HFA Holdings Limited

ASX Appendix 4D

For the six months ended 31 December 2016

Results for announcement to the market

(all comparisons to the six months ended 31 December 2015) *Amounts in USD'000*

				31 December 2016
Revenue from ordinary activities				
-from continuing operations	Up	2%	to	35,751
Earnings before interest, tax, depreciation and amortisation				
-from continuing operations	Down	3%	to	14,108
Profit from ordinary activities after tax attributable to members				
-from continuing operations	Up	50%	to	8,427
Net profit for the period attributable to members				
-from continuing operations	Up	50%	to	8,427

Dividends	Amount per ordinary share	Franked %	Conduit foreign income %
Interim 2016 dividend per share (paid 16 March 2016)	USD 5.0 cents	0%	80%
Final 2016 dividend per share (paid 9 September 2016)	USD 7.0 cents	0%	100%
Interim 2017 dividend per share (to be paid 10 March 2017)	USD 6.0 cents	0%	100%

The directors have determined an unfranked final dividend of United States (US) 6.0 cents per share (with 100% conduit foreign income credits). The final dividend dates are:

Ex-dividend date:	22 February 2017
Record date:	23 February 2017
Payment date:	10 March 2017

HFA dividends are determined in US dollars. However, shareholders will receive their dividend in Australian dollars. Currency conversion will be based on the foreign exchange rate on the record date of 23 February 2017.

Dividend Policy

The Company has set a policy to apply from the 2017 financial year of paying a dividend of 70% to 80% of the earnings before interest, depreciation, amortisation and tax (EBITDA). Dividends will by unfranked, however may have conduit foreign income credits attached.

The payment of dividends will be subject to corporate, legal and regulatory considerations.

The above policy allows the HFA Group to retain a portion of cash generated from operating activities, and to therefore have funds available to make additional investments into the Lighthouse Funds where such investments further the overall operating interests of the Group, or to act on external investment and/or acquisition opportunities as and when they may arise.

A dividend reinvestment plan does not operate in respect to dividends of the Company.

Net tangible assets	**31 December 2016**	31 December 2015
Per ordinary share	USD 27.41 cents	USD 21.34 cents

Additional Appendix 4D requirements can be found in the directors' report and the 31 December 2016 interim financial report and accompanying notes.

This report is based on the 31 December 2016 interim financial report (which includes consolidated financial statements reviewed by KPMG).

HFA Holdings Limited
and its controlled entities

ACN 101 585 737

Interim Report

31 December 2016

HFA Holdings Limited
ACN: 101 585 737

Registered Office:

Level 15
324 Queen Street
Brisbane QLD 4000

Telephone:

+61 7 3218 6200

Website

www.hfaholdings.com.au

Shareholder information and inquiries

All inquiries and correspondence regarding shareholdings should be directed to HFA's share registry provider:

Link Market Services Limited

Address

Level 12
680 George Street
Sydney NSW 2000

Mailing Address

Locked Bag A14
Sydney South NSW 1235

Telephone

1300 554 474
+61 2 8280 7111

Facsimile

+61 2 9287 0303

Website

www.linkmarketservices.com.au

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Directors' report

The directors present their report together with the interim financial statements of the Group comprising of HFA Holdings Limited and its subsidiaries, for the six months ended 31 December 2016.

Board of directors

The directors of the Company at any time during the interim period and up to the date of this report are set out below. All of the Directors have been in office for the entire period.

Michael Shepherd, AO (Chairman)	*Appointed 16 December 2009*
Fernando Esteban	*Appointed 18 June 2008*
Andrew Bluhm	*Appointed 17 October 2012*
Randall Yanker	*Appointed 14 October 2014*
Sean McGould	*Appointed 3 January 2008*

Principal activities

The principal activity of the Group during the reporting period was the provision of investment management products and services to investors globally.

HFA Holdings Limited is a company limited by shares that is incorporated in Australia. A wholly owned subsidiary, HFA Lighthouse Holdings Corp is the parent entity of the US based Lighthouse Group ('Lighthouse'), which through Lighthouse Investment Partners, LLC acts as a global multi-hedge funds manager and adviser, and operates a managed account program for its funds and clients.

Through Lighthouse Investment Partners we deliver hedge fund solutions to a range of clients around the world.

Lighthouse Investment Partners, LLC ('Lighthouse') is a US based investment manager dedicated to managing multi-manager hedge funds for diversification and absolute return since 1999.

Based primarily in the United States, Lighthouse has offices in New York, Chicago, Palm Beach Gardens, London and Hong Kong.

As at 31 December 2016, Lighthouse managed $8.73 billion of assets.

Lighthouse commenced offering pooled investment vehicles to wholesale investors, and since 2011 has broadened its services to provide customised investment management solutions and services to large institutional clients.

Lighthouse has an investor base that spans North America, Europe, Asia and the Middle East and includes high net worth individuals, family offices, endowments, foundations, trusts, investment banks, benefit plans, pension funds, healthcare and insurance companies.

One of Lighthouse's key strengths is its proprietary managed accounts program, which is core to both its pooled managed funds and customised client services.

Directors' report

What drives our business?

Our success depends on three key factors:

AUMA

- We earn revenue from managing assets on behalf of our clients (which we refer to as "Assets Under Management and Advice" or "AUMA").

We seek to attract and retain AUMA by offering quality investment products and services, and delivering competitive performance and features.

Our ability to do this can also be impacted by external factors such as global markets and investor sentiment.

Fee rates

- The revenue we earn on our AUMA depends on the management, platform and performance fees we are entitled to charge for our services.

Our pooled investment products pay us management and performance fees based on disclosed rates, whilst our institutional clients can negotiate fees with us.

We operate in a highly competitive market, and there is pressure from investors to negotiate lower fee rates across the global investment management industry.

People

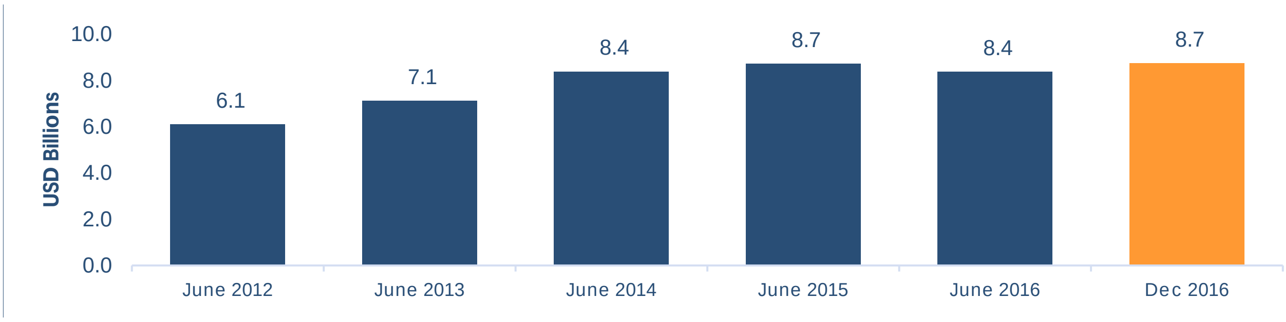
- Our success relies on attracting and retaining talented employees.

It is our employees who use their skills and knowledge to enable us to provide quality investment products and services, to innovate to meet changing investor needs and to respond to compliance requirements in what is a highly regulated industry.

To attract, motivate and retain quality employees HFA needs to offer competitive compensation and incentive packages.

AUMA

AUMA grew 4.25% over the 6 months to 31 December 2016:



The increase in AUMA has been driven by a combination of net inflows and investment performance:

	30 June 2016	Net flows[1]	Performance[2,3]	31 December 2016[3]
Lighthouse Funds	USD 4.58 bn	↓ USD 0.36 bn	↑ USD 0.11 bn	USD 4.33 bn
Lighthouse single investor customised solutions	USD 3.80 bn	↑ USD 0.53 bn	↑ USD 0.07 bn	USD 4.40 bn
Combined total	**USD 8.38 bn**	**↑ USD 0.17 bn**	**↑ USD 0.18 bn**	**USD 8.73 bn**

1 Net flows includes monies received by Lighthouse for applications effective 1 January 2017, and accordingly excludes monies received by Lighthouse which were effective 1 July 2016. This convention in relation to the reporting of net flows and AUMA has been consistently applied by the HFA Group since January 2008. The net flow numbers reflect a $0.31bn client transfer from Lighthouse Funds to Customised Client Accounts. Therefore, excluding the impact of this transfer, Lighthouse Funds had a net outflow of $0.05bn for the period, whilst Customised Clients had a net inflow of $0.22bn.

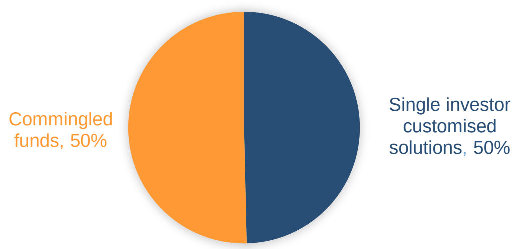
2 Performance includes investment performance, market movements, the impacts of foreign exchange on non-US denominated AUMA and distributions (if any).

3 31 December 2016 AUMA is based on performance estimates which may be subject to revision near the 20th business day of the month and upon final audit. AUMA excludes a non-discretionary long-only managed account structured for a single investor. AUMA may include transfers from other Lighthouse Funds that occurred on the first day of the following month.

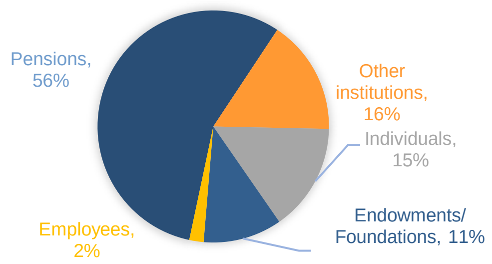
Directors’ report

Of the $8.73 billion managed by Lighthouse as at 31 December 2016, AUMA is evenly divided between the Lighthouse Funds business in commingled funds, and the customised solutions business representing individual strategic investors. The following charts show the composition of the AUMA in terms of services provided by Lighthouse, type of client, geographical location of client and allocation by investment strategy as at 31 December 2016:

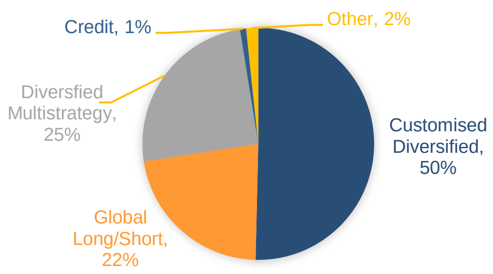
AUMA by service provided



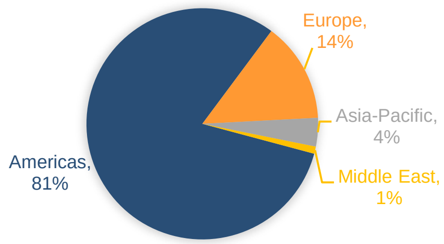
AUMA by client type



AUMA by strategy



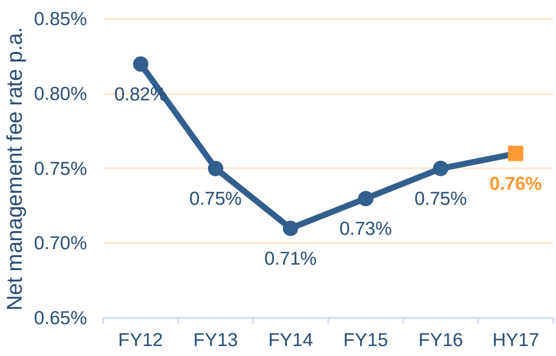
AUMA by client geographical location

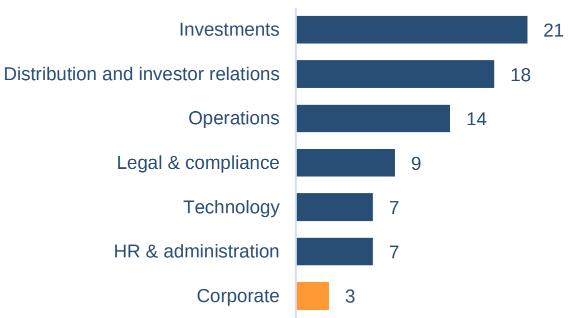


Fee rates

The changing profile of the Group’s AUMA since 2011, from managed funds only to a combination of managed funds and individual customised clients, has resulted in a trend of reduced total net management fee rates. However, the net management rate for the half-year has remained largely in line with the year ended 30 June 2016, at 0.76% per annum.

Investors are very conscious of the level of fees charged by investment managers, and we see this as a continuing trend in the short to medium term as the industry adjusts to this demand.





People

As at 31 December 2016 we have 79 employees across the following functional divisions.

Directors' report

Summary of HFA Group financial results

The HFA Group's earnings before interest, tax, depreciation and amortisation from continuing operations for the period ended 31 December 2016 were $14.108 million (FY16: $14.566 million).

Amounts in USD'000	31 December 2016	31 December 2015	% change	
Continuing operations				
Management and platform fee income	35,332	34,683	1.9%	A
Performance fee income	419	246	70.7%	B
Distribution costs	(2,721)	(2,987)	8.9%	C
Net income from operating activities	**33,030**	**31,942**	3.4%	
Other income	169	492	(65.7%)	
Operating expenses, excluding depreciation & amortisation	(18,474)	(17,735)	(4.2%)	D
Net finance costs, excluding interest	(383)	(133)	(188.6%)	
Share in loss of equity accounted investee	(234)	-	(100.0%)	E
Earnings before interest, tax, depreciation and amortisation	**14,108**	**14,566**	(3.1%)	
Depreciation and amortisation	(340)	(4,995)	93.2%	F
Net interest income / (expense)	30	(97)	130.4%	
Profit before income tax	**13,798**	**9,474**	45.6%	
Income tax expense	(5,371)	(3,867)	38.9%	G
Net profit after income tax from continuing operations	**8,427**	**5,607**	**50.3%**	
Discontinued operations				
Net loss for the year from discontinued operations	-	(890)	100.0%	H
Profit for the year attributable to owners of the Company	**8,427**	**4,717**	**78.7%**	
EBITDA per share (cents per share)	**8.70**	**8.98**	(3.1%)	
Basic EPS from continuing operations (cents per share)	**5.20**	**3.46**	**50.3%**	
Basic EPS (cents per share)	**5.20**	**2.91**	**78.7%**	

The above presentation of the Group's results is intended to provide a measure of the Group's performance before the impact of non-cash expense items such as depreciation and amortisation, interest costs associated with the Group's external debt facility, as well as the significant non-recurring item associated with the sale of the Group's Australian subsidiary during the 2015 financial year. Net profit before and after income tax reconciles to the consolidated income statement on page 11.

Directors' report

Key drivers of the FY17 result

A

Management and platform fee revenue increased by $0.65 million or 1.9% for the six months to 31 December 2016 in comparison to the corresponding period. The increase was due to:

- a 3 basis point increase in the net management / platform fee rate to 0.76%pa (HY16 : 0.73%pa); offset by
- a 1.27% decrease in average AUMA.

B

Performance fees are earned on select managed funds and certain customised client portfolios. The fees represent an agreed share of investment outperformance of the relative fund or portfolio over a defined benchmark and/or high watermark. Performance fees are variable in nature, and it is difficult to forecast how much, if any, performance fee revenue will be earned by the Group in future periods.

The Group earned $0.42 million of performance fees during the period, a 70.7% improvement on the corresponding prior period. This reflects the relatively improved manager performance in this half, resulting in overall positive investment performance of the Lighthouse portfolios. Despite this, performance fee revenue continues to remain a relatively immaterial component of the Group's revenue.

C

Distribution costs relate to third party distribution arrangements in place for Lighthouse, whereby Lighthouse makes ongoing payments to third parties in relation to clients they have introduced and who continue to be invested in Lighthouse managed funds. Distribution costs have decreased by $0.27 million or 8.9% in comparison to the prior period. This is due to a reduction in the proportion of AUMA which is subject to third party distribution arrangements. Distribution costs as a percentage of management and platform fee income has reduced to 7.7% for the current period (HY16 : 8.6%).

D

Operating expenses have increased by $0.74 million compared to the prior period. The key drivers for this increase were:

- additional personnel costs associated with an increase in employee numbers from 72 to 79, as well as an increase in the short-term incentive based on Lighthouse calendar year EBITDA.
- additional consulting expenses incurred in relation to a variety of areas, such as the Lighthouse risk management system, investment treasury services and IT security testing; offset by
- a reduction in software licensing fees due to re-negotiation of a key agreement.

E

During the period, the Group entered into a joint arrangement with Casement Capital Management, LP ('Casement"), a start-up commodities fund management company which commenced operations in July 2016. Casement is in the process of establishing its business and creating new investment funds. The Group holds a 40% interest in Casement, and has recognised a loss of $0.24 million in the income statement which represents it share of the operating losses for the period.

F

The significant reduction in the depreciation and amortisation expense is due to the intangible client relationship assets acquired by the Group in 2008 being fully amortised as at 31 December 2015.

The $0.34 million expense for the current period is comprised of:

- $0.17 million of amortisation of trademarks and capitalised software; and
- $0.17 million of depreciation of computer equipment, furniture and leasehold improvements.

G

The Group recognised an income tax expense on its accounting profit at an effective tax rate of 38.9% (HY16 : 40.8%).

As the Group's income is derived in the US, the effective tax rate reflects a combination of the US federal tax rate of 35%, individual US State-based taxes and the effect of other permanent and temporary tax adjustments.

The Group has significant deferred tax assets, and as a result no tax liability is payable in relation to the income tax expense other than some relatively nominal US State-based taxes.

H

The net loss for the prior period from discontinued operations was due to a revision of the estimated future amounts receivable pursuant to the sale of the Group's Australian subsidiary in April 2015. As at 31 December 2016, only $0.09 million of deferred consideration remains outstanding.

Directors' report

The key balance sheet items of the Group are:

Amounts in USD'000		31 December 2016	30 June 2016	
Assets	Cash	23,355	27,014	I
	Investments			J
	▪ Equity accounted investee	647	-	
	▪ Funds	9,775	8,857	
	▪ Other external entities	4,849	3,575	
	Intangible assets	95,596	95,768	K
	Recognised deferred tax assets	111,948	117,660	L
	Deferred tax assets not recognised in the balance sheet	*64,178*	*65,792*	

I

HFA primarily used cash generated from operating activities during the 2017 financial year to pay dividends to shareholders and increase its investment holdings:

- + $11.0 million generated from operating activities
- - $11.4 million paid to shareholders as dividends
- - $2.0 million net cash movement related to investments in Lighthouse funds
- - $1.2 million paid for the acquisition of interests in externally managed entities

J

The Group holds two key types of investments: investment in Lighthouse funds and investment in external entities.

The Group may hold investments in Lighthouse funds for a number of reasons, such as to meet regulatory commitments, due to contractual requirement of a customised client mandate, or to seed a new product which will be offered to external investors in the future. During the period, the Group's holdings in Lighthouse funds increased by $0.9 million to $9.8 million.

The Group also invests in a number of external entities. The investments are relatively small and strategic in nature, and may provide interesting synergistic opportunities for Lighthouse. The Directors consider that these investments offer valuable insights into evolving market practices and technologies within the financial services sector.

K

When the Company acquired Lighthouse in January 2008, it recognised $76.1 million of identifiable intangible assets in the form of client relationships, trademarks and software, as well as $499.5 million of goodwill.

Intangible assets as at 31 December 2016 comprise:

- $93.8 million of written-down goodwill from the acquisition of Lighthouse in January 2008.
- $1.05 million of trademarks from the acquisition of Lighthouse in January 2008.
- $0.75 million of software.

L

As at 31 December 2016, the Group's balance sheet includes a deferred tax asset of $111.9 million which is comprised of carried forward tax losses and deductible temporary differences relating to the US tax consolidated group.

$64.2 million of deferred tax assets relating to carried forward tax losses and deductible temporary differences of the Australian tax consolidated group remain unrecognised on the balance sheet as the Australian corporate entity is not expected to utilise these assets in the foreseeable future.

It is not expected that the Group will be in a tax payable position for a number of years other than in relation to some relatively nominal US State-based taxes.

Directors' report

Outlook

The Group continues to execute its strategy to retain and grow our AUMA through:

- consistently delivering investment performance in accordance with the investment strategies of the relevant funds and portfolios;
- broadening our global distribution reach through building new relationships and leveraging our existing relationships around the world;
- providing a high level of service to our clients from all parts of our business, with quality and timely reporting on their investments and a proactive approach to ensuring we are meeting all their investment needs; and
- continuing to innovate on how we can deliver solutions to existing and prospective clients.

Dividends

At the date of this report, the directors have determined an unfranked dividend of USD 6.0 cents per share (with 100% conduit foreign income credits) payable on 10 March 2017. The record date for entitlement to the interim dividend is 23 February 2017.

Events subsequent to end of financial year

There has not arisen in the interval between the end of the reporting period and the date of this report, any item, transaction or event of a material nature, likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Auditor's independence declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 9 and forms part of the directors' report for the six months ended 31 December 2017.

Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, amounts in the interim financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of directors:

Michael Shepherd, AO	**F P (Andy) Esteban**
Chairman and Non-Executive Director	Non-Executive Director

Dated at Sydney this 16th day of February 2017

Lead auditors' independence declaration

Under Section 307C of the Corporations Act 2001

To the directors of HFA Holdings Limited:

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

KPMG

Matthew McDonnell
Partner

Dated at Brisbane this 16th day of February 2017

Interim financial report

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Income statement

For the six months ended 31 December 2016

Amounts in USD'000	Note	Consolidated 31 December 2016	31 December 2015
Continuing Operations			
Operating revenue	2	35,751	34,929
Distribution costs		(2,721)	(2,987)
Net income from operating activities		**33,030**	**31,942**
Other income	2	169	492
Operating expenses	3	(18,814)	(22,730)
Results from operating activities		**14,385**	**9,704**
Finance income	4(a)	70	31
Finance costs	4(a)	(423)	(261)
Net finance costs		**(353)**	**(230)**
Share of loss of equity accounted investee	9	(234)	-
Profit before income tax		**13,798**	**9,474**
Income tax expense	5	(5,371)	(3,867)
Profit for the period from continuing operations		**8,427**	**5,607**
Discontinued Operations			
Loss after tax for the period from discontinued operations		-	(890)
Profit attributable to members of the parent		**8,427**	**4,717**
Earnings per share from continuing operations			
Basic earnings per share (US cents)	7	5.20	3.46
Diluted earnings per share (US cents)	7	5.20	3.46
Earnings per share			
Basic earnings per share (US cents)	7	5.20	2.91
Diluted earnings per share (US cents)	7	5.20	2.91

The accompanying notes form part of these consolidated financial statements.

Statement of comprehensive income

For the six months ended 31 December 2016

Amounts in USD'000	Note	Consolidated 31 December 2016	 31 December 2015
Profit attributable to members of the parent		**8,427**	**4,717**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation differences	4(b)	-	(16)
Net change in available-for-sale financial assets	4(b)	910	-
Income tax on other comprehensive income	4(b)	(346)	
Other comprehensive income for the year		**564**	**(16)**
Total comprehensive income for the year		**8,991**	**4,701**
Total comprehensive income for the period, net of tax, attributable to members of the parent arising from:			
Continuing operations		8,991	5,591
Discontinued operations		-	(890)
Total comprehensive income for the period		**8,991**	**4,701**

The accompanying notes form part of these consolidated financial statements.

Statement of financial position

As at 31 December 2016

		Consolidated	
Amounts in USD'000	Note	31 December 2016	30 June 2016
Assets			
Cash and cash equivalents		23,355	27,014
Trade and other receivables		11,517	11,263
Total current assets		**34,872**	**38,277**
Investments	8	14,624	12,432
Equity accounted investee	9	647	-
Plant and equipment		1,120	1,176
Deferred tax assets	5	111,948	117,660
Intangible assets		95,596	95,768
Other non-current assets		661	661
Total non-current assets		**224,596**	**227,697**
Total assets		**259,468**	**265,974**
Liabilities			
Trade and other payables		2,436	2,658
Employee benefits		4,051	7,864
Current tax liabilities	5	76	81
Total current liabilities		**6,563**	**10,603**
Trade and other payables		804	870
Employee benefits		106	81
Total non-current liabilities		**910**	**951**
Total liabilities		**7,473**	**11,554**
Net assets		**251,995**	**254,420**
Equity			
Share capital	10	257,355	257,355
Reserves		26,786	27,501
Accumulated losses		(32,146)	(30,436)
Total equity attributable to equity holders of the Company		**251,995**	**254,420**

The accompanying notes form part of these consolidated financial statements.

Statement of changes in equity

For the six months ended 31 December 2016

		Consolidated amounts attributable to equity holders of the parent						
Amounts in USD'000	Note	Share Capital	Share Based Payments Reserve	Fair Value Reserve	Translation Reserve	Parent Entity Profits Reserve	Accum-ulated Losses	Total Equity
Balance at 1 July 2015		**257,355**	**13,326**	**931**	**762**	**9,008**	**(23,936)**	**257,446**
Net profit for the period		-	-	-	-	-	4,717	4,717
Transfer to parent entity profits reserve[1]		-	-	-	-	6,548	(6,548)	-
Other comprehensive income								
Foreign currency translation differences	4(b)	-	-	-	(16)	-	-	(16)
Total other comprehensive income, net of tax		-	-	-	(16)	-	-	(16)
Total comprehensive income for the period, net of tax		**-**	**-**	**-**	**(16)**	**6,548**	**(1,831)**	**4,701**
Dividends to equity holders	6	-	-	-	-	(8,887)	-	(8,887)
Total transactions with owners		-	-	-	-	(8,887)	-	(8,887)
Balance at 31 December 2015		**257,355**	**13,326**	**931**	**746**	**6,669**	**(25,767)**	**253,260**
Balance at 1 July 2016		**257,355**	**13,326**	**931**	**850**	**12,394**	**(30,436)**	**254,420**
Net profit for the period		-	-	-	-	-	8,427	8,427
Transfer to parent entity profits reserve[1]		-	-	-	-	10,137	(10,137)	-
Other comprehensive income								
Net change in available-for-sale financial assets	4(b)	-	-	910	-	-	-	910
Income tax on other comprehensive income	4(b)	-	-	(346)	-	-	-	(346)
Total other comprehensive income, net of tax		-	-	564	-	-	-	564
Total comprehensive income for the period, net of tax		**-**	**-**	**564**	**-**	**10,137**	**(1,710)**	**8,991**
Dividends to equity holders	6	-	-	-	-	(11,416)	-	(11,416)
Total transactions with owners		-	-	-	-	(11,416)	-	(11,416)
Balance at 31 December 2016		**257,355**	**13,326**	**1,495**	**850**	**11,115**	**(32,146)**	**251,995**

[1] Relates to the net profit of the parent entity (HFA Holdings Limited).

Statement of cash flows

For the six months ended 31 December 2016

		Consolidated	
Amounts in USD'000	Note	31 December 2016	31 December 2015
Cash flows from operating activities			
Cash receipts from operating activities		35,915	35,349
Cash paid to suppliers and employees		(24,962)	(26,792)
Cash generated from operations		10,953	8,557
Interest received		15	10
Income taxes paid		-	3
Net cash from operating activities		**10,968**	**8,570**
Cash flows from investing activities			
Acquisition of plant and equipment		(111)	(195)
Acquisition of investments		(4,231)	(3,350)
Proceeds from disposal of investments		982	-
Net proceeds from sale of subsidiary		91	524
Acquisition / (redemption) of other non-current assets		-	274
Net cash (used in) / from investing activities		**(3,269)**	**(2,747)**
Cash flows from financing activities			
Interest paid		-	(128)
Repayment of external borrowings		-	(3,750)
Dividends paid to equity holders	6	(11,416)	(8,887)
Net cash used in financing activities		**(11,416)**	**(12,765)**
Net increase / (decrease) in cash and cash equivalents		**(3,717)**	**(6,942)**
Cash and cash equivalents at 1 July		27,014	26,896
Effect of exchange rate fluctuations on cash balances held in foreign currencies		58	(14)
Cash and cash equivalents at 31 December		**23,355**	**19,940**

The accompanying notes form part of these consolidated financial statements

Notes to the financial statements

For the six months ended 31 December 2016

1. Operating segments

As at 31 December 2016, the Group had one reportable segment, being the US based Lighthouse Group, which operates as a global absolute return funds manager for US and Cayman Island based investment vehicles.

Corporate includes assets and liabilities and corporate expenses relating to the corporate parent entity, HFA Holdings Limited, and balances that are eliminated on consolidation of the Group and are not operating segments.

The CEO and board of directors review internal management reports on a monthly basis.

	Continuing Operations						Discontinued Operations	
	Lighthouse		Corporate		Consolidated			
Amounts in USD'000	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Operating revenue	35,751	34,929	-	-	35,751	34,929	-	-
Distribution costs	(2,721)	(2,987)	-	-	(2,721)	(2,987)	-	-
Net income from operating activities	**33,030**	**31,942**	**-**	**-**	**33,030**	**31,942**	**-**	**-**
Earnings before interest, tax, depreciation and amortisation	**14,439**	**15,301**	**(331)**	**(735)**	**14,108**	**14,566**	**-**	**(890)**
Reportable segment profit / (loss) before income tax	**14,125**	**10,211**	**(327)**	**(737)**	**13,798**	**9,474**	**-**	**(890)**

Segment assets and liabilities

There has been no material change in the allocation of segment assets and liabilities compared to the Group's consolidated financial statements as at and for the year ended 30 June 2016.

2. Revenue

	Consolidated	
Amounts in USD'000	31 December 2016	31 December 2015
Management and platform fee income	35,332	34,683
Performance fee income	419	246
Operating revenue	**35,751**	**34,929**
Operating lease revenue	169	492
Other income	**169**	**492**

Notes to the financial statements

For the six months ended 31 December 2016

3. Expenses

Operating expenses

Amounts in USD'000	Consolidated 31 December 2016	31 December 2015
Employee benefits	(13,797)	(13,056)
Professional fees	(1,140)	(720)
Occupancy expenses	(1,017)	(1,009)
Information technology expenses	(553)	(954)
Travel costs	(657)	(548)
Depreciation	(167)	(235)
Amortisation of intangible assets	(173)	(4,760)
Other expenses	(1,310)	(1,448)
Total expenses	**(18,814)**	**(22,730)**

4. Finance income and costs

(a) Recognised directly in profit or loss

Amounts in USD'000	Consolidated 31 December 2016	31 December 2015
Finance income		
Interest income on bank deposits	15	10
Interest income on convertible promissory notes	15	-
Net foreign exchange gains	40	21
Total finance income	**70**	**31**
Finance costs		
Interest expense (secured debt)	-	(107)
Bank charges	(32)	(33)
Financial assets designated at fair value through profit or loss (investment in funds)		
Net change in fair value	(391)	(121)
Total finance costs	**(423)**	**(261)**
Net finance costs recognised in profit or loss	**(353)**	**(230)**

4. Finance income and costs (continued)

(b) Recognised directly in other comprehensive income

Amounts in USD'000	Consolidated 31 December 2016	Consolidated 31 December 2015
Foreign currency translation differences	-	(16)
Net change in available-for-sale financial assets	910	
Income tax on other comprehensive income	(346)	-
Finance income attributable to equity holders recognised directly in equity	**564**	**(16)**
Recognised in:		
Translation reserve	-	(16)
Fair value reserve	564	-
	564	**(16)**

5. Income tax

The Company wound up its only wholly-owned Australian resident subsidiary effective September 2016, and since that date the Company is the only Australian resident tax-paying entity within the Group. Non-Australian entities within the Group are part of a US consolidated tax group.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

(a) Reconciliation of effective tax rate (continuing operations)

Amounts in USD'000	Consolidated 31 December 2016	Consolidated 31 December 2015
Profit before income tax	13,798	9,474
Income tax using the Company's domestic tax rate of 30% (2015: 30%)	(4,139)	(2,842)
Effect of tax rates in foreign jurisdictions*****	(1,116)	(802)
Non-deductible/assessable amounts included in accounting profit	(152)	(344)
Deductible amounts not included in accounting profit	124	118
Changes in unrecognised temporary differences	-	117
Current year tax losses for which no deferred tax asset is initially recognised	(88)	(114)
Total income tax (expense) / benefit reported in profit or loss	**(5,371)**	**(3,867)**

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

(b) Current tax liabilities

Amounts in USD'000	Consolidated 31 December 2016	Consolidated 30 June 2016
Current tax liabilities	**76**	**81**

Current tax liabilities represent the amount of income taxes payable to the relevant tax authority, using tax rates current at reporting date.

5. Income tax (continued)

(c) Deferred tax assets

Deferred tax assets – US Group

Deferred tax assets have been recognised in respect of the following items:

	Consolidated	
Amounts in USD'000	31 December 2016	30 June 2016
Carry forward tax losses	38,273	36,033
Goodwill and intangible assets	68,448	75,686
Financial assets at fair value through profit or loss	(260)	(497)
Available-for-sale financial assets	(913)	(568)
Employee benefits	1,510	2,559
Other items	4,890	4,447
	111,948	**117,660**

As at 31 December 2016 it is considered more likely than not that the US Group's carried forward tax losses and deductible temporary differences will be fully recovered.

Carried forward tax losses relating to the US Group have a life of 20 years, and will expire during the period from 2029 to 2036.

Deferred tax assets – Australian Group

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

	Consolidated	
Amounts in USD'000	31 December 2016	30 June 2016
Deductible temporary differences	61,147	62,752
Tax losses	3,031	3,040
	64,178	**65,792**

Unrecognised deferred tax assets relating to the Australian Group consist of deductible temporary differences (including impairment losses recognised in previous financial years), and carried forward operating tax losses.

As at 31 December 2016, it is not probable that the Australian Group will produce sufficient taxable profits against which these deferred tax assets can be utilised and therefore the deferred tax assets remain unrecognised.

$61,147 thousand (30 June 2016: $62,752 thousand) of the deductible temporary differences not recognised relate to an impairment write-down taken during the year ended 30 June 2009 on the carrying value of the Lighthouse Group. The realisation of this tax asset is subject to the application of relevant tax legislation and the structure of any future business transactions in relation to the Lighthouse Group, if and when any such transaction was to occur.

Tax losses relating to the Australian Group and deductible temporary differences do not expire under current tax legislation.

Notes to the financial statements

For the six months ended 31 December 2016

6. Dividends

The following dividends were paid by the Company:

	Consolidated	
Amounts in USD'000	31 December 2016	31 December 2015
Final ordinary dividend for the year ended 30 June 2016 of USD 7.0 cents	11,416	-
Final ordinary dividend for the year ended 30 June 2015 of USD 5.5 cents	-	8,887
	11,416	**8,887**

The Directors have determined an interim unfranked dividend of 6.0 cents per share (with 100% conduit foreign income credits). The dividend will be paid on 10 March 2017.

The dividends have not been provided for as at 31 December 2016, and there are no income tax consequences.

7. Earnings per share

Earnings per share

	Consolidated	
Amounts in USD per share	31 December 2016	31 December 2015
Basic earnings per share	5.20	2.91
Diluted earnings per share	5.20	2.91

Earnings per share from continuing operations

	Consolidated	
Amounts in USD per share	31 December 2016	31 December 2015
Basic earnings per share	5.20	3.46
Diluted earnings per share	5.20	3.46

Reconciliation of earnings used in calculating earnings per share

Basic and diluted earnings per share

	Consolidated	
Amounts in USD'000	31 December 2016	31 December 2015
Profit attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**8,427**	4,717
Adjustment for loss / (profit) after tax for the year from discontinued operations	-	890
Profit from continuing operations attributable to ordinary equity holders of the Company used in calculating basic and diluted earnings per share	**8,427**	**5,607**

Notes to the financial statements

For the six months ended 31 December 2016

7. Earnings per share (continued)

Weighted average number of shares used in calculating basic and diluted earnings per share

	Consolidated	
Amounts in '000 of shares	31 December 2016	31 December 2015
Issued ordinary shares at 1 July	162,148	162,148
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**162,148**	**162,148**

HFA did not have any potential ordinary shares outstanding at balance date, and hence the weighted average number of shares used in calculating basic and diluted earnings per share is the same.

The loss from discontinued operations for the period ended 31 December 2015 included variances between estimated and actual consideration received, foreign currency losses on consideration received, and an adjustment to the estimate of residual fee revenue still receivable as at 31 December 2015.

8. Investments

	Consolidated	
Amounts in USD'000	31 December 2016	30 June 2016
Available-for-sale financial assets	4,348	2,889
Financial assets at fair value through profit or loss	10,276	9,543
	14,624	**12,432**

Available-for-sale financial assets

Available-for-sale financial assets comprise non-controlling equity holdings in unquoted securities of US based limited liability companies over which the Group does not have significant influence.

These investments are measured at fair value, with changes in fair value recognised in other comprehensive income and presented in the fair value reserve in equity.

Note 11 provides details on the methods used to determine fair value for measurement and disclosure purposes.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise of the following:

	Consolidated	
Amounts in USD'000	31 December 2016	30 June 2016
Investments in unquoted securities of entities managed by Lighthouse	9,775	8,857
Investments in convertible promissory notes of unrelated entity	501	686
	10,276	**9,543**

These assets have been classified as fair value through profit or loss upon initial recognition as the Group makes decisions in relation to these financial assets based on fair value. These investments are measured at fair value, and changes in their fair value are recognised in profit or loss.

Note 11 provides details on the methods used to determine fair value for measurement and disclosure purposes.

9. Equity accounted investee

Joint ventures

The following is summarised financial information for the Group's interest in joint ventures, based on the amounts reported in the Group's consolidated financial statements:

	Consolidated	
Amounts in USD'000	31 December 2016	30 June 2016
Carrying amount of interests in joint venture	**647**	**-**

	Consolidated	
Amounts in USD'000	31 December 2016	31 December 2015
Group's share of:		
Loss from continuing operations	(234)	-
Other comprehensive income	-	-
Total comprehensive income	**(234)**	**-**

10. Capital

Ordinary shares on issue

	Consolidated	
In thousands of shares	31 December 2016	30 June 2016
Ordinary shares on issue 30 June	162,148	162,148

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. The Company does not have authorised capital or par value in respect of issued shares. All ordinary shares rank equally with regard to the Company's residual assets. Ordinary shares have the right to receive dividends as declared and are entitled to one vote per share at general meetings of the Company.

Notes to the financial statements

For the six months ended 31 December 2016

11. Financial instruments

Fair value of financial instruments

Fair value hierarchy

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

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

Fair value measurements

The following table shows the fair values of financial assets and their levels in the fair value hierarchy.

Amounts in USD'000	Note	Level 1	Level 2	Level 3	Total
			30 June 2016		
Available-for-sale financial assets					
- Investment in unquoted securities of externally managed entity	8	-	-	2,889	2,889
- Deferred consideration receivable		-	-	178	178
Financial assets at fair value through profit or loss					
- Investments in unquoted securities of entities managed by Lighthouse	8	-	8,857	-	8,857
- Investments in convertible promissory notes	8	-	-	686	686
			31 December 2016		
Available-for-sale financial assets					
- Investments in unquoted securities of externally managed entities	8	-	-	4,348	4,348
- Deferred consideration receivable		-	-	87	87
Financial assets at fair value through profit or loss					
- Investments in unquoted securities of entities managed by Lighthouse	8	-	9,775	-	9,775
- Investment in convertible promissory notes	8	-	-	501	501

There were no transfers between levels during the financial year ended 30 June 2016 or the six months ended 31 December 2016.

Notes to the financial statements

For the six months ended 31 December 2016

11. Financial instruments (continued)

Movement in Level 3 assets

The following table presents the change in Level 3 assets for the financial year ended 30 June 2016 and the six months ended 31 December 2016:

Amounts in USD'000	Note	Deferred consideration receivable	Investments in unquoted securities of externally managed entities	Investment in convertible promissory notes	Total
Opening balance 1 July 2015		**2,216**	**2,889**	**-**	**5,105**
Receipt of deferred revenue recognised on sale of subsidiary		(1,230)	-	-	(1,230)
Movement due to foreign exchange losses and change in estimates		(808)	-	-	(808)
Investments in convertible promissory notes plus accrued interest		-	-	686	686
Closing balance 30 June 2016		**178**	**2,889**	**686**	**3,753**
Receipt of deferred revenue recognised on sale of subsidiary		(91)	-	-	(91)
Movement in fair value of available-for-sale financial assets		-	910	-	910
Investments in unquoted securities of externally managed entities plus accrued interest		-	200	-	200
Investments in convertible promissory notes plus accrued interest		-	-	164	164
Conversion of promissory notes to equity in externally managed entity plus accrued interest		-	349	(349)	-
Closing balance 31 December 2016		**87**	**4,348**	**501**	**4,936**

There were no transfers in or out of Level 3 during the six months ended 31 December 2016.

Valuation techniques and significant unobservable inputs

The following table shows the specific valuation technique used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used (if applicable).

Type	Valuation technique	Significant unobservable inputs	Input derived from	Relationship of unobservable inputs and fair value measurement
Investments in unquoted securities of entities managed by Lighthouse *(Level 2)*	Calculated by reference to exit price at reporting date.	Not applicable.	Exit price at reporting date.	Not applicable.
Deferred consideration receivable *(Level 3)*	Calculated based on the terms of the relevant contract using a discounted cash flow model.	As at 30 June 2017 nil AUM growth assumed for remaining forecast period.	Not applicable	Not applicable
Investments in unquoted securities of externally managed entities *(Level 3)*	Valued based on available evidence which includes: ▪ recent arm's length equity transactions, discounted for marketability. ▪ transaction price where this provides the best indication of fair value at reporting date.	Not applicable	External evidence of equity transactions provided by investees.	Not applicable.
Investment in convertible promissory notes *(Level 3)*	Calculated based on transaction price, which is the best indicator of fair value as at 31 December 2016.	Not applicable.	Not applicable.	Not applicable.

The Group's finance team performs the valuations of Level 2 and Level 3 investments for financial reporting purposes. The team reports directly to the Chief Financial Officer and the Audit and Risk Committee.

Notes to the financial statements

For the six months ended 31 December 2016

12. Subsequent events (events occurring after the reporting period)

There has not arisen in the interval between the end of the reporting period and the date of this report, any other item, transaction or event of a material nature, likely to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

13. Reporting entity

HFA Holdings Limited (the 'Company' / 'HFA') is a public company incorporated in Australia and is listed on the Australian Securities Exchange. The registered office of HFA is Level 15, 324 Queen Street, Brisbane QLD 4000.

These consolidated interim financial statements of the Company as at and for the six months ended 31 December 2016 comprise the Company and its subsidiaries (the 'Group').

14. Basis of accounting

These interim financial statements have been prepared in accordance with AASB 134: Interim Financial Reporting; the Corporations Act 2001; and IAS 34 Interim Financial Reporting. They do not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 30 June 2016 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The consolidated financial statements of the Group as at and for the year ended 30 June 2016 are available on the Company's website at www.hfaholdings.com.au, or a copy can be requested by contacting the Company.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out in note 15.

These interim financial statements were authorised for issue by the Company's board of directors on the 16th day of February 2016.

Basis of measurement

The consolidated financial statements have been prepared on a going concern basis. The consolidated financial statements have been prepared on a historical cost basis except for the following items:

Items	Measurement basis
Financial instruments at fair value through profit or loss	Fair value
Available-for-sale financial assets measured at fair value	Fair value

The methods used to measure fair value are discussed further in note 11.

Functional and presentation currency

The consolidated financial statements are presented in US dollars ('USD'), which is the Company's functional currency.

The amounts contained in this financial report have been rounded to the nearest thousand dollars in accordance with the ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 dated 24 March 2016, unless otherwise stated.

Translation of foreign currency

The results and financial position of all Group entities that have a functional currency different to the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position are translated at the closing rate at the date of the statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates of exchange ruling on the date of those transactions); and
- All resulting exchange differences are recognised in a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to equity.

Transactions in foreign currencies are translated to the respective functional currency of Group entities at rates of exchange ruling on the date of those transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss.

15. Other accounting policies

Changes in accounting policies

New and amended standards

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current reporting period:

- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Annual Improvements to IFRS 2012 -2014 Cycle – various standards
- Disclosure Initiative (Amendments to IAS 1)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- AASB 1057 Application of Australian Accounting Standards (as amended by AASB 2015-9)

These did not have a material impact on the disclosures or the amounts recognised in the Group's financial statements.

Assumptions and estimation uncertainties

In preparing these interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

Measurement of fair values

A number of the Group’s accounting policies and disclosures require the determination of fair value. The methods used to determine fair values for measurement and / or disclosure purposes are included in the following notes:

- note 11 – deferred consideration receivable;
- notes 8 and 11 – investments in financial assets at fair value through profit or loss; and
- notes 8 and 11 – investment in available-for-sale financial assets.

Directors' declaration

In the opinion of the directors of HFA Holdings Limited (the 'Company'):

(a) the consolidated interim financial statements and notes that are set out on pages 11 to 26 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

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

Signed in accordance with a resolution of the directors.

Michael Shepherd, AO

Chairman and Non-Executive Director

F P (Andy) Esteban

Non-Executive Director

Dated at Sydney this 16th day of February 2017

Independent auditor's review report

To the shareholders of HFA Holdings Limited

Report on the Interim Financial Report

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the ***Interim Financial Report*** of HFA Holdings Limited (the Company) and its controlled entities (the Group) is not in accordance with the *Corporations Act 2001*, including:

i) giving a true and fair view of the ***Group's*** financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

ii) complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

We have reviewed the accompanying Interim Financial Report of HFA Holdings Limited.

The ***Interim Financial Report*** comprises:

- the consolidated statement of financial position as at 31 December 2016;
- consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date;
- Notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information;
- the Directors' Declaration.

The ***Group*** comprises HFA Holdings Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim 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 Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of HFA Holdings Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of half-year consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

KPMG

Matthew McDonnell
Partner

Brisbane
16 February 2017