

# Results announcement

Hastings High Yield Fund (HHY)

Total pages: 31

19 February 2010

## Appendix 4D – Report for the half year ended 31 December 2009

Please find enclosed the following documents:

- A. Results for announcement to the market
- B. Commentary on the results
- C. Financial report for the half year ended 31 December 2009
- D. Independent auditor's review report

**For further enquiries, please contact:**

**George Batsakis**

Chief Operating Officer

Hastings High Yield Fund

Tel: +61 3 8650 3600

Fax: +61 3 8650 3701

Email: [investor\\_relations@hfm.com.au](mailto:investor_relations@hfm.com.au)

Website: [www.hfm.com.au/hhy](http://www.hfm.com.au/hhy)

**Simon Ondaatje**

Head of Investor Relations

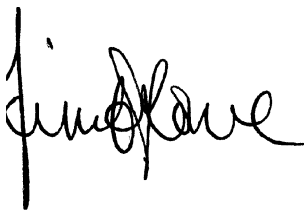
Hastings Funds Management

Tel: +61 3 8650 3600

Fax: +61 3 8650 3701

Email: [investor\\_relations@hfm.com.au](mailto:investor_relations@hfm.com.au)

Website: [www.hfm.com.au/hhy](http://www.hfm.com.au/hhy)



**Kim Rowe**

Company Secretary

Hastings Funds Management Limited

## A. Results for announcement to the market

	Change from previous corresponding period	Half year to 31 December 2009 (\$'000)	Half year to 31 December 2008 (\$'000)
Income from ordinary activities	Up 41%	15,942	11,296
Profit from ordinary activities after tax attributable to unitholders	Up 59%	12,285	7,726
Net profit for the period attributable to unitholders	Up 59%	12,285	7,726
Net cashflows from operating activities	Down 57%	5,357	12,373

Refer to Section B for commentary on the results.

	Half year to 31 December 2009 (cents per unit)	Half year to 31 December 2008 (cents per unit)
<b>September quarter cash distribution</b>	<b>3.50</b>	<b>4.80</b>
Record date to determine entitlements to distribution	30 September 2009	30 September 2008
Payment date for distribution	12 November 2009	11 November 2008
Price of units issued under HHY's distribution reinvestment plan <sup>(1)</sup> (DRP)	n/a	\$1.2442
<b>December quarter cash distribution</b>	<b>3.70</b>	<b>4.80</b>
Record date to determine entitlements to distribution	31 December 2009	31 December 2008
Payment date for distribution	10 February 2010	9 February 2009
Price of units issued under HHY's DRP <sup>(1)</sup>	n/a	n/a
<b>Total cash distributions for the half year<sup>(2)</sup></b>	<b>7.20</b>	<b>9.60</b>

<sup>(1)</sup> The DRP issue price applied to the distributions paid to HHY unitholders who were registered as participants in the DRP at the record date. From the September 2006 quarter DRP until the September 2008 quarter DRP, a 2.5 percent discount applied to the reinvestment price. From the December 2008 quarter the DRP was suspended until further notice.

<sup>(2)</sup> In addition to cash distributions, units in HHY generate tax credits which are distributed at the end of each financial year.

	31 December 2009	31 December 2008
Net tangible asset backing per unit	\$1.88 <sup>(1)</sup>	\$1.84
Closing unit price	\$1.35	\$0.985

<sup>(1)</sup> Following recent amendments to the accounting standards (IFRS 9: Financial Instruments), HHY's unlisted debt securities are now being accounted for under amortised cost accounting as permitted. Amortised cost accounting is deemed a more appropriate accounting policy and is consistent with HHY's hold-to-maturity investment strategy. The accounting treatment has been adopted by Hastings' Audit and Compliance Committee and HHY's auditors, PricewaterhouseCoopers have expressed an unqualified review opinion on the Financial statements for the period, which incorporate the impact of the change in accounting policy. Under amortised cost accounting, HHY is still required to assess any credit impairment and make timely adjustments accordingly.

## **B. Commentary on the results**

### **Overview**

Hastings High Yield Fund (HHY), the consolidated entity, reported a net profit attributable to unitholders of \$12,285,000 for the half year ended 31 December 2009. The result represents earnings attributable to unitholders of 11.13 cents per unit.

### **Key events**

Key events since 1 July 2009 include:

- Investment portfolio:
  - investment portfolio of 14 securities maintained;
  - all investments continue to receive interest and dividend income as anticipated;
  - active monitoring and management of existing portfolio; and
  - recapitalisation of Prime Infrastructure successfully completed with full cash redemption of SPARCS anticipated at the next reset date of 17 November 2010.
- Capital position:
  - DRP remains suspended until further notice;
  - debt facility:
    - drawn debt of \$64.5 million at 31 December 2009, representing 23.3 percent of the fund's total assets;
    - debt facility matures in June 2011; and
    - all financial covenants are currently comfortably met. There are no minimum market capitalisation nor any margin call requirements.

### **Distributions**

The total distributions paid to unitholders for the half year ended 31 December 2009 were in line with guidance previously announced to the market.

During the half year ended 31 December 2009 the Directors declared the following cash distributions:

- \$3,865,000 for the quarter ended 30 September 2009, equating to 3.50 cents per unit, paid on 12 November 2009; and
- \$4,085,000 for the quarter ended 31 December 2009, equating to 3.70 cents per unit, paid on 10 February 2010.

The cash distributions declared for the half year ended 31 December 2009 totalled 7.20 cents per unit.

## B. Commentary on the results *continued*

### Distribution guidance for the quarter ending 31 March 2010

Distribution guidance for the quarter ending 31 March 2010 is 3.70 cents cash per unit.

### Annual distribution guidance

Distribution guidance for the year ending 30 June 2010 is reaffirmed to be 15.00 cents per unit (inclusive of tax credits). This represents a forecast annual yield of 11.1 percent based on HHY's closing unit price of \$1.35 per unit on 31 December 2009 and delivers a margin of 6.8 percent above the 31 December 2009 three month Australian bank bill interest rate.

The key underlying drivers of HHY's distributions include:

- the level of Australian bank bill interest rates impacting the level of interest income generated by HHY's investment securities. A 1.0 percent increase in Australian bank bill interest rate levels would be expected to result in a rise in annual distribution guidance of between 1.0 and 1.5 cents per unit. Approximately 80 percent of HHY's portfolio is currently in investments which earn a floating rate of interest which provides some protection against a rising interest rate environment; and
- the continued receipt of interest and dividend income by the investment portfolio. The 14 securities held by HHY provides diversification benefits and reduces reliance on any single investment.

### Investment portfolio

HHY's investment portfolio comprises of predominantly debt securities with the objective of providing unitholders with a regular source of income. The securities have been sourced from transactions associated with:

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

At 31 December 2009, HHY was invested in 14 securities, the details of each investment are set out below:

Investment	Instrument	Investment Amount \$'000
AB Ports	Junior Floating Rate Loan	12,554
Arqiva	Junior Floating Rate Loan	23,885
BAA	Toggle Facility	23,043
Cory Environmental	Junior Floating Rate Loan	16,429
DCA Group	Junior Floating Rate Loan	22,754
Eircom	Senior Term Loans	17,758
EnviroWaste	Junior Floating Rate Loan	16,133
European Directories	Second Lien Loan	16,737
Hyne Timber	High Yield Non-cumulative Exchangeable Securities	14,043
Maher Terminals	Junior Floating Rate Loan	21,760
Manildra Group	Reset Secured Notes	24,788
Prime Infrastructure SPARCS	Subordinated Prime Adjusting Reset Convertible Securities	16,037
South East Water	Junior Floating Rate Loan	21,281
Thames Water	Junior Floating Rate Loan	21,607
<b>Total</b>		<b>268,809</b>

## 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 half year ended 31 December 2009 was derived as follows:

Investment	Interest & dividends	Realised & unrealised gains/(losses) <sup>(1)</sup>	Fee income	Total
	\$'000	\$'000	\$'000	
AB Ports	407	114	-	521
Arqiva	811	303	-	1,114
BAA	812	285	-	1,097
Cory Environmental	628	151	-	779
DCA Group	1,099	-	216	1,315
Eircom	629	356	-	985
EnviroWaste	761	61	-	822
European Directories	704	306	-	1,010
Hyne Timber	492	(154)	-	338
Maher Terminals	867	245	-	1,112
Manildra Group	1,457	(579)	-	878
Prime Infrastructure SPARCS	563	3,406	-	3,969
South East Water	817	142	-	959
Thames Water	838	253	-	1,091
<b>Security revenue</b>	<b>10,885</b>	<b>4,889</b>	<b>216</b>	<b>15,990</b>
Other	-	9	-	9
Cash	98	(155)	-	(57)
<b>Total revenue</b>	<b>10,983</b>	<b>4,743</b>	<b>216</b>	<b>15,942</b>
Finance costs				(2,694)
Other expenses <sup>(2)</sup>				(963)
<b>Net profit attributable to unitholders</b>				<b>12,285</b>

(1) Realised gains/(losses) on assets may occur due to timing on receiving interest income and foreign currency swaps. Unrealised gains and losses can occur due to asset or liability revaluations.

(2) Includes income tax expense

### Summary & outlook

The 2009 calendar year was a period of high credit market volatility. Fear dominated in the first half of the year with investor sentiment and overall fundamentals returning to more sustainable levels in the latter half. Public bond markets re-opened strongly providing much needed liquidity. However, credit availability remains constrained, particularly in private markets which is increasingly creating a funding gap.

During the half the Reserve Bank of Australia has continued to increase the target cash rate to 3.75 percent per annum, with the market expecting further interest rate rises during 2010. Given the predominantly floating rate nature of HHY's investments, unitholders are provided with some protection against a rising interest rate and inflationary environment.

HHY continues to receive interest and dividend income as anticipated. Following the successful outcomes achieved on Maher Terminal, DCA Group, and Prime Infrastructure's SPARCS during the 2009 calendar year, the outlook for the HHY portfolio is stable.

## **C. Financial report for the half year ended 31 December 2009**

# **Hastings High Yield Fund**

ARSN 112 579 129

## **Condensed Consolidated Interim Financial Statements for the half year ended 31 December 2009**

## Directors' Report

The directors of Hastings Funds Management Limited, the Responsible Entity for the Hastings High Yield Fund ("the Scheme"), present their report together with the consolidated financial statements of the Hastings High Yield Fund and its controlled entities (collectively, "the Group") for the half year ended 31 December 2009.

### Directors

The following persons held office as directors of Hastings Funds Management Limited during the half year:

Alan Cameron - Chairman (appointed Chairman 6 October 2009 and Director since 14 April 2009)  
Steve Boulton  
William Forde (retired as Chairman 6 October 2009 and continues as a Director)  
Alan Freer (retired 6 October 2009)  
Stephen Gibbs  
Mike Hutchinson (retired 31 December 2009)  
Jim McDonald  
Sean McElduff (retired 6 October 2009)  
Les Vance (appointed 6 October 2009)  
Jim Evans (appointed 6 October 2009)

All directors were in office from the beginning of the half year until the date of this report unless otherwise stated.

### Company Secretaries

The Company Secretaries of the Responsible Entity in office during the half year and until the date of this report are Claire Filson (resigned 31 December 2009) and Kim Rowe.

### Principal activities

The principal activity of the Group 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.

There were no significant changes in the nature of the Group's activities during the half year.

### Scheme information

The Scheme is an Australian registered scheme and is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 16, 90 Collins Street, Melbourne, Victoria, 3000.

The Group did not have any employees during the half year (31 December 2008 - NIL employees).

### Review and results of operations

The Group has continued to invest funds in accordance with its investment objectives and guidelines as set out in the current PDS and in accordance with the provisions of the Scheme's Constitution.

The operating profit after tax and before finance costs attributable to unitholders of the Group for the half year ended 31 December 2009 was \$12,285,000 (2008 - \$7,726,000).

### Matters subsequent to the end of the half year

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 Condensed Consolidated Statement of Financial Position as at 31 December 2009 or on the results and cash flows of the Group for the half year ended on that date.

### Rounding of amounts to the nearest thousand dollars

The Group is an entity of the kind referred to in Class Order 98/0100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements 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 3.

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

A handwritten signature in black ink, appearing to read 'Alan Cameron', with a long horizontal flourish extending to the right.

Alan Cameron

Chairman

19 February 2010

PricewaterhouseCoopers  
ABN 52 780 433 757

Freshwater Place  
2 Southbank Boulevard  
SOUTHBANK VIC 3006  
GPO Box 1331  
MELBOURNE VIC 3001  
DX 77  
Telephone 61 3 8603 1000  
Facsimile 61 3 8603 1999

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

As lead auditor for the review of Hastings High Yield Fund for the half year ended 31 December 2009, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



JF Power  
PricewaterhouseCoopers

Melbourne  
19 February 2010

## Condensed Consolidated Statement of Comprehensive Income

		<b>Consolidated</b>	
	Notes	<b>31 December 2009 \$'000</b>	31 December 2008 \$'000
<b>Income</b>			
Interest income		10,983	15,254
Net gain/(loss) - cash and cash equivalents		(155)	(370)
Net gain/(loss) - receivables		-	333
Net gain/(loss) - securities	3	4,889	(4,021)
Net gain/(loss) - borrowings		-	(9)
Net gain/(loss) - other		9	66
Other income		216	43
<b>Total income</b>		<b>15,942</b>	<b>11,296</b>
<b>Expenses</b>			
Responsible Entity fees		565	482
Audit fees		53	88
Taxation fees		27	16
Investment expenses		5	(1)
Other prudential expenses		81	99
Unitholder communication expenses		88	138
Finance costs		2,694	2,770
Other expenses		134	(23)
<b>Total expenses</b>		<b>3,647</b>	<b>3,569</b>
<b>Operating profit/(loss) before income tax and finance costs attributable to unitholders</b>			
		12,295	7,727
Income tax expense		10	1
<b>Operating profit/(loss) after income tax and before finance costs attributable to unitholders</b>			
		12,285	7,726
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	4	(7,950)	(10,588)
(Increase)/decrease in net assets attributable to unitholders		(4,335)	2,862
<b>Profit for the half year</b>			
		-	-
<b>Other comprehensive income</b>			
Foreign exchange differences arising upon translation of foreign subsidiaries		(109)	-
<b>Total other comprehensive income</b>		<b>(109)</b>	<b>-</b>
Other comprehensive income attributable to unitholders		109	-
<b>Total comprehensive income for the half year</b>			
		<b>-</b>	<b>-</b>

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

**Condensed Consolidated Statement of Financial Position**

		<b>Consolidated</b>		
		<b>31 December</b>	30 June	
		<b>2009</b>	2009	
	Notes	<b>\$'000</b>	\$'000	
<b>Assets</b>				
Cash and cash equivalents		7,471	8,021	
Receivables		276	3,093	
Other assets		538	645	
Securities	5	<u>268,809</u>	<u>262,513</u>	
<b>Total assets</b>		<b><u>277,094</u></b>	<b><u>274,272</u></b>	
<b>Liabilities</b>				
Payables		4,733	5,399	
Borrowings		64,514	69,611	
Current income tax liability		45	81	
Deferred income tax liability		<u>1</u>	<u>-</u>	
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b><u>69,293</u></b>	<b><u>75,091</u></b>	
<b>Net assets attributable to unitholders (liability)</b>		<b><u>207,801</u></b>	<b><u>199,181</u></b>	
<b>Represented by:</b>				
Issued units	6	210,037	210,037	
Foreign currency translation reserve	6	35	144	
Undistributed profit/(loss) attributable to unitholders	6	<u>(2,271)</u>	<u>(11,000)</u>	
<b>Total unitholder interests</b>		<b><u>207,801</u></b>	<b><u>199,181</u></b>	

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

### **Condensed Consolidated Statement of Changes in Equity**

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

## Condensed Consolidated Statement of Cash Flow

	<b>Consolidated</b>	
	<b>31 December</b>	31 December
	<b>2009</b>	2008
Notes	<b>\$'000</b>	\$'000
<b><i>Cash flows from operating activities</i></b>		
Interest received	8,766	16,058
Other income received	-	283
Finance costs paid	(2,651)	(2,989)
Other operating expenses paid	(758)	(979)
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>5,357</u></b>	<b><u>12,373</u></b>
<b><i>Cash flows from investing activities</i></b>		
Payments for the purchase of unlisted securities	-	(5,782)
Payments for the settlement of derivative securities	-	(305)
Proceeds from the sale of unlisted securities	-	739
Proceeds from the settlement of derivative securities	7,676	-
Proceeds from the repayment of unlisted loan securities	17	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b><u>7,693</u></b>	<b><u>(5,348)</u></b>
<b><i>Cash flows from financing activities</i></b>		
Distributions paid	(8,392)	(10,564)
Proceeds from subsidiary loan drawdowns	4	-
Repayments of debt facilities	(5,000)	-
Proceeds from the issue of units	-	651
<b>Net cash inflow/(outflow) from financing activities</b>	<b><u>(13,388)</u></b>	<b><u>(9,913)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(338)</b>	<b>(2,888)</b>
Cash and cash equivalents at the beginning of the half year	8,021	15,919
Effects of foreign currency exchange rate changes on cash and cash equivalents	(212)	11
<b>Cash and cash equivalents at the end of the half year</b>	<b><u>7,471</u></b>	<b><u>13,042</u></b>

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

## 1 General Information

The 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.

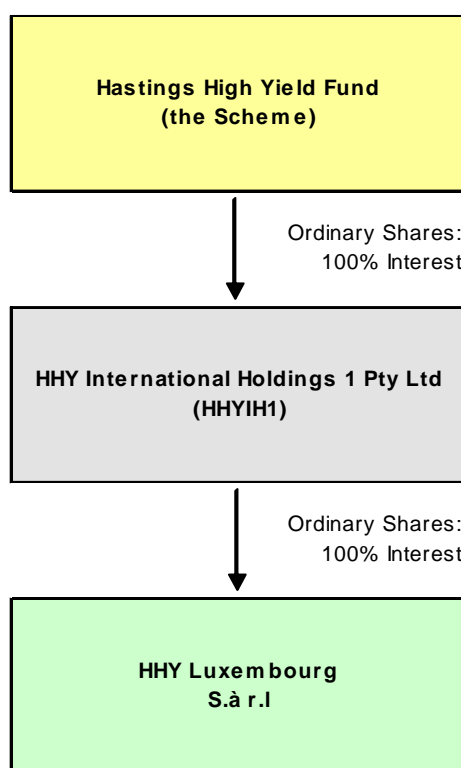
The Scheme was listed on the Australian Stock Exchange (ASX) on 11 April 2005.

On 31 July 2007 HHY International Holdings 1 Pty Ltd (HHYIH1) 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 HHYIH1.

HHYIH1 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):



## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

The condensed consolidated interim financial statements are general purpose financial statements prepared in accordance with the Scheme's Constitution, the requirements of the Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

The condensed consolidated interim financial statements for the half year ended 31 December 2009 do not include all notes of the type normally included in the annual financial statements. Accordingly, these condensed consolidated interim statements should be read in conjunction with the Annual Financial Statements of the Group for the year ended 30 June 2009 and any public announcements made by the Scheme during the half year ended 31 December 2009 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The condensed consolidated interim financial statements have been prepared in accordance with the historical cost convention, except for listed securities and derivative securities, which have been measured at fair value.

The Condensed 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.

Compliance with AASB 134 *Interim Financial Reporting* ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

The Group elected to early adopt and apply AASB 9 *Financial Instruments: Classification and Measurement* during the half year ended 31 December 2009. The initial application date of this standard by the Group was 31 December 2009 being the Group's half year end date. Refer to Note 2(c) for further information.

For the purpose of preparing the condensed consolidated interim financial statements, the half year has been treated as a discrete reporting period.

The condensed consolidated interim financial statements of the Group for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of directors of the Responsible Entity. The directors of the Responsible Entity have the power to amend and reissue the condensed consolidated interim financial statements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except as set out below.

### (b) Segment Reporting

#### *Changes in accounting policy*

The Group has changed its segment reporting accounting policy as the result of the new accounting standard AASB 8 *Operating Segments* which became operative for the annual reporting period commencing on 1 January 2009. The Group has applied AASB 8 *Operating Segments* from 1 July 2009.

AASB 8 requires a 'management approach' to reporting on the financial performance.

Operating segments are now 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.

### (c) Securities

Securities are recorded at fair value through the profit and loss upon initial recognition, being the consideration paid. Costs incidental to the acquisition of securities are recognised in the profit and 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.

## 2 Summary of significant accounting policies (continued)

### (c) Securities (continued)

#### **Listed Securities**

Listed securities include high yield debt securities and accrued interest.

#### *Changes in accounting policy*

The Group has changed its accounting policy with respect to the classification and measurement of listed securities effective from 31 December 2009, being the Group's initial application date of AASB 9 *Financial Instruments: Classification and Measurement*.

In accordance with AASB 9 *Financial Instruments: Classification and Measurement*, after initial recognition, listed securities continue to be measured at fair value as they are managed, and their performance evaluated on a fair value basis.

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

Realised gains and losses are recognised through the profit and loss upon the sale or restructure of listed securities and are calculated as the difference between the settlement amount and the listed security's fair value at the previous valuation point.

For listed securities that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date, unless the Responsible Entity determines there is no market in respect of the relevant security or the market value does not represent the fair value of the security. Where the Responsible Entity makes this determination, the Responsible Entity must at the same time determine a method of valuation other than the stock exchange quoted market value for the relevant security.

#### **Derivative Securities**

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

#### *Changes in accounting policy*

The Group has changed its accounting policy with respect to the classification and measurement of derivative securities effective from 31 December 2009.

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

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

Realised gains and losses are recognised through the profit and loss upon the sale or restructure of derivative securities and are calculated as the difference between the settlement amount and the derivative security's fair value at the previous valuation point.

The Group uses derivative securities to protect its risks associated with foreign currency fluctuations. Fair value is determined by reference to the fair value as advised by the counterparty to the derivative contract on balance sheet date. In assessing fair value, the projected future cash flows under the derivative contract are discounted to their present value using a pre-tax, risk adjusted discount rate. Where applicable, foreign currency discounted cash flows are translated back to the Group's functional currency using a spot foreign exchange rate.

## 2 Summary of significant accounting policies (continued)

### (c) Securities (continued)

#### *Unlisted securities*

Unlisted securities include high yield debt securities and accrued interest.

#### *Changes in accounting policy*

The Group has changed its accounting policy with respect to the classification and measurement of unlisted securities from fair value to amortised cost effective from 31 December 2009, being the Group's initial application date of AASB 9 *Financial Instruments: Classification and Measurement*.

The Group has elected not to restate its prior period comparative balances upon its initial application and early adoption of AASB 9 but rather has recognised the difference between the carrying amount of unlisted securities, calculated under the fair value method, at the beginning of the annual reporting period and the carrying amount of unlisted securities under the amortised cost method at the beginning of the annual reporting period, as an adjustment to opening retained earnings (refer to Note 6(c)).

In accordance with the Group's new accounting policy, after initial recognition, unlisted securities are measured at amortised cost using the effective interest method, less any allowance for impairment.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. 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.

Gains and losses are recognised in the profit and loss when an unlisted security is derecognised as well as through the amortisation process.

This method was adopted and reflected in the balances for the half year ended 31 December 2009.

Prior to the change in accounting policy unlisted securities were measured at fair value. For unlisted securities where there was no quoted market bid price, fair value was 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. Where appropriate, fair values were calibrated to relevant market developments. Where applicable, foreign currency discounted cash flows were translated back to the Group's functional currency using a liquidity adjusted spot foreign exchange rate.

This method is reflected in the prior period comparative balances.

## 2 Summary of significant accounting policies (continued)

### (d) Impairment of Securities

#### *Unlisted securities*

The Group assesses at each reporting date whether a financial asset or group of financial assets classified and measured at amortised cost is impaired. Evidence of impairment may include indications that the counterparty is experiencing significant 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 measureable 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 financial asset'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 financial asset's original effective interest rate. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Condensed Consolidated Statement of Comprehensive Income as an "impairment expense".

Impaired financial assets 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. If a previous write off is later recovered, the recovery is credited to the "impairment expense".

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

### (e) Rounding of amounts

The Group is an entity of the kind referred to in Class Order 98/0100 (as amended), issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### (f) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

### 3 Net gain/(loss) on securities

	<b>Consolidated</b>	
	<b>31 December</b>	31 December
	<b>2009</b>	2008
	<b>\$'000</b>	\$'000
<b>Net gain/(loss) - unlisted securities</b>		
Net gain/(loss) - non foreign exchange - unrealised	(796)	(935)
Net gain/(loss) - foreign exchange - unrealised	(18,218)	16,083
Net gain/(loss) - foreign exchange - realised	10	18
Gain/(loss) - unlisted securities	<u>(19,004)</u>	<u>15,166</u>
<b>Net gain/(loss) - derivative securities</b>		
Net gain/(loss) - foreign exchange - unrealised	20,203	(18,201)
Net gain/(loss) - foreign exchange - realised	416	(1,692)
Gain/(loss) - derivative securities	<u>20,619</u>	<u>(19,893)</u>
<b>Net gain/(loss) - listed securities</b>		
Net gain/(loss) - non foreign exchange- unrealised	3,243	(194)
Net gain/(loss) - foreign exchange - unrealised	31	900
Gain/(loss) - listed securities	<u>3,274</u>	<u>706</u>
Total gain/(loss) - securities	<u>4,889</u>	<u>(4,021)</u>

### 4 Distributions to unitholders

	<b>Consolidated</b>	
	<b>31 December</b>	31 December
	<b>2009</b>	2008
	<b>\$'000</b>	\$'000
Distributions declared and paid	3,865	5,288
Distributions declared and payable	4,085	5,300
Total distributions to unitholders	<u>7,950</u>	<u>10,588</u>

During the half-year ended 31 December 2009, two distributions were declared by the Group as follows. A distribution of 3.50 cents per unit for the quarter ended 30 September 2009 was paid on 12 November 2009 (30 September 2008 – 4.80 cents per unit) and a distribution of 3.70 cents per unit for the quarter ended 31 December 2009 was paid on 10 February 2010 (31 December 2008 – 4.80 cents per unit).

## 5 Securities

	<b>Consolidated</b>	
	<b>31 December</b>	30 June
	<b>2009</b>	2009
	<b>\$'000</b>	\$'000
<b>Securities</b>		
Listed securities	16,743	13,044
Unlisted securities	224,839	238,759
Derivative securities	27,227	10,710
Total securities	<u>268,809</u>	<u>262,513</u>

	<b>Consolidated</b>	
	<b>31 December</b>	30 June
	<b>2009</b>	2009
	<b>Fair value</b>	Fair value
	<b>\$'000</b>	\$'000
<b>Comprising:</b>		
<b>Listed securities</b>		
Prime Infrastructure SPARCS	16,743	13,044
Total listed securities	<u>16,743</u>	<u>13,044</u>

	<b>Consolidated</b>	
	<b>31 December</b>	30 June
	<b>2009</b>	2009
	<b>Amortised</b>	Fair value
	<b>cost</b>	\$'000
	<b>\$'000</b>	\$'000
<b>Unlisted securities</b>		
AB Ports	8,952	10,056
Arqiva	19,265	21,578
BAA	18,777	20,640
Cory Environmental	12,579	13,794
DCA Group	22,754	21,863
Eircom	16,013	16,200
EnviroWaste	15,826	15,515
European Directories	15,086	15,959
Hyne Timber	14,043	14,106
Maher Terminals	22,518	24,582
Manildra Group	24,788	25,356
South East Water	16,120	18,489
Thames Water	18,118	20,621
Total unlisted securities	<u>224,839</u>	<u>238,759</u>

**5 Securities (continued)**

	<b>Consolidated</b>	
	<b>31 December 2009 Fair value \$'000</b>	<b>30 June 2009 Fair value \$'000</b>
<b>Derivatives</b>		
AB Ports	<b>3,602</b>	2,111
Arqiva	<b>4,620</b>	1,307
BAA	<b>4,266</b>	1,307
Cory Environmental	<b>3,850</b>	1,731
Eircom	<b>1,745</b>	39
EnviroWaste	<b>307</b>	307
European Directories	<b>1,651</b>	17
Maher Terminals	<b>(758)</b>	(3,370)
Prime Infrastructure SPARCS	<b>(706)</b>	2,148
South East Water	<b>5,161</b>	2,564
Thames Water	<b>3,489</b>	2,549
Total derivatives	<b><u>27,227</u></b>	<u>10,710</u>

## 6 Net assets attributable to unitholders

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

### (a) Issued Units

	31 December		Consolidated	
	2009	30 June 2009	31 December 2009	30 June 2009
	No. '000	No. '000	\$'000	\$'000
Opening balance	110,418	109,918	210,037	209,386
Units issued - reinvestment of distributions	-	500	-	651
Closing balance	<u>110,418</u>	<u>110,418</u>	<u>210,037</u>	<u>210,037</u>

The 31 December 2009 movement represents movements for the six months ended 31 December 2009.

The 30 June 2009 movement represents movements for the year ended 30 June 2009.

### 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.

## 6 Net assets attributable to unitholders (continued)

### (b) Foreign Currency Translation Reserve

	<b>Consolidated</b>	
	<b>31 December</b>	30 June
	<b>2009</b>	2009
	<b>\$'000</b>	\$'000
Opening balance	144	-
Movement for the period	<u>(109)</u>	144
Closing balance	<u>35</u>	<u>144</u>

The 31 December 2009 movement represents movements for the six months ended 31 December 2009.

The 30 June 2009 movement represents movements for the year ended 30 June 2009.

## 6 Net assets attributable to unitholders (continued)

### (c) Undistributed profit attributable to unitholders

	<b>Consolidated</b>	
	<b>31 December 2009 \$'000</b>	<b>30 June 2009 \$'000</b>
Opening balance	<b>(11,000)</b>	(4,444)
Change in accounting policy <sup>(1)</sup>	<b>4,394</b>	-
Restated opening balance	<b>(6,606)</b>	(4,444)
Operating profit after income tax and before finance costs attributable to unitholders	<b>12,285</b>	13,638
Distributions to unitholders	<b>(7,950)</b>	(20,194)
Closing balance	<b>(2,271)</b>	(11,000)

<sup>(1)</sup> Refer to Note 2(c) for details.

The 31 December 2009 movement represents movements for the six months ended 31 December 2009.

The 30 June 2009 movement represents movements for the year ended 30 June 2009.

## 7 Segment information

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 segments are 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.

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

The Responsible Entity takes a broad portfolio construction approach to its investment and divestment activities of high yield debt 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 Board is consistent with the Australian Accounting Standards and therefore consistent with the information included within the financial statements.

### (b) Segment information provided to the Responsible Entity

The table below provides additional information on the Group's operating income by geographical location. The basis for attributing the operating income is the counterparty's place of incorporation. The operating income consists of interest income, participation fees, consent fees and gains and losses from movements in the value of investments, cash, receivables and borrowings.

	Operating Income	
	31 December 2009 \$'000	31 December 2008 \$'000
<b>Country</b>		
Australia	25,861	6,252
New Zealand	4,813	1,027
United Kingdom	(11,116)	8,137
United States	(1,747)	(1,536)
European Union	(1,869)	(2,584)
Total	<u>15,942</u>	<u>11,296</u>

The table below provides the information on the Group's operating income by security type.

	Operating Income	
	31 December 2009 \$'000	31 December 2008 \$'000
<b>Security Type</b>		
Listed securities	4,012	1,420
Unlisted securities	(11,487)	26,673
Derivative securities	23,417	(16,797)
Total	<u>15,942</u>	<u>11,296</u>

The table above analyses the Group's operating income by security type.

## 8 Earnings per unit

Since net assets attributable to unitholders are liabilities in the Group's Condensed Consolidated Statement of Financial Position, 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, while 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 half year.

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

Diluted "operating profit/(loss) after income tax attributable to unitholders" per unit was not materially different from basic "operating profit/(loss) after income tax attributable to unitholders" per unit.

	<b>Consolidated</b>	
	<b>31 December 2009</b>	31 December 2008
Basic earnings per unit (cents per unit)	<b>11.13</b>	7.03
Diluted earnings per unit (cents per unit)	<b>11.13</b>	7.03
Earnings used in calculating basic earnings per unit (\$'000)	<b>12,285</b>	7,726
Weighted number of units ('000)	<b>110,419</b>	109,947

## 9 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2009.

## 10 Events occurring after the balance date

No significant events have occurred since balance date which would impact on the financial position of the Group disclosed in the Condensed Consolidated Statement of Financial Position as at 31 December 2009 or on the results and cash flows of the Group for the half year ended on that date.

## Directors' Declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 4 to 20 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements 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 31 December 2009 and of their performance for the half 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.

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



Alan Cameron

Chairman

19 February 2010

## Independent auditor's review report to the unitholders of Hastings High Yield Fund

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Hastings High Yield Fund (the scheme), which comprises the condensed consolidated statement of financial position as at 31 December 2009, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, other selected explanatory notes and the directors' declaration for Hastings High Yield Fund (the consolidated entity). The consolidated entity comprises Hastings High Yield Fund and the entities it controlled at the year's end or from time to time during the half year.

#### *Directors' responsibility for the half-year financial report*

The directors of the Hastings Funds Management Limited as Responsible Entity for the scheme are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Hastings High Yield Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. 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.

**Independent auditor's review report to the unitholders of Hastings High Yield Fund (continued)**

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of Hastings High Yield Fund for the half-year ended 31 December 2009 included on Hastings Funds Management Limited's (HFML) web site. The directors of HFML are responsible for the integrity of HFML's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Hastings High Yield Fund is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



PricewaterhouseCoopers



JF Power  
Partner

Melbourne  
19 February 2010

**Hastings High Yield Fund**

**Appendix 4D**

Report for the half year ended 31 December 2009

**D. Independent auditor's report**

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