HFA HOLDINGS LIMITED

ABN 47 101 585 737

Appendix 4E – Preliminary financial report

30 June 2007

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HFA Holdings Limited

Results for announcement to the market

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2.1	Revenues from ordinary activities	up	110%	to	74.6m
2.2	Profit/(loss) from ordinary activities after tax attributable to members	up	288%	to	20.3m
2.3	Net profit/(loss) for the period attributable to members	up	288%	to	20.3m
2.4	Dividends	4.0 cents per share Fully Franked			
2.5	Record date for determining entitlements to the dividend	10 September 2007			

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

Revenue growth throughout the financial year was strong, with the 110% increase in revenues from ordinary activities driven by a 48% increase in assets under management and overall solid performance from the HFA managed products.

The net profit for the financial year arises primarily from the increase in assets under management and strong performance of HFA managed products.

HFA Holdings Limited

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N/A – not applicable

HFA Holdings Limited
ABN 47 101 585 737

and its controlled entities

Annual Financial Report

30 June 2007

Corporate governance statement

This statement outlines the main corporate governance principles and practices of HFA Holdings Limited. These comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

Board of Directors

Role of the Board

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

To fulfil this role, the Board is responsible for the overall corporate governance of the consolidated entity including formulating its strategic direction, approving and monitoring capital expenditure, appointing, removing and creating succession policies for directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of internal control and management information systems.

It is also responsible for approving and monitoring financial and other reporting. Details of the Board's charter is located on the Company's website (www.hfaholdings.com.au).

The Board has delegated responsibilities for operation and administration of the Company to the chief executive officer and executive management. Responsibilities are delineated by formal authority delegations.

The chief executive officer has formal delegated authority for expenditure under $1,000,000. The service agreements of the chief executive officer and chief financial officer outline formal delegated responsibilities and authorities.

Board processes

To assist in the execution of its responsibilities, the Board has established a number of Board committees including a Nomination Committee, a Remuneration Committee, and an Audit and Risk Committee. These committees have written Charters which outline the duties and responsibilities of each committee and which are reviewed on a regular basis. The Board has also established a framework for the management of the consolidated entity including a system of internal control, a business risk management process and the establishment of appropriate ethical standards and codes of conduct.

The framework includes:

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

The Board currently determines a schedule of meetings at the beginning of each year. Additional meetings are held as required to address specific issues.

The agenda for meetings is prepared in conjunction with the chairperson, chief executive officer and company secretary. Standing items include the chief executive officer's report, financial reports, strategic matters, governance and compliance. Submissions are circulated in advance. Senior executives regularly report to the Board and are involved in Board discussions.

Corporate governance statement

Director education

The consolidated entity has a process to educate new directors about the nature of the business, current issues, the corporate strategy and the expectations of the consolidated entity concerning performance of directors. Directors are encouraged to interact with management to gain a better understanding of business operations, and are given access to continuing education opportunities to update and enhance their skills and knowledge.

Independent professional advice and access to company information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairperson, may seek independent professional advice from a suitably qualified adviser at the consolidated entity's expense. A copy of the advice received by the director is made available to all other members of the Board.

Composition of the Board

The names of directors of the Company in office at the date of this report are set out in the Directors' report. The composition of the Board is determined using the following principles:

- a minimum of four directors, with a broad range of expertise
- a majority of non-executive directors
- a non-executive independent director is appointed as Chairperson
- enough directors to serve on various committees without overburdening the directors or making it difficult for them to fully discharge their responsibilities

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

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

The terms and conditions of the appointment and retirement of non-executive directors are set out in a letter of appointment, including expectations of attendance and preparation for all Board meetings, appointments to other boards, the procedures for dealing with conflicts of interest, and the availability of independent professional advice.

Corporate governance statement

Committees

Nomination Committee

The duties and responsibilities of the nomination committee are outlined in the nomination committee charter.

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

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

The nomination committee comprised the following members during the period, all of whom were non-executive directors:

- Mr Brett Howard (Chairperson) – Independent Non-Executive
- Mr Michael King – Non-Executive
- Mr Paul Willis – Independent Non-Executive, resigned 5 March 2007

The nomination committee charter requires that the nomination committee be comprised of three non-executive directors, the majority of which must be independent. During the year, Mr Paul Willis resigned as a director of the Company, and consequently upon his resignation the membership of the nomination committee has not been in compliance with the requirements of the nomination committee charter or ASX Corporate Governance Principle 2.4. The functions of the nomination committee will be undertaken by the Board until such time as Mr Paul Willis has been replaced.

Under its charter, the nomination committee meets bi-annually unless otherwise required. The frequency of meetings and the attendance record of committee members is disclosed in the Directors Report.

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

Remuneration Committee

The remuneration committee's duties and responsibilities are outlined in the remuneration committee charter.

The remuneration committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the executive officers and directors of the Company and of other group executives for the consolidated entity. It is also responsible for reviewing and making recommendations in relation to share schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies.

Corporate governance statement

The remuneration committee comprised the following members during the period:

- Mr Brett Howard (Chairperson) – Independent Non-Executive
- Mr Michael King – Non-Executive
- Mr John Morrison – Independent Non-Executive

The remuneration committee charter requires that the remuneration committee be comprised of three executive directors, the majority of which must be independent.

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

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

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

Remuneration policies

Compensation levels for key management personnel and secretaries of the Company and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

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

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

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

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

Short Term Incentives (STI)

STI's are paid to senior executives and staff in the form of an annual cash bonus. The aim of such an arrangement is to recognise the contributions and achievements of individuals when business targets are achieved or exceeded. The KPI's will generally include measures relating to the consolidated entity and the individual, and include financial, people, client service, strategy and risk measures as appropriate. The measures will be chosen as they directly align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance.

Corporate governance statement

Other key management personnel may receive a discretionary bonus depending on their assessed performance during the previous year.

The Board intends to introduce a formal STI scheme for the 2008 financial year. The amount of cash incentive will be based on a percentage of fixed remuneration determined by the Board with reference to the individual's role and responsibilities.

All cash incentives paid under the STI scheme will be subject to annual performance hurdles including both financial and non-financial KPI's of the nature outlined above. Payments will be on a sliding scale according to performance against the KPI's.

Long Term Incentives (LTI)

The Company established employee share plans to assist in the attraction, retention and motivation of employees and key management personnel. An employee offer was made at the time of listing of the Company on the Australian Stock Exchange, and in addition to motivating retention of employees and management, was designed to recognise past contribution to the growth of HFA and efforts during the Initial Public Offering at the time of listing. It comprised the issue of new shares by the company for nil consideration. The grant date of the shares under the employee offer was 1 May 2006. Shares issued under the plans are restricted from being sold or transferred, until the earlier of three years from the admission date and the date on which the employee is no longer employed by the consolidated entity. Allocations under the employee offer were approved by the Board based on recommendations from the CEO, with length of service, seniority in the organisation and contribution to the success of the consolidated entity up to the time of IPO forming the basis of these recommendations.

The Board intends to introduce a LTI scheme for the 2008 financial year. The basis of the LTI scheme will be the provision of options or performance rights, as determined by the Board, to eligible employees which will vest after three years if certain performance hurdles have been met. For the first two years of scheme operation a transitional vesting period of 50% after two years and 50% after three years will apply. The value of any award made under the LTI scheme will be based on a percentage of fixed remuneration determined by the Board with reference to the individual's roles and responsibilities. The performance hurdle will be a relative Total Shareholder Return measure.

The employee offer and LTI provides long term incentive to employees and management to contribute to the long term profitability and share price growth of the consolidated entity through a direct growth in the value of their shareholdings and potential future dividend streams.

Audit and Risk Committee

The audit and risk committee has a documented charter approved by the Board. The committee members' comprise a minimum of three non-executive directors, with a majority being independent. The Chairperson may not be the Chairperson of the Board. The committee advises on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the consolidated entity.

The members of the audit and risk committee during the year were:

- Mr John Morrison (Chairperson) – Independent Non-Executive
- Mr Paul Willis – Independent Non-Executive Director, resigned 5 March 2007
- Mr Paul Manka – Non-Executive Director, resigned 18 June 2007
- Mr Brett Howard – Independent Non-Executive Director, appointed 25 July 2007

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- Mr Michael King – Non-Executive Director, appointed 25 July 2007

During the year, Mr Paul Willis and Mr Paul Manka resigned as directors of the Company. Both of these non-executive directors were members of the audit and risk committee, and consequently upon their resignation the membership of the audit and risk committee was not in compliance with the requirements of the audit and risk committee charter or ASX Corporate Governance Principle 4.3. Following appointment of Mr Brett Howard and Mr Michael King the audit and risk committee membership is compliant with the Company's audit and risk committee charter and ASX Corporate Governance Principle 4.3. No meetings of the audit and risk committee were held during the period that the committee's membership was non-compliant.

At the discretion of the audit and risk committee, the external auditor and other members of the Board and management will be invited to audit and risk committee meetings. The frequency of meetings and the attendance record of committee members is disclosed in the Directors Report.

The chief executive officer and the chief financial officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the financial year ended 30 June 2007 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

The audit committee's charter is available on the Company's website along with information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners.

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

Audit and financial reporting

The committee is responsible for:

- overseeing the financial reporting process to ensure the balance, transparency and integrity of published financial reports;
- reviewing the independent audit process (including recommendations regarding the appointment and assessment of the performance of the external auditor);
- setting the Group policy on the provision of non-audit services and ensuring compliance with that policy;
- providing advice to the Board as to whether the committee is satisfied that the provision of non-audit services is compatible with the general standard of independence, and an explanation of why those non-audit services do;
- not compromising audit independence, in order for the Board to be in a position to make the statements required by the Corporations Act to be included in the Company's Annual Report; and
- providing recommendations as to the propriety of related party transactions.

Risk management and internal controls

The committee's functions in relation to risk management are:

- reviewing the effectiveness of the internal control and risk management framework and assessing its effectiveness at identifying, managing and monitoring key risks and making recommendations to the Board regarding the same; and

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- overseeing the process by which the CEO and CFO of the company provides signoff to the Board that the financial statements comply with relevant accounting standards and are true and fair; and that the company's internal compliance and control systems have been functioning efficiently and effectively throughout the year.

Compliance

The committee's functions in relation to compliance are:

- reviewing the company's process for monitoring compliance with laws and regulations affecting financial reporting; and
- considering and reporting to the Board any such other matters as the Board may refer to the committee from time to time.

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

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

Risk Management

Oversight of the risk management system

The Board oversees the establishment, implementation, and annual review of the Company's Risk Management System. Management has established and implemented the Risk Management System for assessing, monitoring and managing operational, financial reporting, and compliance risks for the consolidated entity. The chief executive officer and the chief financial officer are required to declare, in writing to the Board, that the financial reporting risk management and associated compliance and controls have been assessed and found to be operating efficiently and effectively. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the consolidated entity.

Risk profile

The Board periodically reviews the status of risk management policies and procedures aimed at ensuring risks are identified, assessed and appropriately managed. Each business operational unit is responsible and accountable for implementing and managing the standards required.

Major risks arise from such matters as product investment performance, interest rate and exchange rate movements, actions by competitors, counterparty risk, systems risk, government policy changes, financial reporting, and purchase, development and use of information technology systems.

Corporate governance statement

Risk management and compliance and controls

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

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

Comprehensive practices have been established to ensure:

- Compliance with financial services regulation;
- financial exposures are controlled, including the use of derivatives. Further details of the Company's policies relating to interest rate management, forward exchange rate management and credit risk management are included in note 21 of the financial statements;
- business transactions are properly authorised and executed;
- the quality and integrity of personnel (see below);
- financial reporting accuracy and compliance with the financial reporting regulatory framework (see below); and
- environmental regulation compliance (see below).

Quality and integrity of personnel

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

Financial reporting

The chief executive officer and the chief financial officer are required to declare, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported to directors against forecasts for the year.

Environmental Regulation

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

Corporate governance statement

Ethical standards

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

Conflict of interest

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

Where the Board believes that a significant conflict exists for a director on a Board matter, the director concerned does not receive the relevant Board papers and is not present at the meeting whilst the item is considered. Details of director related entity transactions with the Company and consolidated entity are set out in Note 24 to the financial statements.

Code of conduct

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

- aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- fulfilling responsibilities to clients, customers and consumers by maintaining high standards of service, and safety;
- employment practices such as occupational health and safety, employment opportunity, community activities, sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- compliance with legislation;
- conflicts of interest;
- corporate opportunities such as preventing directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of the Company's assets; and
- reporting of unethical behaviour and breaches of the Code of Conduct

Trading in general Company securities by directors and employees

The key elements of the Trading Policy are:

- Identification of those restricted from trading – directors and all staff are prohibited from trading in Company securities:

Corporate governance statement

  - except during the four week period commencing the first business day after the announcement of half-yearly and annual results to the Australian Stock Exchange ('ASX'), or the Annual General Meeting.
  - except where during periods outside the above mentioned trading window, where approval has been granted by the Board or the Board's delegate.
  - whilst in possession of price sensitive information not yet released to the market

- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares;
- requiring details to be provided of the subsequent confirmation of the trade; and
- identification of processes for unusual circumstances where discretions may be exercised in cases such as financial hardship.

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

Communication with shareholders

The Board provides shareholders with information using a Continuous Disclosure Policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

In summary, the Continuous Disclosure Policy operates as follows:

- the chief executive officer and the company secretary are responsible for interpreting the company's policy and where necessary informing the Board. The company secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered, and all staff must follow the Continuous Disclosure process, which involves monitoring all areas of the group's internal and external environment;
- the annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document), including relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;
- the half-yearly report contains summarised financial information and a review of operations of the consolidated entity during the period. The half-year reviewed financial report is lodged with the Australian Securities and Investments commission and the ASX, and sent to any shareholder who requests it;
- proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders;
- all announcements made to the market, and related information (including information provided to analysts or the media during briefings), are placed on the Company's website after they are released to the ASX;
- the full texts of notices of meetings and associated explanatory material are placed on the Company's website; and

Corporate governance statement

- the external auditor attends the annual general meetings to answer questions concerning the conduct of the audit, the preparation and content of the auditor's report, accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

All of the above information is made available on the Company's website within one day of public release.

The Board encourages full participation of shareholders at the Annual General Meeting, to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors, the Remuneration report and changes to the Constitution. Copies of the Constitution are available to any shareholder who requests it.

Directors' report

The directors present their report together with the financial report of HFA Holdings Limited (the Company) and of the consolidated entity, being the Company and its controlled entities for the financial year ended 30 June 2007 and the auditor's report thereon.

Directors

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

Mr Brett Howard
Mr Paul Jensen, appointed 23 February 2007
Mr Michael King
Mr Paul Manka, resigned 18 June 2007
Mr John Morrison
Mr Paul Willis, resigned 5 March 2007
Mr Spencer Young

Corporate information

HFA Holdings Limited is a company limited by shares that is incorporated in Australia. It has a wholly owned subsidiary HFA Asset Management, which acts as the Responsible Entity and Manager of its schemes and other products.

Principal activities

The principal activities of the consolidated entity during the course of the financial year were the provision of absolute return fund products to retail, wholesale and institutional investors throughout Australia, as a specialist funds management company.

Consolidated results

$M	2007 Actual	2007 Prospectus Forecast	2006 Actual
Revenue	74.6	49.0	35.4
Investment management costs[1]	(30.3)	(20.3)	(17.0)
Net operating income	**44.3**	**28.7**	**18.4**
Operating expenses, net of other income	(15.1)	(8.7)	(7.9)
Operating EBIT	**29.2**	**20.0**	**10.5**
Net interest income[2]	(0.1)	(0.1)	-
Equity settled transaction expense[3]	(0.1)	-	(19.0)
Profit/(loss) before tax	**29.0**	**19.9**	**(7.6)**
Income tax expense	(8.7)	(6.0)	(3.2)
Profit/(loss) after tax	**20.3**	**13.9**	**(10.8)**
EPS (cents)	**10.05**	**6.86**	**(5.75)**

[1] the fee arrangement with Lighthouse changed on 1 May 2006
[2] includes interest income and expense only
[3] relates to issue of share to employees and related on-costs

Directors' report (continued)

Consolidated results (continued)

The company recorded a consolidated profit after tax of $20.3 million for the financial year ended 30 June 2007. This result was a significant increase to the forecast result contained in the prospectus dated 31 March 2006. Shareholders funds increased from $8.4 million at 30 June 2006 to $20.6 million at 30 June 2007.

Dividends

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

Declared and paid during the 2007 financial year	**Cents per share**	**Total amount $**	**Franked / unfranked**	**Date of payment**
Special 2007 ordinary	1.5	3,027,167	Franked	31 October 2006
Interim 2007 ordinary	2.6	5,247,086	Franked	31 March 2007
Total amount		8,274,253		

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

Declared after end of year

The directors have at the date of this report declared a final 2007 dividend of 4.0 cents per share which will be fully franked and payable in September 2007.

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2007 and will be recognized in subsequent financial reports.

Review of Operations

HFA operates a specialist funds management business providing absolute return fund products to retail, wholesale and institutional investors throughout Australia. Absolute return funds aim to achieve positive returns across all market conditions and represent one of the fastest growing niche markets of the Australian wealth management industry.

Products

HFA manages products which fall into two main categories: open-ended products and structured products.

Open-ended products

These products are open-ended managed investment schemes which generally accept subscriptions and redemptions on a monthly basis. AUM in these products as at 30 June 2007 was $884 million, a 29% increase over the financial year, which reflects their continued strong distribution by HFA via the financial planning industry.

FUM within HFA's open-ended products is sourced primarily from retail investors, either directly or via investor directed portfolio services, with only 8% of these funds held by institutional investors.

Structured products

In recent years, HFA has established a number of products which have been specifically structured as closed-ended products to meet their stated investment objectives. These products utilise leverage as part of their objective to provide potential for enhanced returns.

Directors' report (continued)

Review of Operations (continued)

In the 2007 financial year, HFA's FUM and AUM increased significantly through the following structured products:

- the launch of the HFA Partners Fund which raised $53 million in December 2006, equating to an additional $129 million of AUM; and
- the launch of the HFA Octane Global Fund Asia, HFA Octane Global Fund Europe and HFA Octane Global Fund US which combined raised a total $352 million in June 2007, equating to an additional $521 million of AUM.

HFA was particularly pleased with the successful HFA Octane Global Fund Series, with these funds raising $66 million more than the HFA Octane Asia Fund, which was launched at the same time the previous financial year.

Assets under Management

As at 30 June 2007, HFA had total funds under management ("FUM") of $2.29 billion and total assets under management ("AUM") of $3.88 billion. This represents an increase of 47% in FUM and 48% in AUM since the end of the previous financial year. This growth has resulted from strong returns of the HFA investment products, overall positive net inflows into existing HFA products, and the launch of a number of structured products through-out the financial year.

Net income from operating activities

The growth in AUM and strong product performance has resulted in an increase in net income from operating activities to $44.3 million for the financial year ending 30 June 2007. This represents an increase of 141% over the 2006 financial year.

Operating expenses

Operating expenses increased to $15.1 million for the financial year ending 30 June 2007. This represents an increase of 92% ($7.2 million) when compared to the financial year ending 30 June 2006.

This increase is largely due to the significant growth in the business and increased administration costs associated. Significant areas of increased expenditure were employee expenses, professional fees, amortisation of intangibles, and administration expenses.

Significant Changes in the state of affairs

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

Events subsequent to reporting date

The directors have at the date of this report declared a final 2007 dividend of 4.0 cents per share which will be fully franked and payable in September 2007.

On 24 July 2007 the company announced that it entered into a Merger Implementation Agreement (MIA) with United States-based fund of absolute return funds manager Lighthouse Partners. In accordance with the MIA, the company and Lighthouse will work towards executing a Share Purchase Agreement (SPA) to effect the merger of the two businesses. The MIA states that the Company intends to acquire Lighthouse for US$348.5 million in cash and 134.67 million HFA shares.

Directors' report (continued)

Events subsequent to reporting date (continued)

Lighthouse is a global alternative investment management company. HFA and Lighthouse have developed a strong relationship since 1998 and currently operate under an exclusive Investment Advisor and Access Agreement in Australia and New Zealand. On completion of the merger, HFA and Lighthouse would become a truly international provider of absolute return-based investment products with total Assets Under Management of approximately US$8 billion.

Likely developments

The consolidated entity will continue to pursue its policies of increasing profitability, and growing assets under management during the next financial year. This will involve further investments in product innovations and expansion of the distribution capabilities, which offer sound opportunities for future development. Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Information of directors

Information on the directors of the Company that served at any time during the financial year including directors serving at the date of this report are as follows:

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Mr Brett Howard B.Com (UNSW) *Chairman* *Independent Non-Executive Director*	59	Brett has worked in finance, property and funds management for many years. Brett was the founder of the Howard Mortgage Trust which is now the Challenger Howard Mortgage Trust (Australia's largest traditional mortgage trust). He has been a director of Challenger Funds Management Limited and was the managing director of the listed company, Howard Financial Holdings Limited, prior to it merging with Challenger in 1998. Brett has had extensive experience in the establishment, marketing and management of unit trusts with authorised investments in property, shares and interest bearing securities. He has been a director of Goldlink Income Plus Limited since 2006 and he has also served on the Boards of companies engaged in commercial finance and structured project finance.

Directors' report (continued)

Information of directors (continued)

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Mr Michael King LLB *Non-Executive Director*	43	Michael was appointed to the HFA Board upon listing in May 2006. Michael is the Chief Executive Officer of ASX-listed MFS Limited, which operates a diversified range of tourism, investment, finance and funds management activities. Michael has extensive experience in funds management and property sectors. Michael is also a director of the following listed entities – MFS Diversified Group (since 2003), MFS Living & Leisure Group (since 2003), and Village Life Limited (June 2006 to August 2006). Additionally, Michael was appointed ot the board of Tourism Hotels & Leisure Limited in August 2006. *Member of Nomination Committee, Member of Remuneration Committee, Member of Audit and Risk Committee* Appointed 5 August 2002
Mr Paul J Manka MBA CFP F FIN *Non-Executive Director*	46	Paul holds a Masters in Business Administration (MGSM), is a Certified Financial Planner and a Fellow of the Financial Services Institute of Australasia. Paul has held a range of positions within the financial services sector, including various Board and management positions, and continues to provide financial advice to a broad range of clients. Paul has been a director of MFS Limited since February 2004, HFA Accelerator Plus Limited since September 2005. He is a former director of the MFS Living and Leisure Group (February 2004 to March 2005) and MFS Diversified Group (December 2005 to November 2006). Paul is Chairman of the HFA Asset Management Audit and Risk Committee and a member of the HFA Accelerator Plus Limited Audit and Risk Committee. *Member of Audit and Risk Committee* Appointed 1 September 2005, resigned 18 June 2007

Directors' report (continued)

Information of directors (continued)

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Mr John A Morrison BE(Hons) MBA MAICD *Independent Non-Executive Director*	44	John is currently an Executive Director of Grant Samuel, a leading independent investment bank in Australia. He has broad experience in the finance industry and since 1990 has been involved in providing advice to corporations in mergers, acquisitions, valuations, restructurings, financing and capital management. Prior to this he worked in engineering and construction in Australia and the UK. John has been a non-executive director of HFA Accelerator Plus Limited since July 2004 and a non-executive Director of Minara Resources Limited since December 1999. *Chairman of Audit and Risk Committee, Member of Remuneration Committee* Appointed 15 March 2005
Mr Paul Willis B.Com A FIN *Independent Non-Executive Director*	40	Paul has a Bachelor of Commerce Degree (University of Tasmania) and is an Associate of the Financial Services Institute of Australasia. He has spent the past 15 years in the funds management industry. Paul was a founding partner, chief operating officer and executive director of JF Capital Partners Limited between 1999 and 2005, during which time assets under management grew from $30 million to $3 billion. Paul has been a non-executive director of Moly Mines Limited since January 2006 and is Chairman of its audit and risk committee. He was appointed a non-executive director of MFS Living and Leisure Group in May 2006. *Member of Nomination Committee, Member of Audit and Risk Committee* Appointed 15 March 2006, resigned 5 March 2007

Directors' report (continued)

Information on directors (continued)

Name, qualifications and independence status	*Age*	*Experience, special responsibilities and other directorships*
Spencer M Young B.Eng. MBA *Non-Executive Director*	46	Spencer is the founder of HFA. He has over 15 years of alternate asset class investment experience and close relationships with a network of international hedge funds and domestic research and rating agencies. Spencer holds a B.Eng (U.Qld) and an MBA from Harvard. He has held several senior investment positions including Executive Director of Rothschild Australia Private Equity and Lend Lease Corporation's senior executive in the USA for venture capital and private equity investments. An experienced Company Director, he is currently a non executive director of Tremblant Capital, a New York based $4 billion hedge fund. He is a former director of HFA Accelerator Plus Limited (July 2004 to February 2007) and MFS Limited (February 2004 to November 2005) and the MFS Living and Leisure Group (February 2004 to March 2005). Appointed Chief Executive Officer and Executive Director 15 May 2003 Resigned Executive Director 13 April 2007 Appointed Non-Executive Director 13 April 2007
Mr Paul Jensen B.Com MAICD *Executive Director* *Chief Executive Officer*	46	Paul is the Managing Director and Chief Executive Officer of HFA Asset Management Limited and HFA Holdings Limited. He has extensive global financial services experience having previously held senior executive positions with leading companies in Australia, New Zealand and the United Kingdom including Travelex, Lend Lease Corporate Services (MLC) and Lloyds TSB Bank. His experience encompasses superannuation, banking and investment markets. Paul is also currently a director of WAM Capital Limited. Paul holds a Bachelor of Commerce and Administration; Accounting and Commercial Law major from the University of Victoria, Wellington, New Zealand among other qualifications and memberships. Appointed Chief Executive Officer and Executive Director 23 February 2007

Company secretaries

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

Directors' report (continued)

Company secretaries (continued)

Mr Robert White BBus was appointed as joint company secretary on 15 February 2007. Robert holds the position of Head of Corporate. Robert is responsible for corporate and special projects and select day to day operations within HFA including the foreign exchange hedging, product development and implementation. Robert has over 12 years experience in the financial services industry working within both the institutional and retail market segments in the UK, Europe and Australia.

Directors' meetings

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

	Board Meetings		Remuneration Committee Meetings		Audit and Risk Committee Meetings		Nomination Committee Meetings	
Director	**A**	**B**	**A**	**B**	**A**	**B**	**A**	**B**
B Howard	16	17	6	6			4	4
M King[1]	12	12	6	6			4	4
P Manka[2]	11	12			5	5		
J Morrison[3]	12	13	6	6	5	5		
P Willis	9	10			4	4	4	4
S Young[4]	9	10						
P Jensen	7	7						

A – Number of meetings attended
B – Number of meetings held during the time the director held office and was eligible to attend during the year

Directors' interests

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

	Number of Ordinary shares
Mr Brett Howard	250,000
Mr Paul Jensen	-
Mr Michael King[1]	39,538,086
Mr John Morrison	19,719
Mr Spencer Young[2]	25,366,951

[1] These shares are held indirectly via MFS Alternative Asset Limited
[2] These shares are held indirectly by Spencer Young Family Trust

Share options

No options have been granted during or since the end of the financial period. As at the date of this report there are no unissued shares of the Company under option.

Directors' report (continued)

Indemnification and insurance of directors and officers

Indemnification

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

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

Insurance premiums

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

Remuneration report

The Directors of the Company present the Remuneration Report prepared in accordance with section 300A of the Corporations Act for the Company and consolidated entity for the year ended 30 June 2007.

The Company's remuneration strategy is designed to attract, retain and motivate appropriately qualified and experienced Directors and senior executives. Details of the Company's remuneration strategy for the 2007 financial year are set out in this remuneration report. The Remuneration Report forms part of the Directors' Report.

Principles of compensation - audited

Remuneration of directors and executives is referred to as compensation as defined in AASB 124.

Compensation levels for key management personnel and secretaries of the Company and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

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

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

Directors' report (continued)

Remuneration report (continued)

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

Furthermore, during the year, the company engaged KPMG to provide advice on the STI and LTI structure for the senior management team and employees of the company. The overall objective of this remuneration strategy is to support the overall business strategy of HFA by attracting, retaining and rewarding quality executive employees and staff, with a view to aligning employee and shareholder goals. In particular, remuneration will be appropriately mixed to provide long term remuneration incentives to relevant executives. It is anticipated that the incentive plan will be implemented for the 2008 financial year.

Fixed compensation - audited

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

Short Term Incentives - audited

Short term incentives (STI) are paid to senior executives and staff in the form of an annual cash bonus. The aim of such an arrangement is to recognise the contributions and achievements of individuals when business targets are achieved or exceeded. The KPI's will generally include measures relating to the consolidated entity and the individual, and include financial, people, client service, strategy and risk measures as appropriate. The measures will be chosen as they directly align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance.

Other key management personnel may receive a discretionary bonus depending on their assessed performance during the previous year.

The remuneration committee recommends the cash incentive to be paid to the individuals for approval by the Board.

The Board intends to introduce a formal STI scheme for the 2008 financial year. The amount of cash incentive will be based on a percentage of fixed remuneration determined by the Board with reference to the individual's role and responsibilities.

All cash incentives paid under the STI scheme will be subject to annual performance hurdles including both financial and non-financial KPI's of the nature outlined above. Payments will be on a sliding scale according to performance against the KPI's.

Long term incentives - audited

The Company established employee share plans to assist in the attraction, retention and motivation of employees and key management personnel. An employee offer was made at the time of listing. It comprised the issue of new shares by the company for nil consideration. The grant date of the shares under the employee offer was 1 May 2006. Shares issued under the plans are restricted from being sold or transferred, until the earlier of three years from the admission date and the date on which the employee is no longer employed by the consolidated entity.

Directors' report (continued)

Remuneration report (continued)

The Board intends to implement a Long Term Incentive (LTI) scheme for the 2008 financial year. The basis of the LTI scheme is the provision of options or performance rights, as determined by Board, to eligible employees which will vest after three years if certain performance hurdles have been met. For the first two years of scheme operation a transitional vesting period of 50% after two years and 50% after three years will apply. The value of any award made under the LTI scheme will be based on a percentage of fixed remuneration determined by the Board with reference to the individual's roles and responsibilities. The performance hurdle will be a relative Total Shareholder Return measure.

The performance-linked component of compensation to key management personnel for the 2007 financial year comprises approximately 46 per cent in short term incentive payments. The once-off grant of shares under the employee share plan meant that for the 2006 financial year the performance-linked component of compensation comprised approximately 85 per cent of total payments to key management personnel. Excluding the employee share plan, the performance-linked component of compensation comprised approximately 10 per cent.

During the year the Board resolved to issue the Chief Executive Officer with 100,000 shares in the Company on 1 January 2008, subject to remaining in employment at that date. An expense in relation to these shares has been recognised in the 2007 financial year based on period of service.

Other benefits - audited

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

Service contracts - audited

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

Apart from the service agreements outlined directly below, no executive director or key management personnel is entitled, pursuant to an agreement with the consolidated entity, to any payment on the person ceasing to hold the office other than a standard four week notice period which may be reduced by agreement, other than their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

Paul Jensen, Chief Executive Officer, entered into a service agreement with the consolidated entity on 16 November 2006. The agreement specifies the duties and obligations to be fulfilled by the CEO and provides that the Board and CEO will early in each financial year, consult and agree objectives for achievement during that year. The service agreement is for a non-fixed term. The Company may terminate the service agreement at any time by providing six months notice.

Paul Jensen may terminate the service agreement by the provision of twelve months' written notice. The CEO has no entitlement to termination payment in the event of removal for an act of fraud, negligence or wilful misconduct.

Directors' report (continued)

Remuneration report (continued)

Rodney Hughes, Chief Financial Officer, entered into a service agreement with the consolidated entity on 14 January 2007. The agreement specifies the duties and obligations to be fulfilled by the CFO and provides that the Board and CFO will early in each financial year, consult and agree objectives for achievement during that year. The service agreement is for a non-fixed term. The Company may terminate the service agreement at any time by providing six months notice.

Rodney Hughes may terminate the service agreement by the provision of six months' written notice. The CFO has no entitlement to termination payment in the event of removal for an act of fraud, negligence or wilful misconduct.

Refer to note 24 of the financial statements for details on the financial impact in future periods resulting from the consolidated entity's commitments arising from non-cancellable contracts for services with key management personnel.

Non-executive directors - audited

The aggregate compensation for all non-executive directors, last voted upon by shareholders, is not to exceed $400,000 per annum and is set based on advice from external advisors with reference to fees paid to other non-executive directors of comparable companies.

Non- executive director's compensation is $80,000 plus superannuation. The Chairman's compensation is $107,000 plus superannuation. Non-executive directors do not receive any performance related remuneration. Directors' fees cover all main Board activities and membership of any committee.

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

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

Consequences of performance on shareholders wealth

In considering the Group's performance and benefits for shareholders wealth, the remuneration committee have regard to the following indices in respect of the current financial year and the previous financial year.

	2007	2006
Net profit attributable to equity holders of the parent	20,278,782	(10,812,551)
Dividends paid	8,274,253	-
Change in share price	$0.86	$0.59[1]

[1] Movement from IPO date to 30 June 2006

Net profit is considered as one of the financial performance targets in setting the STI. Dividends and changes in share price are included in the TSR calculation which will be the performance criteria assessed for the LTI.

The overall level of key management personnel's compensation takes into account the performance of the Group over a number of years. Over the last year the Group's profit from ordinary activity after income tax has grown at a rate per annum of 287 per cent. Average key management personnel compensation for 2007 has fallen by approximately 59 per cent per annum compared to the previous financial year.

Directors' report (continued)

Directors' and executive officers' remuneration (Company and Consolidated)(audited):

Details of the nature and amount of each major element of remuneration of each director of the Company and each of the five named Company executives who receive the highest remuneration are:

		Short-term			Post-employment	Share-based payments	Total	S300A (1)(e)(vi) Proportion of remuneration performance based
		Salary & fees $	STI cash bonus $	Total $	Super-annuation benefits $	Shares $	$	
Directors								
Non-executive								
Mr Brett Howard *(Chairman)*	2007	107,000	-	107,000	9,630	-	116,630	-
	2006	31,640	-	31,640	2,848	-	34,488	-
Mr Spencer Young[1] *(appointed as non-executive director 13 April 2007)*	2007	47,831	-	47,831	2,713	-	50,544	-
Mr Michael King[2]	2007	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-
Mr Paul Manka	2007	80,000	-	80,000	7,200	-	87,200	-
(resigned 18 June 2007)	2006	18,958	-	18,958	1,706	-	20,664	-
Mr John Morrison	2007	80,000	-	80,000	7,200	-	87,200	-
	2006	32,083	-	32,083	2,888	-	34,971	-
Mr Paul Willis	2007	53,333	-	53,333	4,800	-	58,133	-
(resigned 28 Februay 2007)	2006	23,656	-	23,656	2,129	-	25,785	
Executive								
Mr Spencer Young	2007	343,558	-	343,558	9,973	-	353,531	-
(retired as executive director 13 April 2007)	2006	407,854	-	407,854	12,139	-	419,993	-
Mr Paul Jensen *(Chief Executive Officer) (appointed 23 February 2007)*	2007	238,061	300,000	538,061	7,400	125,000	670,461	63%
Total compensation: directors (consolidated)	**2007**	**949,783**	**300,000**	**1,249,783**	**48,916**	**125,000**	**1,423,699**	**30%**
	2006	**514,191**	**-**	**514,191**	**21,710**	**-**	**535,901**	**-**
Total compensation: directors (company)	**2007**	**368,164**	**-**	**368,164**	**31,543**	**-**	**399,707**	**-**
	2006	**81,961**	**-**	**81,961**	**7,377**	**-**	**89,338**	**-**

[1] Spencer Young became a non-executive director on 13 April and received fees in excess of standard non-executive director fees per agreement

[2] Michael King elected not to receive non-executive director fees due to being a nominee of a shareholder

Note: Insurance premiums in relation to directors and officeholders have not been allocated to individual directors and do not appear in the above

Directors' report (continued)

Directors' and executive officers' remuneration (Company and Consolidated)(audited):

		Short-term			Post-employment	Share-based payments	Total	S300A (1)(e)(vi) Proportion of remuneration performance based
		Salary & fees $	STI cash bonus $	Total $	Super-annuation benefits $	Shares $	$	
Executives								
Mr Rodney Hughes	2007	113,080	125,000	238,080	6,343	-	244,423	51%
(Chief Financial Officer) *(Appointed 14 January 2007)*								
Mr Jonathan Pain	2007	297,500	275,000	572,500	12,686	-	585,186	47%
(Chief Investment Strategist)	2006	244,583	107,143	351,726	12,139	1,450,000	1,813,865	86%
Mr Oscar Martinis	2007	250,000	400,000	650,000	12,686	-	662,686	60%
(Head of Distribution)	2006	200,000	-	200,000	12,139	4,550,000	4,762,139	96%
Ms Amber Stoney	2007	106,368	210,000	316,368	8,750	-	325,118	65%
(Head of Operations)	2006	144,998	20,000	164,998	12,139	850,000	1,027,137	85%
Mr Robert White	2007	177,499	350,000	527,499	12,193	-	539,692	65%
(Head of Corporate)	2006	124,999	20,000	144,999	11,360	780,000	936,359	85%
Executives								
Mr Peter Coates	2007	240,235	200,000	440,235	12,686	-	452,921	44%
(Senior Investment Manager) *(Resigned 30 June 2007)*	2006	187,699	20,000	207,699	12,139	975,000	1,194,838	83%
Total compensation: specified executives (consolidated)	**2007**	**1,184,682**	**1,560,000**	**2,744,682**	**65,344**	**-**	**2,810,026**	**56%**
	2006	**902,279**	**167,143**	**1,069,422**	**59,916**	**8,605,000**	**9,734,338**	**90%**
Total compensation: specified executives (company)	**2007**	-	-	-	-	-	-	-
	2006	-	-	-	-	-	-	-
Total compensation: key management personnel (consolidated)	**2007**	**2,134,465**	**1,860,000**	**3,994,465**	**114,260**	**125,000**	**4,233,725**	**47%**
	2006	**1,416,470**	**167,143**	**1,583,613**	**81,626**	**8,605,000**	**10,270,239**	**85%**
Total compensation: key management personnel (company)	**2007**	**368,164**	**-**	**368,164**	**31,543**	**-**	**399,707**	**-**
	2006	**81,961**	**-**	**81,961**	**7,377**	**-**	**89,338**	**-**

Directors' report (continued)

Auditor

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

Non Audit Services

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

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

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

Details of the amounts paid or payable to KPMG for audit and non audit services are provided in Note 23 of the financial statements.

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

The lead auditor's independence declaration required under section 307C of the Corporations Act 2001 is set out on page 27 and forms part of the directors' report for the financial period ended 30 June 2007.

Signed in accordance with a resolution of directors:

Brett Howard	**Paul Jensen**
Chairman	Managing Director

Dated at Sydney this 24th day of August 2007

Lead auditor's independence declaration

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

To the directors of HFA Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2007 there have been:

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

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane
24th August 2007

Income statements

For the year ended 30 June 2007

	Note	Consolidated		The Company	
		2007 $	2006 $	2007 $	2006 $
Revenue	6	74,643,927	35,473,061	-	-
Investment management costs		(30,303,344)	(17,039,545)	-	-
Net income from operating activities		44,340,583	18,433,516	-	-
Other income	6	3,937	5,234	-	-
Expenses	6	(15,093,037)	(7,857,323)	(535,946)	(30,724)
Equity settled transactions	6	(125,000)	(18,959,984)	-	-
Results from operating activities		29,126,483	(8,378,557)	(535,946)	(30,724)
Financial income	6	655,039	939,500	18,276,059	18,115
Financial expenses	6	(834,480)	(195,943)	(688,122)	(78,160)
Net financing income/(costs)		(179,441)	743,557	17,587,937	(60,045)
Profit/(loss) before tax		28,947,042	(7,635,000)	17,051,991	(90,769)
Income tax (expense)/benefit	7	(8,668,260)	(3,177,551)	643,554	27,230
Net profit/(loss)		20,278,782	(10,812,551)	17,695,545	(63,539)
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company:					
Basic earnings per share (cents per share)	8	10.05	(5.75)		
Diluted earnings per share (cents per share)	8	10.05	(5.75)		

The income statements are to be read in conjunction with the notes to the financial statements set out on pages 32 to 70.

Statements of recognised income and expense

For the year ended 30 June 2007

		Consolidated		Company	
	Note	**2007**	**2006**	**2007**	**2006**
		$	**$**	**$**	**$**
Net change in fair value of available-for-sale financial assets	19	129,669	70,754	129,669	3,186
Income and expense recognised directly in equity	19	**129,669**	**70,754**	**129,669**	**3,186**
Profit/(loss) for the year		20,278,782	(10,812,551)	17,695,545	(63,539)
Total recognised income and expense for the year		**20,408,451**	**(10,741,797)**	**17,825,214**	**(60,353)**
Attributable to:					
Members of HFA Holdings Limited		20,408,451	(10,741,797)	17,825,214	(60,353)
Total recognised income and expense for the year		**20,408,451**	**(10,741,797)**	**17,825,214**	**(60,353)**

Other movements in equity arising from transactions with owners as owners are set out in note 19.

The statements of recognised income and expense are to be read in conjunction with the notes to the financial statements set out on pages 32 to 70.

Balance sheets

As at 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Assets					
Current					
Cash and cash equivalents	9	17,942,040	8,093,328	5,477,724	326,600
Trade and other receivables	10	30,761,973	7,606,049	9,003,044	30,614
Other current assets	11	2,931,624	-	2,788,240	-
Total current assets		**51,635,637**	**15,699,377**	**17,269,008**	**357,214**
Non-current					
Trade and other receivables	10	756,475	751,739	-	-
Investments	12	724,583	525,179	11,170,812	8,571,408
Property, plant and equipment	13	631,693	242,722	-	-
Deferred tax assets	7	-	-	277,416	461,336
Intangible assets	14	11,704,493	9,420,137	-	-
Total non-current assets		**13,817,244**	**10,939,777**	**11,448,228**	**9,032,744**
Total assets		**65,452,881**	**26,639,154**	**28,717,236**	**9,389,958**
Liabilities					
Current					
Trade and other payables	15	21,751,809	8,320,563	76,080	1,277,386
Current tax liability		4,517,960	-	4,517,960	-
Interest bearing loans and borrowings	16	9,958,056	2,492,637	9,958,056	2,492,637
Employee benefits	17	2,605,096	965,351	-	-
Total current liabilities		**38,832,921**	**11,778,551**	**14,552,096**	**3,770,023**
Non-current					
Interest bearing loans and borrowings	16	3,968,812	4,974,567	3,968,812	4,974,567
Employee benefits	17	75,840	64,767	-	-
Deferred tax liabilities	7	1,940,235	1,445,393	-	-
Total non-current liabilities		**5,984,887**	**6,484,727**	**3,968,812**	**4,974,567**
Total liabilities		**44,817,808**	**18,263,278**	**18,520,908**	**8,744,590**
Net assets		**20,635,073**	**8,375,876**	**10,196,328**	**645,368**
Equity					
Issued capital	19	705,721	705,721	705,721	705,721
Reserves	19	132,855	3,186	132,855	3,186
Retained earnings	19	19,796,497	7,666,969	9,357,752	(63,539)
Total equity		**20,635,073**	**8,375,876**	**10,196,328**	**645,368**

The balance sheets are to be read in conjunction with the notes to the financial statements set out on pages 32 to 70.

Statements of cash flows

For the year ended 30 June 2007

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Fees received		58,956,333	36,655,285	27,500	-
Payments to suppliers and employees		(40,376,601)	(25,527,219)	(5,969,066)	(522)
Cash generated from/(used in) operations		18,579,732	11,128,066	(5,941,566)	(522)
Interest received		628,639	200,342	93,558	18,115
Dividends and distributions received		26,400	95,654	18,182,502	-
Income taxes paid		(3,711,031)	-	(3,711,031)	-
Interest paid		(834,480)	(80,383)	(688,122)	(86,077)
Net cash from/(used in) operating activities	20	**14,689,260**	**11,343,679**	**7,935,341**	**(68,484)**
Cash flows from investing activities					
Proceeds from sale of investments		-	3,799,639	-	-
Acquisition of property, plant and equipment		(564,963)	(153,183)	-	-
Acquisition of investments		(253,188)	(1,343,470)	(2,653,188)	(281,756)
Acquisition of intangibles		(2,078,035)	(4,536,553)	-	-
Net cash from/(used in) investing activities		**(2,896,186)**	**(2,233,567)**	**(2,653,188)**	**(281,756)**
Cash flows from financing activities					
Proceeds from borrowings		7,459,664	8,467,204	7,459,664	7,467,204
Repayments of borrowings		(1,000,000)	(10,430,289)	(1,000,000)	(9,430,289)
Loans to controlled entities		-	-	-	(800,000)
Loans from controlled entities		-	-	1,813,333	3,439,925
Dividends paid		(8,274,253)	-	(8,274,253)	-
Borrowing costs		(129,773)	(1,056)	(129,773)	-
Net cash from/(used in) financing activities		**(1,944,362)**	**(1,964,141)**	**(131,029)**	**676,840**
Net increase in cash and cash equivalents		**9,848,712**	**7,145,971**	**5,151,124**	**326,600**
Cash and cash equivalents at 1 July		8,093,328	947,357	326,600	-
Cash and cash equivalents at 30 June	9	**17,942,040**	**8,093,328**	**5,477,724**	**326,600**

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 32 to 70

Notes to the financial statements

For the year ended 30 June 2007

1. Reporting entity

The HFA Holdings Limited Group ("Group") consists of HFA Holdings Limited ("HFA") and two wholly owned subsidiaries, HFA Asset Management Limited ("HFAAM"), HFA Admin Pty Ltd ("HFA Admin") and A.C.N. 122 776 550 Pty Ltd ("A.C.N 122 776 550"). HFA is a company limited by shares, incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange. HFAAM is the responsible entity for the HFA investment schemes and is the investment manager of HFA Accelerator Plus Limited. HFA Admin is a service entity to HFAAM and provides administrative services including staff, premises and other resources to HFAAM and HFA. A.C.N 122 776 550 is a dormant entity.

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

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the group also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board. The Company's financial report does not comply with IFRS's as the Company has elected to apply the relief provided to parent entities by AASB 132 *Financial Instruments: Presentation and Disclosure* in respect of certain disclosure requirements.

The financial report of HFA Holdings Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 24 August 2007.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets that are measured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Group's functional and presentation currency is Australian dollars (A$).

(d) Use of estimates and judgments

Management has reviewed the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The consolidated entity assesses whether goodwill is impaired at least annually in accordance with the accounting policy in note 14. These calculations involve an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The comparative statement of changes in equity has been represented as a statement of recognised income and expense to conform with the current year's presentation.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 101 *Presentation of Financial Statements* (October 2006)
- ED 151 *Australian Additions to, and Deletions from, IFRSs*

In the prior financial year the Group adopted the following:

- AASB 132 *Financial Instruments: Recognition and Measurements* in accordance with the transitional rules of AASB 1: *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.*
- AASB 119 *Employee Benefits* (December 2004)
- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004)
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement,* AASB 132 *Financial Instruments: Disclosure and Presentation, and* AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004)
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*
- UIG 4 *Determining whether an Arrangement contains a Lease*
- UIG 8 *Scope of AASB 2*

(a) Basis of consolidation

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

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

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

(b) Foreign currency translation

Transactions in foreign currencies are converted to local currency at the rate of exchange prevailing at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for the monetary item is fixed in the contract) are translated using the spot rate at the end of the financial period.

All differences in the consolidated financial report are taken to the income statement.

(c) Financial instruments

Financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. These assets are stated at nominal values.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Trade and other receivables

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

Available-for-sale financial assets

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(h)), are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Trade and other payables

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

Interest-bearing loans and borrowings

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

(d) Plant and equipment

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

The carrying value of plant and equipment are reviewed for impairment (see accounting policy (h)) when events or changes in circumstances indicate the carrying value may not be recoverable.

(e) Leased assets

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. Payments under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(f) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

(g) Intangible assets

Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

As at the acquisition date, any goodwill is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

Other Intangible assets

Other intangible assets consist of management rights. Where acquired separately, the management rights are capitalised at cost.

Amortisation is charged on assets with finite lives. The expense is recognised in the income statement and included in the 'expenses' line item.

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

Useful lives are examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

A summary of the policies applied to the Group's intangible assets is as follows:

	Management Rights
Useful lives	Finite
Method use	Straight Line – 5 to 10 years
Internally generated/Acquired	Acquired
Impairment test/Recoverable amount testing	Amortisation method reviewed at each financial year-end. Reviewed annually for indicator of impairment

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the consolidated entity's non-financial assets, other than deferred tax assets (see accounting policy (p)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated (see accounting policy (h)(i)). For goodwill the recoverable amount is estimated at each balance sheet date.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in profit or loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

(i) Provisions

Provisions are recognised in the balance sheet when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the consolidated entity expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(j) Employee Benefits

Employee commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

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

Wages and salaries, annual leave and long service leave

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

Employee benefit expenses and revenues arising in respect of the following categories:

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

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

Bonuses

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

Share-based payments

The Group provides benefits to employees (including investment strategy committee members) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“equity-settled transactions”).

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘vesting date’).

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

(k) Issued capital and reserves

Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by HFA. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve is used to record the changes in fair value, net of related taxes of available-for-sale financial assets held throughout the year.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

(l) Revenue recognition

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

Management fees and performance fees

Periodic management fees are received for management services provided by HFA Asset Management Limited on various investment products. These fees are recognised as revenues as the management services are provided.

Periodic performance fees are received by HFA Asset Management Limited on various investment products when the performance of the product exceeds a previous high-water mark. These fees are recognised as revenues when it is established that performance of the investment product has exceeded the high-water mark.

Sale of assets

Revenue from sales of assets is recognised at the time title is transferred or delivery has occurred, the price is fixed and determinable, and collectability is probable.

Interest

Interest income from interest bearing assets is brought to account using an effective interest rate method.

Dividends and Distributions

Dividend and distribution revenue is recognised when the Group controls the right to receive the dividend or distribution payment.

(*m) Investment Management Costs*

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

(n) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

The cost of improvements to or on leasehold property is capitalised and depreciated over the shorter of the estimated useful life or the lease term.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

(o) Financial income and expenses

Financial income comprises interest income on funds invested, dividend income, and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Financial expenses comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(p) Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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

(q) Tax consolidation

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

(r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST) except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

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

(s) Earnings per share (EPS)

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(u) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure and Presentation,* AASB 101 *Presentation of Financial Statements,* AASB 114 *Segment Reporting*, AASB 117 *Leases,* AASB 133 *Earnings Per Share,* AASB 139 *Financial Instruments: Recognition and Measurement,* and AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* arising from the release of AASB 7*.* AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is expected to only impact disclosure contained within the consolidated financial report.

Notes to the financial statements (continued)

For the year ended 30 June 2007

3. Significant accounting policies (continued)

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting.* AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of HFA and the Group as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 107 *Cash Flow Statements,* AASB 119 *Employee Benefits,* AASB 127 *Consolidated and Separate Financial Statements,* AASB 134 *Interim Financial Reporting,* and AASB 136 *Impairment Assets.* AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Group's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Group first applied the measurement criteria of AASB 136 and 139 respectively (ie. 1 July 2004 and 1 July 2005 respectively). The adoption of Interpretation 10 is not expected to have any impact on the financial report.
- Interpretation 11 AASB 2 *Share-based Payment – Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another group entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Group's 2008 financial report and is not expected to have any impact on the financial report.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation II amends AASB 2 *Share-based Payments* to insert the transitional provisions of IFRS 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards.* AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards,* AASB 117 *Leases,* AASB 118 *Revenue,* AASB 127 *Consolidated and Separate Financial Statements* and AASB 139 *Financial Instruments: Recognition and Measurement.* AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008 and must be applied at the same time as Interpretation 12 Service Concession Arrangements and is not expected to have any impact on the consolidated financial report.

4. Determination of fair values

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

Plant and equipment

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

Intangible assets

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

4. Determination of fair values (continued)

Investments in equity securities

The fair value of equity securities is determined by reference to their quoted bid price at the reporting date.

Trade and other receivables

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

5. Segment reporting

Segment information is presented in respect of the consolidated entity's business and geographical segments. The primary format, business segments, is based on the consolidated entity's management and internal reporting structure.

Business segments

Primary Segment - Business Information

The primary business activity engaged in by HFA Holdings is funds management activities in the absolute return fund finance sector. There are no distinguishable components in the provision of funds management activities by the consolidated entity.

Secondary Segment - Geographic Information

The geographic segmentation of revenue is based on the location of the customers, while segmentation of the assets is based on the location of the asset. HFA Holdings operates in only one principal geographical location, being Australia.

Notes to the financial statements (continued)

For the year ended 30 June 2007

6. Revenue and Expenses

Profit before income tax expense includes the following specific revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
(a) Revenue				
Management fee income	36,015,608	21,024,776	-	-
Performance fee income	38,629,819	13,498,846	-	-
Entry commissions	(1,500)	147,406	-	-
Brokerage fee reimbursement	-	802,033	-	-
Total revenue	**74,643,927**	**35,473,061**	**-**	**-**
(b) Other income				
Sundry income	3,937	5,234	-	-
Total other income	**3,937**	**5,234**	**-**	**-**
(c) Expenses				
Personnel expenses	9,693,095	5,266,821	-	-
Professional fees	1,319,307	180,850	258,701	18,900
Depreciation and amortisation	1,010,514	561,880	-	-
Occupancy expenses	304,819	197,159	-	-
Marketing and promotion costs	438,882	244,015	-	-
Travel costs	496,238	364,813	-	-
Other expenses	1,830,182	1,041,785	277,245	11,824
Total other expenses	**15,093,037**	**7,857,323**	**535,946**	**30,724**
(d) Equity settled transactions				
Equity settled transactions	125,000	18,203,352	-	-
On-costs-equity settled transactions	-	756,632	-	-
Total equity settled transactions	**125,000**	**18,959,984**	**-**	**-**
(e) Financial income				
Interest income	628,639	200,342	93,557	18,115
Dividend and distribution income	26,400	95,654	18,182,502	-
Investments:				
Net gain on disposal	-	643,504	-	-
Total Financial income	**655,039**	**939,500**	**18,276,059**	**18,115**
(e) Financial expenses				
Interest expense	834,480	195,943	688,122	78,160
Total financial expenses	**834,480**	**195,943**	**688,122**	**78,160**

Notes to the financial statements (continued)

For the year ended 30 June 2007

7. Income tax expense

Recognised in the income statement

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Current tax expense				
Current year	8,228,990	1,419,389	(771,992)	-
	8,228,990	1,419,389	(771,992)	-
Deferred tax expense				
Origination and reversal of temporary differences	439,270	1,758,162	128,438	(27,230)
	439,270	1,758,162	128,438	(27,230)
Income tax expense/(benefit) reported in income statement	**8,668,260**	**3,177,551**	**(643,554)**	**(27,230)**

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

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Accounting profit before tax	28,947,042	(7,635,000)	17,051,991	(90,769)
Income tax using the domestic corporation tax rate of 30% (2006: 30%)	8,684,113	(2,290,500)	5,115,597	(27,230)
Increase in income tax expense due to:				
Non-deductible expenses	-	5,468,051	459,492	-
Decrease in income tax expense due to:				
Tax exempt income	(15,853)	-	(6,218,643)	-
Income tax expense/(benefit) on pre-tax net profit	**8,668,260**	**3,177,551**	**(643,554)**	**(27,230)**

Income tax recognised directly in equity

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Equity securities available for sale	(55,573)	(1,365)	(55,573)	(1,365)
Income tax benefit reported in equity	**(55,573)**	**(1,365)**	**(55,573)**	**(1,365)**

Notes to the financial statements (continued)

For the year ended 30 June 2007

7. Income tax expense (continued)

Deferred tax assets and liabilities

Consolidated	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	$	$	$	$	$	$
Intangible assets	-	-	(2,905,515)	(2,220,207)	(2,905,515)	(2,220,207)
Investments	-	-	(56,938)	(1,365)	(56,938)	(1,365)
Other receivables	61,123	-		(56,930)	61,123	(56,930)
Trade creditors	156,814	55,308	-	-	156,814	55,308
Employee entitlements	804,281	309,035	-	-	804,281	309,035
Tax value of loss carry-forwards recognised	-	468,766	-	-	-	468,766
Net tax assets/(liabilities)	**1,022,218**	**833,109**	**(2,962,453)**	**(2,278,502)**	**(1,940,235)**	**(1,445,393)**

The Company	Assets		Liabilities		Net	
	2007	2006	2007	2006	2007	2006
	$	$	$	$	$	$
Investments	-	-	(56,938)	(1,365)	(56,938)	(1,365)
Other receivables	-	-	-	(9,185)	-	(9,185)
Other items	12,044	3,120	-	-	12,044	3,120
Tax value of loss carry-forwards recognised	322,310	468,766	-	-	322,310	468,766
Net tax assets/(liabilities)	**334,354**	**471,886**	**(56,938)**	**(10,550)**	**277,416**	**461,336**

8. Earnings per share

The calculation of basic earnings per share and diluted earnings per share at 30 June 2007 was based on the profit attributable to ordinary shareholders of $20,278,782 (2006: loss of $10,812,551) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 201,811,000 (2006: 188,028,138), calculated as follows:

	Note	Consolidated 2007	Consolidated 2006
		$	$
Earnings from operations used in calculating Basic earnings per share		20,278,782	(10,812,551)
Earnings from operations used in calculating Diluted earnings per share		20,278,782	(10,812,551)

Notes to the financial statements (continued)

For the year ended 30 June 2007

8. Earnings per share (continued)

	Note	Consolidated	
		2007	2006
		No. of Shares	No. of Shares
Number of shares issued			
Issued ordinary shares at 1 July	19	201,811,000	185,262,498
Effect of shares issued 1 May 2006		-	2,765,640
Weighted average number of ordinary shares used in calculating diluted earnings per share		201,811,000	188,028,138

On 15 March 2006, a share split resulted in the conversion of 1 ordinary share to 185,262,498 shares, whilst on 1 May 2006, 16,548,502 shares were issued under the Employee Share Plan.

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

9. Cash and cash equivalents

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Cash at bank	16,708,524	7,090,073	5,477,724	326,600
Call deposits	1,233,516	1,003,255	-	-
Total Cash and Cash Equivalents	**17,942,040**	**8,093,328**	**5,477,724**	**326,600**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

The fair value of cash and cash equivalents is $17,942,040 (2006: $8,093,328).

10. Trade and other receivables

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Current				
Receivables due from HFAAM managed products	30,298,741	7,211,087	-	**-**
Receivables from controlled entities	-	-	8,834,648	-
Other receivables and prepayments	463,232	394,962	168,396	30,614
	30,761,973	**7,606,049**	**9,003,044**	**30,614**
Non-current				
Receivables due from HFAAM managed products	756,475	751,739	-	-
	756,475	**751,739**	-	-

Notes to the financial statements (continued)

For the year ended 30 June 2007

10. Trade and other receivables (continued)

Fees receivable comprise management fees, performance fees, and recoverable costs from HFA managed products are non-interest bearing and generally on 30 day terms, however certain receivables are on deferred terms and have been adjusted to reflect their fair value at year end.

Non-current receivables in relation to recovery of product costs are receivable over three years and have been discounted to their present value using a discount rate of 7.5%.

11. Other current assets

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Current				
Prepaid Merger Transaction Costs	2,788,240		2,788,240	
Other current assets	143,384	-	-	-
	2,931,624	**-**	**2,788,240**	**-**

Prepaid Merger Transaction costs comprise $2,788,240 of legal and advisory fees incurred to date in relation to the proposed merger with Lighthouse. These costs are expected to be accounted for as part of the transaction, if the transaction proceeds, and are not expected to be recognised in the income statement.

12. Investments

	Note	Consolidated		The Company	
		2007	2006	2007	2006
		$	$	$	$
Non-current investments					
Available-for-sale financial assets	24	724,583	525,179	724,583	525,179
Investments in controlled entities – at cost		-	-	10,446,229	8,046,229
Total investments		**724,583**	**525,179**	**11,170,812**	**8,571,408**

The Company increased its investment in HFA Asset Management Ltd, a subsidiary, by $2,400,000 through redeemable preference shares issued by the subsidiary.

Available-for-sale financial assets consist of investments in ordinary shares and/or units in a managed investment scheme (refer to note 24(d) for transactions with related parties).

Notes to the financial statements (continued)

For the year ended 30 June 2007

13. Property, Plant and Equipment

	Consolidated				The Company			
	Furniture and Equipment	Computer Equipment and Software	Leasehold Improvements	Total	Furniture and Equipment	Computer Equipment and Software	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Cost								
- Balance at 1 July 2005	32,102	180,324	80,867	293,293	-	-	-	-
- Acquisitions	9,319	97,208	46,656	153,183	-	-	-	-
- Disposals	-	-	-	-	-	-	-	-
- **Balance at 30 June 2006**	**41,421**	**277,532**	**127,523**	**446,476**	**-**	**-**	**-**	**-**
- Balance at 1 July 2006	41,421	277,532	127,523	446,476	-	-	-	-
- Acquisitions	88,128	111,681	365,154	564,963	-	-	-	-
- Disposals	-	-	-	-	-	-	-	-
- **Balance at 30 June 2007**	**129,549**	**389,213**	**492,677**	**1,011,439**	**-**	**-**	**-**	**-**

Notes to the financial statements (continued)

For the year ended 30 June 2007

13. Property, Plant and Equipment (continued)

	Consolidated				The Company			
	Furniture and Equipment	Computer Equipment and Software	Leasehold Improvements	Total	Furniture and Equipment	Computer Equipment and Software	Leasehold Improvements	Total
	$	$	$	$	$	$	$	$
Depreciation and impairment losses								
- Balance at 1 July 2005	(5,942)	(115,946)	(15,855)	(137,743)	-	-	-	-
- Depreciation charge for the year	(5,303)	(42,393)	(18,316)	(66,012)	-	-	-	-
- **Balance at 30 June 2006**	**(11,245)**	**(158,339)**	**(34,171)**	**(203,755)**	-	-	-	-
- Balance at 1 July 2006	(11,245)	(158,339)	(34,171)	(203,755)	-	-	-	-
- Depreciation charge for the year	(13,161)	(73,958)	(88,872)	(175,991)	-	-	-	-
- **Balance at 30 June 2007**	**(24,406)**	**(232,297)**	**(123,043)**	**(379,746)**	-	-	-	-
Carrying amounts								
At 1 July 2005	26,160	64,378	65,012	155,550	-	-	-	-
At 30 June 2006	**30,176**	**119,193**	**93,353**	**242,722**	-	-	-	-
At 1 July 2006	30,176	119,193	93,353	242,722	-	-	-	-
At 30 June 2007	**105,143**	**156,916**	**369,634**	**631,693**	-	-	-	-

Notes to the financial statements (continued)

For the year ended 30 June 2007

14. Intangible assets

	Consolidated				The Company			
	Goodwill	Management rights	Other	Total	Goodwill	Management rights	Other	Total
	$	$	$	$	$	$	$	$
Cost								
Balance at 1 July 2005	2,019,446	1,477,505	1,600	3,498,551	-	-	-	-
Additions	-	6,616,057	-	6,616,057	-	-	-	-
Balance at 30 June 2006	**2,019,446**	**8,093,562**	**1,600**	**10,114,608**	**-**	**-**	**-**	**-**
Balance at 1 July 2006	2,019,446	8,093,562	1,600	10,114,608	-	-	-	-
Additions	-	3,118,880	-	3,118,880	-	-	-	-
Balance at 30 June 2007	**2,019,446**	**11,212,442**	**1,600**	**13,233,488**	**-**	**-**	**-**	**-**
Amortisation and impairment losses								
Balance at 1 July 2005	-	(197,001)	(132)	(197,133)	-	-	-	-
Amortisation for the year	-	(495,869)	-	(495,869)	-	-	-	-
Impairment charge	-	-	(1,468)	(1,468)	-	-	-	-
Balance at 30 June 2006	**-**	**(692,870)**	**(1,600)**	**(694,471)**	**-**	**-**	**-**	**-**
Balance at 1 July 2006	-	(692,870)	(1,600)	(694,470)	-	-	-	-
Amortisation for the year	-	(834,525)	-	(834,525)	-	-	-	-
Impairment charge	-	-	-	-	-	-	-	-
Balance at 30 June 2007	**-**	**(1,527,395)**	**(1,600)**	**(1,528,995)**	**-**	**-**	**-**	**-**

Notes to the financial statements (continued)

For the year ended 30 June 2007

14. Intangible assets (continued)

	Consolidated				The Company			
	Goodwill	Management rights	Other	Total	Goodwill	Management rights	Other	Total
	$	$	$	$	$	$	$	$
Carrying amounts								
At 1 July 2005	2,019,446	1,280,504	1,468	3,301,417	-	-	-	-
At 30 June 2006	**2,019,446**	**7,400,692**	**-**	**9,420,137**	**-**	**-**	**-**	**-**
At 1 July 2006	2,019,446	7,400,692	-	9,420,137	-	-	-	-
At 30 June 2007	**2,019,446**	**9,685,047**	**-**	**11,704,493**	**-**	**-**	**-**	**-**

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

For goodwill, intangible assets with an indefinite life and intangible assets that are not yet available for use an impairment test is carried out annually. Other intangible assets are tested for impairment when an impairment indicator exists (see note 3(h)).

Notes to the financial statements (continued)

For the year ended 30 June 2007

14. Intangible assets (continued)

Impairment testing of indefinite life goodwill and management rights

Goodwill

Goodwill acquired through business combinations has been allocated to one individual cash generating unit for impairment testing as follows:

Funds Management cash generating unit

The recoverable amount of the Funds Management unit is determined based on a value in use calculation.

To calculate this, cash flow projections are based on financial budgets approved by senior management covering a five-year period.

The pre-tax discount rate applied to cash flow projections is 12% (2006: 10.5%) and cash flows beyond the five-year period are extrapolated using a Nil% growth rate (2006: Nil%).

15. Trade and other payables

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Trade creditors	18,109,487	6,482,222	44,129	273,027
Other creditors and accruals	3,642,322	1,838,341	31,951	9,395
Loans from controlled entities	-	-	-	994,964
Total trade and other payables	**21,751,809**	**8,320,563**	**76,080**	**1,277,386**

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

16. Interest bearing loans and borrowings

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Current Liabilities				
Bank loans – secured	9,958,056	2,492,637	9,958,056	2,492,637
	9,958,056	**2,492,637**	**9,958,056**	**2,492,637**
Non-current				
Bank loans – secured	3,968,812	4,974,567	3,968,812	4,974,567
	3,968,812	**4,974,567**	**3,968,812**	**4,974,567**

Notes to the financial statements (continued)

For the year ended 30 June 2007

16. Interest bearing loans and borrowings (continued)

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Financing facilities				
Bank loans – secured	14,000,000	10,000,000	14,000,000	10,000,000
	14,000,000	**10,000,000**	**14,000,000**	**10,000,000**
Facilities utilised at reporting date				
Bank loans – secured	13,926,868	7,467,204	13,926,868	7,467,204
	13,926,868	**7,467,204**	**13,926,868**	**7,467,204**
Facilities not utilised at reporting date				
Bank loans – secured	73,132	2,532,796	73,132	2,532,796
	73,132	**2,532,796**	**73,132**	**2,532,796**

Financing arrangements

Bank loans are denominated in Australian dollars. The bank loans amount in current liabilities comprises the portion of the consolidated entity's bank loan payable and the expected amount to be paid within one year ($9,958,056).

The bank loans are secured by registered first mortgages over the assets of HFA Admin Pty Ltd and guarantees from HFA Admin Pty Ltd and HFA Asset Management Ltd. There are three separate facilities. Under facility one, the bank loan is payable on or before 30 June 2012 in equal annual instalments, and is subject to annual review. The loan bears interest at the bank's bill rate plus 1.25% on the total facility of $6,000,000, payable monthly. Under facility two, the bank loan has no fixed repayment date and is subject to annual review. The facility two loan has a line fee at the bank's bill rate plus 0.50% on the total facility of $4,000,000 and a margin fee at the bank's bill rate plus 0.95% on the balance drawn. Under facility three, the bank loan has no fixed repayment date and is subject to annual review. The facility three loan has a line fee at the bank's bill rate plus 1.09% on the total facility of $5,000,000.

17. Employee benefits

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Current				
Salaries and wages accrued	2,068,968	563,983	-	-
Liability for annual leave	536,128	401,368	-	-
Total Employee Benefit – Current	**2,605,096**	**965,351**	**-**	**-**
Non-current			-	-
Liability for long service leave	75,840	64,767	-	-
	75,840	**64,767**	**-**	**-**

Notes to the financial statements (continued)

For the year ended 30 June 2007

18. Share-based payments

The Board resolved to issue 100,000 shares to the Chief Executive Officer. The shares are subject to service conditions and vest on 1 January 2008. The shares have been treated as share-based payments and expensed through the income statement. At 30 June 2007 an expense of $125,000 was recognised based on the service period served and a share price of $2.50.

In 2006 the Group established an Employee Share Plan for the granting of shares to employees upon the successful IPO of the Group. Shares under the plan vested upon allotment on 1 May 2006.

The following table illustrates the number and value of shares issued under the 2006 plan:

	Note	Number of shares issued under the plan	Value of shares issued under the plan
		No.	$
Employee Share Plan	6	16,548,502	18,203,352

All shares have been treated as share-based payments and expensed through the income statement.

The fair value of equity instruments is determined by reference to the value of the shares granted under the employee share plan. The shares were not subject to service conditions and vested on allotment date. Allotment date was 1 May 2006. The share price on allotment was $1.10.

19. Issued capital and reserves

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Ordinary shares				
Issued and fully paid	705,721	705,721	705,721	705,721
Movement in ordinary shares on issue		*No.*		*No.*
Balance at beginning of financial year	201,811,000	1	201,811,000	1
Share split on 15 March 2006	-	185,262,497	-	185,262,497
Issued on 1 May 2006 under Employee Share Plan	-	16,548,502	-	16,548,502
Balance at end of financial year	**201,811,000**	**201,811,000**	**201,811,000**	**201,811,000**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up HFA, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of HFA. The ordinary shares have no par value. Effective 1 July 1998, the Company Law Review Act abolished the concept of authorised capital. Accordingly, HFA does not have authorised capital or par value in respect of its issued shares.

Notes to the financial statements (continued)

For the year ended 30 June 2007

19. Issued capital and reserves (continued)

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Retained earnings	19,796,497	7,666,969	9,357,752	(63,539)
Available-for-sale financial assets reserve	132,855	3,186	132,855	3,186
Movements:				
(a) Retained earnings				
Balance at beginning of the financial year	7,666,969	276,168	(63,539)	-
Net profit/(loss) attributable to members of HFA Holdings Limited	20,278,782	(10,812,551)	17,695,545	(63,539)
Dividends to equity holders	(8,274,254)	-	(8,274,254)	-
Equity settled transactions	125,000	18,203,352	-	-
Balance at end of the financial year	**19,796,497**	**7,666,969**	**9,357,752**	**(63,539)**

Equity settled transactions relates to the recognition of the future issue of shares to the Chief Executive Officer (2007: $125,000) and the issue of shares under the HFA Employee Share Plans at IPO (2006: $18,203,252). This amount is recognised in retained earnings.

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
(b) Available-for-sale financial assets reserve				
Balance at beginning of the financial year	3,186	(67,568)	3,186	-
Unrealised gain/(loss)	129,669	70,754	129,669	3,186
Balance at end of the financial year	**132,855**	**3,186**	**132,855**	**3,186**

Nature and purpose of reserves

Available-for-sale financial reserve

The available-for-sale financial asset reserve includes the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised.

Notes to the financial statements (continued)

For the year ended 30 June 2007

19. Issued capital and reserves (continued)

(c) Dividends

Dividends recognised in the current year by the Company are:

	Cents per share	Total amount $	Franked / unfranked	Date of payment
Special 2007 ordinary	1.5	3,027,167	Franked	31 Oct 2006
Interim 2007 ordinary	2.6	5,247,086	Franked	31 Mar 2007
Total amount		8,274,253		

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

After the balance sheet date the following fully franked dividend was declared by the directors. The declaration and subsequent payment of the dividend has no income tax consequences. The financial effect of this dividend has not been brought to account in the financial statements for the financial year ended 30 June 2007 and will be recognised in subsequent financial reports.

	Cents per share	Total amount $	Franked / unfranked	Date of payment
Final 2007 ordinary	4.0	8,072,440	Franked	28 Sept 2007
Total amount		8,072,440		

Notes to the financial statements (continued)

For the year ended 30 June 2007

20. Reconciliation of cash flows from operating activities

	Note	Consolidated		The Company	
		2007	2006	2007	2006
		$	$	$	$
Cash flows from operating activities					
Net profit after tax		20,278,782	(10,812,551)	17,695,545	(63,539)
Adjustments for:					
Depreciation and amortisation expense	6 (c)	1,010,514	561,880	-	-
Net gain on disposal	6 (e)	-	(643,504)	-	-
Borrowing costs		129,773	1,056	129,773	-
Equity-settled transactions	6 (d)	125,000	18,203,352	-	-
Income tax expense/(benefit)		4,957,229	3,177,551	2,477,108	(27,230)
Operating cash flow before changes in working capital and provisions		**26,501,298**	**10,487,784**	**20,302,426**	**(90,769)**
(Increase)/decrease in receivables	10	(23,160,660)	(2,254,044)	(110,282)	(23,753)
(Increase)/decrease in other assets	11	(2,931,624)	-	(2,788,240)	-
(Increase)/decrease to loans to controlled entities		-	-	(9,501,247)	-
Increase/(decrease) in payables		12,629,428	2,930,211	32,684	46,038
Increase/(decrease) in provisions and employee benefits	17	1,650,818	179,728	-	-
Net cash flow (used in) /from Operating Activities		**14,689,260**	**11,343,679**	**7,935,341**	**(68,484)**

21. Financial instruments

Exposure to credit, liquidity and interest rate risk arises in the normal course of the Company's and consolidated entity's business.

Credit risk

The Group trades only with recognised, creditworthy third parties.

It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis to minimise the Group's exposure to bad debts.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group.

Notes to the financial statements (continued)

For the year ended 30 June 2007

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility.

72% of the Group's debt will mature in less than 1 year at 30 June 2007 (2006: 33%).

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's secured bank loans. All interest rates on borrowings are on a variable rate basis.

Notes to the financial statements (continued)

For the year ended 30 June 2007

21. Financial instruments (continued)

Effective interest rates

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they mature or reprice.

Consolidated	Note	2007						
		Effective interest	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	$	$	$	$	$	$
Cash at bank	9	4.13	16,708,524	16,708,524	-	-	-	-
Call deposits	9	6.15	1,233,516	1,233,516	-	-	-	-
Secured bank loans:								
Floating rate loan	16	6.39	(4,968,812)	-	(1,000,000)	(1,000,000)	(2,968,812)	-
Floating rate loan	16	6.39	(8,958,056)	-	(8,958,056)	-	-	-
			4,015,172	17,942,040	(9,958,056)	(1,000,000)	(2,968,812)	-

Consolidated	Note	2006						
		Effective interest	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	$	$	$	$	$	$
Cash at bank	9	4.68	7,090,073	7,090,073	-	-	-	-
Call deposits	9	5.86	1,003,255	1,003,255	-	-	-	-
Secured bank loans:								
Floating rate loan	16	5.98	(5,974,567)	-	(1,000,000)	(1,000,000)	(3,000,000)	(974,567)
Floating rate loan	16	6.93	(1,492,637)	-	(1,492,637)	-	-	-
			626,124	**8,093,328**	**(2,492,637)**	**(1,000,000)**	**(3,000,000)**	**(974,567)**

Notes to the financial statements (continued)

For the year ended 30 June 2007

21. Financial instruments (continued)

The Company	Note				2007			
		Effective interest	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	$	$	$	$	$	$
Cash and cash equivalents	9	3.92	5,477,724	5,477,724	-	-	-	-
Loans from controlled entities	10	-	8,834,648	8,834,648	-	-	-	-
Secured bank loans:								
Floating rate loan	16	6.39	(4,968,812)	-	(1,000,000)	(1,000,000)	(2,968,812)	-
Floating rate loan	16	6.39	(8,958,056)	-	(8,958,056)	-	-	-
			385,504	**14,312,372**	**(9,958,056)**	**(1,000,000)**	**(2,968,812)**	**-**

The Company	Note				2006			
		Effective interest	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	$	$	$	$	$	$
Cash and cash equivalents	9	4.00	326,600	326,600	-	-	-	-
Loans from controlled entities	10	-	-	-	-	-	-	-
Secured bank loans:								
Floating rate loan	16	5.98	(5,974,567)	-	(1,000,000)	(1,000,000)	(3,000,000)	(974,567)
Floating rate loan	16	6.93	(1,492,637)	-	(1,492,637)	-	-	-
			(7,140,604)	**326,600**	**(2,492,637)**	**(1,000,000)**	**(3,000,000)**	**(974,567)**

21. Financial instruments (continued)

Foreign currency risk

The consolidated entity is exposed to foreign currency risk on revenue earned from managed investment products invested in markets denominated in a currency other than AUD. The currency giving rise to this risk is primarily U.S. Dollars. Much of this risk is hedged by the managed investment product directly, thereby reducing the foreign currency risk on revenues earned by the consolidated entity.

Sensitivity analysis

In managing interest rate risks the consolidated entity aims to reduce the impact of short-term fluctuations on the consolidated entity's earnings. Over the longer-term, however, permanent changes in interest rates would have an impact on consolidated earnings.

At 30 June 2007, it is estimated that a general increase of one percentage point in interest would decrease the consolidated entity's profit before tax by approximately $140,000 (2006: $818).

Fair values

The carrying value of financial assets and liabilities approximates their fair values.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the above financial instruments table.

Securities

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

Trade and other receivables/payables

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

Interest-bearing loans and borrowings

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

22. Commitments and contingencies

Operating lease commitments

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

These leases have an average life of between 1 and 5 years with renewal terms included in the contracts. Renewals are at the option of the specific entity that holds the lease.

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

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Within one year	217,326	253,072	-	-
After one year but not more than five years	816,740	1,119,564	-	-
More than five years	-	-	-	-
	1,034,066	**1,372,636**	-	-

23. Auditor's Remuneration

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	65,600	31,900	48,900	18,900
	65,600	**31,900**	**48,900**	**18,900**
Services other than statutory audit:				
Auditors of the Company				
KPMG Australia:				
Other assurance services	12,000	15,800	67,040	-
Compliance and advisory	234,000	15,125	7,000	-
Due diligence services	790,000			
	1,036,000	**30,925**	**74,040**	**-**

The costs identified as due diligence services were incurred in relation to the proposed merger transaction scheduled for completion in the 2007/8 financial year. These costs are considered to be one-off costs incurred due to the nature of the transaction.

Notes to the financial statements (continued)

For the year ended 30 June 2007

24. Related Parties

(a) Details of Key Management Personnel

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

(i) Specified directors

Brett Howard	Chairman (non-executive, independent) appointed 15 March 2006
Spencer Young	Chief Executive Officer (executive) resigned executive director and appointed non-executive director 13 April 2007
Michael King	Director (non-executive, independent)
John Morrison	Director (non-executive, independent)
Paul Manka	Director (non-executive) appointed 1 September 2005, resigned 18 June 2007
Paul Willis	Director (non-executive, independent) appointed 15 March 2006, resigned 5 March 2007
Phillip Adams	Director (non-executive) resigned 1 September 2005
Paul Jensen	Director (executive) appointed 23 February 2007

(ii) Specified executives

Rodney Hughes	Chief Financial Officer, appointed 14 January 2007
Amber Stoney	Head of Operations and Company Secretary
Jonathan Pain	Chief Investment Strategist
Oscar Martinis	Head of Distribution
Robert White	Head of Corporate and Company Secretary
Peter Coates	Senior Investment Manager resigned 30 June 2007

Notes to the financial statements (continued)

For the year ended 30 June 2007

24. Related parties (continued)

(b) Remuneration of Key Management Personnel

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of HFA Holdings Limited is responsible for reviewing and recommending compensation arrangements for the directors, the chief executive officer and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

The remuneration committee has completed a project to develop suitable remuneration structures for the Company's senior executives which will include an element of "at risk" compensation which is linked to performance. A Short Term Incentive (STI) scheme and a Long Term Incentive (LTI) scheme will be introduced for the 2008 financial year.

The STI scheme cash incentive will be based on a percentage of fixed remuneration determined by the Board with reference to individual roles and responsibilities. All incentives paid under the STI scheme will be subject to annual performance hurdles. The Key Performance Indicators (KPI's) will generally include measures relating to the consolidated entity and the individual, and include financial, people, client service, strategy and risk measures as appropriate. The measures will be chosen as they directly align the individual's reward to the KPIs of the consolidated entity and to its strategy and performance. Payments will be on a sliding scale according to performance against KPI's.

The LTI scheme will be based on the provision of options or performance rights, as determined by Board, to eligible employees which will vest after three years if certain performance hurdles have been met. For the first two years of scheme operation a transitional vesting period of 50% after two years and 50% after three years will apply. The value of any award made under the LTI scheme will be based on a percentage of fixed remuneration determined by the Board with reference to the individual's roles and responsibilities. The performance hurdle will be a relative Total Shareholder Return measure.

Existing performance linked compensation include short term and long term incentive arrangements and is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The short-term incentive (STI) is an 'at risk' bonus provided in the form of cash.

(ii) Remuneration of key management personnel included in 'personnel expenses' (see note 6) is as follows:

	Consolidated		The Company	
	2007	2006	2007	2006
	$	$	$	$
Short-term employee benefits	3,994,465	1,583,613	368,164	81,961
Post Employment benefits	114,260	81,626	31,543	7,377
Share-based payments	125,000	8,605,000	-	-
	4,233,725	**10,270,239**	**399,707**	**89,338**

Notes to the financial statements (continued)

For the year ended 30 June 2007

24. Related parties (continued)

(iii) Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by the Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the remuneration report section of the Directors' report on pages 20 to 25.

(c) Shareholdings of Specified Directors and Specified Executives

Shares held in HFA Holdings Limited

2007	Balance 1 July 2006	Granted as Remuneration	Share Split	Net Change Other	Balance 30 June 2007
	Ord	Ord	Ord	Ord	Ord
Specified Directors					
Brett Howard	250,000	-	-	-	250,000
Spencer Young[1]	25,366,951	-	-	-	25,366,951
Michael King[2]	78,076,173	-	-	(39,038107)	39,038,066
John Morrison	19,719	-	-	-	19,719
Paul Jensen	-	-	-	-	-
Specified Executives					
Rodney Hughes	-	-	-	-	-
Amber Stoney	850,491	-	-	(200,000)	650,491
Jonathan Pain	1,472,321	-	-	(337,000)	1,135,321
Oscar Martinis	5,801,503	-	-	(802,412)	4,999,091
Robert White	900,602	-	-	85,000	985,602

[1] These shares are held indirectly by Spencer Young Family Trust

[2] These shares are held indirectly by MFS Alternative Asset Limited

Notes to the financial statements (continued)

For the year ended 30 June 2007

24. Related parties (continued)

(c) Shareholdings of Key Management Personnel

Shares held in HFA Holdings Limited

2006	Balance 1 July 2005 Ord	Granted as Remuneration Ord	Share Split Ord	Net Change Other Ord	Balance 30 June 2006 Ord
Specified Directors					
Brett Howard	-	-	-	250,000	250,000
Spencer Young[1]	1	-	-	25,366,951	25,366,951
Michael King[2]	1	-	78,076,173	-	78,076,173
John Morrison	-	-	-	19,719	19,719
Paul Manka[2]	1	-	78,076,173	681,899	78,758,072
Paul Willis	-	-	-	-	-
Phillip Adams[2]	1	-	78,076,173	-	78,076,173
Specified Executives					
Amber Stoney	-	772,727	-	77,764	850,491
Jonathan Pain	-	1,318,182	-	154,139	1,472,321
Oscar Martinis	-	4,136,364	-	1,665,139	5,801,503
Peter Coates	-	886,364	-	283,636	1,170,000
Robert White	-	709,091	-	191,511	900,602

[1] These shares were purchased by Spencer Young as trustee for the Spencer Young Family Trust from MFS Limited on 1 May 2006 as part of the arrangements to cancel that entity's existing call option over HFA shares.

[2] The above shareholdings for Michael King, Paul Manka and Phillip Adams represent the 78,076,173 shares held byMFS Limited.

(d) Other key management personnel transactions with the Company or its controlled entities

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

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

24. Related parties (continued)

(d) Other key management personnel transactions with the Company or its controlled entities (continued)

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

HFA Accelerator Plus Limited

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

John Morrison and Paul Jensen are directors of the Company, HFA Asset Management Limited and HFA Accelerator Plus Limited. Jonathan Pain is a director of HFA Asset Management Limited and HFA Accelerator Plus Limited. Spencer Young is a director of the Company and former director of HFA Accelerator Plus Limited. Paul Manka is a director of HFA Asset Management Limited and HFA Accelerator Plus Limited, and a former director of the Company.

During the financial year the following related party transactions occurred:

(i) The company purchased an additional 14,631 shares (2006: 547,061) in HFA Accelerator Plus Limited. The fair value of the holding of 561,692 shares as at 30 June 2007 is $724,583.

(ii) The company received a dividend of $26,400 fully franked (2006: Nil) from its shareholding in HFA Accelerator Plus Limited.

(iii) HFA Asset Management Limited recognised management and performance fees paid or payable of $17,271,833 (2006: $11,100,089) from HFA Accelerator Plus Limited.

HFA Asset Management Limited

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

John Morrison, Paul Manka, Paul Jensen, and Jonathan Pain are directors of HFA Asset Management Limited. Spencer Young is a former director of HFA Asset Management Limited.

During the financial year HFA Asset Management Limited recognised management and performance fees paid or payable of $55,910,327 (2006: $24,130,920) from managed investment schemes for which it acts as the Responsible Entity.

Amounts receivable from schemes for which HFA Asset Managment acts as the Responsible Entity and HFA Accelerator Plus Limited were $28,294,223 (2006: $7,962,826).

MFS Limited

MFS is a director related entity of Michael King and Paul Manka.

Michael King is a director of MFS Limited and of the Company. Paul Manka is a director of MFS Limited and HFA Asset Management Limited and a former director of the Company.

During the financial year the following related party transactions occurred:

(i) MFS Limited has provided an indemnity offer to reimburse the Company for up to $5 million of expenses incurred in examining the proposed merger should the merger not be agreed to and approved by 31 December 2007.

Notes to the financial statements (continued)

For the year ended 30 June 2007

24. Related parties (continued)

(ii) Nil (2006: $11,306) rent paid or payable to MFS Administration Pty Ltd for lease of office space in Brisbane and Melbourne, a director related entity of Michael King and Paul Manka.

(iii) Nil (2006: $60,710) distribution from MFS Diversified Trust during the year, an investment scheme for which MFS Limited acts as Responsible Entity.

(iv) Nil (2006: $34,944) distribution from MFS Optimiser during the year, an investment scheme for which MFS Limited acts as Responsible Entity.

(v) Nil (2006: $230,808) service fees paid to MFS Administration Pty Ltd, a director related entity of Michael King and Paul Manka.

(vi) Nil (2006: $73,114) interest paid or payable on loan from MFS Administration Pty Ltd, a director related entity of Michael King and Paul Manka.

There are no other arrangements that continue to be in place with MFS Limited or any of its controlled entities for the financial year ended 30 June 2007.

25. Non-key management personnel disclosures

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

Name	Country of incorporation	% Equity interest		Investment ($) Year ended	
		2007	2006	2007	2006
HFA Asset Management Ltd	Australia	100	100	10,446,228	8,046,228
HFA Admin Pty Ltd	Australia	100	100	1	1
ACN 122 776 550 Pty Ltd	Australia	100	100	1	1
				10,446,230	8,046,230

Subsidiaries

Loans are made by HFA to wholly owned subsidiaries for operational purposes. Loans outstanding between HFA and its controlled entities have no fixed date of repayment and are non-interest bearing. During the financial year ended 30 June 2007, such loans to subsidiaries totalled $8,834,648 (2006: $994,964). These loans have been recognised as an additional investment in subsidiaries.

Terms and conditions of transactions with related parties

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

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

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

Notes to the financial statements (continued)

For the year ended 30 June 2007

25. Non-key management personnel disclosures (continued)

For the year ended 30 June 2007, the Group has not raised a provision for doubtful debts relating to amounts owed by related parties as the payment history has been excellent (2006: $nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates in. When assessed as required the Group raises such a provision.

26. Events after balance sheet date

The directors have at the date of this report declared a final dividend of 4.0 cents per share which will be fully franked and payable in September 2007.

On 24 July 2007 the company has announced that it has entered into a Merger Implementation Agreement (MIA) with United States-based fund of absolute return funds manager Lighthouse Partners. In accordance with the MIA, the company and Lighthouse will work towards executing a Share Purchase Agreement (SPA) to effect the merger of the two businesses. The MIA states that the company intends to acquire Lighthouse for US$348.5 million in cash and 134.67 million HFA shares.

Lighthouse is a global alternative investment management company. HFA and Lighthouse have developed a strong relationship since 1998 and currently operate under an exclusive Investment Advisor and Access Agreement in Australia and New Zealand. On completion of the merger, HFA and Lighthouse would become a truly international provider of absolute return-based investment products with total Assets Under Management of approximately US$8 billion.

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

Directors' declaration

For the year ended 30 June 2007

In the opinion of the directors of HFA Holdings Limited:

1. (a) the financial statements and notes set out on pages 28 to 70, are in accordance with the Corporations Act 2001 including:

   (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date; and

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

   (b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

   (c) the remuneration disclosures that are contained on pages 20 to 25 of the Remuneration report in the Director's report comply with Australian Accounting Standard AASB 124 Related Party Disclosures.

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

3. the directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2007.

Dated at Sydney this 24th day of August 2007

Signed in accordance with a resolution of the directors.

Brett Howard
Chairman

Paul Jensen
Managing Director

Independent auditor's report to the members of HFA Holdings Limited

For the year ended 30 June 2007

Independent auditor's report to the members of HFA Holdings Limited

Report on the financial report and AASB 124 remuneration disclosures contained in the Directors' report

We have audited the accompanying financial report of HFA Holdings Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expenses and statements of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 26 and the Directors' declaration set out on pages 28 to 70 of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" on pages 20 to 25 of the directors' report (marked as audited) and not in the financial report. We have audited these remuneration disclosures.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the Directors' report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Group, comprising the financial statements and notes, complies with International Financial Reporting Standards, but that the financial report of the Company does not comply.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

Auditor's responsibility

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

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

Independent auditor's report to the members of HFA Holdings Limited

For the year ended 30 June 2007

made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the Directors' report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

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

Auditor's opinion on the financial report
In our opinion:

(a) the financial report of HFA Holdings Limited, is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

(b) the financial report of the Group also complies with International Financial Reporting Standards as disclosed in note 2(a).

Auditor's opinion on AASB 124 remuneration disclosures contained in the directors' report
In our opinion, the remuneration disclosures that are contained on pages 20 to 25 of the Remuneration report (marked as audited) in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures.*

KPMG

KPMG

Robert S Jones

Robert S Jones
Partner

Brisbane

24th August 2007