

HYPERION
FLAGSHIP
INVESTMENTS

ANNUAL REPORT
2006

A different horizon

Hyperion Flagship Investments Limited

ABN 99 080 135 913

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Financial Calendar

Financial Year End

30 June 2006

Books Close

23 August 2006

Dividend Payment

8 September 2006

Notice of Annual General Meeting

The Annual General Meeting of Hyperion Flagship Investments Limited:

Will be held at:

The office of
Hyperion Flagship Investments Limited
Level 38 Riparian Plaza
71 Eagle Street
Brisbane Qld 4000

Time:

5.00 pm

Date:

Wednesday 8 November 2006

Investing in Hyperion Flagship Investments Limited

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

ASX code: HIP

Hyperion Flagship Investments Limited

ABN 99 080 135 913

Registered in Queensland

23 September 1997



HYPERION FLAGSHIP INVESTMENTS LIMITED DIRECTORS

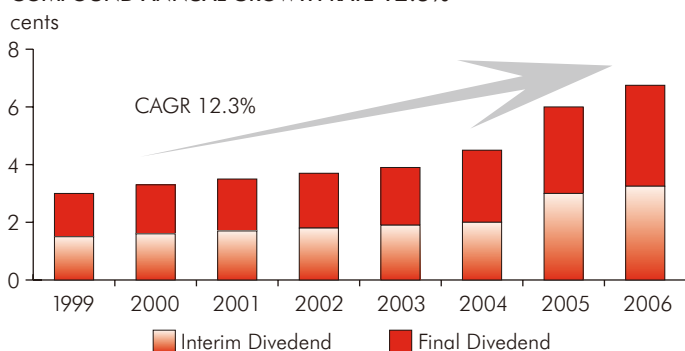
(From left to right)

Grace Grace, Steven Wilson, Dr Manny Pohl, Henry Smerdon and Russell McCrory.

2006 Highlights

- ☞ The portfolio after fees but before tax increased by 31.6% versus 24.4% for the All Ordinaries Accumulation Index.
- ☞ Net Asset Value per share increased by 22.3% from \$1.44 being the rights issue adjusted NAV at 30 June 2005 to \$1.76 at 30 June 2006.
- ☞ The annual dividend of 6.75 cents was an increase of 12.5%, exceeding the rate of inflation again, as it has done every year since inception.
- ☞ The dividend for the year was fully franked and also had attached a LIC attributable amount of 9.64 cents.

DIVIDENDS PER SHARE COMPOUND ANNUAL GROWTH RATE 12.3%



FIVE MAJOR INVESTMENTS

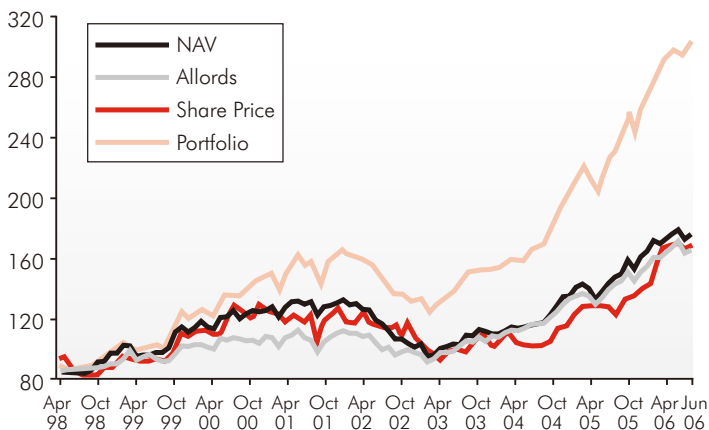
June 2006

	Jun 06	Jun 05
Rio Tinto	6.4%	6.0%
Babcock & Brown	6.1%	3.7%
ANZ Banking Group	5.5%	5.9%
Brambles	5.2%	4.0%
Woolworths	5.2%	5.6%
Total	28.4%	25.2%

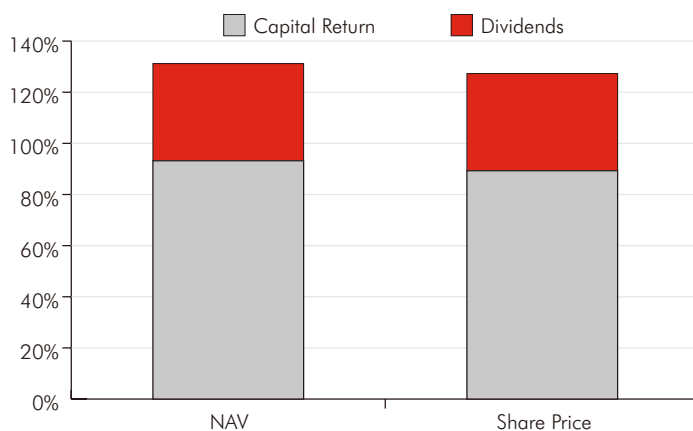
RELATIVE PERFORMANCE HISTORY

(After adjusting for the rights issues)

TOTAL RETURNS SINCE INCEPTION TO JUNE 2006



RETURN SINCE INCEPTION (NET OF TAX)



HYPERION FLAGSHIP INVESTMENTS PERFORMANCE VS. THE ALL ORDINARIES INDEX

ANNUAL PERCENTAGE CHANGE				
Year to	Portfolio Return Pre Fees	Portfolio Return After Fees	NAV	All Ordinaries Index
June 1999	16.4%	14.4%	12.9%	10.1%
June 2000	33.6%	31.3%	25.5%	12.9%
June 2001	20.0%	15.2%	8.9%	5.1%
June 2002	-5.0%	-6.3%	-9.5%	-7.6%
June 2003	-9.4%	-10.2%	-13.3%	-5.2%
June 2004	20.5%	19.0%	12.0%	17.7%
June 2005	35.1%	31.0%	24.2%	19.8%
June 2006	34.7%	31.6%	22.3%	19.0%
Overall Gain	252.4%	198.4%	106.0%	92.1%

The portfolio return figures detailed above have been confirmed by the auditors – BDO Kendalls.

Hyperion Overview

COMPANY PROFILE

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

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

The Manager's investment strategy centres on the view that investing in high quality business franchises with the ability to grow sales and earnings at rates above GDP will produce superior investment returns over the long-term.

The Company's portfolio of investments comprises companies whose operations cover a wide spectrum of business activities.

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

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

The shareholders at the Annual General Meeting last year approved a change in the calculation of the performance fee to being calculated and paid annually.

OBJECTIVES

The investment objectives of Hyperion Flagship Investments Limited are:

- ☞ To achieve medium to long-term capital growth and income through investing in a diversified portfolio of Australian companies;
- ☞ To preserve and enhance the real value of investments after allowing for inflation; and
- ☞ To provide shareholders with a fully franked dividend, which over time will grow at a rate in excess of the rate of inflation.

INVESTOR BENEFITS

The benefits for investors in Hyperion Flagship Investments Limited are:

- ☞ Reduced share investment risk through a diversified investment portfolio
- ☞ Professional, disciplined management of an investment portfolio by Hyperion Asset Management Limited
- ☞ Growth in a fully franked dividend income
- ☞ Access to a Dividend Reinvestment Plan
- ☞ No fixed management fees - the Fund Manager is remunerated on a performance basis
- ☞ No entry or exit charges made by the Company.
- ☞ Easy access to information via the Company's head office or website

INVESTMENT MANAGER

The management of the Company's investment portfolio is undertaken by the Manager. The Manager is associated with the Wilson HTM Investment Group.

The executives of the Manager effectively own 35% of the Manager through a holding company.

Manny Pohl as an executive of the Manager has an effective 15.9% interest in the Manager.

Chairman's Report

I am pleased to present the ninth Annual Report of the company for the year ended 30 June 2006.

This year has been very strong in that our Manager has returned 31.6% after fees which reduces to 22.3% after tax on realised gains. This compares with 24.4% for the All Ordinaries Accumulation Index and comes on the back of an excellent 2005 year where the comparables were 31% for the company and 24.5% for the Index.

The longer term performance history graph contained in the Highlights section of the report shows that the underlying NAV after tax on realised gains since inception is ahead of the All Ordinaries which is pre-tax. This is the most import result and confirms your Board's confidence in the long term performance of our manager. We commend Manny Pohl and his team at Hyperion Asset Management for that.

What is also pleasing is the relationship between the share price and the NAV. Your Directors implemented a series of measures to increase share market support for our Company last year and they have borne fruit.

Your Board is focussed on the long-term increment in the NAV caused by the Manager's investment process. The Managing Director has spelt out in some detail in his report, his team's investment process. This has been assessed by some of the country's leading asset consultants who have given it good reviews and it is very pleasing to see that Hyperion Asset Management has recently won a number of marquee FUM mandates showing external validation of their team, processes and results.

We have increased the dividend this year by 12.5% to 6.75 cents per share which brings the total dividend paid since inception to 34.65 cents per share.

At last year's AGM Deon Huysamer, an inaugural Director, resigned and I would like to formally acknowledge his fine contribution over eight years.

In closing, my fellow Board members, the Manager and I would like to thank all Shareholders for your support over the year. We look forward to seeing as many of you as possible at the Annual General Meeting on Wednesday 8 November 2006.



Steven Wilson
Chairman



Managing Director's Report

The investment climate over the past year has once again been very positive. World equity markets in general have performed well during this financial year with the MSCI (as measured in US dollar terms) increasing by 14.9% for the twelve months to 30 June 2006. In Australian dollar terms the MSCI fared slightly better, increasing by 17.8% over the same period, reflecting the slight weakening of the Australian dollar. This lift in world equity prices reflected the continued good growth in company earnings and positive investor sentiment.

Investors in the Australian market have also been rewarded with a healthy return over the past twelve months. The general market, as measured by the ASX All Ordinaries Index showed a 19% improvement as compared to the eight-year average increase in the index of 11.5% (excluding dividends). Our portfolio reflected a 34.7% improvement over the twelve month period, while dividends from our portfolio of investments increased by 59% reflecting the growth in the businesses in which we invest. This has enabled the Board of Directors to increase the total dividend to shareholders, by 12.5% over the previous year. This substantial growth in dividend income is due to investing in quality companies identified by our three-stage investment process which filters out non-compliant companies. Our investment portfolio comprises low capital intensive growth companies and currently has a small to mid-cap bias.

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

- ☞ Historical Sales Growth,
- ☞ Return on Equity and
- ☞ Interest Cover.

The first filter tests whether a company is growing. Only those companies with sales that have been growing faster than the Australian Economy (as measured by Nominal Gross Domestic Product) are accepted.



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

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

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

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

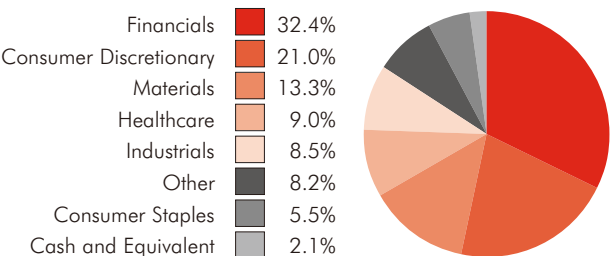
Before we actually buy a stock we ask ourselves the question. "Would we buy all of this business if we had the money?" That is, we buy shares in the business as a business owner, not as a trader of shares.

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

- ☞ If there is a major change in management and we feel that there is insufficient continuity of management to be associated with the track record.
- ☞ If there is a major takeover or merger.
- ☞ If the company loses its sustainable competitive advantage.
- ☞ If the market valuation of the company exceeds certain thresholds.
- ☞ If a company's cash flow deteriorates to a point where it no longer is four times the interest paid and the reasons therefore are not acceptable.

CHART 1: DISTRIBUTION OF ASSETS AS AT 30 JUNE 2006

The overall portfolio distribution of assets is shown in Chart 1. In the portfolio there are a number of new investments, all of which comply with our investment philosophy. In keeping with my intention of providing shareholders with information on the key investments that we make, I have included a comment on Primary Healthcare and WOTIF.COM.



PRIMARY HEALTH CARE

ASX Code: PRY

Primary Health Care provides a range of medical and related services through a network of large medical centres. These centres provide access to a wide range of healthcare professionals including GPs, specialists, pharmacists, chiropractors, dentists and dieticians. Primary Health Care also operates a pathology business.

Primary Health Care has a robust and economically attractive business model that has produced sales growth per share at an average rate of greater than 2 times GDP over the past 5 years. The continuing large numbers of doctors joining the group and very low levels of doctor turnover should ensure that this growth continues.

The company's return on equity has been trending higher over the past few years as a result of improving economies of scale and increased capacity utilisation. The outlook for the next five to ten years is for continued strong growth as the portfolio of medical centres continues to expand into new geographical regions. Primary Health Care currently only has around 5% market share in Australia and should be capable of moving to a significantly larger market share in the long term given that the model is more efficient than competitor models and provides a high level of convenience (location, parking, long opening hours, doctor availability) for patients. The businesses' revenues and profits are stable and would not be sensitive to an economic downturn.

SUSTAINABLE COMPETITIVE ADVANTAGE

The group's value proposition to its doctors is its ability to substantially increase the doctor's remuneration by ensuring that their client billing hours are maximized. Patients are attracted to the centres because of the availability of doctors out of working hours as well as the provision of additional services at the centre.

WOTIF.COM

ASX Code: WTF

The company has established itself as the clear market leader in online accommodation booking in Australia with 36% market share. It has the broadest range of rooms and hotels in the market (significantly more than its nearest competitor). Wotif is a powerful brand name in the Australian market and a growing brand in selected international markets.

Currently online bookings for accommodation only represent around 9% of total booking in Australia compared with 28% in the USA, suggesting significant potential for long term growth both in Australia and overseas.

The business has a track record of strong organic revenue growth combined with wide profit margins. The management team has been stable through time. Graeme Wood (Managing Director) co-founded the business and Sam Friend (CFO) has been working in the business since 2001.

SUSTAINABLE COMPETITIVE ADVANTAGE

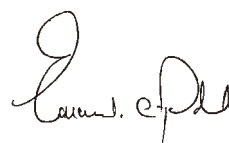
Its value proposition to accommodation providers is strong and is based on an ability to quickly move distressed stock and fill rooms using its large customer base and its low commission rate.

Accommodation seekers use the site because of its large range of value for money accommodation and its easy to use website design. The business requires no invested capital to fund organic growth and thus a large percentage of future profit growth will be available for return to shareholders.

CLOSING COMMENTS

The complete details of all the investments that were held at the end of the financial year are detailed later in the Annual Report. Suffice to say that Rio Tinto (6.4%), Babcock and Brown (6.1%) and ANZ (5.5%) were the three major investments held at the June 2006 year-end and it is these three investments that we believe have the best risk adjusted return profiles.

Our expected return for the Australian equity portfolio is 13% (we normally use 9% for the market) per annum over the next five years. However, over shorter time periods actual returns could vary markedly each year from this forecast. This volatility of returns over shorter time periods is the fundamental reason why we encourage investors to have a minimum 5 year time horizon when investing in Hyperion Flagship Investments Limited.



Dr Emmanuel (Manny) C Pohl
Managing Director

Directors' Report

This report in relation to the financial year ended 30 June 2006 is presented by the directors.

1. DIRECTORS

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

S Wilson	E Pohl
R McCrory	H Smerdon
I Grace	

G Huysamer retired on 9 November 2005.

2. INFORMATION ON DIRECTORS



Steven M Wilson

B.Com. LLB (UQ), Hon PHD (QUT),
FAICD, FAIM, SF Fin, MSDIA
Chairman

Experience and expertise

Chairman since the inception of the Company in 1997. Extensive experience in investment banking and funds management.

Other current directorships

Executive Chairman of Wilson HTM Investment Group Ltd (appointed 2003)
Chairman of South Bank Corporation (appointed 1996)
Director of Hyperion Asset Management Limited (appointed 1997)
Director of Hyperion Holdings Limited (appointed 2004)
Director of WHTM Funds Management Holdings Pty Ltd (appointed 2004)
Director of Wilson HTM Investment Management Pty Ltd (appointed 2005)
Director of The Centre for Independent Studies (appointed 2004)
Director of Nona Badu Pty Ltd (appointed 2004)
Director of Queensland Rugby Union Ltd (appointed 2006)
Councillor of The Australia Business Arts Foundation (appointed 2004)
Trustee for University of Queensland Rugby Union Foundation (appointed 2004)

Former directorships in last 3 years

Director of Great Barrier Reef Research Foundation from 2002 to 2004.



Dr Emmanuel (Manny) C Pohl

Pr Eng, BSc (Eng), MBA, DBA, FAICD,
MSDIA, SA Fin
Managing Director

Experience and expertise

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

Other current directorships

Managing Director of Hyperion Asset Management Limited (appointed 1997)
Managing Director of Hyperion Holdings Limited (appointed 2004)
Director of Huysamer Capital Investments (Pty) Ltd (appointed 2002)
Director of Global Masters Fund Limited (appointed 2005)

Former directorships in last 3 years

Alternate Director of The Great Barrier Reef Research Foundation from 2003 to 2004.
Director of The Great Barrier Reef Research Foundation from 2004 to 2004
Non-executive director of Queensland Gas Company Ltd from 2004 to 2005.
Non-executive director of Growth Equities Corporation Limited from 2003 to 2004
Board Member of La Boite Theatre Inc from 2002 to 2004
Managing Director of WHTM Capital Management Limited from 2002 to 2004



Russell B McCrory

FAICD, MSDIA
Non-Executive Director

Experience and expertise

Director since 1998. Extensive experience in the stock-broking industry.

Other current directorships

Director of Wilson HTM Charities Ltd (appointed 2000)

Former directorships in last 3 years

Director of Securities & Derivatives Industry Association from 1998 to 2005



Ignazia (Grace) Grace

B LS, ADIR, ASFA Certification
Non-Executive Director, Member –
Audit and Compliance Committee

Experience and expertise

Director since 2000. Extensive director experience in the funds management industry.

Other current directorships

General Secretary of the Queensland Council of Unions (appointed 2000)
Chairperson of Sunsuper (appointed Chair 2005 - Director 2000)
Director of Energex Ltd (appointed 1999)
Director of ESI Super (appointed 2005)
Director of Building and Construction Industry Training Fund (appointed 2000)
Proxy Trustee of Qsuper - Queensland Government Superannuation Schemes (appointed 2001)
Member of South Bank Corporation Board (appointed 1999)
Member of Jupiters Casino Community Benefit Fund (appointed 1995)
Member of the Workplace Health & Safety Board (appointed 1997)
Member of Qcomp Board (appointed 2003)



Henry R Smerdon

B.Com, B.Econ, FCPA, MAICD,
Fdn DFP
Non-Executive Director, Chairman –
Audit and Compliance Committee

Experience and expertise

Director since 2000. Extensive experience as a board member/CEO of Queensland Investment Corporation, Chairman of Q-Invest Ltd, member of various private and Government boards and as Under Treasurer of the Queensland Treasury.

Other current directorships

Chairman Brisbane Cruise Wharf Pty Ltd (appointed 2003)
Deputy Chairman of the Queensland Performing Arts Trust (appointed 2000)
Deputy Chancellor of Griffith University (appointed 1997)
Member of Advisory Board of Currumbin Wildlife Sanctuary (appointed 2004)
Member of Public Trust Office Investment Board (appointed 1999)
Member of Motor Accident Insurance Commission CTP Advisory Committee (appointed 1999)

Director who retired during the year:



George G (Deon) Huysamer

BA, LLB
Non-Executive Director until retirement on 9 November 2005.

Experience and expertise

Non-Executive Director since the inception of the Company in 1997. Extensive experience in the stock-broking and funds management industry in South Africa. Member of the Johannesburg Stock Exchange.

Other current directorships

Chairman of National Provincial AHi Council (appointed 2005)
Chairman of Global Business Excellence (Pty) Ltd (appointed 2004)
Deputy Chairman of AHi Western Cape (appointed 2003)
Managing Director of Huysamer Capital Investments (Pty) Ltd (appointed 2002)
Director of Eastgate Airport Pty Ltd (appointed 2001)
Director of MAD (Registered Charity Organisation) (appointed 2003)
Executive Committee Member of Klaserie Private Nature Reserve (appointed 2002)

Former directorships in last 3 years

Former Managing Director of South African stock-broking firm ABN AMRO Securities (South Africa) (Pty) Ltd from 1997 to Sept 2002
Director of Maxx Communications Pty Ltd

Directors' Report (continued)

3. PRINCIPAL ACTIVITIES

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

4. REVIEW OF OPERATIONS

Over the past twelve months the equity market has rewarded investors with a healthy return. This is reflected in:

- ☞ Dividends received by the Company up 59%
- ☞ Interest received up 1%
- ☞ The portfolio value increasing by 34.7% resulting in a \$3,608,000 increase in the asset revaluation reserve
- ☞ Total dividends for the year increased by 12.5% to 6.75 cents per share

The directors are committed to increasing the value of the Company and to maintaining the alignment between the market price and the Net Tangible Assets of the Company.

In keeping with this commitment, the following announcements have been made:

- ☞ August 2005 – Change of name of Company approved
- ☞ November 2005 – Reinstatement of buy-back
- ☞ May 2006 – on-market buy-back of shares completed
- ☞ May 2006 – re-instatement of on-market buy-back of shares for the next 12 months

The share price has increased by 32% to \$1.69 from 30 June 2005 to 30 June 2006.

Directors do not expect any significant developments to occur in the operations of the Company, which will adversely affect the results in subsequent years. Any general decline in equity markets may have an adverse effect on results in future years.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

An increase in contributed equity of \$3,455,712 (from \$15,062,749 to \$18,518,461) as a result of:

- ☞ Issue of 237,438 fully paid ordinary shares under the Dividend Reinvestment Plan. (117,276 @ \$1.27 and 120,162 @ \$1.60)
- ☞ Issue of 2,796,496 fully paid ordinary shares under a 1 for 5 rights issue @ price of \$1.20 per share
- ☞ On market buy-back of fully paid ordinary shares as follows:
 - 25,000 shares @ \$1.45 on 8 December 2005
 - 11,322 shares @ \$1.445 on 13 January 2006
 - 10,000 shares @ \$1.46 on 18 January 2006
 - 8,815 shares @ \$1.5489 on 16 February 2006
 - 3,000 shares @ \$1.55 on 17 February 2006
 - 5,000 shares @ \$1.65 on 23 March 2006
- ☞ Rights Issue expenses incurred of \$72,141

6. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The directors are not aware of any matter or circumstance not otherwise dealt with in the directors' report or financial report which has arisen since the end of the year that has significantly or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

There are no planned changes to principal activities.

8. ENVIRONMENTAL ISSUES

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

9. DIVIDENDS PAID

Type	Cents per share	Total amount \$'000's	Date of payment
The Dividends paid to members during the financial year were as follows:			
Final	3.00c	419	September 2005
Interim	3.25c	547	March 2006
	<u>6.25c</u>	<u>966</u>	

Dividends paid by the Company during the preceding year were:

Final	2.5c	343	September 2004
Interim	3.0c	416	March 2005
	<u>5.5c</u>	<u>759</u>	

All the dividends paid or declared by the Company and referred to above were 100% franked.

In addition to the above dividends since the end of the financial year the directors have recommended the payment of a final dividend of \$593,000 (3.5 cents per share) to be paid on 8 September 2006.

Arising from the sale of a number of securities, the Company has made LIC capital gains for the year.

The dividend also had attached a LIC attributable amount.

An example of the benefit received by an individual shareholder from the dividend is as follows:

For a real person shareholder the total dividend amount received for 2005/2006 will be:

	Interim Payment March 06 cents per share	Final Payment Sep 06 cents per share	Total Payment cents per share
Dividend Payment	3.250	3.5	6.750
Imputation Credits	1.393	1.5	2.893
TOTAL ASSESSABLE INCOME	<u>4.643</u>	<u>5.0</u>	<u>9.643</u>
LIC capital gain deduction (based on attributable amount)	2.321	2.5	4.821
TOTAL TAXABLE INCOME	<u>2.321</u>	<u>2.5</u>	<u>4.821</u>

The total cash amount received by an individual shareholder will be the dividend payment received plus a tax refund which is dependent on the marginal tax rate of the individual.

For example:

If an individual's marginal tax rate is 45% then the following benefits are obtained.

Dividend Payment	3.250	3.500	6.750
Tax refund	0.348	0.375	0.723
TOTAL CASH AMOUNT	<u>3.598</u>	<u>3.875</u>	<u>7.473</u>

10. EARNINGS PER SHARE

	2006 Cents	2005 Cents
Basic earnings per share	15.68	9.42
Diluted earnings per share	15.68	9.42

11. COMPANY SECRETARY

The Company Secretary is Mr I W Harrison BBus (Acc), FCPA. Mr Harrison has 27 years experience in the accounting and finance industries and has been the Company Secretary since the inception of the Company in 1997. He is also the Company Secretary for Hyperion Asset Management Limited and the Wilson HTM Investment Group Ltd.

12. MEETINGS OF DIRECTORS

The numbers of directors' meetings attended by each of the directors of the Company during the financial year are:

	Board		Audit Sub Committee	
	Eligible to attend	Attended	Eligible to attend	Attended
S M Wilson	8	7	–	–
E C Pohl	8	8	–	–
G G Huysamer (resigned 9/11/05)	5	5	1	1
R B McCrory	8	8	–	–
I Grace	8	7	1	1
H R Smerdon	8	8	1	1

B DETAILS OF REMUNERATION

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

Name	Primary			Post-Employment	Equity		Total
	Fees	Performance Fees	Non-monetary benefits	Superannuation	Retirement Benefits	Options	
	\$	\$	\$	\$	\$	\$	
S M Wilson Non-Executive Chairman							
2006	30,000	–	–	–	–	–	30,000
2005	30,000	–	–	–	–	–	30,000
E C Pohl Managing Director							
2006	12,000	–	–	–	–	–	12,000
2005	12,000	–	–	–	–	–	12,000
H R Smerdon Non-executive Director							
2006	12,000	–	–	–	–	–	12,000
2005	12,000	–	–	–	–	–	12,000
I Grace Non-executive Director							
2005	12,000	–	–	–	–	–	12,000
2004	12,000	–	–	–	–	–	12,000
G G Huysamer Non-executive Director							
2006	4,304	–	–	–	–	–	4,304
2005	12,000	–	–	–	–	–	12,000
R B McCrory Non-executive Director							
2006	12,000	–	–	–	–	–	12,000
2005	12,000	–	–	–	–	–	12,000
Total Directors Remuneration							
2006	82,304	–	–	–	–	–	82,304
2005	90,000	–	–	–	–	–	90,000

The Company pays a premium for Directors and Officers Liability insurance to which the directors receive the benefit. This insurance forms part of the definition of directors' remuneration, but due to impracticality, the insurance premium has not been allocated to each director.

13. REMUNERATION REPORT

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Equity Holdings
- F General Transactions
- G Loans

A PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

Fees and payments to directors reflect the demands which are made on, and the responsibilities of, the directors. The board has delegated the responsibility for determining the remuneration of directors to the Chairman and Managing Director. The remuneration is reviewed annually.

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

The director fees paid to Steven Wilson, Manny Pohl and Russell McCrory are paid to their employer in accordance with Wilson HTM Investment Group policy.

There is no performance based remuneration for Directors.

Directors' Report (continued)

C SERVICE AGREEMENTS

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

The Chairman, Managing Director and Company Secretary are employed by entities associated with the Company.

D SHARE-BASED COMPENSATION

No share-based compensation exists.

E EQUITY HOLDINGS

As at the date of this report, the interest of the directors in shares of the Company are as follows:

	Shares Held
E C Pohl	3,543,835 (i)
S M Wilson	1,825,685 (ii)
R B McCrory	42,000
H R Smerdon	20,030
I Grace	14,504

(i) E C Pohl has a relevant interest in shares in the Company over which he holds a Power of Attorney arrangement with a number of clients.

(ii) S M Wilson has a relevant interest in shares held beneficially by members of the Wilson family.

F GENERAL TRANSACTIONS

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

G LOANS

There are no loans issued to any of the Directors (30 June 2005 - Nil).

14. OPTIONS

No options have been issued during or since the financial year (30 June 2005 - Nil).

15. INSURANCE OF OFFICERS AND/OR AUDITORS

During the financial year the Company paid a premium to insure the directors and officers of the Company. The insurance policy does not allow the premium to be disclosed.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of the information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between the amounts relating to the insurance against legal costs and those relating to other liabilities.

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

16. PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

17. NON-AUDIT SERVICES

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

Details of the amounts paid or payable to the auditor (BDO Kendalls) for audit and non-audit services provided during the year are set out below:

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

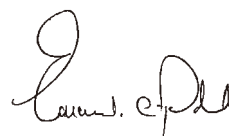
A copy of the Auditors' Independence Declaration as required under section 307C of the Corporation Act 2001 is set out on page 13 of the Directors' Report.

During the year the Company obtained a review from the Company's auditor, Tim Kendall from BDO Kendalls regarding the implementation of Australian Equivalents of International Financial Reporting Standards. The amount paid for the service was \$1,210. The directors are satisfied that the independence of the auditor was not compromised with the review as it was only a technical review to assist the Company Secretary with the implementation of the standards.

18. ROUNDING OF AMOUNTS

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

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



Dr Emmanuel (Manny) C Pohl
Director
BRISBANE
6 September 2006

Auditors' Independence Declaration



BDO Kendalls
Chartered Accountants
& Advisers
www.bdokendalls.com.au
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Level 18, 300 Queen Street
GPO Box 457 Brisbane
Queensland 4001 Australia
Telephone + 61 7 3237 5999
Facsimile + 61 7 3221 9227

6 September 2006

Mr Steven Wilson
Chairman
Hyperion Flagship Investments Limited
Level 38
71 Eagle Street
BRISBANE Qld 4000

Dear Steven

AUDITORS' INDEPENDENCE DECLARATION

In relation to our audit of the Financial Report of Hyperion Flagship Investments Limited for the year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Yours sincerely
BDO KENDALLS

A handwritten signature in black ink that reads 'Tim Kendall'.

Tim Kendall
Partner

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2006

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

The ASX Listing Rules require listed companies to include in their annual report a statement detailing the extent to which they have followed the 28 ASX best practice recommendations in their reporting period. Listed companies must identify the recommendations that have not been followed and provide reasons for the Company's action.

A checklist summarising the ASX recommendations and compliance is on pages 16 and 17.

1. BOARD OF DIRECTORS

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

A charter setting out the board's role and responsibilities, composition etc has been established. Following the resignation of a non-executive Director in November 2005, the board comprises 4 non-executive directors (including the Chairman) and 1 executive director (being the Managing Director). All directors have a personal financial interest in the Company.

For Corporate Governance purposes there are 2 independent directors and 3 non-independent directors associated with the Manager. All directors review their compliance with the ASX definition of independence.

The Directors associated with the Manager are:

Manny Pohl – The Managing Director and a shareholder of the Manager. Manny is also a shareholder of Wilson HTM Investment Group Ltd

Steven Wilson – The Executive Chairman and a shareholder in Wilson HTM Investment Group Ltd. Steven is also a shareholder in the Manager.

Russell McCrory – A Shareholder in Wilson HTM Investment Group Ltd
Wilson HTM Investment Group Ltd is the ultimate owner of 50% of the Manager.

The names and details of the current directors are set out below:

Steven M Wilson Chairman

Mr Wilson is Executive Chairman of the Wilson HTM Investment Group Ltd and Chairman of Southbank Corporation. He has extensive experience in the investment banking and funds management industries. Mr Wilson has been the Chairman of the Company since the Company was established in 1997.

Dr Emmanuel (Manny) C Pohl Managing Director

Dr Pohl is Managing Director of Hyperion Asset Management Limited. He has extensive experience in the investment banking and funds management industries in Australia and South Africa. Dr Pohl has been the Managing Director of the Company since the Company was established in 1997.

Mr Russell B McCrory

Mr McCrory has extensive experience in the stockbroking industry. He has been a Director since 1998.

Mr Henry R Smerdon Chairman of the Audit and Compliance Committee

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

Ms Ignazia (Grace) Grace

Member of the Audit and Compliance Committee

Ms Grace is the General Secretary of the Queensland Council of Unions and a member of a number of Government boards. Ms Grace has been a Director since 2000.

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

During the year an extensive review of the operations of the board was undertaken in consultation with an external consultant who specialises in this type of review.

The review considered the following:

- ☞ Conflicts of Interest
- ☞ The board structure
- ☞ Roles of the Chairman and Managing Director

Following this review the board has agreed:

- ☞ To undertake a formal yearly review of the investment manager including the performance of the investment portfolio and the services provided by the manager. The Managing Director is not to be included in this review
- ☞ That the composition of the board be unchanged to consist of 5 directors for now
That a majority of the board be independent
- ☞ That it is preferred that the Chairman be selected from among the independent directors, however, the board will select the most appropriate person for the role at the time.
- ☞ Confirmed that the audit committee is to only comprise independent directors

The Directors are currently progressing the changes to the board composition.

A formal review of the board and committee is undertaken yearly. A review of each board meeting is also undertaken at the conclusion of the meeting.

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

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

2. INDEPENDENT PROFESSIONAL ADVICE

Each director has the right to seek independent professional advice in relation to the execution of the board's responsibilities at the Company's expense. Prior approval of the Chairman, which will not be unreasonably withheld, is required.

3. DEALINGS IN THE COMPANY'S SHARES

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

Following this approval, the director or employee is able to acquire securities EXCEPT in the period of five days before, on the day of, and the day after:

- ☞ Notification of financial information to the ASX such as NAV, profit information or announcements of share issues or capital raisings;
- ☞ Any general meeting of shareholders;
- ☞ Release of any report to shareholders.

4. COMMITTEES

Due to the size and nature of the operations of the Company, the board as a whole carries out the roles often assigned to committees. Accordingly, there is currently no remuneration committee.

Audit and Compliance Committee

The board has established an audit and compliance committee. The board has agreed that the committee is to consist solely of independent directors. The committee consists of the following independent directors:

H R Smerdon (Chairman)

G Grace

Details of the directors' qualifications and experience are set out in the Directors' Report on pages 8 to 9.

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

All matters determined by the committee are submitted to the full board as recommendations for board decision.

Minutes of the committee meetings are tabled at the subsequent board meeting.

Nomination Committee

The board has established a nomination committee. The committee consists of the following directors:

H R Smerdon (Chairman)

S M Wilson

E C Pohl

Details of the directors' qualifications and experience are set out in the directors' report on pages 8 to 9.

All matters determined by the committee are submitted to the full board as recommendations for board decision.

Minutes of the committee meetings are tabled at the subsequent board meeting.

5. REMUNERATION

Directors

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

The board has delegated the responsibility for determining the remuneration of individual directors to the Chairman and Managing Director.

Executives

The only executive of the Company is the Managing Director. During the year the Managing Director did not receive any remuneration from the Company as an executive, but did receive remuneration as a Director. The Managing Director is employed and paid by the Manager.

6. ETHICAL STANDARDS





The board supports the need for directors and employees to observe the highest standards of behaviour and business ethics. All directors, managers and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Company.

7. COMPLIANCE AND CONTINUOUS DISCLOSURE

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

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

The Company aims to keep shareholders informed of the Company's performance and all major developments in an ongoing manner. Information is communicated to shareholders through:

-  The annual report, which is distributed to all shareholders (unless specifically requested otherwise).
-  The interim financial report contains summarised financial information and review of the operations of the entity during the period. The report is reviewed by the auditors and is prepared in accordance with the requirements of the applicable accounting standards and the Corporations Act 2001 and is lodged with the Australian Securities and Investments Commission and the ASX.
-  Quarterly shareholder newsletters.
-  Other correspondence regarding matters impacting on shareholders, as required.

All documents that are released publicly are made available on the Company's website

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

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



8. RISK MANAGEMENT

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

Other risk management issues, for example disaster recovery, credit and counter-party risk, are considered by the board.

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

The CEO and CFO are required to provide formal statements to the Board each financial year that in all material respects:

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

9. EXTERNAL AUDITORS

The Company's policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. BDO Kendalls were appointed as the external auditors in 1998.

The Company's external auditor attends the annual general meeting and is available to answer shareholder questions.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in notes 4 and 18 to the Financial Statements.

Corporate Governance Statement

FOR THE YEAR ENDED 30 JUNE 2006 (continued)

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

	ASX Principle	Reference	Compliance
Principle 1:	Lay solid foundations for management and oversight		
1.1	Formalise and disclose the functions reserved to the board and those delegated to management.	1	Comply
Principle 2:	Structure the board to add value		
2.1	A majority of the board should be independent directors.	1	Non-comply
2.2	The chairperson should be an independent director.	1	Non-comply
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	1	Comply
2.4	The board should establish a nomination committee.	4	Comply
2.5	Provide the information indicated in Guide to reporting on Principle 2.	1 and 2 and Directors' report	Comply
Principle 3:	Promote ethical and responsible decision-making		
3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executive as to:		
	3.1.1 the practices necessary to maintain confidence in the company's integrity	1	Comply
	3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	1	Comply
3.2	Disclose the policy concerning trading in company securities by directors, officers and employees.	3	Comply
3.3	Provide the information indicated in Guide to reporting on Principle 3.	1	Comply
Principle 4:	Safeguard integrity in financial reporting		
4.1	Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	8	Comply
4.2	The board should establish an audit committee.	4	Comply
4.3	Structure the audit committee so that it consists of:	4	Comply
	☞ only non-executive directors		
	☞ a majority of independent directors		
	☞ an independent chairperson, who is not chairperson of the board		
	☞ at least three members.		
4.4	The audit committee should have a formal charter.	4	Comply
4.5	Provide the information indicated in Guide to reporting on Principle 4.	4 and Directors' Report	Comply
Principle 5:	Make timely and balanced disclosure		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	7	Comply
5.2	Provide the information indicated in Guide to reporting on Principle 5.	7	Comply
Principle 6:	Respect the rights of shareholders		
6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	7	Comply
6.2	Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	9	Comply

ASX CORPORATE GOVERNANCE COUNCIL BEST PRACTICE RECOMMENDATIONS

	ASX Principle	Reference	Compliance
Principle 7:	Recognise and manage risk		
7.1	The board or appropriate board committee should establish policies on risk oversight and management.	8	Comply
7.2	The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the board in writing that:		
	7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of Financial Statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.	8	Comply
	7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	8	Comply
7.3	Provide the information indicated in Guide to reporting on Principle 7.	8	Comply
Principle 8:	Encourage enhanced performance		
8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	1	Comply
Principle 9:	Remunerate fairly and responsibly		
9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	5	Comply
9.2	The board should establish a remuneration committee.	4	Non-comply
9.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	5	Comply
9.4	Ensure the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	5 and Directors Report	N/A
9.5	Provide the information indicated in Guide to reporting on Principle 9.	4 and 5	Comply
Principle 10:	Recognise the legitimate interests of stakeholders		
10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations.	1	Comply

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

Financial Report – 30 June 2006

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This financial report covers Hyperion Flagship Investments Limited as an individual entity. There are no controlled entities.

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

Hyperion Flagship Investments Limited
Level 38
Riparian Plaza
71 Eagle Street
BRISBANE QLD 4000

The financial report was authorised for issue by the directors on 23 August 2006.

A description of the nature of the entity's operations and its principal activities is included in the Managing Director's report on page 6.

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

Income Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$'000	2005 \$'000
Revenue	3	4,441	2,498
Performance fees		(976)	(743)
Other expenses	4	(282)	(228)
Profit before income tax		3,183	1,527
Income tax expense	5	(607)	(221)
Profit attributable to members of Hyperion Flagship Investments Limited		2,576	1,306
Earnings per share for profit attributable to the ordinary equity holders of the company:			
		cents	cents
Basic earnings per share	21	15.67	9.42
Diluted earnings per share	21	15.67	9.42

The above income statement should be read in conjunction with the notes to the Financial Statements.

Balance Sheet

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$'000	2005 \$'000
ASSETS			
Cash and cash equivalents	6	219	334
Trade and other receivables	7	75	57
Available for sale Financial Assets	8	30,846	21,241
Deferred tax assets	10	57	6
Held-to-maturity investments	9	371	635
Other Assets		20	17
Total assets		31,588	22,290
LIABILITIES			
Trade and other Payables	11	1,097	839
Current tax liabilities	12	595	227
Deferred tax liabilities	13	2,764	1,682
Total liabilities		4,456	2,748
Net assets		27,132	19,542
EQUITY			
Issued Capital	14	18,518	15,062
Reserves	15(a)	6,449	3,924
Retained earnings	15(b)	2,165	556
Total equity		27,132	19,542
NAV (after tax on realised gains only)		\$1.76	\$1.52
NAV (after tax on realised and unrealised gains)		\$1.60	\$1.40

The above balance sheet should be read in conjunction with the notes to the Financial Statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Share Capital	Retained Earnings	Asset Revaluation Reserve	TOTAL
		\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2004		14,746	9	363	15,118
Shares Issued during period		316			316
Profit attributable to members			1,306		1,306
Revaluation increment (net of tax)				3,561	3,561
Sub-total		15,062	1,315	3,924	20,301
Dividends paid or provided for	16		(759)		(759)
Balance at 30 June 2005		15,062	556	3,924	19,542
Balance at 1 July 2005		15,062	556	3,924	19,542
Shares Issued during period	14 (b)	3,697			3,697
Payment for Share					
Issue Costs (net of tax)		(147)			(147)
Shares Bought back on market		(94)			(94)
Profit attributable to members			2,576		2,576
Revaluation increment (net of tax)				2,525	2,525
Sub-total		18,518	3,132	6,449	28,099
Dividends paid or provided for	16		(967)		(967)
Balance at 30 June 2006		18,518	2,165	6,449	27,132

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

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	2006 \$'000	2005 \$'000
Cash flows from operating activities			
Dividends received		1,237	779
Interest received		48	46
Sub-underwriting fees received		2	–
Income taxes paid		(226)	(3)
Other payments		(963)	(260)
Net cash (outflow) inflow from operating activities	20	98	562
Cash flows from investing activities			
Proceeds from sale of fixed assets		9,834	4,679
Payment for fixed assets		(12,766)	(4,584)
Payment for/(proceeds) bank bills		263	(635)
Net cash (outflow) inflow from investing activities		(2,669)	(540)
Cash flows from financing activities			
Dividends paid to company's shareholders		(627)	(442)
Proceeds from share issues	16	3,356	–
Buy back of shares		(63)	–
Share Issue costs		(210)	–
Net cash inflow (outflow) from financing activities		2,456	(442)
Net increase (decrease) in cash and cash equivalents		(115)	(420)
Cash and cash equivalents at the beginning of the financial year		334	754
Cash and cash equivalents at end of year	6	220	334

The above cash flow statement should be read in conjunction with the notes to the Financial Statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Statement of Compliance

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the Financial Statements and notes comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards

These Financial Statements are the first Hyperion Flagship Investments Limited Financial Statements to be prepared in accordance with AIFRSs. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these Financial Statements.

Financial Statements of Hyperion Flagship Investments Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Hyperion Flagship Investments Limited 2006 Financial Statements, management has amended certain accounting and valuation methods applied in the AGAAP Financial Statements to comply with AIFRS. Comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the company's equity and its net income are given in note 25.

Historical cost convention

These Financial Statements have been prepared under the historical cost convention, except as modified by the revaluation of available for sale Financial Assets.

(B) INVESTMENTS AND OTHER FINANCIAL ASSETS

The Balance Sheet is in a liquidity format. The adoption of a liquidity format results in the removal of the terms "current asset" and "non current asset" from the Balance Sheet in favour of the general term "assets".

(C) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable net of the amount of Goods and Services Tax (GST). Amounts disclosed as revenue are net of rebates and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Dividend revenue

Dividend income is recognised as revenue when the Dividend is received by the Company.

(ii) Interest Income

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

(D) INCOME TAX

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the Australian income tax rate adjusted by changes in deferred tax assets and deferred tax liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The tax rate is applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, that at the time did not affect either accounting profit or taxable profit or loss.

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

(E) FINANCIAL INSTRUMENTS

Financial Instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial Assets at fair value through profit and loss

A Financial Asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Available for sale Financial Assets - other Financial Assets

Investments are brought to account at cost or at fair value being Directors' Valuation. The carrying amount of investments recognised at fair value is assessed by Directors regularly to ensure that the carrying value is not materially different from its fair value. The carrying amount of investments is reviewed annually by Directors to ensure that it is not in excess of the recoverable amount of these investments.

When other Financial Assets are sold or impaired, the accumulated fair value adjustments are transferred from the asset revaluation reserve to the Income Statement as gains and losses on other Financial Assets.

Unrealised gains and losses arising from changes in the fair value of these assets are taken directly to equity in the asset revaluation reserve.

(F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(G) TRADE AND OTHER RECEIVABLES

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

doubtful receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Income Statement.

(H) HELD TO MATURITY INSTRUMENTS

Held-to-maturity investments are non-derivative Financial Assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

(I) FAIR VALUE ESTIMATION

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

The fair value of Financial Instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for Financial Assets held by the company is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

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

(J) TRADE AND OTHER PAYABLES

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

(K) ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(L) DIVIDENDS

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

(M) COMPARATIVE FIGURES

When required by Australian Equivalents to International Financial Reporting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(N) GOODS AND SERVICES TAX (GST)

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

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

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

(O) ROUNDING OF AMOUNTS

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

(P) IMPAIRMENT

At each reporting date, the Company assess whether there is objective evidence that a Financial Instrument has been impaired. In the case of available-for sale Financial Assets, a prolonged decline in the value of the asset is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(Q) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The company has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the Financial Statements, but will impact the type of information disclosed in relation to the company's Financial Instruments.

2. SEGMENT INFORMATION

(a) Description of segments

BUSINESS SEGMENTS

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

GEOGRAPHICAL SEGMENTS

The fund operates solely in one geographical segment being Australia, investing primarily in Australian securities.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
3. OTHER REVENUE		
Realised Gains/(Losses)	3,154	1,671
Interest	48	48
Dividends	1,237	779
Other	2	–
	4,441	2,498
4. EXPENSES		
Profit before income tax includes the following specific expenses:		
ASX fees	31	23
Audit fees	19	16
Directors fees	82	90
Insurance	26	25
Share registry	15	13
Other	109	61
	282	228
5. INCOME TAX EXPENSE		
(a) Income tax expense		
Current tax	595	225
Deferred tax	12	–
Under / (over) provided in prior years	–	(4)
	607	221
Deferred income tax (revenue) expense included in income tax expense comprises:		
Decrease (increase) in deferred tax assets (note 10)	12	–
(Decrease) increase in deferred tax liabilities (note 13)	–	–
	12	–
(b) Reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) before income tax expense	3,183	1,527
Tax at the Australian tax rate of 30% (2005 – 30%)	955	458
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Realised capital gains	18	(3)
Dividend franking credits	(366)	(230)
	607	225
Under (over) provision in prior years	–	(4)
Income tax expense (benefit)	607	221
Total income tax expense	607	221

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
6. CASH AND CASH EQUIVALENTS		
Bank balances	26	(1)
Deposits at call	193	335
	219	334
(a) Cash at bank and on hand		
These are non interest bearing.		
(b) Deposits at call		
The deposits were bearing floating interest rates averaging 4.73% (2005: 4.48%).		
These deposits had an average maturity of 30 days.		
(c) Fair value		
The carrying amount for cash and cash equivalents equals the fair value.		
7. TRADE AND OTHER RECEIVABLES		
Net other receivables		
GST receivable	75	56
Other receivables	–	1
	75	57
8. AVAILABLE FOR SALE FINANCIAL ASSETS		
Listed Investments, at fair value		
At beginning of year	21,241	16,103
Additions	19,853	9,893
Disposals (sale and redemption)	(10,248)	(4,755)
At end of year	30,846	21,241
 Australian listed equity securities	 30,846	 21,241
 If investments had been sold at balance date a net capital gains tax liability of not more than \$2,764,000 (2005: \$1,682,000) would have arisen. However, directors do not intend to dispose of this portfolio and therefore do not expect the tax associated with such disposal will be incurred.		
9. HELD-TO-MATURITY INVESTMENTS		
Bank Bills	371	635
	371	635
10. DEFERRED TAX ASSETS		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Amortisation of share issue expense	(12)	–
Accruals	6	6
	(6)	6
<i>Amounts recognised directly in equity</i>		
Share issue expenses (note 14(b))	63	–
Net deferred tax assets	57	6

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
Reconciliations		
(1) Gross Movements:		
The overall movement in deferred tax asset accounts is as follows:		
Opening balance	6	6
(Credited)/charged to the income statement	(12)	–
(Credited)/charged to equity	63	–
Closing balance at 30 June	57	6
(ii) The movement in deferred tax assets for each temporary difference during the year is as follows:		
<i>Share issue expenses</i>		
Opening balance	–	–
(Charged)/credited directly to the income statement	(12)	–
(Charged)/credited directly to the equity	63	–
Closing balance	51	–
<i>Accruals</i>		
Opening balance	6	6
(Charged)/credited directly to the income statement	–	–
Closing Balance	6	6
11. TRADE AND OTHER PAYABLES		
Accrued expenses	23	22
Performance fee payable	1,074	817
	1,097	839
12. CURRENT TAX LIABILITIES		
Income tax	595	227
	595	227
13. DEFERRED TAX LIABILITIES		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised directly in equity</i>		
Tax on Unrealised gain on investments	2,764	1,682
Net deferred tax liabilities	2,764	1,682
Reconciliations		
(i) Gross Movements:		
The overall movement in the deferred tax liability account is as follows:		
Opening balance	1,682	613
Charged/(credited) to equity	1,082	1,069
Closing balance	2,764	1,682
(ii) The movement in deferred tax liability for each temporary difference during the year is as follows:		
<i>Unrealised gain on investments</i>		
Opening balance	1,682	613
Charged/(credited) directly to the equity	1,082	1,069
Closing balance	2,764	1,682

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 Shares	2005 Shares	2006 \$'000	2005 \$'000
14. ISSUED CAPITAL				
(a) Issued Capital				
Ordinary shares				
Fully paid	16,953,274	13,982,477	18,518	15,062
Total Issued Capital			18,518	15,062

Date	Details	Number of shares	Issue price	\$'000
(b) Movements in ordinary share capital:				
1 July 2004	Opening balance	13,713,808	–	14,746
17 Sept 2004	Dividend reinvestment plan issues	147,374	\$1.04	152
26 March 2005	Dividend reinvestment plan issues	121,295	\$1.35	164
30 June 2005	Balance	13,982,477	–	15,062
26 August 2005	Rights issue	2,796,496	\$1.20	3,356
16 September 2005	Dividend reinvestment plan issues	117,276	\$1.27	149
9 December 2005	Share buy back	(25,000)	\$1.45	(36)
13 January 2006	Share buy back	(11,322)	\$1.45	(16)
18 January 2006	Share buy back	(10,000)	\$1.46	(15)
16 February 2006	Share buy back	(8,815)	\$1.55	(14)
17 February 2006	Share buy back	(3,000)	\$1.55	(5)
23 March 2006	Share buy back	(5,000)	\$1.65	(8)
31 March 2006	Dividend reinvestment plan issues	120,162	\$1.60	192
		16,953,274		18,665
	Less: Transaction costs arising on share issue			(210)
	Deferred tax credit recognised directly in equity			63
30 June 2006	Balance	16,953,274		18,518

The purpose of the rights issue was to enable the company to undertake further investments and expand its portfolio. The benefits accruing from an increase in size of the company include greater liquidity and increased cost efficiencies by being able to spread the fixed costs of operating the company across a broader asset base.

(c) Ordinary shares

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

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
15. RESERVES AND RETAINED EARNINGS		
(a) Reserves		
Asset revaluation reserve	6,449	3,924
	<u>6,449</u>	<u>3,924</u>
Movements: Asset revaluation reserve		
Balance 1 July	3,924	363
Revaluation of long term investments (net of tax)	6,157	5,308
Realised profits	(3,632)	(1,747)
Balance 30 June	<u>6,449</u>	<u>3,924</u>
(b) Retained earnings		
Movements in retained earnings were as follows:		
Opening retained earnings 1 July	556	9
Profit for the year	2,576	1,306
Dividends	(967)	(759)
Balance 30 June	<u>2,165</u>	<u>556</u>
(c) Nature and purpose of reserves		
(i) Asset Revaluation Reserve		
The reserve is used to record increments and decrements or the revaluation of available for sale Financial Assets.		
16. DIVIDENDS		
(a) Dividends paid		
Final dividend of 3.0 cents (2005 2.5 cents) per fully paid share paid on 16 September 2005 (2005 17 September 2004)		
Fully franked based on tax paid @ 30% 3.0 cents per share	419	
Fully franked based on tax paid @ 30% 2.5 cents per share		343
Interim dividend of 3.25 cents (2005 3.0 cents) per fully paid share paid on 31 March 2006 (2005 18 March 2005)		
Fully franked based on tax paid @ 30% 3.25 cents per share	548	
Fully franked based on tax paid @ 30% 3.0 cents per share		416
Total dividends provided for or paid	<u>967</u>	<u>759</u>
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment plan during the years ended 30 June 2006 and 2005 were as follows:		
Paid in cash	626	442
Satisfied by issue of shares	341	317
	<u>967</u>	<u>759</u>
(b) Listed Investment Company capital gain account		
Balance of the Listed Investment Company (LIC) capital gain account	<u>2,973</u>	<u>1,622</u>
Distributed LIC capital gains may entitle certain shareholders to a special deduction in their tax return, as set out in the statement.		
LIC capital gains available for distribution are dependent upon:		
(i) the disposal of investment portfolio holdings which qualify for LIC capital gains or		
(ii) the receipt of LIC distributions from LIC securities held in the portfolio		

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
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(c) Franked dividends

The franked portions of the final dividends recommended after 30 June 2006 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2006.

Balance as at 30 June 2006 on the franking account after allowing for tax payable in respect of the current year's profits, the receipt of dividends recognised as receivables and the payment of dividends recognised as a liability at the reporting date

1,304	600
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(d) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 3.5 cents per fully paid ordinary share, (2005 – 3.0 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend to be paid on 8 September 2006 out of retained profits at 30 June 2006, but not recognised as a liability at year end, is

593	419
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17. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The following persons were directors of Hyperion Flagship Investments Limited during the financial year:

- (i) Chairman
Steven M Wilson
- (ii) Directors
Emmanuel C Pohl, Managing Director
George G Huysamer (retired 9 November 2005)
Russel B McCrory
Ignazia Grace
Henry R Smerdon

(b) Other key management personnel

The Company's Secretary (Ian Harrison) is employed by Wilson HTM Investment Group and does not receive any form of direct remuneration from the company. Instead Wilson HTM Investment Group receives fees from Hyperion Asset Management Limited designed to cover the cost of provision of that service. Hyperion Asset Management Limited as the Manager receives a performance fee from the company as detailed in note 19. The company has no other staff and therefore has no specified executives.

(c) Key management personnel compensation

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A – C of the remuneration report.

	2006 \$	2005 \$
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18. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor, its related practices and non related audit firms:

(a) Assurance services

Audit services

Audit and review of financial reports and other audit work under the Corporations Act 2001

16,500	15,250
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Total remuneration for audit services

16,500	15,250
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(b) Advisory services

Other advisory services

Total remuneration for advisory services

1,210	1,400
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1,210	1,400
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Total remuneration of auditors

17,710	16,650
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Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
19. RELATED PARTY TRANSACTIONS		
(a) Directors		
The names of persons who were directors of the company at any time during the financial year are as follows: S M Wilson, E C Pohl, R B McCrory, I Grace and H R Smerdon. All of these persons were also directors during the year ended 30 June 2005. In addition, G G Huysamer held office as a director from the start of the year until his retirement on 9 November 2005.		
(b) Key management personnel		
Disclosures relating to key management personnel are set out in note 17.		
(c) Transactions with related parties		
The following transactions occurred with related parties:		
Expenses paid or payable by the company to:		
☉ Wilson HTM Ltd for broking expenses	85	40
☉ Hyperion Asset Management Limited for performance fees (excluding GST)	976	743
☉ Amounts remaining payable at balance date	976	743
S M Wilson is interested in the above transactions as a director and shareholder of Hyperion Asset Management Limited and as a director and shareholder of Wilson HTM Investment Group Ltd.		
E C Pohl is interested in the above transactions as a shareholder, director and employee of Hyperion Asset Management Limited and as a shareholder of Wilson HTM Investment Group Ltd.		
R B McCrory is interested in the above transactions as a shareholder of Wilson HTM Investment Group Ltd.		
Wilson HTM Ltd is a wholly owned subsidiary of Wilson HTM Investment Group Ltd. Hyperion Asset Management Limited is owned 50% by Wilson HTM Investment Group Ltd.		
20. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Profit / (Loss) after income tax expense	2,576	1,306
Less Non-Cash flows		
☉ Realised loss / (Profit) on Financial Assets	(3,154)	76
☉ Income Tax Benefit from current year	–	(501)
Changes in Assets / Liabilities		
☉ Decrease / (increase) in receivables	(19)	(1)
☉ Decrease / (increase) in other assets	(2)	(52)
☉ (Increase) / decrease in future income tax benefit	(51)	–
☉ Increase / (decrease) in current payables	(702)	765
☉ Increase / (decrease) in current tax liabilities	368	217
☉ Increase / (decrease) in provision for deferred taxation	1,082	(1,248)
Net cash (outflow) inflow from operating activities	98	562

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	2006 \$'000	2005 \$'000
21. EARNINGS PER SHARE		
(a) Basic and diluted earnings per share		
Profit from continuing operations attributable to the ordinary equity holders of the company	2,576	1,306
(b) Basic and Diluted earnings per share	15.67¢	9.42¢
(c) Weighted average number of ordinary shares used in the calculation of earnings per share	16,435,166	13,863,845

22. MANAGEMENT AGREEMENT

In accordance with a management agreement dated 14 March 2006, the Company has agreed to engage the Manager (Hyperion Asset Management Limited) from 1 July 2005 to provide primary and secondary management services, including:

- (i) managing the investment of the Company's portfolio (including keeping it under review);
- (ii) ensuring investments by the Company are only made in authorised investments;
- (iii) complying with the investment policy of the Company;
- (iv) identifying, evaluating and implementing the acquisition and disposal of authorised investments; and
- (v) the provision of accounting, human resources, corporate and information technology services support.

The agreement replaced the management agreement that expired on 30 June 2005. The new agreement has similar terms in respect to the provision of services as the previous agreement and has a term of five years from 1 July 2005.

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

Under the terms of this agreement a performance fee of \$976,427 (excl GST) was paid or payable during the year ended 30 June 2006 (2005 \$743,000). While no specific costing of the services provided by Hyperion in accordance with (v) above is obtainable, the company has determined that to obtain these services from another third party would have a value in excess of \$150,000.

23. SUBSEQUENT EVENTS

No events have arisen, subsequent to balance date that would require amendment of, or disclosure of, in the Financial Statements.

24. CONTINGENT ASSETS AND LIABILITIES

The Company has no known contingent assets or liabilities.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
25. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs			
(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)			
(a) At the date of transition to AIFRS: 1 July 2004			
ASSETS			
Cash and cash equivalents	754	–	754
Other assets	21	–	21
Other Financial Assets at fair value through profit or loss	16,103	–	16,103
Deferred tax assets	6	–	6
Total assets	16,884	–	16,884
LIABILITIES			
Trade and other payables	75	–	75
Current tax liabilities	10	–	10
Deferred tax liabilities	–	613	613
Total liabilities	85	613	698
Net assets	16,799	(613)	16,186
EQUITY			
Issued capital	14,746	–	14,746
Reserves	2,084	(653)	1,431
Retained earnings	(31)	40	9
Total equity	16,799	(613)	16,186

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
25. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)			
(b) At the end of the last reporting period under previous AGAAP: 30 June 2005			
ASSETS			
Cash and cash equivalents	334	–	334
Trade and other receivables	74	–	74
Available for sale Financial Assets	21,241	–	21,241
Held-to-maturity investments	635	–	635
Deferred tax assets	6	–	6
Total assets	22,290	–	22,290
LIABILITIES			
Trade and other payables	840	–	840
Current tax liabilities	227	–	227
Deferred tax liabilities	–	1,681	1,681
Total liabilities	1,067	1,681	2,748
Net assets	21,224	(1,681)	19,542
EQUITY			
Contributed equity	15,063	–	15,063
Reserves	6,133	(2,209)	3,924
Retained earnings	27	528	555
Total equity	21,225	(1,681)	19,542

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2006

	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
25. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs (CONTINUED)			
(2) Reconciliation of profit for the year ended 30 June 2005			
Revenue	751	1,747	2,498
Other expenses	(228)	–	(228)
Performance Fee	(743)	–	(743)
Profit before income tax	(220)	1,747	1,527
Income tax expense	278	(499)	(221)
Profit attributable to members of Hyperion Flagship Investments Limited	58	1,248	1,306

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(i) Other Financial Assets - Available for Sale Financial Assets

Historically, under AGAAP unrealised gains and realised gains with respect to non traded investments were recognised directly as an increase in the asset revaluation reserve and asset realisation reserve respectively, unless they were a prior unrealised loss in which case they were reversed against the expense in the Income Statement.

Under Australian Equivalents to IFRS, realised gains on other Financial Assets will be included in the Income Statement, rather than treated as a direct equity adjustment. Net unrealised gains on investments will continue to be recognised through the asset revaluation reserve and the asset realisation reserve has ceased to exist.

(ii) Taxation

Historically, under AGAAP the Company accounted for income tax under the Profit and Loss Liability method.

Under Australian Equivalents to IFRS, the Company accounts for income tax under the Balance Sheet Liability method.

The effect of this change is that the Company must recognise an additional deferred tax liability amount for the capital gains tax on unrealised capital gains.

This additional deferred tax liability is offset against the unrealised gains on other Financial Assets recognised in the asset revaluation reserve.

Directors' Declaration

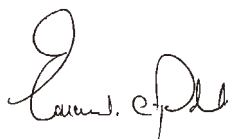
30 JUNE 2006

In the directors' opinion:

- (a) the Financial Statements and notes set out on pages 18 to 35 are in accordance with the Corporations Act 2001, including:
 - (i) comply with Australian Equivalents of International Financial Reporting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the financial position as at 30 June 2006 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date; 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; and
- (c) the audited remuneration disclosures set out on page 11 of the Directors' Report comply with Accounting Standards AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

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

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



Dr Emmanuel (Manny) C Pohl
Managing Director
Brisbane
6 September 2006

Independent Audit Report

TO THE MEMBERS OF HYPERION FLAGSHIP INVESTMENTS LIMITED

SCOPE

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, notes to the financial statements and the directors' declaration for Hyperion Flagship Investments Limited (the company), for the year ended 30 June 2006.

The company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), as required by AASB124 Related Party Disclosures, under the heading "remuneration report" in the directors' report as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB124 Related Party Disclosures. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Australian Equivalents of International Financial Reporting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with AASB124 Related Party Disclosures and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- ☞ examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- ☞ assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

INDEPENDENCE

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We confirm the independence declaration required by the Corporations Act 2001, provided to the directors of Hyperion Flagship Investments Limited on 6 September 2006, would be in the same terms if provided to the directors as at the date of this audit report.

AUDIT OPINION

In our opinion:

- 1) the financial report of Hyperion Flagship Investments Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Hyperion Flagship Investments Limited's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Equivalents of International Financial Reporting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia.
- 2) the remuneration disclosures that are contained in the directors' report comply with AASB124 Related Party Disclosures and the Corporations Regulations 2001.



BDO Kendalls
Chartered Accountants



Tim Kendall
Partner
Brisbane
6 September 2006

Shareholder Information

The shareholder information set out below was applicable as at 17 August 2006.

a) Distribution of equities securities:

			No. of Shareholders
1	to	1,000	39
1,001	to	5,000	128
5,001	to	10,000	72
10,001	to	100,000	178
100,001		and over	26
Total			443
Holdings of less than a marketable parcel			20

b) Twenty largest shareholders

	Ordinary Shares	%
Farallon Capital Pty Ltd (Nunn Investment Trust a/c)	2,216,839	13.08
Pohl Pty Ltd (Gap Investments Unit a/c)	2,005,641	11.83
D E & L J Barclay (Don Barclay Super Fund a/c)	1,572,840	9.28
Earlston Nominees Pty Ltd (Steven Wilson Investment a/c)	700,000	4.13
Mary Van Lieshout	604,081	3.56
Kinauld Pty Ltd	530,000	3.13
Citadel Bank and Trust Inc (The Fragrance a/c)	352,382	2.08
Robert James Wilson (No.2 a/c)	340,000	2.01
Bruce Robert & Erika Haberfield	307,520	1.81
Edwin H & Enid O Buckland (Buckland Super Fund a/c)	268,877	1.59
Willben Pty Ltd (Willben Super Fund a/c)	246,685	1.46
Hank Van Lieshout	240,000	1.42
Polka Management Services Pty Ltd (Pat Corrigan Super Fund a/c)	212,682	1.25
Mayfield Trustees Pty Ltd (The Ascot Settlement a/c)	194,026	1.14
Christopher Andrew Beard (Estate of GEP Beard a/c)	180,000	1.06
HSBC Custody Nominees (Australia) Limited	173,074	1.02
Quantum Electronics Pty Ltd (Super a/c)	172,635	1.02
Accessories Com Pty Ltd (TRS Securities S/Fund a/c)	153,108	0.90
Powers Pty Ltd	126,476	0.75
Gregory John Burton	122,000	0.72
Total	10,718,866	63.24

c) Substantial Shareholdings

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

Substantial Shareholder	No. of shares	% of total
Hyperion Asset Management Limited	3,543,835 ¹	20.90
E C Pohl	3,543,835 ¹	20.90
Farallon Capital Pty Ltd (Nunn Investment Trust)	2,216,839	13.08
S M Wilson	1,614,042	9.57
D E & L J Barclay (Don Barclay Super Fund)	1,572,840	9.37
Wilson HTM Investment Group Ltd	928,312 ²	5.48

Note 1: EC Pohl has a relevant interest in 2,911,982 shares because he has the power to exercise or control the exercise of the right to dispose of and/or the right to exercise or control the exercise of the votes attached to those shares in the Company. In addition, as a result of the operation of section 610 of the *Corporations Act*, EC Pohl has voting power in the 631,853 shares held by Hyperion Asset Management Limited because he is associated with Hyperion Asset Management Limited.

Note 2: Wilson HTM Ltd (a wholly owned subsidiary of Wilson HTM Investment Group Ltd) has a relevant interest in 791,836 (4.67%) shares in the Company and because of the operation of section 608(3) of the *Corporations Act*, Wilson HTM Investment Group Ltd is deemed to have a relevant interest in the same 631,853 shares (3.73%) in which Hyperion Asset Management Limited has a relevant interest. Despite this deemed relevant interest, under contractual arrangements Wilson HTM Investment Group Ltd does not have the power to exercise or control the exercise of the right to vote attached to the shares in the Company in which Hyperion Asset Management Limited holds a relevant interest.

d) Voting Rights

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

Investments

(a) Holdings of Securities as at 30 June 2006

Individual investments at 30 June 2006 are listed below. The list should not, however, be used to evaluate portfolio performance or to determine the net asset backing per share at other dates. Individual holdings in the portfolio may change during the course of the year.

ORDINARY SHARES		Shares Market Value	\$'000	%
AAQ	Australis Aquaculture Limited	300,000	117.0	0.37
ANZ	Australia & New Zealand Banking Group Ltd	65,000	1,728.3	5.49
ASR	Australian Rural Group Ltd	288,785	0.0	0.00
BNB	Babcock & Brown Ltd	88,000	1,908.7	6.06
BEI	Babcock & Brown Environmental Investments	174,287	435.7	1.38
BHP	BHP Billiton Ltd	50,100	1,452.9	4.61
BBG	Billabong International Ltd	80,000	1,228.0	3.90
BKL	Blackmores Limited	53,000	736.7	2.34
BIL	Brambles Industries Ltd	150,000	1,650.0	5.24
CAB	Cabcharge Australia Ltd	160,000	1,017.6	3.23
COH	Cochlear Ltd	20,000	1,092.6	3.47
CBA	Commonwealth Bank of Australia	30,000	1,332.3	4.23
COU	Count Financial Ltd	400,000	920.0	2.92
FAN	Fantastic Holdings Ltd	260,000	702.0	2.23
GTP	Great Southern Plantations Limited	206,000	706.6	2.24
IRE	Iress Market Technology Limited	150,000	870.0	2.76
JBH	JB Hi-Fi Limited	280,000	1,422.4	4.51
MBL	Macquarie Bank Limited	20,000	1,380.0	4.38
MOC	Mortgage Choice Ltd	210,000	535.5	1.70
NCK	Nick Scali Limited	120,000	160.8	0.51
PPT	Perpetual Ltd	20,000	1,463.0	4.64
PRY	Primary Health Care Limited	30,000	357.0	1.12
QGC	Queensland Gas Corporation Ltd	1,235,619	852.6	2.71
RIO	Rio Tinto Ltd	26,000	2,022.8	6.42
SEK	Seek Limited	280,000	1,498.0	4.75
SGN	STW Communications Group Ltd	300,000	843.0	2.68
SAQ	Sydney Attractions Ltd	70,000	427.0	1.36
VGH	Vision Group Holdings Limited	153,500	652.4	2.07
WBC	Westpac Banking Corporation Ltd	40,000	931.2	2.96
WPL	Woodside Petroleum Limited	10,000	440.0	1.40
WOW	Woolworths Ltd	81,000	1,632.2	5.18
WTF	Wotif.com Holdings Limited	100,000	330.0	1.05
			30,846.3	97.91
OPTIONS	Options		0.0	0.00
CASH	Cash		591.0	2.09%
			31,437.3	100.00%

(b) Transactions and Brokerage

There were 128 (2005: 55) transactions in securities during the year on which brokerage of \$85,100 (2005: \$40,400) was paid.

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Board of Directors

Steven M Wilson

Chairman

Dr Emmanuel ('Manny') C Pohl

Managing Director

Ignazia ('Grace') Grace

Non-Executive Director

Russell B McCrory

Non-Executive Director

Henry R Smerdon

Non-Executive Director

Secretary

Ian W Harrison

Principal Place of Business

Level 38

Riparian Plaza

71 Eagle Street

Brisbane Qld 4000

Manager

Hyperion Asset

Management Limited

ABN 99 080 135 897

Level 38

Riparian Plaza

71 Eagle Street

Brisbane Qld 4000

Tel: (07) 3212 1318

Toll Free: 1300 550 293

Fax: (07) 3212 1060

Solicitors

McCullough Robertson

Solicitors

Central Plaza Two

66 Eagle Street

Brisbane Qld 4000

Tel: (07) 3233 8888

Fax: (07) 3229 9949

Auditors

BDO Kendalls

Level 18

300 Queen Street

Brisbane Qld 4000

Tel: (07) 3237 5999

Fax: (07) 3221 9227

Share Register

Computershare Investor

Services Pty Ltd

Level 19

307 Queen Street

Brisbane Qld 4000

Tel: 1300 552 270

Fax: (07) 3237 2152

Registered Office

Level 38

Riparian Plaza

71 Eagle Street

Brisbane Qld 4000

Tel: (07) 3212 1318

Fax: (07) 3212 1060

Website address

www.hyperionfi.com.au



**HYPERION
FLAGSHIP
INVESTMENTS**

**Hyperion flagship
Investments Limited**

ABN 99 080 135 913

Registered in Queensland
on 23 September 1997

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