabilities	11	5	4
		(38)	(155)
(b) Reconciliation of income tax expense to prima facie tax payable			
Profit/(Loss) before income tax expense		1000	717
Tax at the Australian tax rate of 30% (2011 – 30%)		300	215
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
Dividend franking credits		(341)	(373)
Other		3	3
		(38)	(155)
Under/(over) provision in prior years		-	-
Total income tax expense (benefit)		(38)	(155)
(c) Amounts recognised in Other Comprehensive Income			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to Other Comprehensive Income.			
Net deferred tax – debited/(credited) directly to Other Comprehensive Income	11	(937)	246
		(937)	246

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
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7. CASH AND CASH EQUIVALENTS

Cash at bank and on hand	604	626
	604	626

8. TRADE AND OTHER RECEIVABLES

Other receivables	151	162
	151	162

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Listed Securities, at fair value

At beginning of year	-	-
Reclassification from Available-For-Sale Financial Assets	32,961	-
Additions (at cost)	1,661	-
Revaluation	(3,147)	-
Disposals (at fair value)	(2,717)	-
Closing Balance at 30 June	28,758	-
Australian listed equity securities	28,758	-

For listed equity securities, fair value is determined by reference to closing bid prices on the Australian Securities Exchange.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Listed Securities, at fair value

At beginning of year	32,961	37,229
Reclassification To Available-For-Sale Financial Assets through Other Comprehensive Income	(32,961)	-
Additions (at cost)	-	1,938
Revaluation	-	822
Disposals (at fair value)	-	(7,028)
Closing Balance at 30 June	-	32,961
Australian listed equity securities	-	32,961

For listed equity securities, fair value is determined by reference to closing bid prices on the Australian Securities Exchange.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
11. DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Accruals	9	8
Tax losses - revenue	612	521
Tax losses - capital	785	785
	1,406	1,314
<i>Amounts recognised in Other Comprehensive Income</i>		
Tax losses – capital	(6)	-
Unrealised loss on Available-For-Sale Investments	-	50
Unrealised loss on Financial Assets on fair value through Other Comprehensive Income	993	-
	987	50
<i>Amounts recognised directly in Equity</i>		
Share issue expenses	-	59
	-	59
Net deferred tax assets	2,393	1,423
Reconciliations		
(i) Gross Movements:		
The overall movement in deferred tax asset accounts is as follows:		
Opening balance	1,423	1,510
(Charged)/credited directly to the profit or loss	33	159
(Charged)/credited to Other Comprehensive Income	937	(246)
Closing balance at 30 June	2,393	1,423
(ii) The movement in deferred tax assets for each temporary difference during the year is as follows:		
<i>Share issue expenses</i>		
Opening balance	59	117
(Charged)/credited directly to the income statement	(59)	(58)
Closing balance	-	59
<i>Accruals</i>		
Opening balance	8	9
(Charged)/credited directly to the profit or loss	1	(1)
Closing Balance	9	8
<i>Tax losses-revenue</i>		
Opening balance	521	408
(Charged)/credited directly to profit or loss	91	113
Closing Balance	612	521

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
11. DEFERRED TAX ASSETS (continued)		
<i>Tax losses – capital</i>		
Opening balance	785	680
(Charged)/credited directly to profit or loss	-	105
(Charged)/credited directly to Other Comprehensive Income	(6)	-
Closing balance	779	785
<i>Available-For-Sale Investments</i>		
Opening balance	50	296
(Charged)/credited directly to Other Comprehensive Income	(50)	(246)
Closing balance	-	50
<i>Unrealised loss on Financial Assets at fair value through Other Comprehensive Income</i>		
Opening balance	-	-
(Charged)/credited directly to Other Comprehensive Income	993	-
Closing balance	993	-
DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in Other Comprehensive Income</i>		
Unfranked dividend and interest receivable	9	14
Net deferred tax liabilities	9	14
Reconciliations		
(i) Gross Movements:		
The Overall movement in the deferred tax liability account is as follows:		
Opening balance	14	10
Charged/(credited) directly to profit or loss	(5)	4
Closing balance	9	14
(ii) The movement in deferred tax liability for each temporary difference during the year is as follows:		
<i>Unfranked dividend and interest receivable</i>		
Opening balance	14	10
Charged/(credited) directly to profit and loss	(5)	4
Closing balance	9	14
Net deferred tax asset adjusted for deferred tax liabilities	2,384	1,409
12. TRADE AND OTHER PAYABLES		
Accrued expenses	57	37
	57	37

Contractual cash flows from trade and other payables approximate their carrying amount. Trade and other payables are all contractually due within six months of reporting date.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 Shares	2011 Shares	2012 \$'000	2011 \$'000
13. CONTRIBUTED EQUITY				
(a) Share Capital				
Ordinary shares Fully paid	24,455,539	24,752,257	33,941	34,293
Total Share Capital	24,455,539	24,752,257	33,941	34,293

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

(b) Movements in ordinary share capital:

Date	Details	Number of Shares	Price	\$'000
30 June 2010	Balance	26,818,549		37,110
20 July 2010 to 29 June 2011	Cancellation of shares under the buy-back scheme	(2,416,656)	\$1.36 (average price)	(3,296)
28 September 2010	Dividend Reinvestment Plan issues (see note (d) below)	149,929	\$1.45	216
11 March 2011	Dividend Reinvestment Plan issues (d) below	200,435	\$1.31	263
30 June 2011	Balance	24,752,257		34,293
20 July 2011 to 29 June 2012	Cancellation of shares under the buy-back scheme	(673,721)	\$1.23 (average price)	(826)
9 September 2011	Dividend Reinvestment Plan issues (see note (d) below)	213,372	\$1.318	281
10 May 2012	Dividend Reinvestment Plan issues (d) below	163,631	\$1.177	193
30 June 2012	Balance	24,455,539		33,941

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Share buy-back

On 24 June 2011 the Company announced to the Australian Securities Exchange that it intended to buy-back up to a maximum of 10% of its issued capital within one year, subject to market conditions. The buy-backs reflect the Company's focus on maintaining an efficient balance sheet through active capital management.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

14. OTHER RESERVES

Asset Revaluation Reserve

Increments or decrements on the revaluation of long-term investments after provision for deferred tax are recorded in the Asset Revaluation Reserve. When an investment has been sold or de-recognised, the realised gains and losses (after tax) are transferred from the revaluation reserve to the Asset Revaluation Reserve.

Asset Realisation Reserve

The Asset Realisation Reserve records realised gains and losses from the sale of investments which are transferred from the Asset Revaluation Reserve.

	2012 \$'000	2011 \$'000
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15. DIVIDENDS

(a) Dividends paid

Final dividend of 4.25 cents (2011 – 4.25 cents) per fully paid share paid on 28 September 2011 (2011 – 28 September 2010)

Partly franked based on tax paid @ 30% – 3.75 cents per share	1,046	1,119
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Interim dividend of 3.0 cents (2011 – 4.25 cents) per fully paid share paid on 11 May 2012 (2011 – 11 March 2011)

Fully franked based on tax paid @ 30% – 3.0 cents per share	733	1,120
---	-----	-------

Total dividends provided for or paid

1,779	2,239
--------------	--------------

Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2012 and 2011 were as follows:

Paid in cash	1,305	1,760
Satisfied by issue of shares	474	479
	1,779	2,239

(b) Listed Investment Company capital gain account

Balance of the Listed Investment Company (LIC) capital gain account

-	-
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LIC capital gains available for distribution are dependent upon:

- (i) The disposal of investment portfolio holdings which qualify for LIC capital gains; or
- (ii) The receipt of LIC distributions from LIC securities held in the portfolio.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
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15. DIVIDENDS (continued)

(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2012 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax or franking credits received on dividends in the year ending 30 June 2013.

Balance as at 30 June 2012 on the franking account after allowing for tax payable in respect of the current year's profits, the receipt of dividends recognised as receivables and the payment of dividends recognised as a liability at the reporting date.

1,539	1,761
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(d) Dividends not recognised at year end

In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 3.0 cents per fully paid ordinary share, (2011 – 4.25 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 12 October 2012 out of retained profits at 30 June 2012, but not recognised as a liability at year end.

732	1,049
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The impact on the franking account of dividends recommended after year end but before the financial statements were authorised for issue and not recognised as a liability at year end will be a reduction on the franking account.

314	397
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	2012 \$	2011 \$
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16. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Other Key Management Personnel

The Company's Secretary and Chief Financial Officer (Ian Harrison) is employed by Hyperion Asset Management Limited. Ian has not received any form of direct remuneration from the Company. Hyperion Asset Management Limited as the Manager receives a performance fee from the Company as detailed in Note 21. This fee is designed to cover the cost of provision of these services during the period of his employment with them. The Company has no other staff and therefore has no Key Management Personnel other than the Directors.

No member of Key Management Personnel held options over shares in the Company during the year.

There have been no other transactions with Key Management Personnel or their related entities other than those disclosed in Note 18.

(b) Key Management Personnel Compensation

Short-term Employment benefits

145,000

145,000

Post-Employment Benefits

-

-

Long-term Benefits

-

-

Total remuneration

145,000

145,000

Detailed remuneration disclosures are provided in sections (A)-(D) of the remuneration report on page 15.

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

16. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Equity Instrument Disclosure relating to Key Management Personnel

The number of shares in the Company held during the financial year by each Director of Hyperion Flagship Investments Limited, including their related parties is set out below. There were no shares granted during the year as compensation.

2012	Balance at the Start of the Year	Received During the Year by Exercise of Rights	Other Changes During the Year	Balance at the End of the Year
H R Smerdon AM	51,800	–	3,008	54,808
Dr E C Pohl	7,544,610	–	(937,803)	6,606,807
S A Mitchell	30,000	–	–	30,000
P Corrigan AM	2,055,523	–	–	2,055,523
D M McGann	–	–	–	–

2011	Balance at the Start of the Year	Received During the Year by Exercise of Rights	Other Changes During the Year	Balance at the End of the Year
H R Smerdon AM	48,740	–	3,060	51,800
Dr E C Pohl	7,423,403	–	121,207	7,544,610
S A Mitchell	10,000	–	20,000	30,000
P Corrigan AM	1,773,391	–	282,132	2,055,523
D M McGann	–	–	–	–

	2012 \$'000	2011 \$'000
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17. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor:

Provision of accounting advice	5	-
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	25	22
Total remuneration of auditors	30	22

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2012

	2012 \$'000	2011 \$'000
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18. RELATED PARTY TRANSACTIONS

The following transactions occurred with other related parties:

Expenses paid or payable by the Company to:

Amounts remaining payable at balance date:

- Hyperion Asset Management Limited for Performance Fee.	-	-
No Performance Fee was payable in accordance with the Management Services Agreement as detailed in Note 21.		
If a Performance Fee had been payable, Dr E C Pohl and H R Smerdon AM would have had an interest in the transaction.		
During the year Dr E C Pohl was a Director, employee and Shareholder of Hyperion Asset Management Limited. He is no longer associated with Hyperion Asset Management Limited.		
H R Smerdon AM would have had an indirect interest in the transaction as a Shareholder of Wilson HTM Investment Group Ltd, as Hyperion Asset Management Limited is indirectly owned 39.65% by Wilson HTM Investment Group Ltd.		
- McCullough Robertson Lawyers for the provision of legal services. D M McGann is a partner of McCullough Robertson Lawyers.	6	6

All related party transactions are made on an arm's length basis using the standard terms and conditions.

19. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

Profit/(Loss) for the year	1,038	822
Sundry Income	-	(5)
Net (Gain)/loss on sale of Financial Assets at fair value through Other Comprehensive Income	-	357
Changes in Operating Assets/Liabilities		
(Increase)/Decrease in trade and other receivables	11	46
(Increase)/Decrease in prepayment	-	3
(Increase)/Decrease in deferred tax assets	(38)	(155)
Increase/(Decrease) in trade and other payables	20	(752)
Increase in deferred tax liabilities	-	-
Net cash inflow/(outflow) from operating activities	<u>1,031</u>	<u>366</u>

20. EARNINGS PER SHARE

(a) Earnings used in the calculation of basic and diluted earnings per share.

Profit/(Loss) from continuing operations attributable to the owners of the Company	1,038	872
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(b) Basic and Diluted earnings per share	Cents 4.22	Cents 3.35
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(c) Weighted average number of ordinary shares used in the calculation of earnings per share	Number 24,598,740	Number 26,056,043
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21. MANAGEMENT SERVICES AGREEMENT

In accordance with a Management Services Agreement approved by shareholders at the AGM on 12 November 2010, the Company has agreed to engage the Manager (Hyperion Asset Management Limited) to provide primary and secondary management services, including:

HYPERION FLAGSHIP INVESTMENTS LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

21. MANAGEMENT SERVICES AGREEMENT (continued)

- 1) Managing the investment of the Company's portfolio, including keeping it under review;
- 2) Ensuring investments by the Company are only made in authorised investments;
- 3) Complying with the investment policy of the Company;
- 4) Identifying, evaluating and implementing the acquisition and disposal of authorised investments;
- 5) Provide the Company with monthly investment performance reporting;
- 6) Manage the company's public and regulatory announcements and notices;
- 7) Promoting investment in the Company by the general investment community;
- 8) Providing investor relationship services; and
- 9) Provision of accounting, human resources, corporate and information technology services support.

The agreement has a term of five years from the agreement date of 12 November 2010.

The agreement may be terminated if:

- a) Either party ceases to carry on business, or
- b) Either party enters into liquidation voluntarily or otherwise, or
- c) Either party passes any resolution for voluntary winding-up, or
- d) A receiver of the property of either party, or any part thereof, is appointed, or
- e) The Shareholders of the Company at an abnormal meeting called in for that purpose, resolve by binding resolution to terminate the operations, or
- f) If the Company provides written notes to the Manager in the event of any material and substantial breach of the agreement by the Manager or if the Manager fails to remedy a breach of this agreement within 14 days following written notice of the breach.
- g) If the Manager provides written notice to the Company in the event of any material and substantial breach of the agreement by the Company or if the Company fails to remedy a breach of this agreement within 14 days following written notice of the breach.
- h) In recognition of the roles and personal expertise of senior executives retained by the Manager for the purpose of providing the primary services described in clause 3 of the Agreement, the parties agree that the agreement may be terminated, at the option of the Company, if there are major changes to senior executives (or their roles) providing the primary services. The Company shall be entitled to give the Manager a written termination notice upon or after the occurrence of a major change of the kind mentioned and such notice, if given, shall be effective at the end of the calendar month next following the giving of such notice unless the Company and the Manager mutually agree upon another date at which this agreement will terminate.

Under the agreement the Manager will receive a performance fee, payable annually in arrears, equal to 15% of the amount by which the Company's net performance before tax (that is, after all costs and outlays but before the calculation of the performance fee) exceeds the interest rate payable on bank bills as represented by the UBS Bank Bill Index for that year. If the Company's net performance in the year is less than the interest rate payable on bank bills as represented by the UBS Bank Bill Index for that year, then no performance fee will be payable.

Under the terms of this agreement a performance fee of \$NIL (excl GST) was paid or payable during the year ended 30 June 2012 (2011 - NIL). While no specific costing of the services provided by Hyperion Asset Management Limited in accordance with point 9 above is obtainable, the Company has determined that to obtain these services from another third party would have a value in excess of \$200,000.

22. SUBSEQUENT EVENTS

Following the resignation of Dr E C Pohl on 2 July 2012 from Hyperion Asset Management Limited, the Board has been examining the option of agreeing to a novation of the Management Services Agreement from Hyperion Asset Management Limited to EC Pohl & Co Pty Ltd.

The Board intends to recommend to Shareholders at the AGM that changes be made to the Management Services Agreement which would formalise a new relationship with Dr E C Pohl and Hyperion Asset Management Limited.

23. CONTINGENT ASSETS AND LIABILITIES

The Company has no known contingent assets or liabilities.

24. COMMITMENTS

The Company has no commitments.

Directors' Declaration

The Directors of the Company declare that:

- (a) the Financial Statements and Notes set out on pages 23 to 42 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and
 - (ii) give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date; and

in the Directors' opinion,

- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) the remuneration disclosures set out on page 15 of the Directors' Report (as part of the audited remuneration report) for the year ended 30 June 2012 comply with section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Directors and is signed for and on behalf of the Directors by:



Dr Emmanuel (Manny) C Pohl
Managing Director

Brisbane
17 August 2012

INDEPENDENT AUDITOR'S REPORT

To the members of Hyperion Flagship Investments Limited

Report on the Financial Report

We have audited the accompanying financial report of Hyperion Flagship Investments Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the Financial Statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Hyperion Flagship Investments Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

- a) the financial report of Hyperion Flagship Investments Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

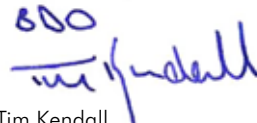
Report on the Remuneration Report

We have audited the Remuneration Report included on page 15 in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Hyperion Flagship Investments Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd



Tim Kendall
Director
Brisbane, 17 August 2012

Shareholder Information

The Shareholder information set out below was applicable as at 16 August 2012.

1. DISTRIBUTION OF SECURITIES

Distributions	No. of Shareholders
1 to 1,000	112
1,001 to 5,000	349
5,001 to 10,000	140
10,001 to 100,000	233
100,001 and over	33
Total	867
Holdings of less than a marketable parcel	41

2. TWENTY LARGEST SHAREHOLDERS

Shareholders	Ordinary Shares	%
Pohl Pty Ltd <Gap Investments Unit a/c>	2,698,821	11.06
Global Masters Fund Limited	1,950,392	7.99
Polka Management Services Pty Ltd <The Corrigan Settlement a/c>	1,235,223	5.06
Barclay Super Pty Ltd <Don Barclay Super Fund a/c>	1,210,598	4.96
Polka Management Services Pty Ltd <Pat Corrigan Super Fund a/c>	820,300	3.36
Citicorp Nominees Pty Limited	803,727	3.29
Mary Van Lieshout	734,885	3.01
Dr Johan Kristof Basson & Mrs Helga Basson	716,374	2.94
Mrs Sylvia Maria Valmadre	713,613	2.92
Citadel Bank and Trust Inc <The Fragrance a/c>	518,699	2.13
Mr Cornelius Laubius Visser Laubscher	430,914	1.77
Australian Executor Trustees Limited <No 1 Account>	380,838	1.56
Mr Paul J Tys & Mrs Loris E Tys <TYS S/F a/ac>	375,683	1.54
Hank Van Lieshout	321,696	1.32
Bruce Robert & Erika Haberfield & Mrs Erika Haberfield	307,520	1.26
Mr Gregory John Burton & Mrs Catherine Beatrice Burton <GJ Burton Personal Super a/c>	290,528	1.19
Mr Hiroshi Kudo	272,547	1.12
Hank Van Lieshout and Joyce Van Lieshout	260,000	1.07
Mr Christopher Andrew Beard <Est George E Beard No.2 a/c>	256,489	1.05
Edwin H & Enid O Buckland <Buckland Super Fund a/c>	250,000	1.02
Total	14,558,847	59.62

3. SUBSTANTIAL SHAREHOLDINGS

The names of the Shareholders who have notified the Company of a substantial holding in accordance with section 671B of the Corporations Act 2001 are:

Substantial Shareholder	No. of Shares	% of total
Dr E C Pohl*	6,606,807	27.1
Wilson HTM Investment Group Ltd**	2,781,107	11.4
P Corrigan AM	2,055,523	8.4
Global Masters Fund Limited	1,950,392	8.0

* Has the power to control voting and/or the disposal of securities in accordance with a Power Of Attorney in relation to 3,353,986 shares.

** Has the power to control voting and/or the disposal of securities as Investment Manager of Individually Managed Accounts.

4. VOTING RIGHTS

On a show of hands every Shareholder present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

1. HOLDINGS OF SECURITIES AS AT 30 JUNE 2012

Individual investments at 30 June 2012 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Individual holdings in the portfolio may change during the course of the year.

Company		Shares	Market Value \$'000	%
ORDINARY SHARES				
AMP	AMP Limited	294,027	1,132.0	3.86
ANZ	Australia and New Zealand Banking Group Limited	75,000	1,652.3	5.63
BHP	BHP Billiton Limited	56,341	1,771.9	6.03
BXB	Brambles Limited	117,063	721.1	2.46
CBA	Commonwealth Bank of Australia	41,700	2,214.3	7.54
CMJ	Consolidated Media Holdings Limited	176,000	593.1	2.02
COH	Cochlear Limited	27,000	1,777.7	6.05
CRZ	Carsales.com Limited	280,000	1,680.0	5.72
DMP	Domino's Pizza Enterprises Limited	56,000	562.8	1.92
IRE	IRESS Market Technology Limited	200,000	1,310.0	4.46
MQG	Macquarie Group Limited	41,000	1,066.0	3.63
NVT	Navitas Limited	232,000	1,006.9	3.43
PTM	Platinum Asset Management Limited	278,000	1,081.4	3.68
REA	REA Group Limited	110,000	1,508.1	5.14
RIO	Rio Tinto Limited	30,000	1,695.0	5.77
SEK	SEEK Limited	312,283	1,979.9	6.74
SKT	Sky Network Television Limited	131,000	497.8	1.70
TRS	The Reject Shop Limited	31,000	283.6	0.97
WBC	Westpac Banking Corporation	58,930	1,245.2	4.24
WOR	WorleyParsons Limited	53,000	1,330.3	4.53
WOW	Woolworths Limited	80,000	2,144.0	7.30
WPL	Woodside Petroleum Limited	20,000	620.4	2.11
WTF	Wotif.com Holdings Limited	210,000	884.1	3.01
			28,757.9	97.94
OPTIONS				
	Options		0.0	0.00
CASH				
	Cash		604.3	2.06
	TOTAL		29,362.2	100.00

2. TRANSACTIONS AND BROKERAGE

There were 36 (2011: 50) transactions in securities during the year on which brokerage of \$12,352 (2011: \$25,353) was paid.

HYPERION FLAGSHIP INVESTMENTS LIMITED
ABN 99 080 135 913
REGISTERED IN QUEENSLAND ON
23 SEPTEMBER 1997.

BOARD OF DIRECTORS

Henry R Smerdon AM

Non-Executive Chairman

Dr Emmanuel (Manny) C Pohl

Managing Director

Sophie A Mitchell

Non-Executive Director

Patrick Corrigan AM

Non-Executive Director

Dominic M McGann

Non-Executive Director

SECRETARY

Ian W Harrison

PRINCIPLE PLACE OF BUSINESS

Level 22

307 Queen Street

Brisbane QLD 4000

MANAGER

Hyperion Asset Management Limited

ABN 80 080 135 897

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