



# 2005 annual report



HILLCREST LITIGATION SERVICES LIMITED

## Company Particulars. >>

### DIRECTORS

Alan Van Noort (Chairman)

Ian Allen

Walter Martin

### COMPANY SECRETARY

Ian Allen

### REGISTERED OFFICE AND DOMICILE

Hillcrest Litigation Services Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office is:

1 Colin Street  
West Perth  
Western Australia 6005

PO Box 587  
West Perth  
Western Australia 6872

Telephone: (08) 9324 3266

Facsimile: (08) 9324 3277

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

Email: [admin@hillcrestlitigation.com.au](mailto:admin@hillcrestlitigation.com.au)

### SHARE REGISTRY

Computershare Investor Services Pty Limited  
Level 2

Reserve Bank Building  
45 St George's Terrace  
Perth Western Australia 6000  
Telephone: (08) 9323 2000  
Facsimile: (08) 9323 2033

### AUDITORS

PricewaterhouseCoopers

### AUSTRALIAN STOCK EXCHANGE

ASX Codes:

Shares

HLS (Formerly HLL)

Options

HLSO (Formerly HLLO)

# Review of operations and activities

## **CHAIRMAN'S PERSPECTIVE**

We have pleasure in presenting this annual report to our shareholders. The report includes all information required to be disclosed under the Corporations Act 2001 and by the Australian Stock Exchange. In addition to our statutory obligations, we have included additional information to assist you in understanding the activities of Hillcrest Litigation Services Limited and its controlled entities.

The Board is committed to being more transparent in reporting to stakeholders. This means providing consistent reporting and communicating good and bad news in a timely manner. The Board considers that this approach is essential to ensure that we are meeting the needs of all our stakeholders. This annual report includes some new disclosures which we believe will contribute to our move towards greater transparency, and our reporting will continue to evolve over time.

### **Litigation Funding - Hillcrest Litigation Services Limited**

The principal activity undertaken during the year was the commencement and conduct of a litigation funding business as the core business of the Company.

Shareholders approved the change in the nature of the Company's activities from a mineral resources exploration company to a company involved in the business of litigation funding at the Company's AGM held in November 2004. Shareholders also approved changing the Company's name to Hillcrest Litigation Services Limited.

### **The Business of Litigation Funding**

The essential nature of a litigation funding business is that the litigation funder provides funds to enable a party to meet the cost of pursuing a legal claim and, in return for assuming those funding obligations, the litigation funder is entitled to receive a percentage (typically 30% to 45%) of the amount ultimately recovered under the claim, whether by way of court judgment or an earlier agreed settlement.

The costs funded and paid by the litigation funder generally

include the legal fees of its client party's solicitors and barristers together with the disbursements or expenses (such as the costs of any requisite experts reports) relating to the litigation. If the client party is an insolvency practitioner pursuing a claim in an insolvency matter, the costs funded and paid by the litigation funder generally also include the reasonable fees of the insolvency practitioner involved in pursuing the claim.

In addition, the litigation funder typically provides its client party with an indemnity against an adverse costs order in the event that the claim is unsuccessful and provides security for the defendant's costs (by way of bank guarantee or cash on deposit) if required by the Court.

No amount is received by the litigation funder if the claim is unsuccessful.

Litigation funding is applicable in situations where a person or a company:

- o has a good legal claim but not the financial resources to pursue it; or
- o cannot provide security to meet a security for costs order; or
- o wishes to lay off some or all of the financial risk associated with litigation; or
- o is concerned about being exposed to liability for the other side's costs.

### **The Company's litigation funding business**

The Company has identified three major business streams involved in the business of litigation funding, namely:-

- o insolvency matters;
- o non-insolvency matters; and
- o group or class actions.

## Review of operations and activities. >>

### The Company's litigation funding business (continued)

In the initial period of its operations, the Company intends to focus upon, and target, the market of insolvency matters for its litigation funding business. Insolvency matters are the traditional base of the litigation funding industry. The Company also intends to enter into funding agreements for non-insolvency matters and group or class actions if and when cases with merit are presented to the Company and the Company's due diligence processes and legal advice suggests such cases would be appropriate for the Company to enter into funding agreements.

The Company has reviewed 47 prospective matters for litigation funding in the period since January 2004. Of those 47 matters, Hillcrest Litigation Services Limited:-

- o has entered into funding agreements in respect of 7 matters;
- o has rejected, or otherwise decided not to pursue, 31 matters; and
- o is undertaking due diligence activities, negotiating agreements, or waiting for the occurrence of certain events in respect of the remaining 9 matters.

The Company's objective is to successfully develop a litigation funding business and to become a leading provider of litigation funding and associated services in Australia.

### Current Portfolio of Funded Cases

The Company presently has entered into funding agreements for 7 cases. Details of the Company's estimates of the quantum of the claims involved in those cases and of the Company's expected share of the claim proceeds from each case are contained in the table below. Those estimates are subject to the caveats expressed in the Notes to the Table. A brief description of each case then follows.

Case Number	Amount of Claim	Hillcrest's share of claim proceeds	Anticipated Hearing Date (Financial Year)
1	\$2,300,000	\$900,000	June 2006
2	\$3,500,000	\$1,300,000	June 2006
3	\$1,000,000	\$360,000	June 2006
4	Not yet quantifiable	Not yet quantifiable	June 2007
5	Not yet quantifiable	Not yet quantifiable	June 2007
6	\$4,500,000	\$1,750,000	June 2007
7	\$300,000	\$110,000	June 2007

# Review of operations and activities

## Current Portfolio of Funded Cases (continued)

### Notes to the Table:

(i) The "Amount of Claim" is the Company's current best estimate of the amount recoverable by the client/plaintiff, assuming that the litigation is wholly successful at trial.

However, the amount that is ultimately recovered by the client/plaintiff in each case may be significantly different from the current estimate of the Amount of Claim for that case as stated in the Table (either by being more than or less than the estimated amount); particularly in circumstances where there is an agreed settlement between the parties to the litigation, or where the litigation fails or is not wholly successful at trial.

(ii) "Hillcrest's share of claim proceeds" is the amount to which the Company is entitled (after the prior reimbursement of its funding costs) pursuant to the relevant funding agreement, assuming that the client's litigation is wholly successful at trial and that the client recovers an amount that is consistent with the "Amount of Claim" as stated in the Table.

However, the amount that the Company ultimately receives as its entitlement pursuant to the funding agreement in each case may be significantly different from the amount stated as such in the Table; particularly in circumstances where there is an agreed settlement between the parties to the litigation, or where the litigation fails or is not wholly successful at trial such that the client recovers an amount that is not consistent with the Amount of Claim as estimated and stated in the Table.

(iii) The "Anticipated Hearing Date" is the Company's current best assessment of the financial year in which the trials of the various actions will occur. However, the trial of any case may occur earlier than or later than the relevant period stated in the Table.

### Description of Cases:

1. A Supreme Court action against an ASX listed company as defendant for damages in respect of the alleged breach of an agreement under which the defendant company had agreed to issue a number of its securities to the plaintiff.

The amount of the claim (including interest) is approximately \$2,300,000. The Company's share of the claim proceeds, if the plaintiff is wholly successful at trial, will be approximately \$900,000 in addition to being reimbursed with its funding costs.

The action has been entered for trial, with a mediation scheduled for October 2005. The Company has been advised that the trial should take place in the second or third quarter of the 2005/2006 financial year.

2. A Federal Court action against a valuation company and a chartered accountant arising from a misleading valuation and a negligent due diligence report prepared in connection with the acquisition of a tavern and motel business.

The amount of the claim (including interest) is in the vicinity of \$3,000,000 to \$4,000,000, depending on the approach to valuation of the subject properties adopted by the Court. The Company's share of the claim proceeds, if the plaintiff is wholly successful at trial, will be in the vicinity of \$1,100,000 to \$1,500,000 in addition to being reimbursed with its funding costs.

The action has been listed for trial in December 2005, with a mediation scheduled to take place in November 2005.

3. A Northern Territory Supreme Court action, commenced in 2001, arising out of a contract under which the plaintiff agreed to carry out the earthworks for a sewerage scheme to be installed at an aboriginal community in the Northern Territory.

## Review of operations and activities. >>

### Current Portfolio of Funded Cases (continued)

The amount of the claim is approximately \$1,000,000. The Company's share of the claim proceeds, if the plaintiff is wholly successful at trial, will be approximately \$360,000 in addition to being reimbursed with its funding costs.

The Company has been advised that the trial of this action should take place in the fourth quarter of the 2005 / 2006 financial year.

4. A Federal Court action against a company arising from the misappropriation of confidential information and against a former director of that company for breaches of contract, section 183 of the Corporations Act (improper use by directors of a corporation of the corporation's information to gain a personal advantage), confidence and fiduciary duty.

The relief sought includes equitable compensation and an account of profits. It is not possible, at this stage, to provide an estimate of the quantum of the claim.

The Company has been advised that the trial of this action is likely to take place between August 2006 and December 2006.

5. A negligence action against a firm of solicitors. This matter is currently in the due diligence stage.
6. Proposed actions by the liquidator of a company against the former directors of the company under sections 180-183 (breach of directors' duties) and 588M (recovery of compensation for loss resulting from insolvent trading) of the Corporations Act.
7. A proposed action by the liquidator of a company against the former director of the company under section 588M of the Corporations Act (recovery of compensation for loss resulting from insolvent trading). This matter is currently in the due diligence stage.

# Corporate Governance Statement

## CORPORATE GOVERNANCE STATEMENT

A description of the Company's main corporate governance practices are set out below. Unless otherwise stated, these practices were in place for the entire financial year.

A more detailed version of the policies and procedures in place are outlined in the Company's Corporate Governance Manual which has been made available on the Company's website at [www.hillcrestlitigation.com.au](http://www.hillcrestlitigation.com.au)

### 1. The Board of Directors and Management

*Guiding Principle: Lay solid foundations for management and oversight*

The board has adopted a formal statement of matters reserved to it that outlines the functions and responsibilities of the board. The board's key responsibilities include:

- Establish, monitor and modify the Company's corporate strategies;
- Ensure best practice corporate governance;
- Appointing and removing directors and management;
- Monitor performance of directors individually and employees;
- Monitor financial results and reporting;
- Approve decisions on allocating the Company's resources;
- Ensure risk management and internal control and reporting systems are appropriate and in place;
- Ensure the business is conducted ethically; and
- Ensure external disclosures to the market are timely and complete and appropriate considering price sensitive information.

The board is focused on protecting and enhancing medium to long term shareholder value and must conduct itself in accordance with the Constitution of the Company.

Directors review their individual responsibilities to ensure they are appropriate for the needs of the Company as a process of performance evaluation on an annual basis or as required.

*Guiding Principle: Structure the Board to add value*

The board comprises two executive and one non-executive director.

The board regularly assesses the independence of its directors. One of the board directors, Mr. Martin, is non-executive and is considered independent as the Company is not aware of any circumstances of his involvement that would or would be seen to compromise his objectivity and independence.

The chairman of the Company is an executive director and is not considered to be independent. The board believes the chairman maintains a clear responsibility to head the Company and the independence of the non executive director is deemed to be sufficient to maintain the objectivity of the board in the context of the board's size.

The Company does not have a formally appointed nomination committee. The board considers the present directors are able to discharge the responsibilities of a director, having regard to the law and the highest standards of governance. Should a vacancy exist, for whatever reason, or where it is considered that the board would benefit from the services of a new director, the board will select appropriate candidates with relevant qualifications, skills and experience.

The board believes that the degree of commitment and depth of experience and knowledge present in the board structure is appropriate to best serve the current needs of the Company and its shareholders.

To aid the board make decisions that are independent, the Company allows each director to seek individual external advice at the expense of the Company.

The qualifications and experience of each of the directors is detailed in the Director's Report.

# Corporate Governance Statement. >>

## 1. The Board of Directors and Management (continued)

*Guiding Principle: Encourage enhanced performance*

A formalised committee to assess and control induction into the Board of Directors through a nomination committee is not established. The Company believes that the size of the board does not warrant such a committee. The directors believe that all the directors on the board have a firm understanding of the Company's financial, strategic, operational and risk management position.

The directors believe that their experience and drive to advance the Company is sufficient to lead the Company and identify weaknesses in management and practices.

The Board of Directors encourages continued education of all directors and employees to facilitate enhanced performance. The opportunity to update or enhance one's education is available to individuals at the Company's expense, upon request and approval.

The directors provide each other and employee's feedback through performance appraisals that are at a minimum annual or as required.

*Guiding Principle: Remunerate fairly and responsibly*

All directors receive a quarterly Directors fee which is not linked to the volume of work performed. Fees paid to directors have superannuation contributions made as required by Commonwealth legislation. The Company does not pay other retirement benefits to directors.

In January 2005, the Company entered into service contracts with the executive directors covering a range of matters including their duties, rights, responsibilities and entitlements on termination.

Executive Share and Option Scheme Guidelines, IFSA Guidance Note provided by the Investment and Financial Services Association 2000 will be considered in any equity based remuneration plan proposed.

Remuneration is reviewed annually or as required in conjunction with performance appraisals and evaluations. This process is performed by the board, as a formal remuneration committee is not deemed to be warranted due to the small number of directors and employees. The board set remuneration at a level that is competitive to attract and retain the most qualified and experienced directors and staff available. The directors seek independent advice when appropriate before making decisions on remuneration.

Further information on Directors remuneration is outlined in the Directors Report and note 24 of the Financial Statements.

## 2. Ethical and Responsible Decision Making

*Guiding Principle: Promote ethical and responsible decision making*

The Board's policy is for the directors, management and staff to conduct themselves with the highest ethical standards. All directors and employees are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Company has developed a Code of Conduct and Policy for Trading in the Company's securities, which applies to all directors and employees of the organisation and has been communicated to all directors and employees.

These policies will be reviewed from time to time to ensure the policy's effectiveness and relevance.

# Corporate Governance Statement

## 2. Ethical and Responsible Decision Making (continued)

*Guiding Principle: Recognise and manage risk*

Due to the size of the Company and the number of directors, there is no formal risk management committee or audit committee established. The board recognises that due to the size of the Company, all directors and employees have responsibilities to recognise risks, bring them to the attention of the directors and actively apply controls to manage the risk.

The Chief Executive Officer (Alan Van Noort) and Chief Financial Officer (Ian Allen) have certified to the board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control and which implements the policies adopted by the board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects. The controls in place are appropriate for the current position of the Company.

The primary operating risk for the Company is the selection of cases to provide litigation funding to. To manage this risk effectively, all cases undergo a strict internal and external due diligence process before deciding to accept a client case and enter into a funding agreement. The due diligence process in ongoing through the life of the case and the Company has the option to withdraw from the agreement at any time should the evolving risks be unacceptable. In addition, a Case Review Committee, comprising two executive directors and the Company's external legal advisor, meets quarterly to review the status of all cases.

The Company's internal control system is reviewed from time to time to ensure it is appropriate and effective as the business develops and matures.

*Guiding Principle: Recognise the legitimate interests of stakeholders*

The Company's Code of Conduct documents the values and policies the board requires staff to adhere to, to compliment its

risk management practices and uphold the Company's reputation. The Company believes in social accountability and encourages its staff to recognise their responsibilities to the community. The Company and its staff, have a culture of supporting and donating time and resources to community events. The board encourages and applauds this commitment.

## 3. Integrity of Financial Reporting

*Guiding Principle: Safeguard integrity in financial reporting*

The Chief Executive Officer and Chief Financial Officer have certified to the board that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Consolidated entity and are in accordance with relevant accounting standards.

Due to the size and structure of the entity it is not considered appropriate to have a formal audit committee. The board, having the capacity to seek external independent and individual advice at the Company's expense, believes that this facility provides a sufficient mechanism for a director to gain assurance of the integrity of the financial statements of the Company and the independence and opinion of the external auditor.

## 4. Continuous Disclosures

*Guiding Principle: Make timely and balanced disclosures*

The Company complies with all requirements of the Australian Stock Exchange and the Corporations Act in relation to its continuous disclosure obligations. The Company Secretary has been nominated as the person responsible for communication with the Australian Stock Exchange.

The Company has an objective of honest and open disclosure of information in dealing with stakeholders, subject to appropriate commercial considerations associated with competitive and sensitive information. Such disclosure may, in appropriate circumstances, exceed statutory requirements.

## Corporate Governance Statement. >>

The company has a formally adopted policy on releasing price sensitive information to the public. This policy instructs that all public statements are made through or approved by the Chairman.

### 5. Shareholders

*Guiding Principle: Respect the rights of shareholders*

The Board of directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

Information is communicated to shareholders as follows:

- the annual report is distributed to all shareholders. The board ensures that the annual report includes relevant information about the operations of the Consolidated entity during the year, changes in the state of affairs of the Consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Law.
- the half-yearly report contains summarised financial information and a review of the operations of the Consolidated entity during the period. The half-year financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Law and is lodged with the Australian Stock Exchange. The half-yearly report is sent to any shareholder who requests it.
- the quarterly report contains summarised cash flow financial information and details about the Consolidated entity's activities during the quarter. The quarterly report is sent to any shareholder who requests it
- proposed major changes in the Consolidated entity which may impact on share ownership rights are submitted to a vote of shareholders.

All documents that are released publicly are made available on the Company's Internet web site located at [www.hillcrestlitigation.com.au](http://www.hillcrestlitigation.com.au). The website provides a function to allow all shareholders and general members of the community to lodge queries to be addressed by the Company and provides a forum for constructive feedback for shareholders and potential investors on the quality of the information provided through the website. The Company welcomes feedback and queries through any forum.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it. The Consolidated entity's auditors PricewaterhouseCoopers are required to attend the Annual General Meeting and make themselves available to answer shareholder questions regarding the conduct of the audit and the preparation and content of the auditors report.

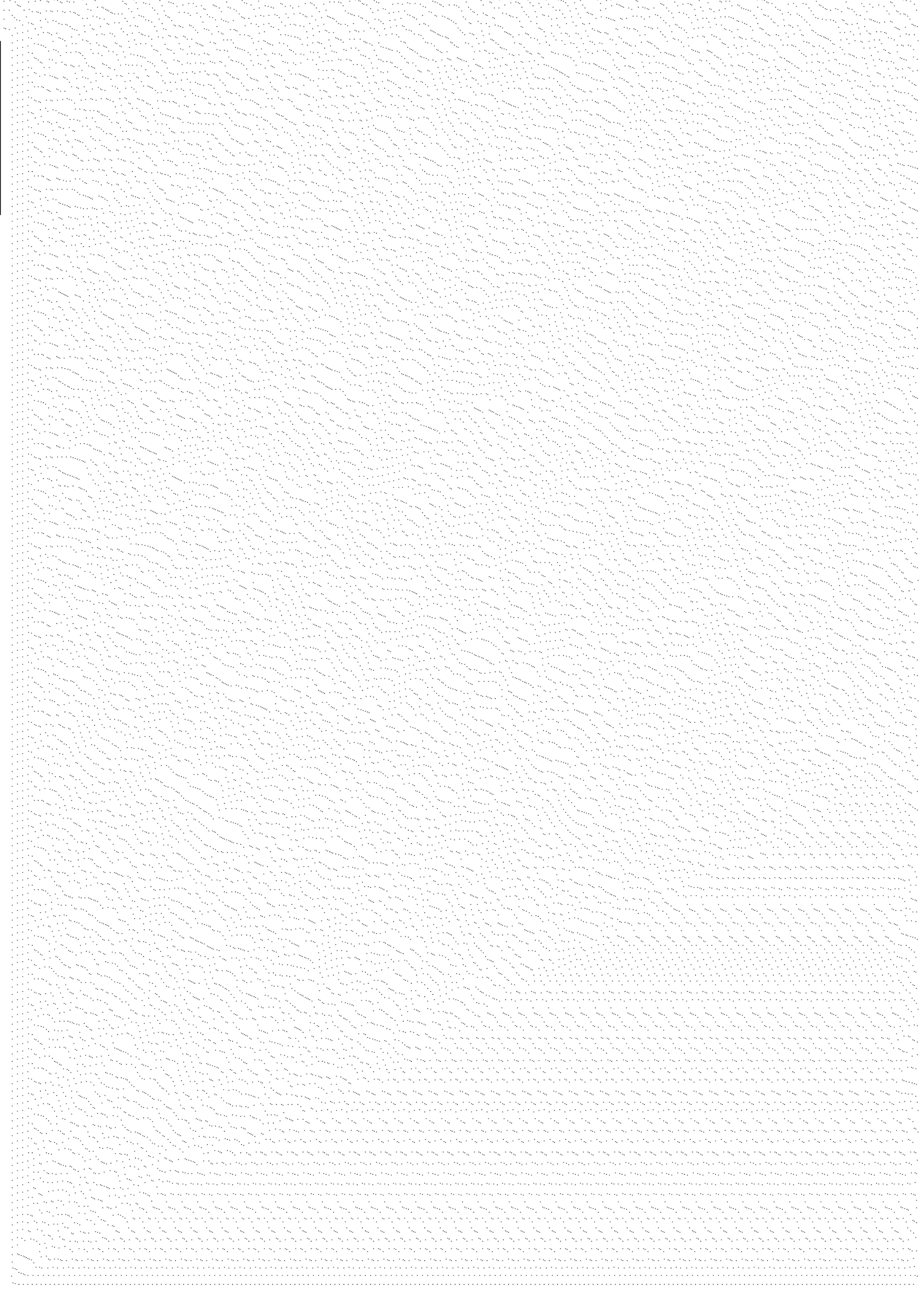
### COMPLIANCE SUMMARY

The board is aware of all the Best Practice Recommendations that the Company currently does not apply. The board considers this to be practical when taking into account the size, level of funding and level of activity of the Company. The board embraces Corporate Governance and is actively reviewing the Company's current Corporate Governance compliance to adopt as many recommendations as is practical. The board acknowledges that this will be a progressive and ongoing process, adjusted as the business develops and matures.

The Company's compliance with the ASX Best Practice Recommendations can be best summarised in the following table:

# Corporate Governance Statement

ASX Corporate Governance Principles - Recommendations	Compliance	Section
1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	✓	1
2.1 A majority of the board should be independent directors.	X	1
2.2 The chairperson should be an independent director.	X	1
2.3 The roles of chairperson and CEO should not be exercised by the same individual.	X	1
2.4 The board should establish a nomination committee	X	1
3.1 Establish a code of conduct to guide directors/CEO/CFO and any other key executives as to: <ul style="list-style-type: none"> <li>• The practices necessary to maintain confidence in the Company's integrity; and</li> <li>• The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	✓	2
3.2 Disclose the policy concerning trading Company securities by directors, officer and employees.	✓	2
4.1 Require the CEO and CFO 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.	✓	3
4.2 The board should establish an audit committee	X	3
4.3 Structure the audit committee so that it consists of only non-executive directors; a majority of independent directors; an independent chairperson who is not the chairperson of the board; and at least 3 members.	X	3
4.4 The audit committee should have a formal charter.	X	3
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.	✓	4
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	✓	5
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.	✓	5
7.1 The board or appropriate board committee should establish policies on risk oversight and management.	✓	2
7.2 The CEO and CFO should state to the board in writing that: <ul style="list-style-type: none"> <li>• The statement in recommendation 4.1 is founded on sound system of risk management and internal compliance and control which implements the policies adopted by the board; and</li> <li>• The Company's risk management and internal compliance and control systems is operating efficiently and effectively in all material aspects.</li> </ul>	✓	2
8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	✓	1
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.	✓	1
9.2 The board should establish a remuneration committee	X	1
9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	✓	1
9.4 Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	✓	1
10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	✓	2



# Directors' Report

The Directors submit their report together with the financial report of Hillcrest Litigation Services Limited ("the Company") and the consolidated financial report of the Consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the auditor's report thereon.

## DIRECTORS

The Directors of the Company at any time during or since the end of financial year are:

### **Alan R Van Noort B.Juris LLB (Age 48) – Chairman and Executive Director**

Mr Alan Van Noort (appointed 1998) is a Barrister and Solicitor who was admitted to practice in the Supreme Court of Western Australia in 1979. From 1979 to 1991, Mr Van Noort practised law in Perth, Western Australia, specialising in the areas of mining law, public company law, mergers and acquisitions and shareholders rights. Since 1991, Mr Van Noort has been involved in the management and administration of publicly listed companies.

In the past three years, Mr Van Noort has held a directorship with Environmental Infrastructure Limited until November 2003.

### **Ian D Allen B.Comm CA (SA) CA (Age 53) – Executive Director and Company Secretary**

Mr Ian Allen (appointed 2001) is a Chartered Accountant and was the Chief Financial Officer of Perth smart card technology company ERG Limited for five and a half years from 1996 to October 2001. He has previous experience in senior finance positions in the United Kingdom, Hong Kong, South Africa, Egypt, and Australia. Mr Allen has worked for multinationals; Inchcape PLC, Dowell Schlumberger Inc., Brambles Ltd and Ernst & Young.

Mr Allen is also a director of Repco Limited.

In the past three years, Mr Allen has held a directorship with Quadrant Iridium Limited until his resignation in December 2004 and Briny Toys Limited until his resignation in August 2005.

### **Walter A C Martin (Age 64) – Non Executive Director**

Mr Martin (appointed 2003) has had extensive experience at senior management level in both the Government and private enterprise sectors for over 25 years with particular emphasis in the mining industry. Mr Martin was the foundation Vice President of the Association of Mining and Exploration Companies of WA and has, since 1979, been actively involved in the private sector of the mining industry as a director of a number of public listed mining entities.

Mr Martin is also the Managing Director of Strategic Minerals Corporation NL.

Mr Martin has not held any other directorships in publicly listed companies in the last 3 years other than that above.

## DIRECTORS MEETINGS

The number of Directors' meetings and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Number of meetings held during the time the Director held office	Number of meetings attended
A R Van Noort	12	12
I D Allen	12	12
W A C Martin	12	10

## PRINCIPAL ACTIVITIES

The principal activity of the Consolidated entity during the course of the year was the commencement and conduct of a litigation funding business.

## RESULTS AND DIVIDENDS

The operating loss of the Consolidated entity after income tax for the year was \$790,252 (2004: \$732,936).

## Directors' Report. >>

The Directors do not recommend that a dividend be paid. Since the end of the previous financial year, no dividend has been paid.

Refer to pages 2 to 5 for the review of operations.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

At the Company's Annual General Meeting held on 9 November 2004, shareholders approved:

#### (a) Name Change

The Company changing its name to Hillcrest Litigation Services Limited. The name change was effected on 25 November 2004.

#### (b) Consolidation of the Company's Share Capital

The consolidation of the Company's capital on a 1 for 3 basis.

The Company's issued capital following the consolidation was:

- 32,700,065 ordinary fully paid shares; and
- 29,732,381 listed options, exercisable at 60 cents each on or before the expiry date of 31 January 2005; all of which options expired unexercised on 31 January 2005.

#### (c) Change in Activities

The Company undertaking a change to the nature of its activities from that of a mineral resources exploration company to a company involved in the business of litigation funding.

In accordance with ASX policy, trading in the Company's securities was suspended on 8 November 2004 (the day before the AGM) and continued to be suspended until the Company complied with Chapters 1 and 2 of the ASX Listing Rules.

In order to comply with chapters 1 and 2 of the ASX Listing Rules, the Company needed to:-

- (a) - raise an amount of at least \$1,500,000 to supplement its existing cash reserves of approximately \$545,000; and
- (b) - increase the number of its shareholders holding marketable parcels from 313 holders to in excess of 400 holders.

### Non Renounceable Rights Issue

The Company subsequently undertook a pro rata non-renounceable rights issue to shareholders of approximately 10,900,022 new shares to raise a maximum of \$2,180,004.

The offer was made to shareholders by a Prospectus dated 15 December 2004 on the basis of 1 new share for every 3 shares held on the record date (22 December 2004).

The issue price of the new shares was 20 cents per share. In addition, shareholders received 1 free attaching option for every new share subscribed for. The options are exercisable at 25 cents each at any time on or before 31 March 2007.

The rights issue closed on 21 January 2005. Shareholders exercising their rights applied for 5,062,620 shares (and 5,062,620 free attaching options) raising \$1,012,524.

The Company subsequently received applications for a further 2,560,000 new shares at the issue price of 20 cents each (and 2,560,000 free attaching new options) from the shortfall, raising a further \$512,000.

The Company therefore allotted a total of 7,622,620 new shares and 7,622,620 new options under the Prospectus and raised a total of \$1,524,524 from the issue.

### Requotation of the Company's Securities

Upon completion of the Non-Renounceable Rights Issue, the Company met the requirements of chapters 1 and 2 of the ASX Listing Rules and the Company's securities were returned to quotation on 17 February 2005.

### Change to ASX Code

The Company's ASX Code was changed from HLL to HLS with effect from 29 April 2005.

# Directors' Report

## **AFS Licence**

The Company was required to obtain an Australian Financial Services Licence ("AFS Licence"), or an exemption from the requirement to obtain an AFS Licence, for its litigation funding business. Accordingly, the company applied to the ASIC for continuing relief to exempt the business of litigation funding arrangements from being classified as "financial products" for the purposes of the Corporations Act.

The Company's application for relief was granted by ASIC on 18 July 2005.

## **The Liquidation of Cuprifex Mining NL**

In 1995, the Company acquired all of the issued capital of Cuprifex Mining NL ("Cuprifex"). Cuprifex's principal asset at that time was an interest in the Warroo project located in south west Queensland. Since mid-2000, Cuprifex has been engaged in discussions about the outstanding rehabilitation requirements for the project; initially with the Department of Mines and Energy which was then the administering authority for environmental regulation in Queensland, and thereafter with the Environmental Protection Agency ("the EPA") which assumed responsibility for environmental regulation in Queensland in 2001.

On 15 November 2004, the EPA issued Cuprifex with a notice of its decision to increase the financial assurance required for the Warroo project mining leases from \$50,000 to \$250,000. The financial assurance is the amount that the administering authority, pursuant to section 364 of the Environmental Protection Act 1994, may require the holder of a mining lease to provide as security for compliance with the conditions of the mining lease, including compliance with the rehabilitation requirements of the mining lease.

Cuprifex Mining NL was not in a position to meet its obligation to provide the increased financial assurance of \$250,000 required by the EPA. Accordingly, meetings of the members and the creditors of Cuprifex were held on 23 December 2004 at which resolutions were passed to place Cuprifex into liquidation.

The liquidation of Cuprifex will have no material or adverse impact on the Company or its proposed operations.

The Company's (i.e. Hillcrest's) liability for any rehabilitation works required to be undertaken at the Warroo project is limited to a maximum of \$50,000. That is the amount of a security deposit lodged in January 2000 by Hillcrest with the National Australia Bank Limited ("NAB") as security for a NAB bank guarantee provided to the Queensland Minister for Mines & Energy pursuant to section 277 of the Mineral Resources Act 1989 (being the then applicable legislation, prior to the operation of section 364 of the Environmental Protection Act 1994). The NAB bank guarantee was provided in substitution for a bank guarantee first provided in 1997.

The Company's financial statements as at 30 June 2005 recognise a provision of \$50,000 for the rehabilitation works that may be required at the Warroo project. (Refer to Note 15a)

## **ENVIRONMENTAL REGULATIONS**

Cuprifex (a wholly owned subsidiary) previously held tenements in Queensland as detailed above. As a result of the surrendering of those tenements, the Company has recognised a rehabilitation provision equal to \$50,000. Hillcrest has a security deposit of \$50,000 lodged with the Department of Mines and Energy.

The Company is not aware of any matter which requires disclosure with respect to any significant environmental regulation in respect of its operating activities.

## **EVENTS SUBSEQUENT TO BALANCE DATE**

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material or unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Consolidated entity, the results of those operations, or the state of affairs of the Consolidated entity, in future financial years.

## Directors' Report. >>

### LIKELY DEVELOPMENTS

Information on likely developments in the operations of the Consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Consolidated entity.

### REMUNERATION REPORT

#### Principles used to determine the nature and amount of remuneration

Remuneration levels are competitively set to attract qualified, experienced directors and senior executives. The Board reviews the remuneration packages and policies applicable to the executive directors, senior executives and non-executive directors on an annual basis. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

The overall level of executive reward takes into account the performance of the Consolidated entity over a number of years, with greater emphasis given to the current and prior year. Over the past 5 years, the Consolidated entity was involved in mineral exploration and did not derive a profit and therefore growth in earnings is not considered relevant. Following the change in business, shareholder wealth is now dependent upon litigation success and will fluctuate accordingly. During the same period, average executive remuneration has been maintained in accordance with industry standards.

#### Non executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The current base remuneration was last reviewed with effect from 1 January 2003.

#### Executive directors

Until 1 January 2005, consulting fees were payable to the directors for services rendered in connection with the management of the affairs of the Company.

The current base remuneration was last reviewed with effect from 1 January 2005 when the Executive Directors entered into Executive Service Agreements for a three year period commencing on 1 January 2005. The company pays a base salary plus superannuation for the services provided. Annual remuneration and performance is reviewed in accordance with the Company's Corporate Governance Practices.

#### Details of remuneration

Details of the remuneration of each director of Hillcrest Litigation Services Limited, including their personally-related entities, are set out in the following table:

2005	Primary	Post Employment	Other Benefits	
Name	Cash salary and fees (net of GST)	Superannuation \$	Insurance \$	Total \$
A R Van Noort	232,000	14,400	3,494	249,894
I D Allen	189,500	13,275	3,494	206,269
W A C Martin	35,000	3,150	3,494	41,644

# Directors' Report

## Options Plan

At the Company's Annual General Meeting held on 9 November 2004, Shareholders approved the establishment of the Hillcrest Directors, Employees and Consultants Option Plan ("Plan"). The main purposes of the plan are:

- To give additional incentive to the directors, employees and consultants of the Company to provide dedicated and ongoing commitment and effort to the Company; and
- For the Company to reward its directors, employees and consultants for their efforts.

The Plan contemplates the issue to Directors, employees and consultants of the Company of options to subscribe for Shares ("Plan Options"). Shares issued pursuant to the exercise of Plan Options will rank *pari passu* in all respects with the Company's existing Shares. Application will not be made for official quotation on ASX of the Plan Options. The maximum number of Plan Options that can be issued under the Plan is that number which equals 15% of the then current number of Shares on issue. Subject to the Listing Rules, the Board has the discretion to determine the number of Plan Options (if any) to be allocated pursuant to the Plan. Directors of the Company will be entitled to participate in the Plan subject to all necessary approvals required under the Corporations Act and the Listing Rules.

The issue price of each Plan Option is nil. The exercise price of each Plan Option is \$0.20. All Plan Options have an expiry date of 31 December 2007, and the Plan will terminate on 31 December 2007 (unless terminated earlier by the Board).

At the date of this report, no Plan Options have been issued under the Plan.

## Service Agreements

The Executive Service Agreements detailed above can be terminated by either the Company or the executive director by giving six months notice. The agreements can be terminated by the Company without notice on the occurrence of certain standard events.

The Executive Service Agreements provide, subject to shareholder approval, that the executive directors be issued with 2,500,000 Plan Options pursuant to the Hillcrest Directors, Employees and Consultants Option Plan detailed above. Shareholders approval has not yet been sought for the issue of these Plan Options and no Plan Options have yet been issued to the executive directors. No shares have been granted to the directors, employees or consultants of the Company at 30 June 2005. Any holdings are as a result of on market trading.

## OPTIONS

At the date of this report there were no unissued ordinary shares of the Company under option granted to directors or employees as remuneration compensation. There were no Shares issued on the exercise of any options during the year. The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

A total of 7,622,620 unissued shares were under option at the date of this report. The options were issued on 14 January 2005 with an expiry date of 31 March 2007 and are exercisable at 25 cents. Note 16 (b) of the Notes to the Financial Statements set out the dates and movements in options. No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

## Directors' Report. >>

### DIRECTORS' INTEREST

The relevant interest of each Director in the share capital of the Company, as notified to the ASX, at the date of this report is as follows:

Director	Ordinary Shares	Listed Options over Ordinary Shares
A R Van Noort	9,823,048	1,619,096
I D Allen	8,107,583	2,034,396
W A C Martin	74,446	11,112

### INDEMNIFICATION AND INSURANCE OF OFFICERS

Since the end of the previous financial year the Company has paid insurance premiums of \$10,482 (2004: \$27,927) in respect of directors' and officers' liability insurance for current and past directors and officers.

### 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 and/or Consolidated entity are important.

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

### Audit Services:

Audit of financial reports under the Corporations Act 2001.	16,300
Review of the financial reports under the Corporations Act 2001.	<u>7,000</u>
Total remuneration for audit services	<u>23,300</u>

### Other assurance services:

Investigating Accountants report for issued prospectus	<u>25,000</u>
Total remuneration for other assurance services	<u>25,000</u>

Total remuneration paid to PricewaterhouseCoopers Australian firm	<u>48,300</u>
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The board of directors has considered the provision of non-audit services and is satisfied that the services are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the board of directors 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 auditors own work, acting in a management or decision making capacity for the Company, acting as an 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 Corporations Act 2001 is set out on page 18. This report is signed in accordance with a resolution of the Directors.

  
Alan Van Noort | Chairman | Perth

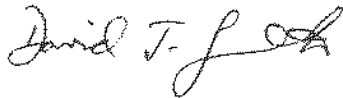
30 September 2005

## Auditors' Independence Declaration

As lead auditor for the audit of Hillcrest Litigation Services Limited for the year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been:

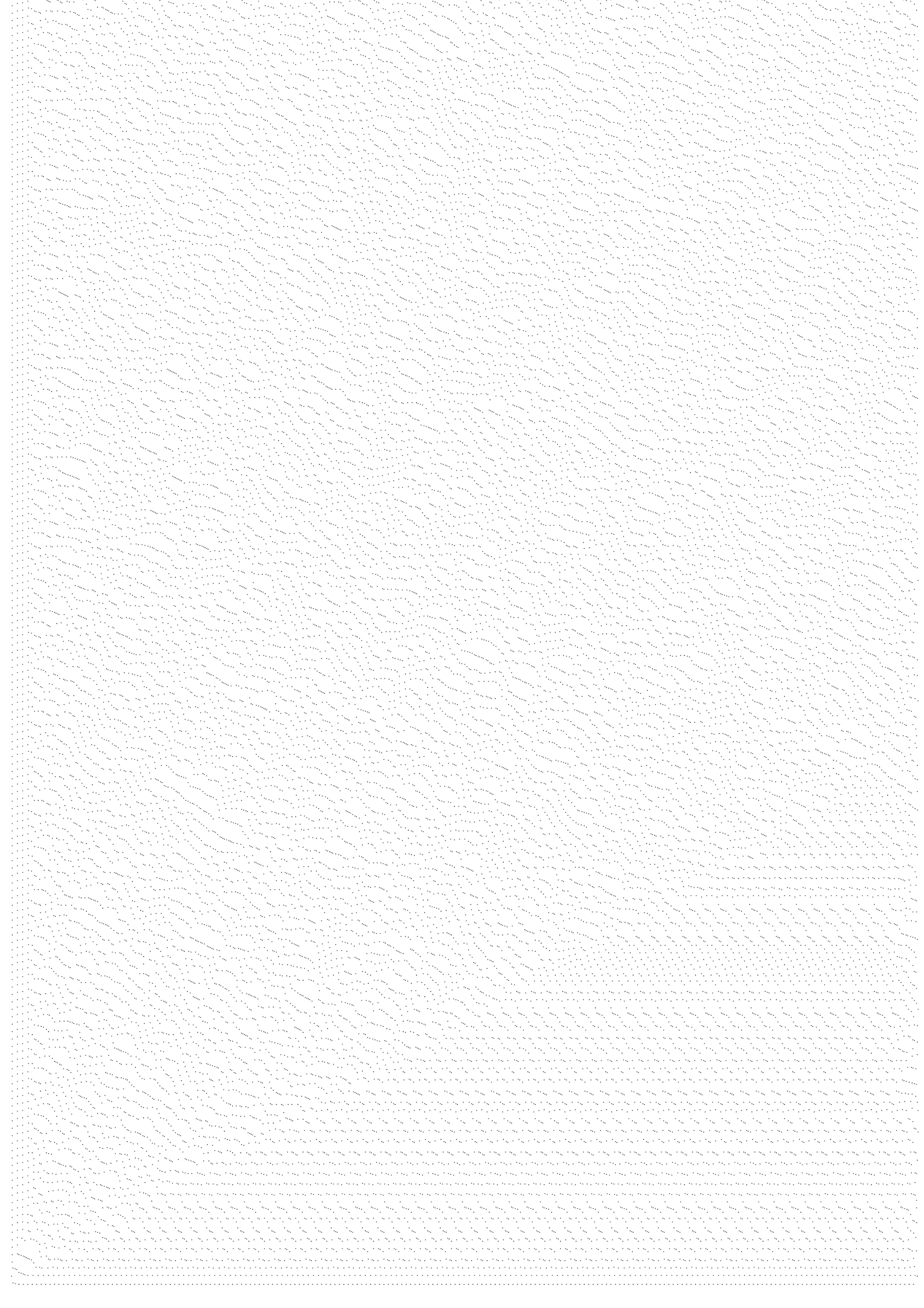
- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Hillcrest Litigation Services Limited and the entities it controlled during the year.



David J Smith  
Partner

Perth  
30 September 2005



# Statements of Financial Performance

## STATEMENTS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
Revenues from ordinary activities	2	321,626	889,613	321,626	889,613
Administrative costs		386,221	89,201	371,221	88,453
Corporate costs		413,634	406,409	407,608	399,947
Occupancy costs		26,130	27,956	26,130	27,956
Other					
Litigation Funding Expenditure		279,670	-	279,670	-
Provision for diminution in investments		-	8,963	-	8,963
Provision for diminution in listed investment		(850)	300,800	(850)	300,800
Exploration expenditure written-off		-	58,297	-	58,077
Write down of receivable in controlled entity		-	-	26,696	1,760
Bad Debts written off		5,194	-	5,194	-
Cost of non current assets disposed		1,879	730,923	1,879	730,923
Loss from ordinary activities before income tax expense	3	(790,252)	(732,936)	(795,922)	(727,266)
Income tax expense	6	-	-	-	-
Loss from ordinary activities after income tax expense		(790,252)	(732,936)	(795,922)	(727,266)
Net loss attributable to members of the parent entity	18	(790,252)	(732,936)	(795,922)	(727,266)
Total changes in equity attributable to members of Hillcrest Litigation Services Limited other than those resulting from transactions with owners as owners		(790,252)	(732,936)	(795,922)	(727,266)
Basic loss per share	5	1.35 cents	1.21 cents		
Diluted loss per share	5	1.35 cents	1.21 cents		

The statements of financial performance are to be read in conjunction with the notes to the financial statements.

# Statements of Financial Position

## STATEMENTS OF FINANCIAL POSITION AS AT 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Current Assets</b>					
Cash assets	8	1,288,322	433,019	1,288,322	433,019
Receivables	9	300,726	14,672	300,726	14,672
Other financial assets	10	-	201,583	-	201,583
Other	11	4,553	18,789	4,553	18,789
<b>Total Current Assets</b>		<b>1,593,601</b>	<b>668,063</b>	<b>1,593,601</b>	<b>668,063</b>
<b>Non-Current Assets</b>					
Receivables	9	-	-	-	5,670
Other financial assets	12	1,650	800	1,650	800
Plant & equipment	13	27,908	30,612	27,908	30,612
<b>Total Non-Current Assets</b>		<b>29,558</b>	<b>31,412</b>	<b>29,558</b>	<b>37,082</b>
<b>Total Assets</b>		<b>1,623,159</b>	<b>699,475</b>	<b>1,623,159</b>	<b>705,145</b>
<b>Current Liabilities</b>					
Payables	14	104,879	60,517	104,879	60,517
Provisions	15	54,864	54,774	54,864	54,774
<b>Total Current Liabilities</b>		<b>159,743</b>	<b>115,291</b>	<b>159,743</b>	<b>115,291</b>
<b>Total Liabilities</b>		<b>159,743</b>	<b>115,291</b>	<b>159,743</b>	<b>115,291</b>
<b>NET ASSETS</b>		<b>1,463,416</b>	<b>584,184</b>	<b>1,463,416</b>	<b>589,854</b>
<b>Equity</b>					
Contributed equity	16	16,385,358	14,370,734	16,385,358	14,370,734
Reserves	17	-	345,140	-	345,140
Accumulated losses	18	(14,921,942)	(14,131,690)	(14,921,942)	(14,126,020)
<b>TOTAL EQUITY</b>		<b>1,463,416</b>	<b>584,184</b>	<b>1,463,416</b>	<b>589,854</b>

The statements of financial position are to be read in conjunction with the notes to the financial statements.

# Statements of Cash Flows

## STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2005

	Notes	Consolidated		Parent Entity	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Payments to suppliers and employees		(765,598)	(490,910)	(792,294)	(485,240)
Interest received		39,691	19,734	39,691	19,734
Payments for Litigation Funding		(279,670)	-	(279,670)	-
Net cash used in operating activities	23	(1,005,577)	(471,176)	(1,032,273)	(465,506)
<b>Cash flows from investing activities</b>					
Loans to controlled entities		-	-	26,696	(5,670)
Loans to others		-	(194,252)	-	(194,252)
Proceeds from loans repaid		197,471	-	197,471	-
Payments for investments		-	(2,000)	-	(2,000)
Proceeds from sale of investments		-	862,049	-	862,049
Payments for plant & equipment		(6,075)	(829)	(6,075)	(829)
Payments for exploration expenditure		-	(38,077)	-	(38,077)
Net cash provided by investing activities		191,396	626,891	218,092	621,221
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares and options		1,804,525	-	1,804,525	-
Payment for share and option issue expenses		(135,041)	-	(135,041)	-
Net cash provided by financing activities		1,669,484	-	1,669,484	-
Net increase in cash held		855,303	155,715	855,303	155,715
Cash at the beginning of the financial year		433,019	277,304	433,019	277,304
Cash at the end of the financial year	8	1,288,322	433,019	1,288,322	433,019

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

# Notes to the Financial Statements

## 1 Statement of significant accounting policies

The significant policies, which have been adopted in the preparation of this financial report, are:

### (a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets. These accounting policies have been consistently applied by each entity in the Consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the Company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by the parent entity as at 30 June 2005 and the results of all controlled entities for the year then ended. Hillcrest Litigation Services Limited and its controlled entities together are referred to in this report as the Consolidated entity. The effects of all transactions between entities in the Consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial position and statement of financial performance respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

### (c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

#### *Tax consolidation legislation*

Hillcrest Litigation Services Limited and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2002. The Australian Taxation Office has been notified of this decision.

# Notes to the Financial Statements

## 1 Statement of significant accounting policies (continued)

As a consequence, Hillcrest Litigation Services Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. The tax consolidation legislation has had no significant impact on the company. No Tax Sharing Agreement has been established between the group. Given the inactivity of the subsidiary companies, this will not have a material impact on the group.

### (d) Acquisition of assets

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if a similar borrowing were obtained from an independent financier under comparable terms and conditions.

### (e) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

#### *Interest revenue*

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

#### *Litigation Funding Revenue*

- i) When the outcome of the legal cases can be reliably estimated the company recognises revenue on a stage of completion basis when the following conditions are met:
  - a) the Company controls a right to be compensated for the services rendered;
  - b) it is probable that the economic benefits comprising the compensation will flow to the Company;
  - c) the amount of the revenue can be reliably measured; and
  - d) the stage of completion of the transaction can be reliably measured
- ii) Revenue for the funding of legal cases where the outcome of those individual legal cases can not be reliably estimated by the Company, will be recognised to the extent of costs incurred to date, provided that it is probable that these costs will be recovered.

Furthermore revenue is accounted for as above depending upon the situation of each case with respect to successful judgement, appeal by defendant and unsuccessful judgement.

## 1 Statement of significant accounting policies (continued)

### (f) Receivables

Receivables in relation to revenue recognised under 1 (e) are recognised at the amounts that are expected to be recouped on favourable judgement of the legal cases funded.

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

### (g) Goods and services tax

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 Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (h) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets.

In assessing recoverable amounts of non-current assets the relevant cash flows have not been discounted to their present value, except where specifically stated.

### (i) Investments

Interest in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in note 1(b).

### (j) Depreciation of plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost or re-valued amount of each item of plant & equipment over its expected useful life to the Consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets. The expected useful life is as follows:

Plant and equipment	2.5 – 10 years
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# Notes to the Financial Statements

## 1 Statement of significant accounting policies (continued)

### (k) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

### (l) Employee benefits

#### *Wages, salaries and annual leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave in respect of employees' services up to the reporting date and expected to be settled within 12 months of the reporting date are recognised in current provisions and are measured at amounts expected to be paid when liabilities are settled.

#### *Superannuation plans*

The Company contributes to several defined contribution superannuation plans. Contributions made to the superannuation plans are recognised against income as they are made.

### (m) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### *Rehabilitation*

Provisions are made for estimated costs relating to the remediation of soil, ground water and untreated waste as soon as the need is identified. These costs have been determined on the basis of current costs, current legal requirements and current technology. Changes in estimates are dealt with on a prospective basis.

### (n) Earnings per share

#### (i) *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year. Comparative information has been adjusted where there has been a share consolidation in the current financial year to correspond to the information in the current year reporting.

#### (ii) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 1 Statement of significant accounting policies (continued)

### (o) Cash

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity, which is readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

### (p) Australian Equivalents to International Financial Reporting Standards (AIFRS)

The adoption of AIFRS will be first reflected in the Company's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Company has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Company Secretary and will report to the Board.

The Company has been following the progress of the implementation process and according to the most recent advice received adoption of the AIFRS will have no significant effect on the Group's financial report. The team is still assessing the disclosure impacts of adopting AIFRS.

Refer to Note 28 for further details.

# Notes to the Financial Statements

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>2 Revenue from ordinary activities</b>				
From operating activities Interest	41,956	27,564	41,956	27,564
Litigation Funding Revenue	279,670	-	279,670	-
From outside operating activities				
Gross proceeds from sale of non-current investments	-	862,049	-	862,049
<b>Total revenue from ordinary activities</b>	<b>321,626</b>	<b>889,613</b>	<b>321,626</b>	<b>889,613</b>

### 3 Loss from ordinary activities

Loss from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:

Litigation Funding Expenditure	279,670	-	279,670	-
Depreciation of: Plant & equipment (Note 13)	7,974	8,406	7,974	8,406
Provision - employee entitlements	90	3,075	90	3,075
Rental expense relating to operating lease	21,881	23,870	21,881	23,870
Bad debts written off	5,194	-	5,194	-
Net gain on disposal of non-current investments	-	(131,126)	-	(131,126)
Net loss on disposal of non-current Plant and Equipment	805	-	805	-

### 4 Auditors' remuneration

Audit or review of financial reports of the Company or any entity in the Consolidated entity

Statutory Audit and Review	23,300	18,903	23,300	18,903
Other assurance services	25,000	-	25,000	-
<b>Total Fees paid to auditors</b>	<b>48,300</b>	<b>18,903</b>	<b>48,300</b>	<b>18,903</b>

## 5 Earnings per share

### Classification of securities as ordinary shares

The Consolidated entity has only one category of ordinary shares included in basic earnings per share.

### Classification of securities as potential ordinary shares

#### Listed Options

The Listed options have been included in the calculation of diluted earnings per share, however they are not dilutive. Refer Note 16 (b)

	Consolidated	
	2005	2004
	\$	\$
<b>Earnings reconciliation</b>		
Basic earnings	(790,252)	(732,936)
Diluted earnings	(790,252)	(732,936)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	58,445,227	60,732,407
The number of ordinary shares and potential ordinary shares that would be used in the calculation of diluted earnings per share. The potential ordinary shares are not dilutive.	7,622,620	29,732,245

Comparative information has been adjusted as there has been a share consolidation in the current financial year to correspond to the information in the current year reporting.

# Notes to the Financial Statements

6 Taxation	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Income tax expense				
Loss from ordinary activities before income tax expense	(790,252)	(732,936)	(795,922)	(727,266)
Income tax calculated at 30% (2004: 30%) on the loss from ordinary activities	(237,076)	(219,881)	(238,777)	(218,180)
Tax effect of Permanent Differences	24,658	110,921	24,658	111,363
Decrease in income tax expense due to:				
Income tax benefit not brought to account	212,418	108,960	214,119	106,797
	-	-	-	-
Loss from ordinary activities before income tax expense - tax consolidated group (excluding parent entity)			(29,826)	(7,430)
Income tax calculated at 30% (2004: 30%) on the loss from ordinary activities			(8,948)	(2,229)
Tax effect of Permanent Differences			-	220
Decrease in income tax expense due to:				
Income tax benefit not brought to account			8,948	2,009
			-	-
Potential future income tax benefit not taken to account	927,424	916,262	927,424	916,262

When the Consolidated entity entered into the tax consolidation regime (as at 1 July 2002), it elected to abandon losses at that date. Comparative information has been adjusted to reflect this change on retrospective application of the tax consolidation legislation.

## 6 Taxation (continued)

The potential future income tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another Company in the Consolidated entity in accordance with Division 170 of the Income Tax Assessment Act 1997;
- (ii) the relevant Company and/or the Consolidated entity continues to comply with the conditions for deductibility imposed by the tax legislation; and
- (iii) no changes in tax legislation adversely affect the relevant Company and/or the Consolidated entity in realising the benefit.

## 7 Segment Reporting

2005

### Geographical segments

The Consolidated entity operates in one geographical segment being Australia.

### Business segments

The Consolidated entity operates in one business segment being Litigation Funding that involves the management of litigation funding agreements.

In November 2004, the Company changed its name and business activity from an exploration company to a litigation funding company.

2004

Before the Company changed the nature of its business, it operated in three primary business segments being:

Administration: comprising the day to day management of the activities of the Consolidated entity;

Investments: comprising investments in listed and unlisted entities; and

Exploration: comprising the management of tenement holdings.

This change in business activity accounts for the differences in comparative information.

	Primary Reporting Business Segments			Total
	Administration	Exploration	Investments	
	\$	\$	\$	\$
Revenue				
External segment revenue	27,564	-	862,049	889,613
<b>Total segment revenue Result</b>				<b>889,613</b>
Segment operating loss	(523,566)	(58,297)	(1,040,686)	(1,622,549)
<b>Net Loss</b>				<b>(732,936)</b>
Depreciation and amortisation	(8,406)	-	-	(8,406)
Assets				
Segment assets	497,092	-	202,383	699,475
<b>Total assets</b>				<b>699,475</b>
Acquisitions of plant and equipment	829	-	-	829
Liabilities				
Segment liabilities	65,291	50,000	-	115,291
<b>Total Liabilities</b>				<b>115,291</b>

# Notes to the Financial Statements

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>8 Cash assets</b>				
Cash at bank and on hand	88,124	5,648	88,124	5,648
Bank short term deposits, maturing within 30 and 60 days and paying interest at a weighted average interest rate of 5.05% (a)	1,200,198	427,371	1,200,198	427,371
	<u>1,288,322</u>	<u>433,019</u>	<u>1,288,322</u>	<u>433,019</u>

(a) The above balance includes a \$50,000 term deposit which has been set aside as security against the rehabilitation of tenements in the name of the controlled entity and a \$130,000 bank guarantee that has been set aside for Litigation Funding of specific cases.

## 9 Receivables

### Current

Litigation Funding	279,670	-	279,670	-
Other debtors	21,056	14,672	21,056	14,672
	<u>300,726</u>	<u>14,672</u>	<u>300,726</u>	<u>14,672</u>

### Non current

Loans to controlled entities	-	-	973,088	952,062
Less: Provision for doubtful debts	-	-	(973,088)	(946,392)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,670</u>

## 10 Other financial assets

### Current

#### Loans advanced

Secured loan (a)	-	201,583	-	201,583
	<u>-</u>	<u>201,583</u>	<u>-</u>	<u>201,583</u>

Total other financial assets	<u>-</u>	<u>201,583</u>	<u>-</u>	<u>201,583</u>
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(a) \$197,471 of the secured loan was repaid in July 2004 with the balance written off as a bad debt.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>11 Other financial assets</b>				
Prepayments	4,553	10,709	4,553	10,709
<b>12 Other financial assets</b>				
<b>Non Current</b>				
<b>Investments traded on organised markets</b>				
Listed shares at cost (a)	2,266	2,266	2,266	2,266
Less: Provision for diminution	(616)	(1,466)	(616)	(1,466)
	1,650	800	1,650	800
<b>Other (non-traded) investments</b>				
Other investment	-	8,963	-	8,963
Less: Provision for diminution	-	(8,963)	-	(8,963)
	-	-	-	-
Total other financial assets	1,650	800	1,650	800

(a) The Company's investment in listed shares comprises of its holding in Environmental Infrastructure Limited (EIL). The market value of listed EIL shares as at 30 June 2005 was \$1,650. EIL changed its name to Babcock & Brown Environmental Investments (BEI) as at 6 July 2005.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>13 Plant and equipment</b>				
Plant and equipment				
At cost	50,366	46,171	50,366	46,171
Accumulated depreciation	(22,458)	(15,559)	(22,458)	(15,559)
	27,908	30,612	27,908	30,612

#### Reconciliations

Reconciliations of the carrying amounts for plant & equipment are set out below:

#### *Plant and equipment*

Carrying amount at beginning of year	30,612	38,190	30,612	38,190
Additions	6,075	828	6,075	828
Disposals	(1,880)	-	(1,880)	-
Depreciation eliminated on disposal	1,075	-	1,075	-
Depreciation (Note 3)	(7,974)	(8,406)	(7,974)	(8,406)
Carrying amount at end of year	27,908	30,612	27,908	30,612

# Notes to the Financial Statements

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>14 Payables</b>				
Current				
Trade creditors	38,808	27,400	38,808	27,400
Other creditors and accruals	66,071	33,117	66,071	33,117
	<u>104,879</u>	<u>60,517</u>	<u>104,879</u>	<u>60,517</u>
<b>15 Provisions</b>				
Current				
Employee benefits	4,864	4,774	4,864	4,774
Rehabilitation (a)	50,000	50,000	50,000	50,000
	<u>54,864</u>	<u>54,774</u>	<u>54,864</u>	<u>54,774</u>

#### (a) Rehabilitation

Provision is made for the estimated rehabilitation work that may be required in respect of the Consolidated entity's mining leases. The provision is represented by a security deposit of \$50,000 lodged with the Department of Mines and Energy.

#### Movements in provisions

There was no movement in provisions during the financial year, other than employee benefits.

	Parent Entity			
	2005	2004	2005	2004
	\$	\$	Shares	Shares
<b>16 Contributed equity</b>				
Issued and paid-up share capital				
40,322,685 (2004: 91,098,610) ordinary shares, fully paid	16,385,358	14,370,734	40,322,685	91,098,610
<b>(a) Movements in ordinary share capital</b>				
Balance at the beginning of year	14,370,734	14,370,734	91,098,610	91,098,610
Shares issued				
7,000,000 (2004 Nil) for cash (i)	280,000	-	7,000,000	-
Shares consolidated				
65,398,545 on a 1:3 basis (ii)	-	-	(65,398,545)	-
Shares issued				
7,622,620 (2004 Nil) for cash (iii)	1,524,525	-	7,622,620	-
Costs arising from issues for cash	(135,041)	-	-	-
Transfer of Option Premium upon expiration of options (iv)	345,140	-	-	-
Balance at end of year	16,385,358	14,370,734	40,322,685	91,098,610

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 or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

- (i) Prior to the share consolidation, the Company issued 7,000,000 shares in a private placement on 20 August 2004.
- (ii) The consolidation of the Company's capital on a 1 for 3 basis. The Company's issued capital following the consolidation was:
- 32,700,085 ordinary fully paid shares; and
  - 29,732,381 listed options, exercisable at 60 cents each on or before the expiry date of 31 January 2005; all of which options expired unexercised on 31 January 2005.
- (iii) Following the share consolidation, the Company undertook a pro rata non-renounceable rights issue to shareholders. The offer was made to shareholders by a Prospectus dated 15 December 2004 on the basis of 1 new share for every 3 shares held on the record date of 22 December 2004. The rights issue closed on 21 January 2005 and the Company allotted a total of 7,622,620 new shares under the Prospectus.
- (iv) Listed options expired 31 January 2005 without conversion. On expiration, amounts previously credited to the option premium reserve to reflect consideration received for the options granted were transferred to share capital.

# Notes to the Financial Statements

## (b) Options

Movements in issued listed options of the Company during the last two years were as follows:

Date	Details	Number of options
01.07.03	Opening balance	89,196,734
10.11.04	Options Consolidated	(59,464,353)
	Subtotal after Consolidation	29,732,381
14.01.05	Issue of new options (a)	7,622,620
31.01.05	Expiration of Options (b)	(29,732,381)
30.06.05	Closing balance	7,622,620

(a) Listed options are exercisable at 25 cents and expire 31 March 2007. The options were issued for nil consideration in conjunction with the Consolidation and Entitlement Issue.

(b) Listed options were exercisable at 60 cents each and expired 31 January 2005. The share price at the date of expiration was 18.5 cents and the options expired without conversion.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>17 Reserves</b>				
Option Premium	-	345,140	-	345,140
<b>Movements during the year</b>				
<b>(a) Option premium</b>				
Balance at beginning of year	345,140	345,140	345,140	345,140
Premium transferred upon expiration of options	(345,140)	-	(345,140)	-
Balance at end of year	-	345,140	-	345,140

## (b) Nature and purpose of reserve

Amounts are credited to the option premium reserve to reflect consideration received for options granted.

On the exercise or expiration of these options, the balance in the reserve will be transferred to share capital.

	Consolidated		Parent Entity	
	2005	2005	2005	2005
	\$	\$	\$	\$
<b>18 Accumulated losses</b>				
Accumulated losses at beginning of year	(14,131,690)	(13,398,754)	(14,126,020)	(13,398,754)
Net loss attributable to members of the parent entity	(790,252)	(795,922)	(795,922)	(727,266)
Accumulated losses at the end of the year	(14,921,942)	(14,131,690)	(14,921,942)	(14,126,020)

## 19 Financial instruments disclosure

### (a) Interest rate risk

#### Interest rate risk exposures

The Consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Weighted average interest rate	Floating Interest rate	Non interest bearing	Total
	%	\$	\$	\$
<b>2005</b>				
<i>Financial Assets</i>				
Cash at bank	4.97%	88,124	-	88,124
Interest bearing deposits	5.50%	1,200,198	-	1,200,198
Investments	-	-	1,650	1,650
Receivables	-	-	300,726	300,726
		1,288,322	302,376	1,590,698
<i>Financial Liabilities</i>				
Payables	-	-	104,879	104,879
			104,879	104,879
<b>NET FINANCIAL ASSETS</b>		1,288,322	197,497	1,485,819
<b>2004</b>				
<i>Financial Assets</i>				
Cash at bank	0.01%	5,460	188	5,648
Interest bearing deposits	4.88%	427,371	-	427,371
Investments	10.00%	201,583	800	202,383
Receivables	-	-	14,672	14,672
		634,414	15,660	650,074
<i>Financial Liabilities</i>				
Payables	-	-	60,517	60,517
			60,517	60,517
<b>NET FINANCIAL ASSETS</b>		634,414	(44,857)	589,557

# Notes to the Financial Statements

## 19 Financial instruments disclosure (continued)

	Consolidated			
	2005		2004	
	Carrying amount \$	Net fair value \$	Carrying Amount \$	Net fair value \$
<b>(b) Net fair values of financial assets and liabilities</b>				
Net fair values				
<i>Recognised financial instruments</i>				
The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows:				
<i>Financial assets</i>				
Cash assets	88,124	88,124	5,648	5,648
Interest bearing deposits	1,200,198	1,200,198	427,371	427,371
Receivables	300,726	300,726	14,672	14,672
Investments:				
Other entities - listed	1,650	1,650	800	800
Other		-	-	201,583
<i>Financial liabilities</i>				
Payables	104,879	104,879	60,517	60,517

Cash assets and listed shares in other corporations are readily traded on organised markets in a standardised form. All other financial assets and liabilities are not readily traded on organised markets in a standardised form.

### Credit risk

The credit risk on financial assets of the Consolidated entity, other than investments in shares, is generally the carrying amount recognised on the statement of financial position.

## 20 Commitments

### Non cancellable operating lease expense commitments

	Consolidated		Parent	
	2005	2004	2005	2004
	\$	\$	\$	\$
Future operating lease commitments not provided for in the financial statements and payable:				
Not later than one year	8,752	23,870	8,752	23,870
Later than one year but not later than five	-	7,959	-	7,959

## 21 Contingent liabilities

### Indemnities

Indemnities have been provided to Directors and certain executive officers of the Company in respect of liabilities to third parties arising from their positions, except where the liability arises out of conduct involving a lack of good faith. No monetary limit applies to these agreements and there are no known obligations outstanding at 30 June 2005.

### Bank Guarantees

The Consolidated entity has a \$50,000 term deposit which has been set aside as security against the rehabilitation of tenements in the name of the controlled entity and a \$130,000 bank guarantee that has been set aside for Litigation Funding of specific cases.

Country of Incorporation	Class of Shares	% of Equity Interest 2005	% of Equity Interest 2004
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## 22 Investment in controlled entity

### Particulars in relation to controlled entity

#### Controlled entity

Cuprifex Mining NL (a)	Australia	Ordinary	-	100
ACN 107 777 668 Ltd (b)	Australia	Ordinary	100	100

(a) Cuprifex Mining NL went into liquidation during the period and was wound up at balance date.

(b) ACN 107 777 668 Ltd was formerly known as Hillcrest Litigation Services Limited. The name change was effective from 6 December 2004.

# Notes to the Financial Statements

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>23 Notes to the statements of cash flows</b>				
Reconciliation of loss from ordinary activities after income tax to net cash used by operating activities				
Loss from ordinary activities after income tax	(790,252)	(732,936)	(795,922)	(727,266)
Less items classified as investing/financing activities:				
Loss on sale of non-current assets	805	-	805	-
Gain on sale of investments	-	(131,126)	-	(131,126)
Add non-cash items:				
Provision for diminution in the value of investments	(850)	309,763	(850)	309,763
Diminution in value of investments and receivables in controlled entities	-	-	(21,026)	-
Bad debts	5,194	-	5,194	-
Depreciation	7,974	8,406	7,974	8,406
Other items	(1,083)	-	(1,083)	-
Exploration expenditure written off	-	58,077	-	58,077
Change in assets and liabilities:				
(Increase)/decrease in prepayments	14,236	(3,133)	14,236	(3,133)
(Increase)/decrease in debtors	(286,054)	(14,156)	(286,054)	(14,156)
Increase/(decrease) in accounts payable	44,363	30,854	44,363	30,854
Increase/(decrease) in provisions	90	3,075	90	3,075
Net cash used in operating activities	(1,005,577)	(471,176)	(1,032,273)	(465,506)

## 24 Director and executive disclosures

### Directors

The following persons were directors of Hillcrest Litigation Services Limited during the financial year:

#### Chairman - Executive director

A B Van Noort

#### Executive director

I D Allen

#### Non-executive director

W A C Martin

## Remuneration of directors and executives

### *Principles used to determine the nature and amount of remuneration*

Remuneration levels are competitively set to attract qualified, experienced directors and senior executives. The Board reviews the remuneration packages and policies applicable to the executive directors, senior executives and non-executive directors on an annual basis. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

### *Non executive directors*

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors.

### *Executive directors*

Until 1 January 2005, consulting fees were payable to the directors for services rendered in connection with the management of the affairs of the Company.

The current base remuneration was last reviewed with effect from 1 January 2005 when the Executive Directors entered into Executive Service Agreements for a three year period commencing 1 January 2005. The company pays a base salary plus superannuation for the services provided. Annual remuneration and performance is reviewed in accordance with the Company's Corporate Governance Practices.

# Notes to the Financial Statements

## 24 Director and executive disclosures (continued)

### Details of remuneration

Details of the remuneration of each director of Hillcrest Litigation Services Limited, including their personally-related entities, are set out in the following tables.

2005	Primary	Post Employment	Other Benefits	
Name	Cash salary and fees (net of GST) \$	Superannuation \$	Insurance \$	Total \$
A R Van Noort	232,000	14,400	3,494	249,894
I D Allen	189,500	13,275	3,494	206,269
W A C Martin	35,000	3,150	3,494	41,644

2004				
A R Van Noort	149,000	3,150	4,997	157,147
I D Allen	104,000	3,150	4,997	112,147
W A C Martin	22,361	2,012	4,997	29,360
R R Hancock	17,500	1,575	4,997	24,072

### Options Plan

At the Company's Annual General Meeting held on 9 November 2004, Shareholders approved the establishment of the Hillcrest Directors, Employees and Consultants Option Plan ("Plan"). The main purposes of the plan are:

- To give additional incentive to the directors, employees and consultants of the Company to provide dedicated and ongoing commitment and effort to the Company; and
- For the Company to reward its directors, employees and consultants for their efforts.

The Plan contemplates the issue to Directors, employees and consultants of the Company of options to subscribe for Shares ("Plan Options"). Shares issued pursuant to the exercise of Plan Options will rank *pari passu* in all respects with the Company's existing Shares. Application will not be made for official quotation on ASX of the Plan Options. The maximum number of Plan Options that can be issued under the Plan is that number which equals 15% of the then current number of Shares on issue. Subject to the Listing Rules, the Board has the discretion to determine the number of Plan Options (if any) to be allocated pursuant to the Plan. Directors of the Company will be entitled to participate in the Plan subject to all necessary approvals required under the Corporations Act and the Listing Rules.

## 24 Director and executive disclosures (continued)

The issue price of each Plan Option is nil. The exercise price of each Plan Option is \$0.20. All Plan Options have an expiry date of 31 December 2007, and the Plan will terminate on 31 December 2007 (unless terminated earlier by the Board).

At the date of this report, no Plan Options have been issued under the Plan.

### Service Agreements

The Executive Service Agreements detailed above can be terminated by either the Company or the executive director by giving six months notice. The agreements can be terminated by the Company without notice on the occurrence of certain standard events.

The Executive Service Agreements provide, subject to shareholder approval, that the executive directors be issued with 2,500,000 Plan Options pursuant to the Hillcrest Directors, Employees and Consultants Option Plan detailed above. Shareholders approval has not yet been sought for the issue of these Plan Options and no Plan Options have yet been issued to the executive directors.

No shares have been granted to the directors, employees or consultants of the Company at 30 June 2005. Any holdings are as a result of on market trading.

## 25 Related parties

### Directors

The names of each person holding the position of Director of Hillcrest Litigation Services Limited during the financial year are Messrs A R Van Noort, I D Allen and W A C Martin. Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the Consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year end.

### Transactions of directors and director-related entities concerning shares or share options

Aggregate number of shares and share options of the Company held directly, indirectly or beneficially by directors of the Company or their director-related entities at year end are set out below:

	2005	2005	2004	2004
	Number held ordinary shares	Number held option to purchase shares	Number held ordinary shares	Number held option to purchase shares
A R Van Noort	9,823,048	1,619,096	20,639,412	10,721,659
I D Allen	8,107,583	2,034,396	18,219,559	9,000,000
W A C Martin	74,446	11,112	100,000	-

Note the Figures shown in 2004 reflect the Directors holdings before the Share Consolidation on a 1:3 basis.

During the year A R Van Noort purchased 3,468,199 shares, I D Allen purchased 2,034,396 shares and W A C Martin purchased 41,112 shares, making the total shares purchased during the year 5,543,707 (2004: 6,137,043). Nil (2004: nil) shares were sold in aggregate by Directors and their director related entities. During the year 3,644,604 (2004: nil) listed options were purchased and 19,721,659 (2004: nil) listed options expired without conversion in aggregate by Directors and their director related entities. No shares or options were provided to the Directors or their director related entities as part of their remuneration during the financial year.

# Notes to the Financial Statements

## 25 Related parties (continued)

### Other Transactions with Directors' and director related entities

The following transactions are based on commercial terms and conditions.

A Director of the Company, Mr A R Van Noort, has an interest as a director in Sterling Securities Pty Ltd, which provided management consulting services to the Company. This ended on 31 December 2004 when Mr A R Van Noort entered into an executive service agreement with the Company commencing 1 January 2005. The amount paid to the director related entity for consulting services from 1 July 2004 to 31 December 2004 was \$ 92,400

A Director of the Company, Mr I D Allen, provided management consulting services to the Company. This ended on 31 December 2004 when Mr I D Allen entered into an executive service agreement with the Company commencing 1 January 2005. The amount paid to the director related entity for consulting services from 1 July 2004 to 31 December 2004 was \$53,900

### Wholly owned group

Details of interests in wholly owned controlled entities are set out in Note 22. Details of dealings within the wholly owned group are set out below.

### Loans

Loans between entities in the wholly owned group are non-interest bearing, unsecured and are repayable upon reasonable notice having regard to the financial stability of the company.

Balances with entities in the wholly-owned group	Parent Entity	
	2005	2004
	\$	\$
Receivable – non current	973,088	952,062
Provision for non recovery	(973,088)	(946,392)

### Controlling Entities

The ultimate parent entity in the wholly-owned group is Hillcrest Litigation Services Limited.

## 26 Employee Benefits

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
Employee entitlement liabilities				
Provision for employee entitlements				
Current (Note 16)	4,864	4,774	4,864	4,774
Employee numbers	Number	Number		
Number of employees at year end	3	1	3	1

## 27 Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date these financial statements were approved, any item, transaction or event of a material and or unusual nature likely, in the opinion of the directors of the Company, to affect the operations and reported results of the Consolidated entity.

## 28 Impacts of adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the Consolidated entity's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against retained earnings as at 1 July 2004.

The Consolidated entity has established a team to manage the transition to AIFRS, including training of staff. The team has a timetable for managing the transition and is currently on schedule.

The team has analysed most of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard 1 First Time Adoption of Australian Equivalents to International Financial Reporting Standards. The team is still assessing the disclosure impacts of adopting AIFRS.

The known or reliably estimated impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are disclosed below with description of the differences, the timing of the impact on the statements of financial performance and statement of financial position. No material impacts are expected in relation to the statement of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards and interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

### a) Income Tax

Under the AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax effected if they are included in the determination of pre-tax accounting profit or loss/or taxable income or loss and current and deferred taxes cannot be recognised directly as equity. This change may have an initial impact on retained earnings and could alter the future carrying values of deferred tax assets and liabilities.

Changes are not expected to have a material impact on the retained earnings of the Parent or Consolidated entity as at 1 July 2004 or the reported period.

# Notes to the Financial Statements

## 28 Impacts of adopting Australian equivalents to IFRS (continued)

### b) Financial Instruments

The Parent and Consolidated entity will be taking advantage of the exemption available under AASB1 to apply AASB132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This allows the Parent and Consolidated entity to apply previous Australian generally accepted accounting principles to the comparative information of financial instruments within the scope of AASB 132 and 139 for the 30 June 2006 financial report.

Under AASB132, the current classification of financial instruments issued by entities in the Consolidated entity would not change.

Under AASB 139, financial assets held by entities in the Parent and Consolidated entity will be classified as either at fair value through profit or loss, held to maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised value.

This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost or net realisable value, with changes recognised in the profit and loss.

As a result of the application of the exemption referred to above, there would be no adjustment to classification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification will be recognised from 1 July 2005.

### c) Litigation Funding

Under AASB 118 Revenue, when the outcomes of a transaction involving the rendering of a service cannot be reliably measured, revenue shall only be recognised to the extent of the costs recognised are recoverable. When it is not probable the costs incurred will be recovered, revenue is not recognised and the costs incurred are recognised as an expense.

This is consistent with the current accounting policy for recognition of revenue detailed in Note 1(e). Conversion is not expected to have a material impact on the retained earnings of the Parent and Consolidated entity as at 1 July 2004 or the current reported period.

### d) Business Combinations

The Parent has elected to utilise the exemption granted under AASB 1 First Time Adoption of AIFRS for all past business combinations and not apply AASB 3 Business Combinations retrospectively. Therefore no impact on the retained earnings of the Parent or Consolidated entity will occur as at 1 July 2004 or the current reported period.

# Directors' Declaration

The Directors of Hillcrest Litigation Services Limited declare that the financial statements and notes set out in pages 20 to 46:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date.

In the directors' opinion

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Signed in accordance with a resolution of the Directors:



Alan Van Noort  
Chairman  
Perth  
30 September 2005

## Independent audit report to the members of Hillcrest Litigation Services Limited

### Audit opinion

In our opinion the financial report of Hillcrest Litigation Services Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Hillcrest Litigation Services Limited and the Hillcrest Litigation Services Limited Group (defined below) as at 30 June 2005, and of their performance for the year ended on that date,
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Hillcrest Litigation Services Limited (the company) and the Hillcrest Litigation Services Group (the consolidated entity), for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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. The directors are also responsible for the remuneration disclosures contained in the directors' 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. The nature of an audit is influenced by factors such as the use of professional judgement, 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. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

# PRICEWATERHOUSECOOPERS

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.

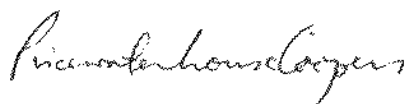
Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

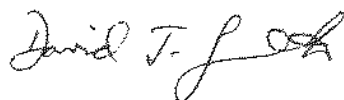
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

## Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



David J Smith  
Partner

Perth  
30 September 2005

# ASX

## Additional information

Additional information required by the ASX Listing Rules and not disclosed elsewhere in this report is set out below.

### Shareholdings [as at 26 September 2005]

#### Substantial shareholders

Substantial holders in the Company are set out below:

Shareholder	Number	Percentage
Lomp Pty Ltd	9,749,714	24.18%
Lanzerac Nominees Pty Ltd	8,107,583	20.11%

#### Voting rights

##### Ordinary Shares

At meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney and on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

##### Options

There are no voting rights attached to options.

##### On-market buy-back

There is no current on-market buy-back.

#### Distribution of equity securities

Category	Ordinary Shares Holders	Option Holders
1 - 1,000	370	47
1,001 - 5,000	475	20
5,001 - 10,000	180	17
10,001 - 100,000	310	87
100,001 - and over	37	8
	1,372	179

The number of shareholders holding less than a marketable parcel is 873

Twenty largest shareholders [as at 26 September 2005]

Name	Number of ordinary shares held	Percentage of ordinary shares held
Lomp Pty Ltd	9,749,714	24.18 %
Lanzerac Nominees Pty Ltd	6,073,187	15.06 %
Ian Allen	2,034,396	5.05 %
T & A Holdings Pty Ltd	1,000,000	2.48 %
Roy Allen	995,613	2.47 %
Pinewood Asset Pty Ltd	797,779	1.98 %
RBC Global Services Australia Nominees Pty Ltd	757,223	1.98 %
Hales & Co Pty Ltd	500,000	1.24 %
Roger Harris	454,446	1.13 %
Scott Goodheart	450,000	1.13 %
Katrina Powell	425,937	1.06 %
Michael Aitken	333,334	0.83 %
Malvern Pty Ltd	325,000	0.81 %
Sunvest Corporation Limited	316,531	0.78 %
Penelope Ende	300,001	0.74 %
Notie Pty Ltd	268,890	0.67 %
Wayne Callaghan	250,002	0.62 %
Jamarie Pty Ltd	227,070	0.56 %
Ianaki Sernedzjev	213,334	0.53 %
Andrew Seilenger	205,722	0.51 %
	25,678,179	63.81 %

Twenty largest option holders [as at 26 September 2005]

Name	Number of options held	Percentage of options held
Lanzerac Nominees Pty Ltd	2,034,396	26.69 %
Lomp Pty Ltd	1,619,096	21.24 %
Roy Allen	309,829	4.06 %
Wayne Callaghan	300,000	3.94 %
Pinewood Asset Pty Ltd	214,445	2.81 %
Malvern Pty Ltd	125,000	1.64 %
Roger Harris	121,112	1.59 %
Michael and Virginia Brooke	100,000	1.31 %
Peter and Rua Welters	95,001	1.25 %
David and Roberta Edwards	85,000	1.12 %
Jade Securities Pty Ltd	85,000	1.12 %
Peter and Elizabeth Kirkham	85,000	1.12 %
Ernest and Dorothy Stephen	75,000	0.98 %
Russel and Penelope Thomas	75,000	0.98 %
Notie Pty Ltd	67,223	0.88 %
Quincy Nominees Pty Ltd	65,000	0.85 %
Peter Newstead	53,845	0.71 %
Kathryn Barnes	50,000	0.66 %
Francisco and Yolanda Bravo	50,000	0.66 %
Elizabeth Butler	50,000	0.66 %
	5,659,947	74.27 %



# 05 2005 annual report