

# **HAMILTON SECURITIES LIMITED**

ABN 59 138 270 201

## **ANNUAL REPORT 2011**

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## **Hamilton Securities Limited**

### **CORPORATE GOVERNANCE STATEMENT**

The Board has the responsibility of ensuring that the Company is properly managed so as to protect and enhance shareholders interests in a manner that is consistent with the Company's responsibility to meet its obligations to all parties with which it interacts. To this end, the Board has adopted what it believes to be appropriate corporate governance policies and practices having regard to its size and nature of activities.

The main corporate governance policies are summarised below.

#### **Appointment and Retirement of Non-Executive Directors**

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case by case basis and in conformity with the requirements of the Listing Rules and the Corporations Act.

#### **Director's Access to Independent Professional Advice**

It is the Board's policy that any committees established by the Board should:

- Be entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise.
- Be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require.
- Operate in accordance with the terms of reference established by the Board.

#### **Audit Committee**

The Audit Committee meets with the external auditors at least once a year. This committee addresses the financial and compliance oversight responsibilities of the Board. The specific activities include assessing and monitoring:

- The adequacy of the Company's internal controls and procedures to ensure compliance with all applicable legal obligations.
- The adequacy of the financial risk management processes.
- The appointment of the external auditor, any reports prepared by the external auditor and liaising with the external auditor.

## Hamilton Securities Limited

### DIRECTORS' REPORT

Your directors present their report on the Company for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

#### Directors

The names of directors in office at any time during or since the end of the year are:

Steven Shane Pritchard  
Giles Cameron Craig  
Frederick Raymond Woollard  
Gordon Bradley Elkington

#### Company Secretary

Melanie Holmes has held the position of company secretary at the end of the financial year. Melanie holds a Bachelor of Commerce degree from the University of Newcastle and is a Member of CPA Australia.

#### Principal Activities

The principal activity of the Company during the financial year was investing in distressed debt opportunities.

#### Operating Results

The Company incurred a net operating loss for the year of \$43,294 (2010: loss of \$45,243).

#### Dividends Paid or Recommended

No dividends have been paid since the date of incorporation and the directors do not recommend the payment of a dividend.

#### Review of Operations

The company's performance has been disappointing. Hamilton lost \$43,294 last year and its shares have been trading at 35 cents, compared with their issue price of \$1.00 in 2009. However the board believes that Hamilton's future is brighter than its share price would suggest.

Hamilton was formed in 2009 to invest in distressed debt and frozen funds. We believed that we could add value for investors in frozen securities by providing liquidity where none existed, and by taking an activist role in relation to the securities. Individual investors often feel that they have little power to influence how their investments are run, but collectively they can wield a lot of power. Hamilton was formed, in part, to bridge that gap, and to create value for investors trapped in difficult situations as well as for Hamilton shareholders.

#### Background to Timbercorp Orchard Trust ("TOT") investment

TOT was a 45% affiliate of Timbercorp, which collapsed in March 2009. TOT's main assets were a substantial citrus and wine grape property called Kangara, and a table grape property called Bella Vista. These properties were both leased to Timbercorp, which subleased part of each property to "growers" who believed that they owned trees on the properties. The collapse of Timbercorp meant that TOT lost its sole source of revenue, the rent from Timbercorp, and was no longer able to pay the interest on its debentures. As Hamilton was being formed, we had discussions with the manager of TOT about using Hamilton to recapitalise TOT and prevent its collapse. Unfortunately, these discussions were unsuccessful, and TOT entered receivership on 22 October 2009.

In December 2009, Hamilton launched a takeover bid for TOT debentures, offering 30 Hamilton shares for each debenture. We believed that our offer would be well received by debenture holders, as it offered liquidity for an asset that might otherwise be unsaleable for many years. It also afforded debenture holders a continuing exposure to the same underlying asset. We also believed that we would be better placed than individual debenture holders to ensure that value was preserved in the course of the insolvency process.

There are two main reasons that insolvency often causes losses for creditors.

- (1) Most obviously, a sale of assets by a receiver is likely to generate a lower return than a sale in more normal circumstances.
- (2) Insolvency practitioners are very expensive and tend to employ other high-priced professionals such as lawyers and accountants to assist them. The costs are magnified when various creditor groups also employ lawyers to fight over the carcass.

In TOT's case both factors were present.

- (1) The underlying assets were sold for about \$30 million in total. We believe that this price represents a premium of only \$5-10 million above the value of the associated water rights, yet several tens of millions of dollars had been spent developing the assets. We suspect that Kangara alone is capable of making several million dollars a year profit once the trees reach maturity.

## Hamilton Securities Limited

### DIRECTORS' REPORT

- (2) An additional problem for TOT was a "first right of refusal" over Kangara held by the property's managers, which meant that, in reality, there was only one buyer for Kangara. Being a forced seller with only one possible buyer is not a good position to be in. If a way could have been found to keep TOT alive, this problem could almost certainly have been avoided.
- (3) In the two years since receivers were appointed to TOT, \$6.8 million has been spent, mostly on fees for the receivers and lawyers. The receivers have been unwilling to say how much of this \$6.8 million went to them. At least another \$0.5 million is expected to be spent before the debenture holders see any money.

Although Hamilton acquired 12% of the debentures under the takeover bid, our negotiating position was not as strong as we would have hoped. We proposed a number of alternative approaches to the fire sale process (including a debt for equity swap which could have been achieved cost effectively), but we were not in a position to drive through a restructure.

We were also not prepared to run the risk of incurring substantial costs in trying to force a restructure where we would only get 12% of the benefit if we were successful.

We believe that the realisation of the TOT assets underlines the shortcomings of the Australian administration process, where many parties fall back on a defined process which makes developing and implementing a creative and commercial solution extremely difficult. The result of this is that investors usually see much of the value of their investments dissipated in the process.

We also spent considerable time working with the growers on an attempt to recapitalise TOT, but ultimately this was not successful.

#### **Outlook for TOT Debentures**

Following the sale of the properties for \$30 million, and the \$6.8 million expenses, there remains about \$23 million held in a trust account awaiting apportionment between the debenture holders and the growers.

This apportionment will be done either by negotiation or, more likely, a court ruling. Following a recent court decision in a similar case and our examination of various legal documents, we believe that the growers are unlikely to receive any of the \$23 million. This is not however certain, and at this stage we do not know how long it will take for the matter to be finalised or what it might cost.

#### **Outlook for Hamilton Securities**

In the event that the \$23 million realised from the sale of the properties goes entirely to the debenture holders, they will receive about \$40 per debenture (compared with the \$100 face value of the debentures). Hamilton would then have net assets of about \$2.9 million, or about \$1.10 per fully diluted share.

Until there is a resolution of the TOT matter we will continue to closely monitor developments at TOT, and to take any action which is available to enhance the value of Hamilton shares.

During the year, Hamilton bought back 6.6% of its shares, and has been the principal buyer of the stock. The company has therefore been benefiting from the low share price. We expect that we will continue buying back shares if we can do so at a price that adds value for remaining shareholders.

We always knew that the resolution of TOT would be a protracted process, but we remain cautiously optimistic. There remain many other situations involving either frozen funds or distressed debt portfolios where we believe an offer of liquidity and an activist approach should be attractive to trapped investors.

#### **After Balance Date Events**

There have been no other activities which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in the future.

#### **Future Developments, Prospects and Business Strategies**

The Company will continue to pursue its investment objectives for the long-term benefit of members. This will require the continued review of the investment strategy that is in place and may from time to time require some changes to that strategy.

We do not believe it is possible or appropriate to make a prediction on the future course of markets or the performance of our investments. Accordingly, we do not provide a forecast of the likely results of our activities.

#### **Environmental Issues**

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

## Hamilton Securities Limited

### DIRECTORS REPORT

#### Information on Directors

<b>Steven Shane Pritchard</b>	—	Chairman (Executive)
Qualifications	—	Bachelor of Commerce, Certified Practising Accountant, Registered Tax Agent, Fellow Taxation Institute of Australia, Graduate Diploma Applied Finance and Investment, and Fellow of Financial Services Institute of Australasia
Experience	—	Board member and Chairman since 14 July 2009
Interest in Shares and Options	—	12,800 A Class Shares, 38,200 B Class Shares and 88,653 B Class Options in Hamilton Securities Limited
Special Responsibilities	—	Member of the Audit Committee
Directorships held in other listed entities	—	Current director of Florin Mining Investment Company Limited (since 29 September 2004), Illuminator Investment Company Limited (since 22 December 2003), Pritchard Equity Limited (since 10 May 2002) and Winpar Holdings Limited (since 4 July 2004)
<b>Giles Cameron Craig</b>	—	Executive Director
Qualifications	—	Bachelor of Science (Economics) Hons, Fellow of the Institute of Chartered Accountants in England and Wales
Experience	—	Board member since 14 July 2009
Interest in Shares and Options	—	11,000 A Class Shares, 34,000 B Class Shares and 92,740 B Class Options in Hamilton Securities Limited
Special Responsibilities	—	None
Directorships held in other listed entities	—	None
<b>Frederick Raymond Woollard</b>	—	Executive Director
Qualifications	—	Bachelor of Economics and Fellow of Financial Services Institute of Australasia
Experience	—	Board member since 14 July 2009
Interest in Shares and Options	—	298,110 A Class Shares, 222,800 B Class Shares and 403,898 B Class Options in Hamilton Securities Limited
Special Responsibilities	—	Member of the Audit Committee
Directorships held in other listed entities	—	Current director of RuralAus Investments Limited (since 11 March 2008)
<b>Gordon Bradley Elkington</b>	—	Executive Director
Qualifications	—	Bachelor of Science (Honours), Master of Science, Doctor of Philosophy Master of Laws
Experience	—	Board member since 14 July 2009
Interest in Shares and Options	—	10,000 B Class Shares and 53,185 B Class Options in Hamilton Securities Limited
Special Responsibilities	—	Member of the Audit Committee
Directorships held in other listed entities	—	Current director of Pritchard Equity Limited (since 12 December 2005), Stokes (Australasia) Limited (since 24 April 2003), and Winpar Holdings Limited (since 1994)

## Hamilton Securities Limited

### RUMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Hamilton Securities Limited, and for the executives receiving the highest remuneration.

#### Remuneration policy

All issues in relation to remuneration of both Executive Directors and Non-Executive Directors are dealt with by the board of the Company.

The constitution of Hamilton Securities Limited requires approval by the shareholders in general meetings of a maximum amount of remuneration per year to be allocated between Non-Executive Directors as they determine. In proposing the maximum amount for consideration in general meeting, and in determining the allocation, the Board takes account of the time demands made on Directors, together with such factors as the general level of fees paid to Directors. The amount of remuneration currently approved by shareholders for Non-Executive Directors is a maximum of \$200,000 per annum.

Non-Executive Directors hold office until such time as they retire, resign or are removed from office under the terms set out in the constitution of the Company.

Non-Executive Directors do not receive any performance based remuneration.

#### Details of remuneration for year ended 30 June 2011

The Company has four executives, all of whom are Directors of the Company.

Details of the remuneration for each Director of the Company was as follows:

2011	Salary & Fees	Superannuation Contributions	Other	Total
	\$	\$	\$	\$
Steven Pritchard	-	-	-	-
Giles Craig	-	-	-	-
Frederick Woollard	-	-	-	-
Gordon Elkington	-	-	-	-
	-	-	-	-

#### Meetings of Directors

During the financial year, 4 meetings of directors (including committees) were held. Attendances were:

	DIRECTORS MEETINGS		AUDIT COMMITTEE MEETINGS	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Steven Shane Pritchard	3	3	1	1
Giles Cameron Craig	3	3	1	1
Frederick Raymond Woollard	3	3	1	1
Gordon Bradley Elkington	3	3	1	1

#### Shareholdings – A Class Shares

##### Number of Shares Held by Directors

	Balance 01.07.10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.06.11
Steven Pritchard	12,800	-	-	-	12,800
Giles Craig	11,000	-	-	-	11,000
Fred Woollard	298,110	-	-	-	298,110
Gordon Elkington	-	-	-	-	-
<b>Total</b>	<b>321,910</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>321,910</b>

# Hamilton Securities Limited

## REMUNERATION REPORT

### Shareholdings – B Class Shares

#### Number of Shares Held by Directors

	Balance 01.07.10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.06.11
Steven Pritchard	38,200	-	-	-	38,200
Giles Craig	34,000	-	-	-	34,000
Fred Woollard	222,800	-	-	-	222,800
Gordon Elkington	10,000	-	-	-	10,000
<b>Total</b>	<b>305,000</b>	-	-	-	<b>305,000</b>

### Shareholdings – B Class Options

#### Number of Options Held by Directors

	Balance 01.07.10	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.06.11
Steven Pritchard	88,653	-	-	-	88,653
Giles Craig	92,740	-	-	-	92,740
Fred Woollard	403,898	-	-	-	403,898
Gordon Elkington	53,185	-	-	-	53,185
<b>Total</b>	<b>638,476</b>	-	-	-	<b>638,476</b>

\* Net change other refers to shares/options purchased or sold during the financial year.

### Options

At the date of this report, the company had 1,003,872 B Class options outstanding.

### Indemnifying Officers or Auditor

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Company.

### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2011 has been received and can be found on page 7 of the annual report.

Signed in accordance with a resolution of the Board of Directors.



**Steven Shane Pritchard**

Director

13 September 2011

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF HAMILTON SECURITIES LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Hamilton Securities Limited.

As lead audit partner for the audit of Hamilton Securities Limited financial statements for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- i. the independence requirements of the Corporations Act 2001 in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.



FORSYTHES ASSURANCE & RISK



MJ Matthews  
Partner  
Chartered Accountants  
Newcastle, 13 September 2011

# Hamilton Securities Limited

## STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Note	30.06.2011	30.06.2010
		\$	\$
Income from deposits		14,285	11,889
<b>Total income from ordinary activities</b>	2	<b>14,285</b>	<b>11,889</b>
Administration expenses	3	(57,579)	(57,132)
<b>Operating (loss) before income tax</b>		<b>(43,294)</b>	<b>(45,243)</b>
Income tax (expense)/credit relating to ordinary activities		-	-
<b>(Loss) attributable to members of the company</b>		<b>(43,294)</b>	<b>(45,243)</b>
Other comprehensive income for the financial year		-	-
<b>Total comprehensive income for the financial year</b>		<b>(43,294)</b>	<b>(45,243)</b>
<b>Overall Operations</b>			
Basic earnings per share (cents per share)		(1.68)	(5.75)
Diluted earnings per share (cents per share)		(1.68)	(5.75)

The accompanying notes form part of these financial statements.

# Hamilton Securities Limited

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	30.06.2011 \$	30.06.2010 \$
<b>ASSETS</b>			
Cash and cash equivalents	5	240,107	352,254
Trade and other receivables	6	1,059	13,247
Financial assets	7	2,209,534	2,209,534
<b>TOTAL ASSETS</b>		<b>2,450,700</b>	<b>2,575,035</b>
<b>LIABILITIES</b>			
Trade and other payables	8	14,170	24,535
<b>TOTAL LIABILITIES</b>		<b>14,170</b>	<b>24,535</b>
<b>NET ASSETS</b>		<b>2,436,530</b>	<b>2,550,500</b>
<b>EQUITY</b>			
Issued capital	9	2,525,067	2,595,743
Accumulated losses		(88,537)	(45,243)
<b>TOTAL EQUITY</b>		<b>2,436,530</b>	<b>2,550,500</b>

The accompanying notes form part of these financial statements.

# Hamilton Securities Limited

## STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	Issued Capital	(Accumulated Losses)	Total
	\$	\$	\$
<b>Balance at 14.07.2009</b>	-	-	-
Loss for the period	-	(45,243)	(45,243)
Total comprehensive income for the period	-	(45,243)	(45,243)
Shares issued as per prospectus	640,000	-	640,000
Capital raising costs	(67,210)	-	(67,210)
Shares issued under takeover bid	2,038,200	-	2,038,200
Shares bought back	(15,247)	-	(15,247)
<b>Balance at 30.06.2010</b>	<b>2,595,743</b>	<b>(45,243)</b>	<b>2,550,500</b>
<b>Balance at 01.07.2010</b>	<b>2,595,743</b>	<b>(45,243)</b>	<b>2,550,500</b>
Loss for the period	-	(43,294)	(43,294)
Total comprehensive income for the period	-	(43,294)	(43,294)
Shares bought back	(70,676)	-	(70,676)
<b>Balance at 30.06.2011</b>	<b>2,525,067</b>	<b>(88,537)</b>	<b>2,436,530</b>

The accompanying notes form part of these financial statements.

# Hamilton Securities Limited

## STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

		30.06.2011	30.06.2010
	Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest received		14,285	11,756
Payments to suppliers		(55,665)	(33,972)
Bank charges		(224)	(138)
Withholding tax received		133	-
Net cash used in operating activities	13	(41,471)	(22,354)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases to acquire financial assets		-	(182,935)
Net cash used in investing activities		-	(182,935)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		-	640,000
Capital raising costs		-	(67,210)
Payment for buy back of shares		(70,676)	(15,247)
Net cash (used in)/ provided by financing activities		(70,676)	557,543
Net (decrease)/increase in cash held		(112,147)	352,254
Cash at beginning of period		352,254	-
<b>Cash at end of period</b>	5	<b>240,107</b>	<b>352,254</b>

The accompanying notes form part of these financial statements.

# Hamilton Securities Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation of the Financial Statements

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company comply with International Financial Reporting Standards ('IFRS').

The financial statements relate to the year from 1 July 2010 to 30 June 2011. As the Company was incorporated on 14 July 2009, the comparative figures relate to the period 14 July 2009 to 30 June 2010.

All amounts are presented in Australian dollars, unless otherwise noted.

The financial statements were authorised for issue by the directors on 13 September 2011.

#### Basis of Preparation

##### *Reporting Basis and Conventions*

#### Adoption of new and revised Accounting Standards

Hamilton Securities Limited has not applied any Australian Accounting Standards or AASB interpretations that have been issued at balance date but are not yet operative for the year ended 30 June 2011 ("the inoperative standards") with the exception of AASB 9, as noted below. The inoperative standards are outlined below.

- AASB 124 *Related Party Disclosure (2009)*, AASB 2009-12 *Amendments to Australian Accounting Standards (effective date 1 January 2011)*.
- AASB 1053 *Application of Tiers of Australian Accounting Standards* and AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective date 1 July 2013).
- AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective date 1 January 2011).
- AASB 2010-5 *Amendments to Australian Accounting Standards* (effective date 1 January 2011).
- AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* (effective date 1 July 2011).
- AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective date 1 January 2012).

The adoption of the various Australian Accounting Standards and Interpretations in issue but not yet effective will not impact the Company's accounting policies. However, the pronouncements will result in changes to information currently disclosed in the financial statements. The Company does not intend to adopt any of these pronouncements (with the exception of AASB 9) before their effective dates.

The financial statements are prepared using the valuation methods described below for holdings of securities. All other items have been treated in accordance with the historical cost convention.

#### (a) Financial Assets

The Financial Assets held by the company consist of securities acquired for the purpose of making a profit from the sale or disposal of such securities.

These securities are classified as at fair value through profit or loss in accordance with AASB 9.

These securities are initially brought to account at market value, which is the cost of acquisition.

Increments and decrements on the value of securities are taken to profit or loss through the Statement of Comprehensive Income.

# Hamilton Securities Limited

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

#### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (b) Income from securities holdings

Distributions relating to listed securities are recognised as income when those securities are quoted ex-distribution basis and distributions relating to unlisted securities are recognised as income when received. If the distributions are capital returns on ordinary securities the amount of the distribution is treated as an adjustment

##### (c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term highly liquid investments, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

##### (d) Taxation

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any non-assessable or disallowed items.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

##### (e) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

##### (f) Financial instruments issued by the company

Debt and equity instruments are classified as either liabilities or as equity in accordance with substance of the contractual agreement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the company are recorded as the proceeds received, net of direct issue costs.

##### (g) Share capital

A and B Class shares are classified as equity. Incremental costs directly attributable to the issue of A and B Class shares and share options are recognised as a deduction from equity, net of any tax effects.

##### (h) Initial public offer costs

The costs incurred in the establishment of the Company and its subsequent public offerings have been charged directly against issued capital.

##### (i) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting used by the chief operating decision-maker. The Board has been identified as the chief operating decision-maker, as it is responsible for allocating resources and assessing performance of the operating segments.

## **Hamilton Securities Limited**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

##### **NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)**

###### **(j) Critical Accounting Estimates and Judgements**

The preparation of financial reports in conformity with AIFRS requires the use of certain critical accounting estimates. This requires the Board and management to exercise their judgement in the process of applying the Company's accounting policies.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. In accordance with AASB 9 the fair value of the company's Financial Assets have in the absence of an active market for those assets been determined by the directors.

Apart from this, there are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period.

**Hamilton Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**30.06.2011      30.06.2010**  
**\$                      \$**

**NOTE 2: OPERATING PROFIT BEFORE INCOME TAX EXPENSE**

**Income from deposits**

Interest received	14,285	11,889
Total income from deposits	14,285	11,889
<b>Total revenue</b>	<b>14,285</b>	<b>11,889</b>

**NOTE 3: ADMINISTRATION EXPENSES**

Accountancy Fees	19,371	14,906
Auditor's remuneration	7,600	8,023
Public relations fees	-	7,416
Share registry fees	14,651	14,651
Other expenses	15,957	12,136
<b>Total administration expenses</b>	<b>57,579</b>	<b>57,132</b>

**NOTE 4: TAXATION**

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions of deductibility set out in Note 1(d) occur

- operating losses	<b>97,710</b>	<b>38,102</b>
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**NOTE 5: CASH AND CASH EQUIVALENTS**

Cash at bank	1,021	42,453
Deposits at call	132,562	209,801
Term deposits	106,524	100,000
	<b>240,107</b>	<b>352,254</b>

All cash investments are invested with Authorised Deposit Taking Institutions. All deposits are guaranteed by the Commonwealth of Australia. The credit risk exposure of the company in relation to cash and cash equivalents is the carrying amount and any unpaid accrued interest.

**NOTE 6: TRADE AND OTHER RECEIVABLES**

Goods and services tax refund	1,059	13,114
Withholding tax	-	133
	<b>1,059</b>	<b>13,247</b>

Receivables are non-interest bearing and unsecured. The credit risk exposure of the company in relation to receivables is the carry amount.

**Hamilton Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**30.06.2011      30.06.2010**  
**\$                      \$**

**NOTE 7: FINANCIAL ASSETS**

Measured at fair value through profit or loss **2,209,534      2,209,534**

The financial assets consist solely of 67,940 debentures held in the Timbercorp Orchard Trust. Given the lack of an active market in the debentures, the directors consider that an appropriate carrying value for the debentures is their total cost of acquisition.

**NOTE 8: TRADE AND OTHER PAYABLES**

Accrued charges	13,950	24,535
Other payables	220	-
	<b>14,170</b>	<b>24,535</b>

**NOTE 9: ISSUED CAPITAL AND OPTIONS**

Movements in Issued Capital of the Company during the financial year were as follows:

Date	Details	A Class Shares	B Class Shares	Price \$	Issued Capital \$
01.07.2010	Balance	2,128,200	520,000		2,595,743
Various	Buy back of shares	(174,510)	-	0.40	(70,676)
<b>30.06.2011</b>	<b>Balance</b>	<b>1,953,690</b>	<b>520,000</b>		<b>2,525,067</b>

All ordinary shares rank equally inter se for all purposes of participation in profits or capital of the Company.

A Class shares confer on their holder the right to receive notices, reports and accounts and to attend and speak, but not to vote at general meetings of the Company.

B Class shares confer on their holder the right to receive notices, reports and accounts and to attend and speak and vote at general meetings of the Company.

**Options**

During the period the company issued B Class options as follows:

Date	Details	B Class Options
<b>30.06.2011</b>	<b>Balance</b>	<b>1,003,872</b>

A B Class option entitles the holder to the issue of one B class share upon payment to the company of \$1.00 at any time up to 30 November 2019. As at the reporting date none of the options had been exercised.

# Hamilton Securities Limited

## NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011

	30.06.2011	30.06.2010
	Number	Number
<b>NOTE 10: EARNINGS PER SHARE</b>		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	2,569,714	787,475
Weighted average number of options outstanding	1,003,872	787,475
Weighted average number of ordinary shares used in calculation of dilutive earnings per share	2,569,714	787,475
	\$	\$
- Loss attributable to members of the company	(43,294)	(45,243)
	Cents	Cents
a. Basic earnings per share	(1.68)	(5.75)
b. Diluted earnings per share	(1.68)	(5.75)

### NOTE 11: AUDITOR'S REMUNERATION

Remuneration of the auditor of the company for:	\$	\$
- auditing and reviewing the financial reports	7,600	8,023

### NOTE 12: SEGMENT REPORTING

#### (a) Description of segments

The Board makes the strategic resource allocations for the Company. The Company has therefore determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for the Company's entire portfolio of investments and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis.

The Company invests in distressed debt securities and other instruments for the purpose of providing shareholders with attractive investment returns.

#### (b) Segment information provided to the Board

The internal reporting provided to the Board for the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of Australian Accounting Standards.

The Board considers the Company's net asset backing per share after tax to be a key measure of the Company's performance.

	Cents	Cents
Net asset backing per share	98.50	96.31

#### (c) Other Segment Information

The Company is domiciled in Australia and all of the Company's income is derived from Australian entities.

**Hamilton Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

	30.06.2011	30.06.2010
	\$	\$
<b>NOTE 13: CASH FLOW INFORMATION</b>		
<b>a. Reconciliation of cash flow from operations with (loss) after income tax</b>		
Loss after income tax	(43,294)	(45,243)
Decrease/(increase) in trade and other receivables	12,188	(1,646)
(Decrease)/increase in trade payables and accruals	(10,365)	24,535
<b>Cash flow from operations</b>	<b>(41,471)</b>	<b>(22,354)</b>

**NOTE 14: RELATED PARTY TRANSACTIONS**

Transactions with related parties:

-	Cameron Stockbrokers Limited		
-	Brokerage	1,020	248
-	Sponsoring broker fees	-	20,000
	Giles Craig, Gordon Elkington and Steven Pritchard each have an interest in the above transactions as directors of Cameron Stockbrokers Limited. Giles Craig, Gordon Elkington and Steven Pritchard are indirect shareholders of Cameron Stockbrokers Limited.		
-	Newcastle Capital Markets Registries Pty Limited		
-	Share registry fees	8,658	14,651
	Steven Pritchard is interested in the above transactions as a director and a beneficial shareholder of Newcastle Capital Markets Registries Pty Limited		
-	Rees Pritchard Pty Limited		
-	Accounting fees	19,391	24,906
	Steven Pritchard is interested in the above transactions as a director and a beneficial shareholder of Rees Pritchard Pty. Limited		
	Samuel Terry Absolute Return Fund		
-	Acceptance of takeover offer for Debentures in Timbercorp Orchard Trust	-	217,080

Samuel Terry Absolute Return Fund accepted Hamilton Securities Limited takeover offer for its holdings of Timbercorp Orchard Trust debentures. Fred Woollard is a director and beneficial shareholder of Samuel Terry Asset Management Pty Limited which is the trustee of the Samuel Terry Absolute Return Fund.

- The directors and their related entities have the following shares and options in Hamilton Securities Limited. Details are as follows.

Director	Number of A Class Shares	Number of B Class Shares	Number of B Class options
Gordon Elkington	-	10,000	53,185
Giles Cameron Craig	11,000	34,000	92,740
Steven Shane Pritchard	12,800	38,200	88,653
Frederick Raymond Woollard	298,110	222,800	403,898

**NOTE 15: DIRECTORS AND EXECUTIVES DISCLOSURE**

In accordance with the Corporations Amendments Regulation 2005 (No 4) the Company has transferred the disclosure required by AASB 1046 from the notes to the Financial Statements to the Directors' Report under the heading of Remuneration Report.

**Hamilton Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**NOTE 16: FINANCIAL INSTRUMENTS**

**(a) Financial Risk Management**

Accounting Standards identify three types of risk associated with financial instruments (i.e. the Company's investments, receivables, payables and borrowings):

**Credit Risk**

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Credit risk is managed as noted in the Notes to the financial statements with respect to cash and trade and other receivables. None of these assets are over-due or considered to be impaired.

**Liquidity Risk**

This is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Company monitors its cash-flow requirements and ensures that it has either cash available sufficient to meet any payments.

**Market Risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price.

The Company seeks to minimise market risk by ensuring that it buys securities at a price which reflects their lack of liquidity and lack of ongoing cashflow.

The Company does not have set parameters as to a minimum or maximum amount of the portfolio that can be invested in a single company or sector.

The Company currently only has one investment, details in respect of which are contained in Note 7.

**Interest Rate Risk**

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company currently has no borrowings and accordingly is not subject to interest rate risk.

**Capital Management**

It is the Board's policy to maintain a strong capital base as to maintain investors and market confidence.

To achieve this, the Board monitors the Company's net tangible assets, its levels of borrowings and its investment performance.

The Company is not subject to any externally imposed capital requirements.

**(b) Fair Value Measurement**

The company has adopted the amendment to AASB 7 Financial Instruments: Disclosures which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- (c) inputs for the asset or liabilities that are not based on observable market data (unobservable inputs) (level 3).

	Level 1	Level 2	Level 3	Total
30 June 2011	\$	\$	\$	\$
Financial assets at fair value through profit or loss	-	2,209,534	-	2,209,534
<b>Total</b>	<b>-</b>	<b>2,209,534</b>	<b>-</b>	<b>2,209,534</b>

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The company uses a variety of valuation methods and makes assumptions that are based on market conditions at the end of each reporting period. These instruments are included in level 2, and comprise the company's investment in Timbercorp Orchard Trust debentures.

**Hamilton Securities Limited**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011**

**NOTE 17: SUBSEQUENT EVENTS**

Since 30 June 2011 to the date of this report there has been no event specific to the Company of which the Directors are aware which has had a material effect on the Company or its financial position.

**NOTE 18: CONTINGENCIES**

At balance date the Directors are not aware of any other material contingent liabilities or contingent assets other than those already disclosed elsewhere in the financial report.

**NOTE 19: COMPANY DETAILS**

The registered office of Hamilton Securities Limited is:

10 Murray Street,  
Hamilton NSW 2303

## Hamilton Securities Limited

### DIRECTORS' DECLARATION

The directors of the company declare that:

- (a) In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) in the director' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company;
- (c) In the directors opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board; and
- (d) the directors have been given the declarations required by section 259A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the Board of Directors pursuant to s.303(5) of the *Corporations Act 2001*.



Steven Shane Pritchard

13 September 2011

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMILTON SECURITIES LIMITED

We have audited the accompanying financial report of Hamilton Securities Limited, which comprises the statement of financial position as at 30 June 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state the financial report complies with International Financial Reporting Standards.

### ***Auditor's responsibility***

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

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

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

## ***Independence***

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

## ***Auditor's opinion***

In our opinion:

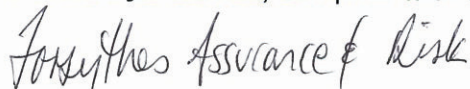
- (a) the financial report of Hamilton Securities Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of company's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

## ***Report on the remuneration report***

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## ***Auditor's opinion***

In our opinion the remuneration report of Hamilton Securities Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.



FORSYTHES ASSURANCE & RISK



MJ Matthews

Partner

Chartered Accountants

Newcastle, 13 September 2011

## Hamilton Securities Limited

### STOCK EXCHANGE INFORMATION

#### Top 20 A Class Shareholders as at 14 August 2011.

Shareholder	Shares	% of Issued
JP Morgan Nominees Australia Limited	297,510	15.47
Mr Aravind Lal Patel and Mrs Dhanlaxmi Patel	108,000	5.61
Merrill Lynch (Australia) Nominees Pty Limited	100,140	5.21
Mr Roger John Hughes and Mrs Lynette Alice Hughes	60,000	3.12
Mr Gerald Dennis Chick and Mr Daniel Patrick Chick	45,000	2.34
Neerac Holdings Pty Limited	45,000	2.34
UBS Wealth Management Australia Nominees Pty Limited	35,910	1.87
Manikato Pty Limited	30,000	1.56
MCMF Pty Limited	30,000	1.56
Presbyterian Church Boif	24,000	1.25
Mr Loreto Tergsigni and Mrs Giuseppina Tersigni	24,000	1.25
Mr Kok Tong Yeo and Ms Shirley Tan	22,500	1.17
Mrs Annie Charlotte Neill	20,280	1.05
Netwealth Investments Limited	19,800	1.03
Mr Simon Plunkett	18,450	0.96
Mr Neville Law Brown and Mrs Ann Kingsley Brown	17,100	0.89
Kay Superannuation Fund Pty Limited	16,500	0.86
Mr Dean Henry Stone and Mrs Carole Julia Stone	16,500	0.86
Mrs Margaret Jean Moore and Mrs Vicki Louise Davies	15,900	0.83
Mr Geoffrey Desmond Hayter and Mrs Carol Anne Hayter	15,450	0.80
	962,040	50.01

#### Number of A ordinary shares held

1 – 1,000  
1,001 – 5,000  
5,001 – 10,000  
10,001 – 100,000  
100,001 and over

#### Number of Shareholders

52  
132  
47  
33  
3

## Hamilton Securities Limited

### STOCK EXCHANGE INFORMATION

#### Top 20 B Class Shareholders as at 14 August 2011.

Shareholder	Shares	% of Issued
JP Morgan Nominees Australia Limited	222,799	42.85
North Shore Custodians Pty Limited	33,999	6.54
ALF Salter Nominees Pty Limited	24,000	4.62
Bell IXL Investments Limited	16,000	3.08
Henley Underwriting & Investment Company Pty Limited	16,000	3.08
Miss Margaret Elizabeth Elkington	12,000	2.31
Miss Rosemary Isabel Elkington	12,000	2.31
Longbow Croft Capital Pty Limited	12,000	2.31
Dr Gordon Bradley Elkington	10,000	1.92
The Pritchard Family Company Pty Limited	9,399	1.81
Mr David Neil Constable	8,000	1.54
Denholm Investments Pty Limited	8,000	1.54
Mrs Pam Elrington and Mr John Elrington	8,000	1.54
Illuminator Investment Company Limited	8,000	1.54
Anthony John Shields	8,000	1.54
Jane Elizabeth Wilkins	8,000	1.54
Winpar Holdings Limited	8,000	1.54
Patricia Yvonne Baxter and Donald Charles Steel	4,000	0.77
Brian John Delaney	4,000	0.77
Donald Steel and Associates Pty Limited	4,000	0.77
	436,197	83.88

#### Number of B ordinary shares held

1 – 1,000  
1,001 – 5,000  
5,001 – 10,000  
10,001 – 100,000  
100,001 and over

#### Number of Shareholders

5  
42  
9  
7  
1

## Hamilton Securities Limited

### STOCK EXCHANGE INFORMATION

#### Top 20 B Class Option holders as at 14 August 2011.

Option holder	Options	% of Issued
JP Morgan Nominees Australia Limited	403,892	40.23
North Shore Custodians Pty Limited	92,734	9.24
Dr Gordon Bradley Elkington	53,185	5.30
The Pritchard Family Company Pty Limited	41,180	4.10
ALF Salter Nominees Pty Limited	39,555	3.94
Bell IXL Investments Limited	26,376	2.63
Henley Underwriting & Investment Company Pty Limited	26,370	2.63
Miss Margaret Elizabeth Elkington	19,778	1.97
Miss Rosemary Isabel Elkington	19,778	1.97
Longbow Croft Capital Pty Limited	19,778	1.97
Mr David Neil Constable	13,185	1.31
Denholm Investments Pty Limited	13,185	1.31
Mrs Pam Elrington and Mr John Elrington	13,185	1.31
Illuminator Investment Company Limited	13,185	1.31
Anthony John Shields	13,185	1.31
Jane Elizabeth Wilkins	13,185	1.31
Winpar Holdings Limited	13,185	1.31
Pirenz Nominees Pty Limited	10,637	1.06
Patricia Yvonne Baxter and Donald Charles Steel	6,593	0.66
Brian John Delaney	6,593	0.66
	858,744	85.54

#### Number of Series 2 options held

1 – 1,000  
1,001 – 5,000  
5,001 – 10,000  
10,001 – 100,000  
100,001 and over

#### Number of Option holders

4  
37  
6  
17  
1

## Hamilton Securities Limited

### CORPORATE DIRECTORY

<b>Directors</b>	Steven Pritchard Giles Craig Frederick Woollard Gordon Elkington
<b>Company Secretary</b>	Melanie Holmes
<b>Registered Office</b>	10 Murray Street Hamilton NSW 2303 Telephone 02 4920 2877 Facsimile 02 4920 2878 Email: <a href="mailto:mail@hamsec.com.au">mail@hamsec.com.au</a> Web: <a href="http://www.hamsec.com.au">www.hamsec.com.au</a>
<b>Business Office</b>	Level 6 10 Spring Street Sydney NSW 2000 Telephone 02 8223 5100 Facsimile 02 9232 7700
<b>Share Registry</b>	Newcastle Capital Markets Registries Pty Limited 10 Murray Street Hamilton NSW 2303 Telephone 02 4920 2877 Facsimile 02 4920 2878
<b>Stockbrokers</b>	Cameron Stockbrokers Limited Level 6 10 Spring Street Sydney NSW 2000 Telephone 02 8223 5100 Facsimile 02 9232 7700
<b>Auditors</b>	Forsythes Assurance & Risk Level 4, Hunter Mall Chambers 175 Scott Street Newcastle NSW 2300 Telephone 02 4926 2699 Facsimile 02 4929 1435
<b>Solicitors</b>	Baker & McKenzie Level 27, AMP Centre 50 Bridge Street Sydney NSW 1223 Telephone 02 9225 0200 Facsimile 02 9225 1595