Hastings Funds Management

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Results announcement

Hastings High Yield Fund (HHY)

Total pages: 62

31 August 2012

Appendix 4E – Report for the year ended 30 June 2012

Please find enclosed the following documents:

A. Results for announcement to the market
B. Commentary on the results
C. Financial report for the year ended 30 June 2012
D. Independent auditor's report

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Jane Frawley
Company Secretary
Hastings Funds Management Limited

A. Results for announcement to the market

	Change from prior corresponding period	**Financial year ended 30 June 2012 ($'000)**	Financial year ended 30 June 2011 ($'000)
Income from ordinary activities	Down 63%	**6,507**	17,365
Profit from ordinary activities after tax attributable to unitholders	Up 162%	**4,849**	(7,884)
Net profit for the period attributable to unitholders	Up 162%	**4,849**	(7,884)
Net cashflows from operating activities	Down 34%	**8,108**	12,273

Refer to Section B for commentary on the results.

	Financial year ended 30 June 2012	Financial year ended 30 June 2011
September quarter cash distribution cents per unit (cpu)	**3.75**	**3.70**
Record date to determine entitlements to distribution	30 September 2011	30 September 2010
Payment date for distribution	11 November 2011	12 November 2010
Price of units issued under HHY's distribution reinvestment plan(1) (DRP) ($)	n/a	1.2261
December quarter cash distribution (cpu)	**3.75**	**3.70**
Record date to determine entitlements to distribution	30 December 2011	31 December 2010
Payment date for distribution	9 February 2012	9 February 2011
Price of units issued under HHY's DRP(1) ($)	n/a	1.2227
March quarter cash distribution (cpu)	**3.75**	**3.70**
Record date to determine entitlements to distribution	30 March 2012	31 March 2011
Payment date for distribution	10 May 2012	10 May 2011
Price of units issued under HHY's DRP(1) ($)	n/a	1.1437
June quarter cash distribution (cpu)	**3.75**	**3.70**
Record date to determine entitlements to distribution	29 June 2012	30 June 2011
Payment date for distribution	24 August 2012	26 August 2011
Price of units issued under HHY's DRP(1) ($)	n/a	n/a
Total cash distributions for the year (cpu)	**15.00**	**14.80**
Franking credits (cpu)	0.00	0.27
Total gross distributions for the year (cpu)	**15.00**	**15.07**

(1) The DRP issue price applied to the distributions paid to HHY's unitholders who were registered as participants in the DRP at the record date. From the December 2008 quarter until the December 2009 quarter the DRP was suspended. In the March 2010 quarter, the DRP was re-activated with a 2.5 percent discount applied to the reinvestment price. The DRP was subsequently suspended following the March 2011 distribution and remains suspended.

	30 June 2012	30 June 2011
Net Tangible Asset backing (NTA) per unit	**$1.44**	$1.53
Closing price	**$1.23**	$1.11

B. Commentary on the results

Overview

HHY reported a net profit attributable to unitholders of $4.8 million (4.41 cents per unit) for the year ended 30 June 2012. This represents an improvement relative to the prior corresponding period, which was affected by an impairment charge that was applied against HHY's investment in the DCA Group junior floating rate loan. Income from ordinary activities was $6.5 million, which represents a 62.5 percent decline compared to the previous corresponding period. The decline was predominantly due to lower interest income as a result of the repayment of HHY's investments in the AB Ports and South East Water junior floating rate loans and the divestment of the Manildra Group Reset Secured Notes Tranche 2 (Manildra RSN2).

HHY's cash flows from operating activities decreased by 33.9 percent to $8.1 million for the year ended 30 June 2012 due to lower interest income as a result of principal repayments on investments and from the divestment of Manildra RSN2.

Key activity for the year

Investment activity:

- Amendments to the terms of Cory Environmental's junior floating rate loan including a step-up in margin in November 2011;
- Negative revaluation of HHY's investment in Hyne Timber subsequent to poor 2011 financial results released by the Company in November 2011;
- Financial restructure of DCA Group in December 2011;
- Full repayment at face value of the AB Ports junior floating rate loan prior to its scheduled maturity in December 2011;
- Full repayment at face value of the South East Water junior floating rate loan prior to its scheduled maturity in December 2011;
- Repayment of all outstanding capitalised interest on HHY's investment in the BAA Toggle Facility in March 2012;
- Amendment to the terms of the BAA Toggle Facility, including the term and margin in April 2012; and
- Divestment of HHY's investment in Manildra RSN2 at close to par value in April 2012.

Fund activity and distributions:

- Distributions to unitholders of 15.00 cents per unit for the year ended 30 June 2012; and
- Completion of two on-market buy-back offers and one off-market tender offer.

Outlook:

- Notwithstanding the various initiatives, the gap between market capitalisation and Net Tangible Assets (NTA) has not reduced to a level where investment is in the best interests of unitholders; and
- HHY will no longer consider further investments, and will return surplus cash to unitholders as part of an orderly run-off and wind-down of investment activity.

B. Commentary on the results continued

HHY distributions

Total distributions paid to unitholders for the year ended 30 June 2012 of 15.00 cents per unit (cpu) were in line with guidance previously announced to the market.

During the year ended 30 June 2012 HHY declared the following distributions:

- a distribution of $4,194,602 for the quarter ended 30 September 2011, equating to 3.75 cpu, paid on 11 November 2011;
- a distribution of $4,159,343 for the quarter ended 31 December 2011, equating to 3.75 cpu, paid on 9 February 2012;
- a distribution of $4,142,139 for the quarter ended 31 March 2012, equating to 3.75 cpu, paid on 10 May 2012; and
- a distribution of $3,882,038 for the quarter ended 30 June 2012, equating to 3.75 cpu, paid on 24 August 2012.

There were no franking credits generated for the year ended 30 June 2012.

Distribution guidance

HHY is estimated to have a cash balance of $59.4 million as at 30 September 2012. HHY intends to retain cash of $19.0 million for liquidity purposes[1] and return surplus cash of $40.4 million to unitholders by way of a distribution to unitholders for the quarter ended 30 September 2012. This equates to a distribution amount of 39.00 cents per unit which will be payable to all unitholders on the register at the record date. Distribution guidance will no longer be provided during the orderly wind-down of HHY's investment activity and HHY will continue to distribute surplus cash.

Key drivers of portfolio earnings

The level of recurring earnings generated by HHY's portfolio is predominantly impacted by:

- The level of Australian bank bill interest rates;
  - approximately 88.0 percent of the current investment portfolio is floating rate which provides some protection in a rising interest rate environment; and
- Interest and dividend income generated by HHY's investment portfolio:
  - HHY's investments typically generate interest income in excess of local interest rates;
  - principal and interest obligations are hedged against movements in foreign currency exchange rates and foreign interest rates; and
  - portfolio approach provides diversification benefits and reduces reliance on any single investment.

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[1] HHY utilises derivative securities in order to hedge foreign currency exposures arising from its foreign currency denominated investment holdings. Sufficient cash reserves are required to be maintained in connection with current and forecast mark-to-market positions of these derivative securities.

B. Commentary on the results continued

Investment portfolio

HHY's investment portfolio is primarily comprised of debt securities with the objective of providing unitholders with a regular source of income. Historically, the securities have been sourced from transactions associated with:

- infrastructure and privatisation;
- private equity;
- acquisitions and financial restructures; and
- other leveraged finance transactions.

At 30 June 2012, HHY held seven investments. The details of each investment are set out below:

Investment	Instrument	Investment Amount[(1)] $'000
Arqiva	Junior Floating Rate Loan	18,046
BAA	Toggle Facility	11,575
Cory Environmental	Junior Floating Rate Loan	11,475
DCA Group	Senior Term Loan, Ordinary Equity and Warrants	2,477
EnviroWaste	Junior Floating Rate Loan	17,025
Hyne Timber	Ordinary Equity	8,102
Maher Terminals	Junior Floating Rate Loan	19,270
Total		**87,970**

(1) Includes mark-to-market of related derivative securities.

B. Commentary on the results continued

Sources of return

Returns to unitholders comprise periodic income in the form of interest and dividends, fee income and gains/losses on investments.

Net profit attributable to unitholders for the financial year ended 30 June 2012 was derived as follows:

Investment	Interest & dividends $'000	Realised & unrealised gains/(losses)[1] $'000	Fee income $'000	Total $'000
AB Ports	230	138	0	368
Arqiva	1,706	(109)	0	1,597
BAA	2,194	135	0	2,329
Cory Environmental	785	412	0	1,197
DCA Group	0	0	0	0
EnviroWaste	2,197	133	8	2,338
Hyne Timber	0	(6,190)	0	(6,190)
Maher Terminals	1,773	15	0	1,788
Manildra Group	410	(12)	0	398
South East Water	500	251	0	751
Security revenue	**9,795**	**(5,227)**	**8**	**4,576**
Cash and other	2,291	(362)	2	1,931
Total revenue	12,086	(5,589)	10	6,507
Finance costs				(16)
Other expenses[2]				(1,642)
Net profit attributable to unitholders				**4,849**

(1) Realised gains/(losses) on investments may occur due to mismatches in the maturity of underlying investments and the maturity of related derivative securities used for hedging purposes. Unrealised gains/(losses) occur upon the revaluation of foreign currency denominated investments and the mark-to market of related derivative securities used for hedging purposes and upon the revaluation of equity securities such as Hyne Timber.

(2) Includes Responsible Entity management fees of $984,701.

Summary & outlook

In August 2011 Hastings advised that it had completed a review of HHY and had identified a number of actions intended to narrow the gap between market capitalisation and NTA. These actions included:

- HHY would not consider further investments while a significant discount to NTA exists;
- Expansion of the capital management programme to include a buy-back of units;
- Seek the opportunity to exit non-core investments; and
- Enhanced reporting.

Prior to the announcement of these initiatives, on 26 August 2011, HHY's price was $1.05. At the cessation of the buy-back programme on 9 August 2012, HHY's price had risen to $1.285, a gain of 22.4 percent for this period. Coupled with annual distributions of 15.00 cpu, this reflects a total return of 36.7 percent. The gap between HHY's market capitalisation and NTA narrowed from 32.1 percent to 11.0 percent over the same period.

HHY has continued to accumulate a substantial cash balance, and the gap between market capitalisation and NTA has not reduced to a level where investment is in the best interests of unitholders. Hastings as responsible entity of HHY believes it is no longer appropriate for HHY to retain cash for further investment and will return surplus cash to unitholders as part of an orderly run-off and wind-down of investment activity. Specifically HHY will:

- not consider further investment;
- look to exit existing investment positions; and
- seek to return all surplus cash to unitholders including the proceeds from interest income, principal repayments and sales of investments.

This programme will commence with the return of $40.4 million of surplus cash to unitholders by way of a distribution to unitholders for the quarter ended 30 September 2012. This equates to a distribution amount of 39.00 cents per unit which will be payable to all unitholders on the register at the record date. As previously advised, the HHY Dividend Reinvestment Plan (DRP) has been suspended until further notice.

C. Financial report for the year ended 30 June 2012

Hastings High Yield Fund

ARSN 112 579 129

Consolidated Financial Statements for the Year Ended 30 June 2012

Directors' Report

The directors of Hastings Funds Management Limited as Responsible Entity for Hastings High Yield Fund present their report, together with the consolidated financial statements of Hastings High Yield Fund (the Scheme), consisting of the Scheme and the entities it controlled at the end of, or during, the year ended 30 June 2012 (referred to hereafter as the Group).

Responsible Entity

The Responsible Entity for Hastings High Yield Fund is Hastings Funds Management Limited (ABN 27 058 693 388). The Responsible Entity's registered office is Level 27, 35 Collins Street, Melbourne, VIC, 3000.

Directors

The names of the directors of the Responsible Entity in office during the year and up to the date of this report are:

Alan Cameron - Chairman
Andrew Day (appointed 18 October 2011)
James Evans
William Forde
Alan Freer (retired 18 October 2011)
Stephen Gibbs
James McDonald
Victoria Poole

Company secretaries

The company secretaries of the Responsible Entity in office during the year and until the date of this report are Jane Frawley and Jefferson Petch (appointed 1 July 2011).

Principal activities

The principal activity of the Scheme is to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement (PDS) and in accordance with the provisions of the Scheme's Constitution.

The Scheme seeks to provide a regular source of income by making quarterly cash distributions funded through a diversified portfolio of debt securities.

The Scheme did not have any employees during the year (2011 - nil).

There has been no change in the principal activities of the Scheme during the year.

Review and results of operations

Results

The operating profit after income tax and before finance costs attributable to unitholders for the year ended 30 June 2012 was $4,849,000 (2011 - $7,884,000 loss).

Distributions

During the year ended 30 June 2012, four distributions were declared by the Group as follows:

- a distribution of 3.75 cents per unit for the quarter ended 30 September 2011 was paid on 11 November 2011 (2010 - 3.70 cents per unit);
- a distribution of 3.75 cents per unit for the quarter ended 31 December 2011 was paid on 9 February 2012 (2010 - 3.70 cents per unit);
- a distribution of 3.75 cents per unit for the quarter ended 31 March 2011 was paid on 10 May 2011 (2011 - 3.70 cents per unit); and
- a distribution of 3.75 cents per unit for the quarter ended 30 June 2012 was paid on 24 August 2012 (2011 - 3.70 cents per unit).

Directors' Report (continued)

On market unit buy-backs

On 29 August 2011 the Responsible Entity of the Scheme announced the Scheme would conduct an on market buy back of up to 10% of the Scheme's units which may continue for up to 12 months from 29 August 2011 unless the maximum number of units are bought back or the Responsible Entity decides to cease the buy back earlier. Units are only bought back when it is deemed accretive to earnings and net tangible asset backing per unit.

The on market buy back commenced on 13 September 2011 and was closed on 24 February 2012. The on market buy-back recommenced on 18 May 2012 and was closed on 9 August 2012.

Off market unit buy-back

On 23 April 2012 the Scheme successfully completed an off-market buy-back. Under the buy-back, the Scheme bought back approximately 6.5 million units at a buy back price of $1.247, returning approximately $8.0 million to unitholders. The buy-back price represented a 4.8 percent premium to the Scheme's closing price on the ASX as at 20 April 2012.

Business strategies and prospects

Information on the Scheme’s business strategies and its prospects for future financial years is included in the Scheme’s Annual Report. In the opinion of the directors, further information on the Scheme’s business strategies and its prospects for future financial years would, if included in this report, be likely to result in unreasonable prejudice to the Scheme and has accordingly been omitted.

Significant changes in 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.

Matters subsequent to the end of the reporting period

The on market unit buy-back was closed on 9 August 2012.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the Consolidated Statement of Financial Position as at 30 June 2012 or on the results of the cash flows of the Group for the year ended on that date.

Likely developments and expected results of operations

The Group will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

On the basis of the ongoing gap between the Scheme's market capitalisation and its net tangible assets, the Responsible Entity has resolved that the Group will not make any further investments and will return surplus cash to unitholders as part of an orderly run-off and wind down of investment activity. Specifically the Group will:

- not consider further investment;
- look to exit existing investment positions; and
- seek to return all surplus cash to unitholders including the proceeds from interest income, principal repayments and sales of investments.

The results of the Group's operations may be affected by a number of factors, including the performance of investment markets in which the Group invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Group and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Group.

Directors' Report (continued)

Fees paid to and interests held in the Group by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Group property during the year are disclosed in Note 8, Note 9 and Note 25 to the consolidated financial statements.

No fees were paid out of Group property to the directors of the Responsible Entity during the year.

The number of interests in the Group held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 25 to the consolidated financial statements.

Interests in the Group

The movements in units on issue in the Group during the year is disclosed in Note 21 of the consolidated financial statements.

The value of the Group's assets and liabilities is disclosed on the Consolidated Statement of Financial Position and derived using the basis set out in Note 2 of the consolidated financial statements.

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Group in regards to insurance cover provided to either the officers of Hastings Funds Management Limited or the auditors of the Group. So long as the officers of Hastings Funds Management Limited act in accordance with the Scheme's Constitution and the law, the officers remain indemnified out of the assets of the Group against losses incurred while acting on behalf of the Group. The auditors of the Group are in no way indemnified out of the assets of the Group.

Non-audit services

There were no non-audit services provided by the auditor of the Scheme, its related practices and non-related audit firms.

	2012 **$**	2011 $
Amounts paid or payable excluding GST, to *PricewaterhouseCoopers,* for:		
Agreed upon procedures - annual report	**3,182**	3,120
Accounting services	**979**	2,104
Accounting advice	**-**	7,650
Total non-audit services	**4,161**	12,874

Environmental regulation

The operations of the Group are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Group is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

Directors' Report (continued)

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of Hastings Funds Management Limited as Responsible Entity for Hastings High Yield Fund.

Alan Cameron
Chairman

31 August 2012

Auditor's Independence Declaration to the Directors of Hastings Funds Management Limited, as the Responsible Entity for Hastings High Yield Fund

As lead auditor for the audit of Hastings High Yield Fund for the year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Hastings High Yield Fund and the entities it controlled during the period.

Simon Gray
Partner
PricewaterhouseCoopers

Melbourne
31 August 2012

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Consolidated Statement of Comprehensive Income

	Notes	**2012 $'000**	2011 $'000
Income			
Interest income	3	**12,086**	18,019
Net gain/(loss) - cash and cash equivalents	4	**(370)**	(356)
Net gain/(loss) - securities	5	**(5,227)**	560
Net gain/(loss) - other	6	**8**	(1,217)
Other income	7	**10**	359
Total income		**6,507**	17,365
Expenses			
Responsible Entity management fees	8	**985**	1,039
Other prudential expenses		**100**	106
Audit fees (internal and external)		**123**	157
Taxation fees		**51**	31
Investment costs		**-**	291
Impairment loss/(writeback)	12	**-**	21,212
Unitholder communication expenses		**147**	101
Finance costs	13	**16**	2,008
Other expenses		**252**	244
Total expenses		**1,674**	25,189
Operating profit/(loss) before income tax and finance costs attributable to unitholders		**4,833**	(7,824)
Income tax expense	11	**(16)**	60
Operating profit/(loss) after income tax and before finance costs attributable to unitholders		**4,849**	(7,884)
Finance costs attributable to unitholders			
Distributions to unitholders	14	**(16,378)**	(16,504)
(Increase)/decrease in net assets attributable to unitholders		**11,529**	24,388
Profit for the year		**-**	-
Other comprehensive income			
Movement in foreign currency translation reserve	21(c)	**39**	32
Total other comprehensive income		**39**	32
Other comprehensive income/(loss) attributable to unitholders		**(39)**	(32)
Total comprehensive income for the year		**-**	-

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

	Notes	**2012 $'000**	2011 $'000
Assets			
Cash and cash equivalents	15(b)	**63,798**	45,933
Receivables	16	**930**	875
Other assets	17	**2**	2
Securities	18	**87,970**	128,505
Total assets		**152,700**	175,315
Liabilities			
Payables	19	**4,266**	4,563
Current income tax liability	20	**48**	115
Total liabilities (excluding net assets attributable to unitholders of the parent entity)		**4,314**	4,678
Net assets attributable to unitholders of the parent entity (liability)		**148,386**	170,637
Represented by:			
Issued units	21(a)	**201,219**	211,980
Foreign currency translation reserve	21(c)	**80**	41
Undistributed loss attributable to unitholders	21(d)	**(52,913)**	(41,384)
Total unitholders' interests		**148,386**	170,637

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

In accordance with AASB132 *Financial Instruments: Disclosure and Presentation,* unitholders' interests are classified as a liability and accordingly the Group has no equity for financial statement purposes.

Consolidated Statement of Cash Flow

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Interest received		**9,816**	15,641
Other income received		**42**	329
Finance costs paid		**(10)**	(1,698)
Operating expenses paid		**(1,698)**	(1,980)
Income tax paid		**(42)**	(19)
Net cash inflow/(outflow) from operating activities	15(a)	**8,108**	12,273
Cash flows from investing activities			
Proceeds from repayment of listed securities		**-**	15,715
Proceeds from repayment of unlisted securities		**32,735**	35,531
Proceeds from settlement of derivative securities		**4,789**	38,792
Net cash inflow/(outflow) from investing activities		**37,524**	90,038
Cash flows from financing activities			
Repayment of borrowing facilities		**-**	(51,100)
Payment for buy-back of issued units		**(10,534)**	-
Payment of buy-back transaction costs		**(227)**	-
Distributions paid		**(16,642)**	(14,873)
Net cash inflow/(outflow) from financing activities		**(27,403)**	(65,973)
Net increase/(decrease) in cash and cash equivalents		**18,229**	36,338
Cash and cash equivalents at the beginning of the year		**45,933**	10,022
Effects of foreign currency exchange rate changes on cash and cash equivalents		**(364)**	(427)
Cash and cash equivalents at the end of the year	15(b)	**63,798**	45,933

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

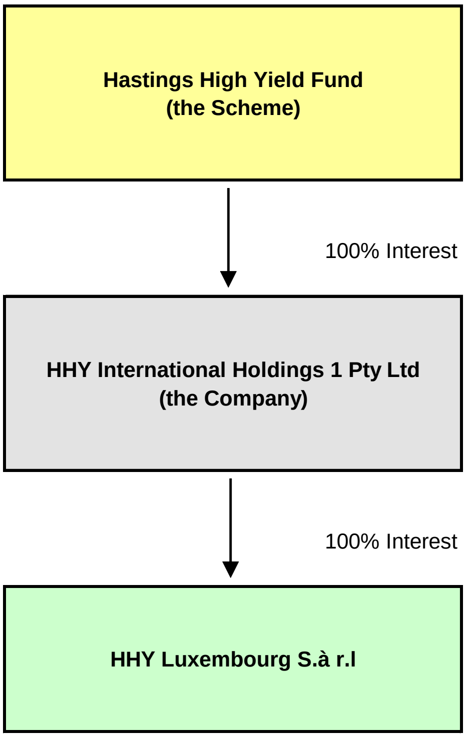
1 General information

Hastings High Yield Fund (the Scheme) was established in Australia under a Constitution dated 19 January 2005 (as amended), with Hastings Funds Management Limited (Hastings) as the Responsible Entity of the Scheme.

On 31 July 2007, HHY International Holdings 1 Pty Ltd (the Company) was incorporated in Australia as a company limited by shares. It has been 100% owned since its date of incorporation by the Scheme.

On 13 September 2007, HHY Luxembourg S.à r.l was incorporated in Luxembourg as a company limited by shares. It has been 100% owned since its date of incorporation by the Company. The Company and HHY Luxembourg S.à r.l were established for the purpose of holding the Scheme's European based investments.

The diagram below details the structure of the Scheme and its subsidiaries (the Group):



The Responsible Entity for Hastings High Yield Fund is Hastings Funds Management Limited (ABN 27 058 693 388). The Responsible Entity's registered office is Level 27, 35 Collins Street, Melbourne, Victoria, 3000.

2 Summary of significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with the Australian Accounting Standards (including interpretations), the *Corporations Act 2001* and the Scheme's Constitution.

The consolidated financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared on a historical cost basis, except where otherwise stated.

The Consolidated Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

The functional currency of the Scheme and presentation currency of the Group is Australian Dollars.

The consolidated financial statements of the Group for the year ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors of the Responsible Entity. The directors of the Responsible Entity have the power to amend and reissue the consolidated financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Scheme (the parent entity) as at 30 June 2012 and the results of all subsidiaries for the year then ended. The Scheme and its subsidiaries together are referred to in these financial statements as the consolidated entity or the Group.

Subsidiaries are all those entities (including special purpose entities) over which the Scheme has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

The consolidated financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

(c) Parent entity financial information

The financial information for the parent entity, the Scheme, disclosed in Note 29 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) *Investments in subsidiaries*

Investments in subsidiaries are accounted for at cost in the consolidated financial statements of the Scheme.

(ii) *Income Tax*

Under current legislation, the Scheme is not subject to income tax provided the taxable income of the Scheme is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Scheme).

2 Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2012 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Group) and interpretations is set out below:

(i) AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and joint ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 *Consolidated Financial Statements (AASB 10)* replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements,* and Interpretation 12 *Consolidation - Special Purpose Entities.* The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the Group does not expect the new standard to have a significant impact on how it currently accounts for its investees, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 *Joint Arrangements (AASB 11)* replaces AASB 131 *Interest in Joint Ventures* and introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control. As the Group is not party to any joint arrangements, this standard will not have any impact on its consolidated financial statements.

AASB 12 *Disclosure of Interests in Other Entities (AASB 12)* sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements found in AASB 128. Application of this standard by the Group will not affect any of the amounts recognised in the consolidated financial statements, but will impact the type of information disclosed in relation to the Group's investments.

AASB 127 *Consolidated and Separate Financial Statements* is renamed AASB 127 *Separate Financial Statements (AASB 127)* and is now a standard dealing solely with separate financial statements. Application of this standard by the Group will not affect any of the amounts recognised in the consolidated financial statements.

AASB 128 *Investments in Associates* is renamed AASB 128 *Investments in Associates and Joint Ventures (AASB 128).* Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a “partial disposal” concept. As the Group does not have any associates, this standard does not have any impact on its financial statements.

The Group will apply the new and revised standards and amendments from 1 July 2013.

(ii) AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective from 1 July 2013)

AASB 13 *Fair Value Measurement* (AASB 13) was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The Group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the consolidated financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the consolidated financial statements. The Group will apply the new standard from 1 July 2013.

2 Summary of significant accounting policies (continued)

(d) New accounting standards and interpretations (continued)

(iii) AASB 2011-9 *Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income* (effective from 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 Presentation of Financial Statements which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to the profit or loss in the future. It will not affect the measurement of any of the items recognised in the Consolidated Statement of Financial Position or the profit or loss in the current reporting period. The Group will apply the amendments from 1 July 2012.

(iv) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 Related Party Disclosures, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the Corporations Act 2001. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from the reporting period beginning 1 July 2013 and cannot be adopted early. The Corporations Act 2001 requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

(e) Significant accounting estimates, judgements and assumptions

In applying the Group's accounting policies management continually evaluates estimates, judgements and assumptions based on experience and other factors including expectations of future events that may have an impact on the entity. All estimates, judgements and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the estimates, judgements and assumptions.

Global capital markets continue to be volatile. The fair values of unlisted equity securities have been adjusted to reflect market conditions at the end of the reporting period. In assessing the appropriateness of carrying values of unlisted debt securities carried at amortised cost, the Responsible Entity have considered market conditions at the end of the reporting period. While the fair value of unlisted equity securities represent the Responsible Entity's best estimates at the end of the reporting period, if the unlisted equity securities were to be sold, the price achieved may differ from the carrying values recorded at the end of the reporting period.

Significant estimates, judgements and assumptions are outlined below:

Valuation of derivative securities

Derivative securities comprise cross currency swaps, interest rate swaps, forward foreign exchange contracts and warrants.

The fair value of derivative securities is determined by discounting projected cash flows under the derivative contract to their present value using a pre tax, risk adjusted discount rate. Where applicable, foreign currency discounted cash flows are translated back to the local currency using the spot foreign exchange rate.

In the prior year, the fair value of derivative securities was determined by reference to the value as advised by the counterparty to the derivative contract at the end of the reporting period.

The fair value of derivative securities held by the Group at 30 June 2012 was $691,000 (2011 - $7,511,000).

Further details are provided in Note 2(i).

Carrying value of unlisted debt securities

In accordance with AASB 9 *Financial Instruments* unlisted debt securities are measured at amortised cost using the effective interest method, less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium arising upon the acquisition of unlisted debt securities.

2 Summary of significant accounting policies (continued)

(e) Significant accounting estimates, judgements and assumptions (continued)

For details in relation to unlisted debt securities refer to Note 2(i).

For details in relation to the determination of impairment allowances refer to Note 2(j).

The amortised cost of unlisted debt securities as at 30 June 2012 was $78,352,000 (2011 - $106,702,000).

The impairment allowance carried in connection with unlisted debt securities was $nil (2011 - $nil).

Valuation of unlisted equity securities

The fair value of the DCA Group ordinary shares as at 30 June 2012 was determined by the Responsible Entity primarily through a capitalisation of earnings approach. These determinations were based on the best available information at the end of the reporting period. The Responsible Entity reassesses the fair value of unlisted equity securities as new information becomes available.

The capitalisation of earnings methodology involves capitalising the earnings of a business at a multiple that reflects the risks of the business and the stream of income that it generates. The application involves an estimation of earnings for the business having regard to historical and forecast operating results, non recurring items of income and expenditure and known factors likely to impact on operating performance. In relation to the application of an appropriate multiple, considerations will include the market rating of comparable unlisted equity securities, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk. Upon disposal there may be potential capital gains tax implications for the Group or unitholder depending on the structure of any disposal.

The fair value of the Hyne & Son Pty Ltd ordinary shares as at 30 June 2012 reflects the fair value of the ordinary shares as determined by an appropriately qualified independent valuer, KPMG Corporate Finance (KPMG). No further information has been made available to the Responsible Entity since the 30 November 2011 independent valuation date that would result in a reassessment of the fair value of the Hyne & Son Pty Ltd ordinary shares at 30 June 2012.

KPMG has applied a capitalisation of earnings methodology in determining the fair value of Hyne and Son. KPMG's earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, earnings before interest, tax, depreciation and amortisation(EBITDA), earnings before interest and tax (EBIT) and profit after tax (PAT).

With regard to the multiples applied by KPMG in its earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples based on the prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) KPMG also references the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest is reflected.

The fair value of unlisted equity securities held by the Group at 30 June 2012 was $8,927,000 (2011 - $14,292,000).

Further details are provided in Note 2(i) which outlines the accounting treatment and approach to establishing fair value and its dependency on such estimates.

(f) Foreign currency translation

(i) Functional and presentation currency

Items included in the consolidated financial statements are measured using the currency of the primary economic environment in which the Scheme and its subsidiaries operates ("the functional currency"). The consolidated financial statements are presented in Australian Dollars, which is the Scheme's functional and presentation currency. The results and financial position of the subsidiaries whose functional currency differs from the presentation currency of the Scheme are translated in accordance with Note 2(f)(iii) below.

2 Summary of significant accounting policies (continued)

(f) Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

(iii) Group entities

Foreign currency exchange differences arising from the translation of foreign entities are recorded in Other Comprehensive Income. All entities which have a functional currency different to the Group's presentation currency have their assets and liabilities translated at the closing rate at the end of the reporting period, and income and expenses translated at the average exchange rate.

All resulting exchange differences are recognised in the foreign currency translation reserve.

(g) Cash and cash equivalents

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

(h) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Receivables may include interest and trust distributions. Interest and trust distributions are accrued in accordance with the policy set out in Note 2(o).

All receivables, unless otherwise stated, are non-interest bearing, unsecured and generally received within 30 days of being recorded as receivables.

Impairment allowance

Collectability of receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the receivable is impaired.

The amount of the impairment allowance is the difference between the carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised as an expense in the profit or loss. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are written back against the impairment allowance in the profit or loss.

2 Summary of significant accounting policies (continued)

(i) Securities

Securities are recorded at fair value through profit or loss upon initial recognition. Costs incidental to the acquisition of securities are recognised in the profit or loss when incurred.

Purchases and sales of securities that require delivery within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the securities.

Listed securities

Listed securities include debt securities and accrued interest.

In accordance with AASB 9 after initial recognition, listed securities continue to be measured at fair value.

For listed securities that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business at the end of the reporting period, unless the Responsible Entity determines there is no active market in respect of the relevant security. Where the Responsible Entity makes this determination, the Responsible Entity may consider the use of valuation methods other than the exchange quoted market value for the relevant security.

Unrealised gains or losses on securities are recognised through profit or loss and represent:

- Movements in the fair value of securities which are held as at the end of the reporting period.

  Unrealised gains and losses arising from movements in the fair value of listed securities are recognised through profit or loss and are calculated as the difference between the fair value at period end and the fair value at the previous valuation point.

- Reversal of any life-to-date unrealised gains or losses as at the previous reporting period in connection with any securities that have been sold, restructured, settled or terminated in the current reporting period.

Realised gains or losses on securities are recognised through profit or loss upon the sale, restructure, settlement or termination of securities and are calculated as the difference between the settlement amount and the fair value upon initial recognition.

In the prior year:

- unrealised gains or losses arising from movements in the fair value of listed securities were calculated as the difference between the fair value at the end of current reporting period and the fair value of the end of previous reporting period.

- realised gains or losses were calculated as the difference between the settlement and the fair value at the end of previous reporting period.

Derivative securities

Derivative securities include cross currency swap contracts, forward foreign exchange contracts and warrants.

In accordance with AASB 9, after initial recognition, derivative securities continue to be measured at fair value as derivatives are managed, and their performance evaluated on a fair value basis.

The fair value of derivative securities is determined by discounting projected cash flows under the derivative contract to their present value using a pre tax, risk adjusted discount rate. Where applicable, foreign currency discounted cash flows are translated back to the local currency using the spot foreign exchange rate.

Unrealised gains or losses on derivative securities are recognised through profit or loss and represent:

- Movements in the fair value of derivative securities which are held as at the end of the reporting period.

  Unrealised gains or losses on derivative securities which are held as at the end of the reporting period are calculated as the difference between the fair value at the end of current reporting period end and the fair value at the end of previous reporting period or the date the derivative securities are acquired.

2 Summary of significant accounting policies (continued)

(i) Securities (continued)

- Reversal of any life to date unrealised gains or losses as at the previous reporting period in connection with any derivative securities that have been sold, restructured, settled or terminated in the current reporting period.

Realised gains or losses on derivative securities are recognised through profit or loss upon the sale, restructure, settlement or termination of derivative securities and are calculated as the difference between the settlement amount and the fair value upon initial recognition.

In the prior year:

- unrealised gains or losses arising from movements in the fair value of derivative securities were calculated as the difference between the fair value at the end of the current reporting period and the fair value of the end of previous reporting period.

- realised gains or losses were calculated as the difference between the settlement and the fair value at the end of previous reporting period.

Unlisted securities

Unlisted securities include debt securities and accrued interest and equity securities.

Unlisted debt securities

In accordance with AASB 9, unlisted debt securities are measured at amortised cost using the effective interest method, less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium arising upon the acquisition of unlisted debt securities.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Unlisted debt securities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Unrealised gains or losses are recognised in connection with foreign currency dominated unlisted debt securities and represent:

- Movements in the carrying value of unlisted debt securities which are held as at the end of the reporting period.

  Unrealised gains or losses on unlisted debt securities which are held as at the end of the reporting period are calculated as the difference between the carrying value translated into the functional currency at the exchange rate at the end of current reporting period end and the exchange rate at the end of previous reporting period or the date the unlisted debt securities are acquired.

- Reversal of any life to date unrealised gains or losses as at the previous reporting period in connection with any unlisted debt securities that have been sold, restructured, settled or terminated in the current reporting period.

Realised gains or losses on unlisted debt securities are recognised through profit or loss upon the sale, repayment, restructure, cancellation or expiry of unlisted debt securities. Realised gains or losses are calculated as the difference between the settlement amount and amortised cost.

In the prior year:

- unrealised gains or losses arising from movements in the carrying value of unlisted debt securities were calculated as the difference between the carrying value translated into the functional currency at the exchange rate at the end of current reporting period end and the exchange rate at the end of previous reporting period.

- realised gains or losses were calculated as the difference between the settlement and the carrying value at the end of previous reporting period.

2 Summary of significant accounting policies (continued)

(i) Securities (continued)

Unlisted equity securities

In accordance with AASB 9, after initial recognition, unlisted equity securities continue to be measured at fair value.

The fair value of the DCA Group ordinary shares as at 30 June 2012 was determined by the Responsible Entity primarily through a capitalisation of earnings approach. These determinations were based on the best available information at the end of the reporting period. The Responsible Entity reassesses the fair value of unlisted equity securities as new information becomes available.

The capitalisation of earnings methodology involves capitalising the earnings of a business at a multiple that reflects the risks of the business and the stream of income that it generates. The application involves an estimation of earnings for the business having regard to historical and forecast operating results, non recurring items of income and expenditure and known factors likely to impact on operating performance. In relation to the application of an appropriate multiple, considerations will include the market rating of comparable unlisted equity securities, the extent and nature of competition, the time period of earnings used, the quality of earnings, growth prospects and relative business risk. Upon disposal there may be potential capital gains tax implications for the Group or unitholder depending on the structure of any disposal.

The fair value of the Hyne & Son Pty Ltd ordinary shares as at 30 June 2012 reflects the fair value of the ordinary shares as determined by an appropriately qualified independent valuer, KPMG Corporate Finance (KPMG). No further information has been made available to the Responsible Entity since the 30 November 2011 independent valuation date that would result in a reassessment of the fair value of the Hyne & Son Pty Ltd ordinary shares at 30 June 2012.

KPMG has applied a capitalisation of earnings methodology in determining the fair value of Hyne and Son. KPMG's earnings based approach estimates a sustainable level of future earnings for a business ('maintainable earnings') and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Revenue, earnings before interest, tax, depreciation and amortisation(EBITDA), earnings before interest and tax (EBIT) and profit after tax (PAT).

With regard to the multiples applied by KPMG in its earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, but with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued. The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples based on the prices at which portfolio interests change hands. That is, there is no premium for control incorporated within such pricing. They may also be impacted by illiquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (100 percent) KPMG also references the multiples achieved in recent mergers and acquisitions, where a control premium and breadth of purchaser interest is reflected.

Unrealised gains or losses on unlisted equity securities are recognised through profit or loss and represent:

- Movements in the fair value of unlisted equity securities which are held as at the end of the reporting period.

  Unrealised gains or losses on unlisted equity securities which are held as at the end of the reporting period are calculated as the difference between the fair value at the end of current reporting period end and the fair value at the end of previous reporting period or the date the unlisted equity securities are acquired.

- Reversal of any life to date unrealised gains or losses as at the previous reporting period in connection with any unlisted equity securities that have been sold, restructured, settled or terminated in the current reporting period.

Realised gains or losses on unlisted equity securities are recognised through profit or loss upon the sale, restructure, settlement or termination of unlisted equity securities and are calculated as the difference between the settlement amount and the fair value upon initial recognition.

2 Summary of significant accounting policies (continued)

(j) Impairment of securities

Unlisted debt securities

The Group assesses at each reporting date whether an unlisted debt security or group of unlisted debt securities classified and measured at amortised cost is impaired. Evidence of impairment may include indications that the counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the unlisted debt security's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the unlisted debt security's original effective interest rate.

The carrying amount of the unlisted debt security is reduced through the use of an allowance account and the amount of the loss is recognised in the Consolidated Statement of Comprehensive Income as an "impairment loss".

Impaired unlisted debt securities, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group if, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced.

Interest revenue on impaired unlisted securities is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Impairment allowances denominated in foreign currencies are initially translated into the functional currency using the exchange rates prevailing at the date the impairment allowance is recognised. Foreign exchange gains and losses resulting from the translation of impairment allowances denominated in foreign currencies at period end exchange rates are recognised in the profit or loss against the impairment expense/(writeback).

(k) Payables

Payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Payables include liabilities and accrued expenses owing by the Group which are unpaid at the end of the reporting period. The distribution amount payable to unitholders as at the reporting date is recognised when unitholders are presently entitled to the distribution income under the Trust Deed.

All payables, unless otherwise stated, are non-interest bearing, unsecured and are generally settled on 30 day terms.

(l) Borrowings

All borrowings are initially recognised at the fair value being the consideration received.

After initial recognition, borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs or fees in relation to the establishment of borrowing facilities, and any discount or premium on settlement.

To the extent that it is probable that some or all of the facility will be drawn down, fees paid on the establishment of borrowing facility are deferred and offset against the carrying amount of borrowings. Upon the draw down of funds from the facility, the fees are amortised over the period of the facility to which they relate.

To the extent there is no evidence that it is probable that some or all of the facility will drawn down, fees paid on the establishment of borrowing facilities are initially capitalised as a prepayment for liquidity services and are subsequently amortised over the period of the facility to which the fees relate.

Other borrowing costs are expensed through the profit or loss.

2 Summary of significant accounting policies (continued)

(l) Borrowings (continued)

Borrowings are derecognised when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised as other income or finance costs.

(m) Financial instruments issued by the Group

Debt and equity instruments issued by the group are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. In accordance with AASB 132 *Financial Instruments: Presentation* unitholders interests are defined as "puttable instruments" and therefore classified as liabilities and disclosed in the Consolidated Statement of Financial Position as net assets attributable to unitholders. Any transaction costs arising on the issue of such financial instruments are recognised as a reduction of the proceeds received.

(n) Net assets attributable to unitholders

Net assets attributable to unitholders comprises the residual interest in the assets of the Scheme after deducting its liabilities. It is represented by issued units and undistributed profit/(loss) attributable to unitholders.

As units issued by the Scheme are classified as financial liabilities, any amounts paid or payable as well as net asset movements attributable to unitholders are recorded as an expense and presented in the Consolidated Statement of Comprehensive Income as "finance costs attributable to unitholders".

(o) Income and expense recognition

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group and the income can be reliably measured.

Expenses are recognised in the Consolidated Statement of Comprehensive Income when the Group has a present obligation (legal or constructive) as a result of a past event that can be reliably measured and where the expenses do not produce future economic benefits that qualify for recognition in the Consolidated Statement of Financial Position.

The following specific recognition criteria must also be met before income and expenses are recognised:

Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividend and distribution income

Dividend and distribution income is recognised when there is control over the right to receive the dividend or distribution payment.

Finance costs and borrowing costs

Refer to Note 2(l) for the recognition and measurement of borrowing costs. Other finance costs and borrowings are recognised as an expense when incurred.

Responsible Entity fees

For further information relating to the Responsible Entity management fees refer to Note 8.

For further information relating to the Responsible Entity performance fees refer to Note 9.

The Responsible Entity is also entitled under the Constitution to be reimbursed for certain expenses incurred in administering the Scheme. The basis on which the expenses are reimbursed is defined in the Scheme's Constitution.

2 Summary of significant accounting policies (continued)

(p) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the Consolidated Statement of Comprehensive Income as finance costs attributable to unitholders.

Where distributable income is determined by reference to the taxable income of the Scheme, distributable income includes capital gains arising from the disposal of investments. Unrealised net gains or losses on securities are transferred to net assets attributable to unitholders and are not distributable and assessable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

(q) Income tax

Certain entities that are part of the Group are subject to income tax.

The income tax expense or revenue for the year is the tax payable or receivable on the current year's taxable income based on the applicable income tax for each entity's jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group's subsidiaries and associates operate and generate taxable income. The Responsible Entity periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss or in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax asset is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2 Summary of significant accounting policies (continued)

(r) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of 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 Consolidated Statement of Financial Position. Reduced income tax credits recoverable by the Group from the Australian Taxation Office (ATO) are recognised as receivables in the Consolidated Statement of Financial Position.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

(s) Segment reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of Hastings (acting in its capacity as the Responsible Entity for the Scheme and the Group), which makes strategic decisions.

(t) Rounding of amounts

The Group is an entity of the kind referred to in Class Order 98/100 (as amended), issued by the Australian Securities and Investment Commission (ASIC), relating to the "rounding off" of amounts in the consolidated financial statements. Amounts in the consolidated financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

3 Interest income

	2012 $'000	2011 $'000
Cash and cash equivalents	**2,291**	1,202
Listed securities	**-**	580
Unlisted securities	**7,508**	10,713
Derivative securities	**2,287**	5,524
Total interest income	**12,086**	18,019

4 Net gain/(loss) - cash and cash equivalents

	2012 $'000	2011 $'000
Net gain/(loss) - unrealised	**(370)**	(356)
Total net gain/(loss) - cash and cash equivalents	**(370)**	(356)

5 Net gain/(loss) - securities

	2012 $'000	2011 $'000
Net gain/(loss) - listed securities		
Net gain/(loss) - realised	**-**	(543)
Total gain/(loss) - listed securities	**-**	(543)
Net gain/(loss) - unlisted securities		
Net gain/(loss) - unrealised	**9,020**	(17,779)
Net gain/(loss) - realised	**(12,263)**	(1,489)
Total gain/(loss) - unlisted securities	**(3,243)**	(19,268)
Net gain/(loss) - derivative securities		
Net gain/(loss) - unrealised	**(6,773)**	9,381
Net gain/(loss) - realised	**4,789**	10,990
Total gain/(loss) - derivative securities	**(1,984)**	20,371
Total net gain/(loss) - securities	**(5,227)**	560

6 Net gain/(loss) - other

	2012 $'000	2011 $'000
Net gain/(loss) - unrealised	**8**	(1,214)
Net gain/(loss) - realised	**-**	(3)
Total net gain/(loss) - other	**8**	(1,217)

7 Other income

	2012 $'000	2011 $'000
Consent fees	**8**	359
Other income	**2**	-
Total other income	**10**	359

8 Responsible Entity management fees

	2012 $'000	2011 $'000
Responsible Entity management fees	**985**	1,039
Total Responsible Entity management fees	**985**	1,039

In accordance with the Scheme's Constitution, the Responsible Entity is entitled to a management fee determined at a rate of 0.75% per annum of the market capitalisation of the Scheme. The fee is calculated quarterly and payable quarterly in arrears.

9 Responsible Entity performance fee

	2012 $'000	2011 $'000
Responsible Entity performance fee	**-**	-
Total Responsible Entity performance fee	**-**	-

The Responsible Entity is entitled to an performance fee in situations where the "Total Unit Holder Return" exceeds the "Benchmark Return" as defined and calculated in accordance with the Scheme's Constitution and the Scheme's PDS dated 14 February 2005.

No performance fee was levied by the Responsible Entity for the year ended 30 June 2012 (2011 - $nil).

10 Audit fees

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

	2012	2011
	$	$
(a) Audit services		
Amounts paid or payable excluding GST, to *PricewaterhouseCoopers,* for:		
Audit and review of financial statements	**88,802**	101,642
Audit of compliance plan	**8,481**	8,315
Total audit services fees	**97,283**	109,957
(b) Non-audit services		
Amounts paid or payable excluding GST, to *PricewaterhouseCoopers,* for:		
Agreed upon procedures - annual report	**3,182**	3,120
Accounting services	**979**	2,104
Accounting advice	**-**	7,650
Total non-audit services fees	**4,161**	12,874

11 Income tax expense

	2012	2011
	$'000	$'000
Current income tax expense	**(16)**	60
	(16)	60

(a) Numerical reconciliation of income tax expense to prima facie tax payable

	2012	2011
Operating profit/(loss) before income tax and finance costs attributable to unitholders	**4,833**	(7,824)
Tax at the applicable Australian tax rate of 30% (2011 - 30%)	**1,450**	(2,346)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Profit not assessable in the hands of the Scheme	**(1,381)**	2,372
Tax base and rate differential - foreign subsidiary	**(85)**	34
Income tax expense	**(16)**	60

12 Impairment loss/(writeback)

	2012 $'000	2011 $'000
Impairment loss/(writeback)	**-**	21,212
Total impairment loss/(writeback)	**-**	21,212

No unlisted debt securities were impaired during the year.

Refer to Note 2(j) and 18 for further details.

13 Finance costs

	2012 $'000	2011 $'000
Interest - Facility Agreement - cash advance	**-**	1,688
Borrowing costs	**6**	308
Bank fees	**10**	12
Total finance costs	**16**	2,008

The Scheme's Facility Agreement with Westpac Banking Corporation expired on 26 June 2011.

14 Distributions to unitholders

	2012 $'000	2011 $'000
Distributions declared and paid	**12,496**	12,358
Distributions declared and payable	**3,882**	4,146
Total distributions to unitholders	**16,378**	16,504

During the year ended 30 June 2012, four distributions were declared by the Group as follows:

- a distribution of 3.75 cents per unit for the quarter ended 30 September 2011 was paid on 11 November 2011 (2010 - 3.70 cents per unit);
- a distribution of 3.75 cents per unit for the quarter ended 31 December 2011 was paid on 9 February 2012 (2010 - 3.70 cents per unit);
- a distribution of 3.75 cents per unit for the quarter ended 31 March 2012 was paid on 10 May 2012 (2011 - 3.70 cents per unit); and
- a distribution of 3.75 cents per unit for the quarter ended 30 June 2012 was paid on 24 August 2012 (2011 - 3.70 cents per unit).

15 Reconciliation of operating profit after income tax and before finance costs attributable to unitholders to net cash inflow/(outflow) from operating activities

	2012 $'000	2011 $'000
(a) Reconciliation of operating profit after income tax and before finance costs attributable to unitholders to net cash inflow/(outflow) from operating activities		
Operating profit after income tax and before finance costs attributable to unitholders	**4,849**	(7,884)
Adjustments for non-cash and non-operating items:		
Net (gain)/loss - cash and cash equivalents	**370**	356
Net (gain)/loss - securities	**5,227**	(560)
Net (gain)/loss - other	**(8)**	1,217
Impairment loss/asset writeback	**-**	21,212
Change in operating related assets and liabilities:		
(Increase)/decrease in accrued income	**(2,262)**	(2,441)
(Increase)/decrease in receivables	**(299)**	(145)
(Increase)/decrease in other assets	**-**	247
Increase/(decrease) in payables	**290**	261
Increase/(decrease) in current income tax liability	**(58)**	39
Increase/(decrease) in foreign currency translation reserve	**(1)**	(29)
Net cash inflow/(outflow) from operating activities	**8,108**	12,273

(b) Components of cash and cash equivalents

	2012 $'000	2011 $'000
Cash at bank	**63,798**	45,933
Total cash and cash equivalents	**63,798**	45,933

Cash not available for use

Cash and cash equivalents includes a cash balance of $2,424,000 (2011: $Nil) held as collateral by the ANZ bank as required under the ISDA agreement between the Scheme and ANZ as amended on 5 April 2012.

(c) Significant non-cash financing and investing activities

Current year:

- Restructure of DCA Group - refer to Note 18(2(a))

Prior year:

- During the prior year the Group issued 1,339,664 ordinary units for $1,582,162 in relation to the Group's Distribution Reinvestment Plan.
- On 30 June 2011 unlisted debt securities with amortised cost balances totalling $35,415,000 were written off against the impairment allowance.

16 Receivables

	2012 $'000	2011 $'000
Income receivable	**888**	854
Receivables - other	**42**	21
Total receivables	**930**	875

None of the receivables are impaired or past due but not impaired.

17 Other assets

	2012 $'000	2011 $'000
Prepayments	**2**	2
Total other assets	**2**	2

18 Securities

	2012 $'000	2011 $'000
Securities		
Unlisted securities	**87,279**	120,994
Derivative securities	**691**	7,511
Total securities	**87,970**	128,505

Unlisted securities comprise the following holdings:

	2012 $'000	2011 $'000
Unlisted debt securities		
AB Ports	**-**	7,497
Arqiva	**16,489**	16,127
BAA	**11,824**	17,182
Cory Environmental	**11,289**	10,776
DCA Group **- refer Note 18(2(a))**	**1,652**	2,477
EnviroWaste	**17,452**	16,319
Maher Terminals	**19,646**	18,632
Manildra Group	**-**	4,012
South East Water	**-**	13,680
	78,352	106,702
Impairment allowance **- refer Note 18(1)**	**-**	-
Total unlisted debt securities	**78,352**	106,702
Unlisted equity securities		
Hyne & Son Pty Ltd **- refer Note 18(3(a))**	**8,102**	14,292
DCA Group **- refer Note 18(2(a))**	**825**	-
Total unlisted equity securities	**8,927**	14,292
Total unlisted securities	**87,279**	120,994

18 Securities (continued)

Derivative securities comprise the following holdings:		
Cross currency swaps	**505**	5,601
Foreign currency forward contracts	**186**	1,910
DCA Group warrants - **refer Note 18(2(a))**	**-**	-
Total derivative securities	**691**	7,511

For further details relating to derivative securities, including counterparties and maturity dates, refer Note 23.

(1) Impairment allowance	**2012 $'000**	2011 $'000
Movement in impairment allowance		
Opening balance	**-**	14,203
Impairment loss/(writeback) - **refer Note 12**	**-**	21,212
Write off of unlisted debt securities	**-**	(35,415)
Closing balance	**-**	-

Prior Year

(a) DCA Group

During the year ended 30 June 2011, an impairment allowance of $22,297,000 was recognised in connection with the DCA Group subordinated term loan (DCA loan) and on 30 June 2011 $22,297,000 of the DCA loan balance was written off against this impairment allowance.

(b) European Directories

A €9,709,000 ($14,203,000) impairment allowance was carried forward from 30 June 2010 with respect to European Directories and on 30 June 2011, the €9,709,000 ($13,119,000) amortised cost balance of the European Directories unlisted debt security was written off against the impairment allowance of €9,709,000 ($13,119,000).

(2) Security Restructures

(a) DCA Group

The DCA Group restructure was completed on 1 November 2011. Prior to the restructure the Group held a junior facility loan in DCA. In consideration for co-operation in the restructure of DCA the Group received the following consideration:

- Senior debt - Facility D issued by CAID Holdings II Pty Limited;
- Ordinary shares issued by I-Med Holdings; and
- Warrants issued by I-Med Holdings.

The fair value of the DCA Group senior debt, ordinary shares and warrants were assessed as follows at their date of issue.

	$'000
Senior debt - Facility D	**1,652**
Ordinary shares	**825**
Warrants	**-**
Total DCA Group	**2,477**

A realised gain of $181 was recognised in connection with the DCA junior facility loan as a consequence of the DCA restructure.

18 Securities (continued)

(3) Security Revaluations

(a) Hyne & Son

On 30 November 2011 the Hyne & Son ordinary shares were revalued from $14,292,000 ($136.00 per share) to $8,102,000 ($77.10 per share), resulting in an unrealised loss of $6,190,000.

19 Payables

	2012 $'000	2011 $'000
Payables - Responsible Entity	**249**	246
Payables - other	**60**	81
Accrued expenses	**75**	90
Distribution payable	**3,882**	4,146
Total payables	**4,266**	4,563

20 Current income tax liability

	2012 $'000	2011 $'000
Current income tax liability	**48**	115
Total current income tax liability	**48**	115

21 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

(a) Issued Units

	2012 No. '000	2011 No. '000	**2012 $'000**	2011 $'000
Opening balance	**112,044**	110,704	**211,980**	210,398
Units issued - reinvestment of distributions	**-**	1,340	**-**	1,582
Buy-back transaction costs	**-**	-	**(227)**	-
On market unit buy-backs	**(2,122)**	-	**(2,488)**	-
Off market unit buy-backs	**(6,452)**	-	**(8,046)**	-
Closing balance	**103,470**	112,044	**201,219**	211,980

On market unit buy-backs

On 29 August 2011 the Responsible Entity of the Scheme announced the Scheme would conduct an on market buy back of up to 10% of the Scheme's units which may continue for up to 12 months from 29 August 2011 unless the maximum number of units are bought back or the Responsible Entity decides to cease the buy-back earlier. Units are only bought back when it is deemed accretive to earnings and net tangible asset backing per unit.

The on market buy back commenced on 13 September 2011 and was closed on 24 February 2012. The on market buy-back recommenced on 18 May 2012 and was closed on 9 August 2012.

21 Net assets attributable to unitholders (continued)

(a) Issued Units (continued)

Off market unit buy-back

On 23 April 2012 the Scheme successfully completed an off-market buy-back. Under the buy-back, the Scheme bought back approximately 6.5 million units at a buy back price of $1.247 returning approximately $8.0 million to unitholders. The buy-back price represented a 4.8 percent premium to the Scheme's closing price on the ASX as at 20 April 2012.

Reinvestment of distributions

The Scheme's Distribution Reinvestment Plan (DRP) was suspended effective 21 June 2011 until further notice, given the Group's current cash reserves and fully funded operating position.

(b) Terms and conditions

Each issued unit confers upon the unitholder an equal interest in the Group and is of equal value. A unit does not confer any interest in any particular asset or investment held by the Group. Unitholders have various rights under the Constitution, including the right to:

- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to each unit are identical in all respects.

(c) Foreign currency translation reserve

	2012 $'000	2011 $'000
Opening balance	**41**	9
Movement for the year	**39**	32
Closing balance	**80**	41

(d) Undistributed loss attributable to unitholders

	2012 $'000	2011 $'000
Opening balance	**(41,384)**	(16,996)
Operating profit/(loss) after income tax and before finance costs attributable to unitholders	**4,849**	(7,884)
Distributions to unitholders	**(16,378)**	(16,504)
Closing balance	**(52,913)**	(41,384)

22 Segment information

(a) Operating segments

Operating segments are based on the reports reviewed by the Hastings Board (acting in its capacity as the Responsible Entity of the Scheme and the Group) that are, in conjunction with the input and guidance of the Chief Operating Officer of the Scheme and the Group, used to make strategic decisions for the Group. The operating segment is aligned with the investment objectives and guidelines set out in the Scheme’s PDS and in accordance with the provisions of the Scheme’s Constitution.

22 Segment information (continued)

(a) Operating segments (continued)

The Group has one reportable operating segment being the investment in listed and unlisted debt securities.

The Responsible Entity takes a broad portfolio construction approach to its investment and divestment activities of securities and to the management of the Group. Accordingly, all operating decisions are based upon analysis of the Group as one operating segment.

The reportable operating segment's income consists of interest income, participation fees, consent fees and gains and losses from movements in the value of investments, cash, receivables and borrowings.

The segment information reported to the Hastings Board is consistent with the Australian Accounting Standards and therefore consistent with the information included within the consolidated financial statements.

23 Derivative securities

Cross currency swap contracts

Cross currency swap contracts are used to reduce the Group's exposure to foreign exchange risk and interest rate risk arising from its listed and unlisted interest bearing security holdings that are denominated in a foreign currency. The terms of the cross currency swap contracts closely match the terms of the underlying listed and unlisted securities that are denominated in a foreign currency.

Details relating to cross currency swap contracts, including their fair values, at the end of the reporting period are set out below:

Related debt security	Counterparty	Contract Date	Maturity date	Foreign currency	Foreign currency principal payable		AUD principal receivable		Floating interest rate payable	Floating interest rate receivable	Fair value	
					2012 '000	2011 '000	2012 $'000	2011 $'000	% p.a.	% p.a.	2012 $'000	2011 $'000
AB Ports	Westpac	16-May-11	21-Dec-11	GBP	n/a	5,000	n/a	7,537	GBP-LIBOR-BBA + 3.50%	AUD-BBR-BBSW + 3.95%	n/a	74
Arqiva	Westpac	30-Sep-10	31-Dec-12	GBP	10,715	10,715	17,917	17,917	GBP-LIBOR-BBA + 4.75%	AUD-BBR-BBSW + 5.05%	1,557	2,022
EnviroWaste	ANZ	23-Sep-10	30-Sep-13	NZD	22,259	21,072	17,129	16,216	NZD-BBR-FRA + 3.43%	AUD-BBR-BBSW + 2.96%	(427)	(300)
Maher Terminals	Westpac	31-Oct-11	30-Sep-13	USD	20,000	n/a	19,175	n/a	USD-LIBOR-BBA + 4.25%	AUD-BBR-BBSW + 4.95%	(376)	n/a
Maher Terminals	Westpac	31-Oct-07	31-Oct-11	USD	n/a	20,000	n/a	21,464	USD-LIBOR-BBA + 3.75%	AUD-BBR-BBSW + 4.09%	n/a	3,075
South East Water	ANZ	31-Dec-10	22-Dec-11	GBP	n/a	9,000	n/a	14,182	GBP-LIBOR-BBA + 4.25%	AUD-BBR-BBSW + 4.58%	n/a	731
BAA	ANZ	10-Feb-12	10-Aug-15	GBP	7,500	n/a	11,046	n/a	GBP-LIBOR-BBA + 6.89%	AUD-BBR-BBSW + 7.65%	(249)	n/a
											505	5,601

23 Derivative securities (continued)

Forward foreign exchange contracts

Forward foreign exchange contracts are used to reduce the Group's exposure to foreign exchange risk arising from its unlisted securities that are denominated in a foreign currency.

Details relating to forward foreign exchange contracts, including their fair values, at the end of the reporting period are set out below:

Related debt security	Counterparty	Contract Date	Value Date	Foreign currency	Buy AUD	Forward exchange rate	Sell Foreign Currency	Fair value	
								2012	2011
					$'000		'000	$'000	$'000
BAA Toggle Facility	WBC	12-Jan-11	12-Jan-12	GBP	20,587	0.6074	12,504	n/a	1,400
Cory Environmental	WBC	06-Dec-11	06-Jul-12	GBP	11,575	0.6420	7,431	186	n/a
Cory Environmental	WBC	31-Mar-11	06-Dec-11	GBP	11,794	0.6264	7,387	n/a	510
								186	1,910

23 Derivative securities (continued)

Warrants

Issuer	Counterparty	Warrant Type	Premium Paid	Exercise Period	Warrants Issued	Expiry Date	Fair value	
			$		No.		**2012**	2011
							$'000	$'000
I-Med Holdings (DCA Group)	Hastings High Yield Fund	Issued warrants	Nil	Refer below	1	Refer below	-	n/a
							-	n/a

On 1 December 2011, in accordance with the DCA Group Recapitalisation Implementation Deed, the Group was issued with a DCA Group warrant in part consideration for its existing investment in the DCA junior term loan facility, for further details refer Note 18(2(a)).

In accordance with the Warrant Deed, a warrant exercise event is defined as being:

1. an IPO;
2. a trade sale; or
3. a Scheme of Arrangement or a Takeover Bid.

On the warrant exercise date the Issuer will be required to issue Warrant Shares in accordance with a formula set out in the Warrant Deed, or alternatively determine the cash amount payable to the Group in lieu of Warrant Shares, calculated as the Group's proportion of 10% of the Enterprise Value less the Monetary Threshold, the Monetary Threshold being $500m.

The warrant does not entitle the Group to any rights associated with being an I-Med Holdings ordinary equity holder.

Refer to Note 2 (i) for further details with respect to the determination of the fair value of the DCA Group warrants.

An overview of the risk exposures relating to derivatives is included in Note 24.

24 Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash and short-term deposits and investments in listed and unlisted debt securities and unlisted equity securities. The main purpose of these financial instruments is to generate a return on the investment made by unitholders. The Group has various other financial instruments such as receivables and payables, which arise directly from its operations.

The Group does not enter into or trade financial instruments for speculative purposes.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk, security price risk, and liquidity risk. The Responsible Entity reviews and agrees on policies for managing each of these risks on a regular basis.

Credit risk

Credit risk represents the risk that the counterparty will be unable to pay amounts in full when they fall due and the Group will incur a financial loss.

The main concentration of credit risk to which the Group is exposed arises from the Group's unlisted debt securities. The Group is also exposed to counterparty credit risk on derivative securities, cash and cash equivalents and other receivables.

Credit risk is one of the major risks faced by the Group and may be broken down in two main categories:

- the risk that issuers of debt securities in which the Group has invested, are unable to satisfy their obligations under these securities; and
- the risk that the credit quality of securities held by the Group deteriorates.

Obligations under securities held by the Group include the payment of scheduled interest or dividends and the repayment or conversion of the loans or hybrid securities at maturity. Should an issuer fail to make these payments or meet its obligation, this may ultimately lead to a reduction in yield and a loss of capital for unitholders.

A decline in the credit quality of a security held by the Group could occur even though the debt security is meeting its obligations. This could result in a loss of capital in the event that the debt security was sold prior to its maturity and at a discount to its redemption price.

The Group manages credit risk by a thorough due diligence process and careful selection of listed and unlisted debt securities. Current derivative contracts and cash transactions are exposed to financial institutions with a long term credit rating of at least AA- (or its equivalent) from Moody’s and Standard & Poor’s.

Once a listed or unlisted security is acquired, Hastings maintains an active process of monitoring that security in order to ensure it continues to perform in line with expectations and continues to meet the Group’s wider portfolio requirements. Hastings maintains an active dialogue with issuers and receives regular reporting on performance. The reporting typically includes the provision of compliance certificates, management accounts and annual reports. Updates on each security are conveyed in annual reports to unitholders.

In addition, Hastings carries out a semi annual credit review process on each security which is presented to the Hastings Investment Committee. The Hastings Alternative Debt team is responsible for preparing the models for the valuation analysis that is submitted to the Investment Committee. The credit reviews and valuations comprise of detailed commentary on the Group’s portfolio of securities, which incorporates impairment testing. For further details on impairment testing refer to Note 2(j).

Interest rate risk

Interest rate risk is the risk that a financial instrument's value or its cash flows may fluctuate as a result of changes in market interest rates. Financial instruments whose cash flows are determined by variable interest rates include cash equivalents, unlisted securities and interest bearing borrowings.

The returns from the Group’s unlisted securities may be based on a fixed margin above a floating rate of interest, or alternatively based on a fixed rate of interest. A change in the level of interest rates could affect the attractiveness of the Group's investment portfolio compared to other investment funds.

The majority of the Group’s investment portfolio is invested in debt securities which generate a floating rate of interest.

24 Financial risk management (continued)

Where appropriate, the Group may choose to use interest rate derivatives to swap a fixed rate exposure to a margin above a floating rate.

Foreign exchange risk

Foreign exchange risk is the risk that a financial instrument's value or the value of its cash flows may fluctuate as a result of change in foreign currency rates.

The Group holds financial instruments, including cash and cash equivalents, unlisted securities and derivative securities denominated in currencies other than the Australian Dollar.

The Group is therefore exposed to movements in the Australian Dollar/relevant foreign currency rate.

The Group's foreign currency risk management policy is to utilise derivative securities to fully hedge the principal and interest components of all foreign currency investments. Foreign currency investments are hedged to Australian Dollars in relation to anticipated cash flow profiles to minimise exposure to movements in foreign currency and foreign interest rates.

Price risk

Price risk is the risk that a financial instrument's value may fluctuate as a result of changes in its price.

The Group is exposed to price risk arising from movements in its unlisted equity security prices.

The Group mitigates price risk by a thorough review process. Unlisted equity securities are monitored throughout the year via management reporting and discussions with the underlying investee company. Hastings reviews all these factors on an ongoing basis and formally each six months through the Hastings impairment review process.

Due to its long term investment horizon, the Group does not hedge these short term fluctuations.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as and when they fall due or can only do so in forms that are materially disadvantageous.

The Group invests predominantly in unlisted and unrated debt securities which are not listed on an exchange or frequently traded and should therefore be considered illiquid.

To manage liquidity risk, the Group actively monitors cash and cash equivalents balances and forecasts operational cash flows and liabilities on a regular basis.

All financial liabilities are due within 12 months other than derivative securities as disclosed in Note 23.

24 Financial risk management (continued)

(a) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's material financial assets and financial liabilities to interest rate risk and foreign exchange risk after allowing for the impact of effective hedging arrangements.

The effect of a +/- 1% shift in interest rates has been selected for interest rate sensitivity as it represents the approximate historical 12 month movement in the yield of the six month Australian bank bill rate. The interest rate sensitivity for floating rate instruments assumes expected cash flows to be received will fluctuate with interest rate movements. The interest rate sensitivity for fixed rate instruments assumes that the value of the security fluctuates with external interest rate changes.

The impact of a +/- 10% movement in foreign exchange rates has been selected for foreign currency sensitivity. In the current financial year, the Australian Dollar (AUD) had depreciated 2.23% against the British Pound Sterling (GBP), depreciated 1.54% against the New Zealand Dollar (NZD) and depreciated 5.00% against the US Dollar (USD).

A sensitivity of 10% was selected as it represents the foreign exchange movement over a 12 month period in view of the longer term historical volatility.

2012

		Interest rate risk		**Foreign exchange risk**	
		-1.0%	**1.0%**	**-10.0%**	**10.0%**
	Carrying Value $'000	**Profit/(loss) $'000**	**Profit/(loss) $'000**	**Profit/(loss) $'000**	**Profit/(loss) $'000**
Financial assets:					
Cash and cash equivalents	63,798	(638)	638	173	(141)
Receivables	930	(4)	4	48	(39)
Securities	87,970	(787)	787	(1,794)	1,468
Financial liabilities:					
Payables	4,266	-	-	-	-
Total increase/(decrease)		(1,430)	1,430	(1,573)	1,287

2011

		Interest rate risk		Foreign exchange risk	
		-1.0%	1.0%	-10.0%	10.0%
	Carrying Value $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000	Profit/(loss) $'000
Financial assets:					
Cash and cash equivalents	45,933	(459)	459	84	(69)
Receivables	875	(9)	9	4	(3)
Securities	128,505	(1,040)	1,040	962	575
Financial liabilities:					
Payables	4,563	-	-	-	-
Borrowings	-	-	-	-	-
Total increase/(decrease)		(1,508)	1,508	1,050	503

24 Financial risk management (continued)

(b) Credit risk

The Group is exposed to credit risk on its cash and cash equivalents, receivables, unlisted debt securities and derivative securities.

The Group's maximum exposure to credit risk at the end of the reporting period, excluding the value of any collateral or other security, is the carrying amount of these financial assets, as disclosed in the Consolidated Statement of Financial Position and notes to the consolidated financial statements.

The Group's debt securities are generally unrated and not listed on an exchange. The internal assessment of the overall credit quality of the debt securities held by the Group is sub-investment grade. Sub-investment grade is commonly referred to where the security has a credit rating below BBB- on Standard & Poor's credit rating scale.

All financial assets that are past due are impaired at the end of the reporting period.

(c) Foreign exchange risk

The Group has cash and cash equivalents, unlisted securities denominated in GBP, NZD and USD. As a result, the Group's Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income can be significantly affected by movements in the respective GBP/AUD, NZD/AUD and USD/AUD foreign exchange rates.

All foreign currency unlisted securities are hedged to AUD to minimise exposure to movements in foreign currency and interest rates in accordance with the Group's investment strategy.

The details of derivative securities held by the Group in respect of unlisted securities denominated in foreign currencies are disclosed at Note 23.

24 Financial risk management (continued)

(c) Foreign exchange risk (continued)

The following table summarises the Group's foreign exchange exposures:

	Exposures: EUR		Exposures: GBP		Exposures: NZD		Exposures: USD	
	2012 AUD $'000	2011 AUD $'000	2012 AUD $'000	2011 AUD $'000	2012 AUD $'000	2011 AUD $'000	2012 AUD $'000	2011 AUD $'000
Financial assets:								
Cash and cash equivalents	-	33	1,108	398	182	329	265	204
Receivables	11	44	483	402	261	238	-	215
Unlisted securities	-	-	39,603	65,105	17,452	16,081	19,645	18,632
	11	77	41,194	65,905	17,895	16,648	19,910	19,051
Financial liabilities:								
Payables	-	-	-	-	-	-	-	-
Derivative securities - principal payable	-	-	39,481	69,443	17,449	16,319	19,642	18,632
Derivative securities - interest payable	-	-	370	420	3	-	3	129
	-	-	39,851	69,863	17,452	16,319	19,645	18,761
Net exposure	11	77	1,343	(3,958)	443	329	265	290

24 Financial risk management (continued)

(d) Liquidity risk

All the Group's financial liabilities are due within 12 months, except for the following financial liabilities for which the contractual undiscounted cash flows are:

	Less than 1 year		Between 1 and 2 years		Between 2 and 5 years		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Derivative securities								
Outflow (foreign currency principal payable)	27,801	18,632	37,090	45,887	11,491	7,494	76,382	72,013
Inflow (Australian dollar principal receivable)	(29,492)	(21,464)	(36,771)	(48,315)	(11,046)	(7,537)	(77,308)	(77,316)
	(1,691)	(2,832)	321	(2,428)	445	(43)	(926)	(5,303)

24 Financial risk management (continued)

(e) Fair values of financial instruments

The fair values of financial instruments and the methods and assumptions that are used to determine the fair values of financial instruments are summarised below.

Cash, cash equivalents and short term investments

Carrying amounts approximate fair values because of their short term to maturity.

Receivables and payables

Carrying amounts approximate fair values because of their short term to settlement.

Listed securities

Listed securities are measured at fair value through profit or loss.

Further details are provided in Note 2(i).

Unlisted securities

Unlisted debt securities

Unlisted debt securities are measured at amortised cost using the effective interest rate method, less any allowance for impairment.

The carrying amount of unlisted debt securities approximates their fair values.

Further details are provided in Note 2(i).

Unlisted equity securities

Unlisted equity securities are measured at fair value through profit or loss.

Further details are provided in Note 2(i).

Derivative securities

Derivative securities are measured at fair value through the profit or loss.

Further details are provided in Note 2(i).

Borrowings

Borrowings are measured at amortised cost using the effective interest rate method.

The fair value of borrowings is determined by projecting future cash flows and then discounting these cash flows back to their present value using a post-tax, risk adjusted discount rate.

The carrying amount of borrowing approximates their fair value on the basis that the borrowings in place are floating interest rate instruments.

24 Financial risk management (continued)

Fair value hierarchy of financial instruments measured at fair value through profit or loss

AASB 7 Financial Instruments: Disclosure requires financial instruments measured at fair value to be classified in the following fair value hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The financial instruments that the Group carries at fair value at 30 June 2012 are its unlisted equity and derivative securities.

The fair value of derivative securities is determined using valuation techniques. The process by which the fair values of derivative securities is determined is outlined in Note 2(i).

Derivative securities are included in Level 2 on the basis that the spot and forward interest rates and foreign exchange rates utilised to value these instruments are observable directly or indirectly.

Unlisted equity securities are included in Level 3 as there are no active markets for these securities. The process by which the fair value of unlisted equity securities is determined is outlined in Note 2(i).

The following table presents the Group's assets and liabilities measured and recognised at fair value:

	Level 1		Level 2		Level 3		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Assets								
Financial assets held at fair value through profit or loss:								
Securities	-	-	691	7,913	8,927	14,292	9,618	22,204
Total assets	-	-	691	7,913	8,927	14,292	9,618	22,204

24 Financial risk management (continued)

The following table presents the movements in Level 3 instruments for the year ended 30 June 2012 and 30 June 2011:

	Unlisted equity securities		Total unlisted securities	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Opening balance	14,292	-	14,292	-
Restructure - DCA Group (refer Note 18(2a))	825	-	825	-
Transfer - HYNES to Hyne & Son Pty Ltd ordinary shares	-	13,684	-	13,684
Net gain/(loss) recognised in profit or loss	(6,190)	608	(6,190)	608
Closing balance	8,927	14,292	8,927	14,292
Total gain/(loss) recognised in profit or loss	(6,190)	-	(6,190)	-
Total gain/(loss) included in profit or loss	(6,190)	-	(6,190)	-

25 Related party transactions

Responsible Entity

The Responsible Entity of Hastings High Yield Fund is Hastings Funds Management Limited (Hastings).

The immediate parent entity of Hastings is Hastings Management Pty Limited.

The ultimate parent entity of Hastings Management Pty Limited is Westpac Banking Corporation (Westpac).

Transactions between the Group and the Responsible Entity and its related entities during the year are detailed below:

- Responsible Entity management fee expense: $984,701 (2011 - $1,039,152)
- Responsible Entity performance fee expense: $nil (2011 - $nil)
- Reimbursement of expenses paid to the Responsible Entity: $167,893 (2011 - $27,955)
- Interest income - cash and cash equivalents - Westpac: $2,276,741 (2011 - $1,201,125)
- Interest income - derivative securities - Westpac: $2,977,095 (2011 - $5,513,072)
- Interest expense - cash and cash equivalents - Westpac: $nil (2011 - $nil)
- Interest expense - derivative securities - Westpac: $1,602,861 (2011 - $2,359,371)
- Interest expense - Facility Agreement - Westpac : $nil (2011 - $1,688,442)
- Bank fees - Westpac: $7,227 (2011 - $7,954)
- Borrowing costs paid - Westpac: $nil (2011 - $308,466)
- Distributions declared - Westpac: $722,090 (2011 - $470,291)

For further details in relation to management fees and performance fees refer to Notes 8 and 9.

Balances outstanding with the Responsible Entity and its related entities at year end are detailed below:

- Cash and cash equivalents - Westpac: $60,989,267 (2011 - $45,655,105)
- Facility Agreement - cash advance - Westpac: $nil (2011 - $nil)
- Responsible Entity management fees payable: $248,802 (2011 - $245,797)
- Responsible Entity expense reimbursement payable: $nil (2011 - $nil)
- Interest receivable - derivative securities - Westpac: $872,452 (2011 - $814,018)
- Interest payable - derivative securities - Westpac : $475,874 (2011 - $378,413)
- Distributions payable - Westpac: $173,607 (2011 - $205,191)

For details of derivative securities in place with Westpac refer to Note 23.

All transactions with related parties were conducted under commercial terms and conditions.

25 Related party transactions (continued)

Related party unitholdings

Hastings and its related entities, including other schemes managed by Hastings, held the following units in the Scheme:

2012

Unitholder	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Interest held closing (%)
Westpac	633,586	-	633,586	-	-
Other Westpac group entities	4,912,109	94,075	376,660	4,629,524	4.474
	5,545,695	94,075	1,010,246	4,629,524	4.474

2011

Unitholder	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Interest held closing (%)
Westpac	633,586	-	-	633,586	0.565
Other Westpac group entities	176,000	4,736,109	-	4,912,109	4.950
	809,586	4,736,109	-	5,545,695	5.515

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Hastings at any time during the financial year as follows:

Alan Cameron - Chairman
Andrew Day (appointed 18 October 2011)
James Evans
William Forde
Alan Freer (retired 18 October 2011)
Stephen Gibbs
James McDonald
Victoria Poole

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly during the financial year:

Name	Position	Employer
Ross Pritchard (appointed 24 February 2012)	Chief Operating Officer - Hastings High Yield Fund	Hastings Management Pty Ltd
Steven Rankine (resigned 24 February 2012)	Chief Operating Officer - Hastings High Yield Fund	Hastings Management Pty Ltd

25 Related party transactions (continued)

Key management personnel unitholdings

The following key management personnel held units in the Scheme:

2012	**Number of units held opening (Units)**	**Number of units acquired (Units)**	**Number of units disposed (Units)**	**Number of units held closing (Units)**	**Interest held closing (%)**
William Forde	**35,000**	**-**	**-**	**35,000**	**0.034**
Alan Freer[(1)]	**20,000**	**-**	**-**	**20,000**	**0.019**
James McDonald	**100,000**	**-**	**-**	**100,000**	**0.097**

2011	Number of units held opening (Units)	Number of units acquired (Units)	Number of units disposed (Units)	Number of units held closing (Units)	Interest held closing (%)
Steven Boulton[(2)]	100,000	-	-	100,000	0.089
William Forde	35,000	-	-	35,000	0.031
Alan Freer[(3)]	20,000	-	-	20,000	0.018
James McDonald	10,000	-	-	100,000	0.089

(1) Represents number of units held up until the date of retirement as director, being 18 October 2011.
(2) Represents number of units held up until the date of retirement as director, being 1 April 2011.
(3) Represents number of units held from the date of appointment as director, being 1 April 2011.

Key management personnel compensation

Key management personnel are paid by Hastings Funds Management Limited or its immediate parent entity, Hastings Management Pty Limited. Payments made from the Group to Hastings do not include any amounts attributable to the compensation of key management personnel.

No units were granted to key management personnel during the year as compensation.

26 Earnings per unit

Earnings per unit

The earnings per unit calculation that is performed in accordance with AASB 133 *Earnings per Share* results in earnings per unit of nil cents as AASB 133 refers to equity, whilst issued units are classified as debt.

The directors believe it is useful to calculate and disclose earnings per unit based on operating profit/(loss) after income tax and before finance costs attributable to unitholders for the year.

Basic operating profit/(loss) after income tax and before costs attributable to unitholders per unit is calculated as operating profit/(loss) after income tax and before finance costs attributable to unitholders for the year, divided by the weighted average number of ordinary units on issue, adjusted for any bonus element.

Diluted operating profit/(loss) after income tax and before costs attributable to unitholders per unit is not materially difference from basic operating profit/(loss) after income tax and before costs attributable to unitholders per unit.

	2012	2011
Basic operating profit/(loss) after income tax and before costs attributable to unitholders per unit (cents per unit)	**4.41**	(7.08)
Earnings used in calculating basic operating profit/(loss) after income tax and before costs attributable to unitholders per unit ($'000)	**4,849**	(7,884)
Weighted average number of units on issue ('000)	**109,962**	111,353

27 Contingent assets and liabilities and commitments

There were no outstanding contingent assets or liabilities or commitments as at 30 June 2012 (2011 - nil).

28 Events occurring after the end of the reporting period

The on market unit buy-back was closed on 9 August 2012.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Group disclosed in the Consolidated Statement of Financial Position as at 30 June 2012 or on the results and cash flows of the Group for the year ended on that date.

29 Parent entity financial information

(a) Summary financial information

Statement of Financial Position	2012 $'000	2011 $'000
Total assets	**153,067**	175,564
Total liabilities	**4,525**	4,490
Net assets attributable to unitholders - liability:		
Issued units	**201,219**	211,980
Undistributed profit	**(52,677)**	(40,906)
	148,542	171,074

Statement of Comprehensive Income

	2012 $'000	2011 $'000
Operating profit/(loss) before finance costs attributable to unitholders	**4,605**	(7,592)
Profit for the year	**-**	-
Total comprehensive income for the year	**-**	-

(b) Contingent assets and liabilities and commitments

2012

Letter of Financial Support Issued to Subsidiary

The Scheme has issued a letter of financial support dated 31 August 2012 to its subsidiary entity, HHY International Holdings 1 Pty Ltd, undertaking that for so long as the HHY International Holdings 1 Pty Ltd is a wholly owned subsidiary of the Scheme, it intends to financially support HHY International Holdings 1 Pty Ltd to the extent of any shortfall in shareholders' equity resulting from a decrease in the carrying amount of unlisted securities from time to time.

There were no other outstanding contingent assets or liabilities or commitments as at 30 June 2012.

2011

Letter of Financial Support Issued to Subsidiary

The Scheme issued a letter of financial support dated 27 August 2011 to its subsidiary entity, HHY International Holdings 1 Pty Ltd, undertaking that for so long as the HHY International Holdings 1 Pty Ltd is a wholly owned subsidiary of the Scheme, it intends to financially support HHY International Holdings 1 Pty Ltd to the extent of any shortfall in shareholders' equity resulting from a decrease in the carrying amount of unlisted securities from time to time.

There were no other outstanding contingent assets or liabilities or commitments as at 30 June 2011.

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

(a) the consolidated financial statements and notes set out on pages 6 to 49 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards (including Interpretations) and other mandatory professional reporting requirements, the *Corporations Regulations 2001* and are in accordance with the Scheme's Constitution; and

  (ii) giving a true and fair view of the Group's financial position as at 30 June 2012 and of their performance for the financial year ended on that date; and

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

Note 2(a) confirms that the consolidated financial statements do comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations requested to be made to the directors in accordance with section 295A of the *Corporations Act 2001.*

This declaration is made in accordance with a resolution of the directors of the Responsible Entity.

Alan Cameron
Chairman

31 August 2012

Independent auditor's report to the members of Hastings High Yield Fund

Report on the Financial Report

We have audited the accompanying financial report of Hastings High Yield Fund (the scheme), which comprises the statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Hastings High Yield Fund (the consolidated entity). The consolidated entity comprises the scheme and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the Financial Report

The directors of Hastings Funds Management Limited as the Responsible Entity for the scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Hastings High Yield Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

Matters relating to the electronic presentation of the audited Financial Report

This auditor's report relates to the financial report of Hastings High Yield Fund for the year ended 30 June 2012 included on Hastings Funds Management Limited's (the Responsible Entity for Hastings High Yield Fund) web site. The directors of Hastings Funds Management Limited (HFML) are responsible for the integrity of the HFML web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Simon Gray

Simon Gray
Partner

Melbourne
31 August 2012

D. Independent auditor's report

The financial report has been audited and the report is attached. Refer to Section C.