# 2012 ANNUAL REPORT

HLS

HILLCREST LITIGATION SERVICES LIMITED

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# COMPANY PARTICULARS

**DIRECTORS**
Alan Van Noort (Chairman)
Ian Allen
Walter Martin
Angus Middleton

**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 |
| Email: | 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 |
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**AUDITORS**
Ernst & Young

**AUSTRALIAN STOCK EXCHANGE**
ASX Code: HLS



# REVIEW OF OPERATIONS AND ACTIVITIES

**CHAIRMAN'S PERSPECTIVE**

On behalf of the board of directors of Hillcrest Litigation Services Limited ("HLS"), I have pleasure in presenting this annual report to shareholders.

I am pleased to report that HLS has recorded a profit of $50,688 for the year.

The Company's objectives for the forthcoming year are to increase its working capital base by way of a capital raising and to increase its portfolio of funded cases.

I believe that we can look forward to the future with confidence and take this opportunity of thanking shareholders for their continued support.

Alan Van Noort
Chairman
Perth
29 August 2012

# REVIEW OF OPERATIONS AND ACTIVITIES

**The Company's Litigation Funding Business**

The principal activity undertaken during the year was the management of the Company's litigation funding business.

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 the funding obligations, the litigation funder becomes entitled to receive a percentage (typically 25% 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.

In addition, the litigation funder typically provides its client 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.

As such, litigation funding is applicable in situations where a person or a company:

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

**Review of Operations**

One of the Company's funded cases was resolved during the year; being the VTech case which was settled on terms whereby the Company received a profit of $540,000 from its funding arrangement and was fully reimbursed with its funding costs incurred in the case.

In addition, another of the Company's funded cases was resolved after year end; being the Shields Media case, which was settled on terms whereby the Company will receive approximately $410,000 (representing approximately $175,000 in reimbursement of funding costs and approximately $235,000 in profit).

**The Company's current portfolio of funded cases**

**MMFC -v- IPL**

HLS has agreed to fund MMFC in a proceeding in the Supreme Court of Victoria wherein MMFC alleges that IPL breached an obligation of confidence that it owed to MMFC by the unauthorised use and disclosure of a body of information relating to a methodology for structuring long term equipment leases. MMFC is seeking, amongst other relief, an account of the profits made by IPL from the alleged unauthorised use of the information.

**Computer Accounting & Tax Pty Ltd (In Liquidation)**

HLS has agreed to fund the liquidator of the company in proceedings in the Supreme Court of Western Australia between the company and its directors in relation to the proper entitlement to certain real property and certain monetary amounts.

**Great Southern Limited (In Liquidation) (Receivers and Managers Appointed)**

HLS has agreed to provide funding to the liquidators of the company to enable them to complete their investigations into certain aspects of the affairs of the company and thereafter to pursue any recovery actions as appropriate.

HLS and the liquidators have now conditionally agreed to terminate the funding arrangement. The termination is conditional upon the liquidators obtaining court approval to a new funding agreement between the liquidators and a new litigation funder on terms which provide for HLS to be reimbursed with its funding costs to date (approximately $460,000) from the proceeds of any successful recovery actions undertaken by the liquidators under the new funding arrangement.

The termination of the funding arrangement between the liquidators and HLS remains conditional because the liquidators have not yet obtained court approval to the new funding agreement.

**Great Southern Finance Pty Ltd (In Liquidation)**

HLS has agreed to provide funding to the liquidators of the company to enable them to complete their investigations into certain aspects of the affairs of the company and thereafter to pursue any recovery actions as appropriate.

HLS and the liquidators have now conditionally agreed to terminate the funding arrangement. The termination is conditional upon the liquidators obtaining court approval to a new funding agreement between the liquidators and a new litigation funder on terms which provide for HLS to be reimbursed with its funding costs to date (approximately $30,000) from the proceeds of any successful recovery actions undertaken by the liquidators under the new funding arrangement.

The termination of the funding arrangement between the liquidators and HLS remains conditional because the liquidators have not yet obtained court approval to the new funding agreement.

The Company's objectives

The Company's objectives for the forthcoming year are to increase its working capital base by way of a capital raising and to increase its portfolio of funded cases.

# 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

### 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 directors and two non-executive directors.

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 as well as the Chief Executive Officer 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, Mr Martin, 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 to 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 Management Team section of this annual report.

**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 director's fee which is not linked to the volume of work performed. Fees paid to directors have superannuation contributions made as required by Commonwealth legislation.

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 sets remuneration at their discretion that is at a competitive level to attract and retain the most qualified and experienced directors and staff available. Remuneration levels are not directly linked to Company performance and the directors seek independent advice when appropriate before making decisions on remuneration.

Further information on directors' remuneration is outlined in the Directors' Report.

### 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.

**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 Chairman (Alan Van Noort) and Company Secretary (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 is 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.

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 complement 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.

The Company has held membership of the Banking and Financial Services Ombudsman Scheme from 1 July 2006. The Company has also been admitted to membership of the Financial Ombudsman Service effective from 1 July 2009. This protects the interests of all stakeholders by providing an independent authority to monitor and address any complaints made against the Company that are not able to be adequately addressed and resolved by the Company. This external and independent authority is designed to promote accountability and transparency of the Company in all dealings with all stakeholders.

### 3.Integrity of Financial Reporting

**Guiding Principle: Safeguard integrity in financial reporting**

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 complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company 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.

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 directors.

### 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 Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Law.
- the half-year financial report contains summarised financial information and a review of the operations of the Company during the period. The half-year financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian Stock Exchange. The half-year financial report is sent to any shareholder who requests it.
- the quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is sent to any shareholder who requests it.
- proposed major changes in the Company 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 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 Company's auditors Ernst & Young 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 auditor's report.

### COMPLIANCE SUMMARY

The board is aware of all the Best Practice Recommendations to which the Company currently does not comply. The board considers this to be practical when taking into account the current 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:

| ASX Corporate Governance Principles - Recommendations | Compliance | Section |
|---|---|---|
| **1.1** Formalise and disclose the functions reserved to the board and those delegated to management. | ✓ | 1 |
| **1.2** Disclose process for evaluating the performance of senior executives. | ✓ | 1 |
| **1.3** Provide the information indicated in the Guide to reporting on Principle 1. | ✓ | 1 |
| **2.1** A majority of the board should be independent directors. | ✗ | 1 |
| **2.2** The chair should be an independent director. | ✗ | 1 |
| **2.3** The roles of chair and CEO should not be exercised by the same individual. | ✗ | 1 |
| **2.4** The board should establish a nomination committee. | ✗ | 1 |
| **2.5** Disclose the process for evaluating the performance of the board and individual directors. | ✓ | 1 |
| **2.6** Provide the information indicated in the Guide to reporting on Principle 2. | ✓ | 1 |
| **3.1** Establish and disclose a code of conduct as to:<br>• the practices necessary to maintain confidence in the Company's integrity,<br>• the practices necessary to take into account the Company's legal obligations and the reasonable expectations of shareholders and<br>• The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | ✓ | 2 |
| **3.2** Disclose the policy concerning trading Company securities by directors, officer and employees. | ✓ | 2 |
| **3.3** Provide the information indicated in the Guide to reporting on Principle 3. | ✓ | 2 |
| **4.1** The board should establish an audit committee. | ✗ | 3 |
| **4.2** Structure the audit committee so that it consists of only non-executive directors; a majority of independent directors; an independent chair, who is not the chair of the board and at least 3 members. | ✗ | 3 |
| **4.3** The audit committee should have a formal charter. | ✗ | 3 |
| **4.4** Provide the information indicated in the Guide to reporting on Principle 4. | ✗ | 3 |
| **5.1** Establish and disclose written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance. | ✓ | 4 |
| **5.2** Provide the information indicated in the Guide to reporting on Principle 5. | ✓ | 4 |
| **6.1** Design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation at general meetings. | ✓ | 5 |
| **6.2** Provide the information indicated in the Guide to reporting on Principle 6. | ✓ | 5 |
| **7.1** Establish and disclose policies on risk oversight and management. | ✓ | 2 |
| **7.2** Management to design and implement the risk management and internal control system to manage risk and report to the board whether those risks are being managed effectively. The board should disclose that management has reported to it as required. | ✓ | 2 |
| **7.3** The board should disclose whether it has received assurance from the CEO and CFO that the declaration in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects. | ✓ | 2 |
| **7.4** Provide the information indicated in the Guide to reporting on Principle 7. | ✓ | 2 |
| **8.1** The board should establish a remuneration committee. | ✗ | 1 |
| **8.2** Clearly distinguish the structure of non-executive directors' remuneration from that of executives. | ✓ | 1 |
| **8.3** Provide the information indicated in the Guide to reporting on Principle 8. | ✓ | 1 |

# MANAGEMENT TEAM

## THE BOARD OF DIRECTORS

**Alan R Van Noort**

**B.Juris LLB (Age 55) - 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.

Mr Van Noort has not held any other directorships in publicly listed companies in the last 3 years.

**Ian D Allen**

**B.Com CA (SA) CA (Age 60) - Executive Director and Company Secretary**

Mr Ian Allen (appointed 2001) is a Chartered Accountant. 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; ERG Limited, Inchcape PLC, Dowell Schlumberger Inc., Brambles Ltd and Ernst & Young.

Mr Allen has not held any other directorships in publicly listed companies in the last 3 years.

**Walter A C Martin**

**Dip. Legal Studies (Age 71) - Non-executive Director**

Mr Wally 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.

**Angus J L Middleton**

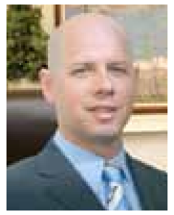
**(Age 52) - Non-executive Director**

Mr Angus Middleton (appointed 2010) is a fund manager and former stockbroker who has extensive experience in the capital markets sector in Australia. He is currently a director of SA Capital Pty Ltd, a corporate advisory firm specialising in equity raisings and underwriting, and the managing director of SA Capital Funds Management Limited, an Adelaide based investment fund that has been involved in advising and raising equity for corporations in the form of venture capital, seed capital, private equity, pre-initial public offerings and initial public offerings.

Mr Middleton is also the Managing Director of Crest Minerals Limited and was a non-executive director of ASX listed companies Magna Mining NL (resigned April 2012), Black Ridge Mining NL (resigned April 2012) and Rubianna Resources Limited (resigned April 2012).

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

## CORPORATE STAFF



**Tim J Hinton**

**B.Bus CA - Corporate Accountant**

Mr Hinton is a Chartered Accountant. He holds a Bachelor of Business degree and possesses experience gained through roles in public practice and commercial entities within Australia and the United Kingdom.



# DIRECTORS' REPORT

The directors submit their report together with the financial report of Hillcrest Litigation Services Limited ("the Company") for the year ended 30 June 2012 and the auditor's report thereon.

## DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report:

- Mr Alan R Van Noort
- Mr Ian D Allen
- Mr Walter A C Martin
- Mr Angus J L Middleton

Details of the directors are included on page 10 of this annual report and form part of this report.

## DIRECTORS' MEETINGS

The number of directors' meetings and the 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 | 11 |
| W A C Martin | 12 | 12 |
| A J L Middleton | 12 | 10 |

## PRINCIPAL ACTIVITIES

The principal activity of the Company during the course of the year was the conduct of a litigation funding business.

RESULTS AND DIVIDENDS

The operating profit of the Company after income tax for the year was $50,688 (2011 loss: $2,866,360).

The operating and financial review of the Company is discussed in the "Review of Operations and Activities" commencing on page 3.

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company is undertaking a rights issue during August 2012 to raise $870,785 for funding of cases and additional working capital through the issue of 87,078,557 ordinary shares at 1 cent each.

Total equity increased from $2,676,560 to $2,723,140 due to the net profit attributable to the Company's members for the year of $50,688.

## ENVIRONMENTAL REGULATIONS

Cuprifex (a former wholly owned subsidiary) previously held mining tenements in Queensland. As a result of the surrendering of those tenements, the Company recognised a rehabilitation provision equal to $50,000 in December 1999. Hillcrest also lodged a security deposit of $50,000 in December 1999 with the Department of Mines and Energy. As the possibility of any claim being made was considered to be so remote, the value of this provision and the corresponding security deposit were derecognised last year.

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

The Company is undertaking a rights issue during August 2012 to raise $870,785 for funding of cases and additional working capital through the issue of 87,078,557 ordinary shares at 1 cent each.

Apart from the above, 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 Company.

## LIKELY DEVELOPMENTS

Information on likely developments in the operations of the Company 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 Company.

## REMUNERATION REPORT (AUDITED)

This remuneration report outlines the director remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its regulations. For the purposes of this report, key management personnel represents the Company's executive directors, non-executive directors and corporate accountant.

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

*Objective*

The Board seeks to set aggregate compensation at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

*Structure*

The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst the directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. The overall level of executive reward takes into account the performance of the Company over a number of years. Average executive remuneration has been maintained in accordance with industry standards. The remuneration of key management personnel does not include any performance bonuses and is not based on any performance measures.

The following is a summary of the Company's share price and earnings per share over the last five years:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Share price in cents | 8 | 10 | 6 | 3 | 1 |
| Earnings per share in cents | 1.85 | 2.59 | (2.02) | (4.09) | 0.06 |

### Directors' Fees

The Company's constitution provides that directors shall be paid fees as remuneration for their services as directors provided that the maximum aggregate amount so paid does not exceed the amount set by shareholders in general meeting. Shareholders set the maximum aggregate amount that may be paid to directors as remuneration for their services as directors at $300,000 per annum at the Company's AGM held on 18 November 2009 (the maximum previously being $150,000 per annum as set by shareholders at a general meeting held on 6 February 2006).

The Board's present policy is that non-executive directors be paid from 1 April 2012 $44,000 (previously $55,000) per annum plus superannuation in accordance with statutory rates as remuneration for their services as directors and that executive directors be paid $35,000 per annum plus superannuation in accordance with statutory rates as remuneration for their services as directors. Accordingly, Messrs Walter Martin and Angus Middleton, being non-executive directors, were each paid $52,250 plus superannuation in accordance with statutory rates for their services as a director and Messrs Alan Van Noort and Ian Allen, being executive directors, were each paid $35,000 plus superannuation in accordance with statutory rates for their services as a director.

No options were granted to directors during the financial year as part of remuneration.

### Executive Director Employment Contracts

Remuneration and other terms of employment for the executive directors are formalised in on-going employment contracts. The major provisions of these contracts are as follows:

**Mr Alan Van Noort:**

- From 1 April 2012, base salary is $250,000 per annum (previously $350,000) plus superannuation in accordance with the statutory rates.
- Insurance cover provided under Directors and Officers Liability and Corporate Travel policies.
- A period of one month's notice upon termination.

**Mr Ian Allen:**

- From 1 April 2012, base salary is $150,000 (previously $280,000) per annum plus superannuation in accordance with the statutory rates.
- Insurance cover provided under Directors and Officers Liability and Corporate Travel policies.
- A period of one month's notice upon termination.

### Other Employment Contracts

Remuneration and other terms of employment for the corporate accountant are formalised in an on-going employment contract. The major provisions of this contract are as follows:

- From 10 December 2009, base salary is $140,377 per annum plus superannuation in accordance with statutory rates and
- A period of one month's notice upon termination.

Details of the remuneration of the key management personnel of Hillcrest Litigation Services Limited, including their related entities, are set out in the following table:

| | Fixed | | | | |
|---|---|---|---|---|---|
| | Short term | | | Post Employment | |
| | Salary $ | Directors' Fees $ | Insurance Premiums $ | Superannuation $ | Total $ |
| **2012** | | | | | |
| A R Van Noort | **325,000** | **35,000** | **3,905** | **32,400** | **396,305** |
| I D Allen | **247,500** | **35,000** | **3,905** | **25,425** | **311,830** |
| W A C Martin | - | **52,250** | **3,904** | **4,703** | **60,857** |
| A J L Middleton | **-** | **52,250** | **3,904** | **4,703** | **60,857** |
| T J Hinton | **140,377** | **-** | **-** | **12,634** | **153,011** |
| **Total** | **712,877** | **174,500** | **15,618** | **79,865** | **982,860** |
| **2011** | | | | | |
| A R Van Noort | 350,000 | 35,000 | 4,581 | 34,650 | 424,231 |
| I D Allen | 280,000 | 35,000 | 4,581 | 28,350 | 347,931 |
| W A C Martin | - | 55,000 | 4,581 | 4,950 | 64,531 |
| A J L Middleton | - | 37,364 | 4,581 | 3,363 | 45,308 |
| T J Hinton | 140,377 | - | - | 12,634 | 153,011 |
| Total | 770,377 | 162,364 | 18,324 | 83,947 | 1,035,012 |

End of Remuneration Report

DIRECTORS' INTERESTS

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 |
|---|---|
| A R Van Noort | 21,467,004 |
| I D Allen | 18,772,037 |
| W A C Martin | 111,669 |
| A J L Middleton | 11,369,874 |

### INDEMNIFICATION AND INSURANCE OF OFFICERS

Since the end of the previous financial year the Company has paid insurance premiums of $15,618 (2011: $18,324) in respect of Directors' and Officers' liability insurance for current and past directors and officers. Insurance does not indemnify the Directors and Officers where there is conduct involving a lack of good faith.

### NON-AUDIT SERVICES

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

Details of the amounts paid (net of GST) or payable to the auditor (Ernst & Young) for audit and non-audit services provided during the course of the year are set out below:

| | 2012 $ | 2011 $ |
|---|---|---|
| **Audit Services** | | |
| Audit of financial reports under the Corporations Act 2001 | **44,900** | 43,081 |
| Review of the financial reports under the Corporations Act 2001 | **14,000** | 13,302 |
| Total remuneration for audit services | **58,900** | 56,383 |
| **Non-Audit Services** | | |
| Tax Compliance Services | **-** | - |
| Total remuneration for non-audit services | **-** | - |
| Total remuneration paid to Ernst & Young Australian firm | **58,900** | 56,383 |

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.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15 and forms part of this report.

This report is signed in accordance with a resolution of the directors.

Alan Van Noort
Chairman
Perth
29 August 2012



# AUDITOR'S INDEPENDENCE DECLARATION

ERNST & YOUNG

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Perth WA 6000 Australia
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**Auditor's Independence Declaration to the Directors of Hillcrest Litigation Services Limited**

In relation to our audit of the financial report of Hillcrest Litigation Services Limited for the financial year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

T Dachs
Partner
29 August 2012

### STATEMENT OF COMPREHENSIVE INCOME
### FOR THE YEAR ENDED 30 JUNE 2012

| | Notes | 2012 $ | 2011 $ |
|---|---|---|---|
| Net gain on settlement of litigation contracts | 3 | **535,632** | - |
| Interest revenue | 3 | **64,721** | 86,000 |
| Other income | 3 | **707,523** | - |
| **Total Income** | | **1,307,876** | 86,000 |
| | | | |
| Net loss on settlement of litigation contracts | | **-** | 1,557,864 |
| General and administrative expenses | | **41,905** | 46,051 |
| Occupancy expenses | | **68,271** | 62,329 |
| Corporate expenses | | **199,240** | 205,511 |
| Employee expenses | 4 | **947,772** | 1,080,605 |
| **Total Expenses** | | **1,257,188** | 2,952,360 |
| | | | |
| **Profit/(loss) before income tax expense** | | **50,688** | (2,866,360) |
| Income tax expense | 7 | **-** | - |
| | | | |
| **Net Profit/(loss) attributable to members of Hillcrest Litigation Services Limited** | | **50,688** | (2,866,360) |
| | | | |
| Other comprehensive income net of tax | | **-** | - |
| | | | |
| **Total comprehensive income attributable to members of Hillcrest Litigation Services Limited** | | **50,688** | (2,866,360) |
| | | | |
| **Profit/(loss) per share - cents per share** | | | |
| Basic profit/(loss) for the year | 5 | **0.06** | (4.09) |
| Diluted profit/(loss) for the year | 5 | **0.06** | (4.09) |

### STATEMENT OF FINANCIAL POSITION
### AS AT 30 JUNE 2012

| | Notes | 2012 $ | 2011 $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | 9 | **589,794** | 1,856,421 |
| Term deposits | 10 | **-** | 165,777 |
| Trade and other receivables | 11 | **6,284** | 126,927 |
| Prepayments | 12 | **2,922** | 3,627 |
| Litigation contracts | 13 | **163,624** | 199,984 |
| **Total Current Assets** | | **762,624** | 2,352,736 |
| | | | |
| Non-current Assets | | | |
| Term deposits | 10 | **115,777** | - |
| Trade and other receivables | 11 | **878,751** | 778,751 |
| Litigation contracts | 13 | **1,313,785** | 253,851 |
| Available for sale financial assets | 14 | **1,050** | 1,050 |
| Plant and equipment | 15 | **5,476** | 7,967 |
| **Total Non-current Assets** | | **2,314,839** | 1,041,619 |
| **TOTAL ASSETS** | | **3,077,463** | 3,394,355 |
| | | | |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 16 | **233,183** | 577,186 |
| Provisions | 17 | **72,090** | 73,656 |
| **Total Current Liabilities** | | **305,273** | 650,842 |
| | | | |
| **Non-current Liabilities** | | | |
| Provisions | 17 | **49,050** | 66,953 |
| **Total Non-current Liabilities** | | **49,050** | 66,953 |
| **TOTAL LIABILITIES** | | **354,323** | 717,795 |
| **NET ASSETS** | | **2,723,140** | 2,676,560 |
| | | | |
| **EQUITY** | | | |
| Issued capital | 18 | **20,334,438** | 20,338,546 |
| Accumulated losses | 19 | **(17,611,298)** | (17,661,986) |
| **TOTAL EQUITY** | | **2,723,140** | 2,676,560 |

### STATEMENT OF CASH FLOWS
### FOR THE YEAR ENDED 30 JUNE 2012

| | Notes | 2012 $ | 2011 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments to suppliers and employees | | **(1,538,800)** | (1,205,723) |
| Interest received | | **64,781** | 99,971 |
| Proceeds from settlement of litigation contracts | | **748,448** | 900,715 |
| Payments for litigation contracts | | **(486,948)** | (1,081,010) |
| Transfers from term deposits – bank guarantees | | **50,000** | 850,000 |
| Payments for security of costs | | **(100,000)** | - |
| **Net operating cash flows** | 23 | **(1,262,519)** | (436,047) |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for plant and equipment | 15 | **-** | (6,591) |
| Net investing cash flows | | **-** | (6,591) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 18 | **-** | 1,348,005 |
| Payments for capital raising | 18 | **(4,108)** | - |
| **Net financing cash flows** | | **(4,108)** | 1,348,005 |
| | | | |
| **Net (decrease)/ increase in cash held** | | **(1,266,627)** | 905,367 |
| Cash at the beginning of the year | | **1,856,421** | 951,054 |
| **Cash at the end of the year** | 9 | **589,794** | 1,856,421 |

### STATEMENT OF CHANGES IN EQUITY
### FOR THE YEAR ENDED 30 JUNE 2012

| | Issued Capital $ | Accumulated Losses $ | Total Equity $ |
|---|---|---|---|
| At 30 June 2010 | 18,990,540 | (14,795,626) | 4,194,914 |
| | | | |
| Loss for the year | - | (2,866,360) | (2,866,360) |
| Other comprehensive income | - | - | - |
| Total comprehensive income for the year | - | (2,866,360) | (2,866,360) |
| | | | |
| Transactions with owners in their capacity as owners: | | | |
| Shares issued | 1,409,852 | - | 1,409,852 |
| Transaction costs of share issue | (61,846) | - | (61,846) |
| **At 30 June 2011** | 20,338,546 | (17,661,986) | 2,676,560 |
| | | | |
| Profit for the year | **-** | **50,688** | **50,688** |
| Other comprehensive income | **-** | **-** | **-** |
| Total comprehensive income for the year | **-** | **50,688** | **50,688** |
| | | | |
| Transactions with owners in their capacity as owners: | | | |
| Transaction costs of share issue | **(4,108)** | **-** | **(4,108)** |
| **At 30 June 2012** | **20,334,438** | **(17,611,298)** | **2,723,140** |

## 1 Corporate Information

The financial report of Hillcrest Litigation Services Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 29 August 2012.

Hillcrest Litigation Services Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of operations and principal activities of the Company are described in the Review of Operations and Activities and the Directors Report.

## 2 Statement of significant accounting policies

### (a) Basis of accounting

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. It has also been prepared on the basis of historical costs, except for available for sale financial assets that have been measured at fair value. The Company is a for-profit entity.

The financial report is presented in Australian Dollars.

### (b) Going concern

At 30 June 2012, the Company had cash and cash equivalents of $589,794. Based on the future funding requirements for current cases and ongoing overheads, but excluding any proceeds from cases settled or won, there is a potential working capital shortfall in the next financial year. In order to ensure that sufficient funding is available to meet working capital requirements over the next twelve months and to fund an increase in the Company's portfolio of cases, the Directors intend to undertake a capital raising.

In the event that insufficient proceeds flow to the Company to meet working capital requirements either from the intended capital raising or the settlement of cases, there is some uncertainty that the Company will continue as a going concern. Should the Company not be able to continue as a going concern, there is significant uncertainty as to whether the Company will be able to realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in this financial report. This financial report does not include any adjustments relating to the recoverability or classification of recorded asset amounts, nor to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

### (c) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2012.

These are outlined in the table below:

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| AASB 2011-9 | Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039& 1049] | This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not. | No change | 1 July 2012 | 1 July 2012 |



## 2 Statement of significant accounting policies (continued)

### (c) Statement of compliance (continued)

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| AASB 13 | Fair Value Measurement | AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.<br>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.<br>Consequential amendments were also made to other standards via AASB 2011-8. | No change | 1 January 2013 | 1 July 2013 |
| AASB 119 | Employee Benefits | The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.<br>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.<br>Consequential amendments were also made to other standards via AASB 2011-10. | No change | 1 January 2013 | 1 July 2013 |

**2 Statement of significant accounting policies (continued)**

**(c) Statement of compliance (continued)**

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| Annual Improvements 2009-2011 | Annual Improvements to IRSs 2009-2011 | This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.<br>The following items are addressed by this standard:<br>IFRS 1 First-time Adoption of International Financial Reporting Standards<br>• Repeated application of IFRS 1<br>• Borrowing costs<br>IAS 1 Presentation of Financial Statements<br>• Clarification of the requirements for comparative information<br>IAS 16 Property, Plant and Equipment<br>• Classification of servicing equipment<br>IAS 32 Financial Instruments: Presentation<br>• Tax effect of distribution to holders of equity instruments<br>IAS 34 Interim Financial Reporting<br>Interim financial reporting and segment information for total assets and liabilities | No change | 1 January 2013 | 1 July 2013 |
| AASB 2011-4 | Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124] | This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. | No change | 1 July 2013 | 1 July 2013 |



**2 Statement of significant accounting policies (continued)**

**(c) Statement of compliance (continued)**

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| AASB 1053 | Application of Tiers of Australian Accounting Standards | This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:<br>(a) Tier 1: Australian Accounting Standards<br>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements<br>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.<br>The following entities apply Tier 1 requirements in preparing general purpose financial statements:<br>(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)<br>(b) The Australian Government and State, Territory and Local Governments<br>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:<br>(a) For-profit private sector entities that do not have public accountability<br>(b) All not-for-profit private sector entities<br>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.<br>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1. | No change | 1 July 2013 | 1 July 2013 |
| AASB 2012-2 | Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities | AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. | No change | 1 January 2013 | 1 July 2013 |

**2 Statement of significant accounting policies (continued)**

**(c) Statement of compliance (continued)**

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| AASB 2012-5 | Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle | AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following:<br>• repeat application of AASB 1 is permitted (AASB 1); and<br>• clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements). | No change | 1 January 2013 | 1 July 2013 |
| AASB 2012-3 | Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities; | AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. | No change | 1 January 2014 | 1 July 2015 |



**2 Statement of significant accounting policies (continued)**

**(c) Statement of compliance (continued)**

| AASB Amendment | Affected Standard(s) | Summary | Nature of change to accounting policy | Application date of standard | Application date for Company |
|---|---|---|---|---|---|
| AASB 9 | Financial Instruments | AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.<br>These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.<br>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.<br>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.<br>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.<br>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:<br>› The change attributable to changes in credit risk are presented in other comprehensive income (OCI)<br>› The remaining change is presented in profit or loss<br>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.<br>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. | No change | 1 January 2015 | 1 July 2015 |

**2 Statement of significant accounting policies (continued)**

**(d) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities that relate to the same taxable entity and the same taxation authority.

**(e) 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 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 on the statement of financial position.

Cash flows are included in the cash flow statement 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.

**(f) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

*Interest revenue*

Interest revenue is recognised as it accrues (using the effective interest method, which is the rate that discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.



**2 Statement of significant accounting policies (continued)**

**(g) Trade and Other Receivables**

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible monies. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

**(h) Litigation Contracts**

Litigation contracts in progress represent future economic benefits controlled by the Company. As litigation contracts in progress may be exchanged or sold, the Company is able to control the expected future economic benefits flowing from the litigation contracts in progress. Accordingly the litigation contracts in progress meet the definition of an intangible asset.

Litigation contracts in progress are measured at cost on initial recognition and carried at cost less any impairment losses. Litigation contracts in progress are not amortised as the assets are not available for use until the determination of a successful judgement at which point they are realised.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised. Disposal proceeds being the Company's percentage share of resolution sum net of costs.

These intangibles are tested for impairment biannually either individually or at the cash-generating unit level.

The key assumptions on which the testing is based are:

- The value to the Company of the litigation contracts in progress, once completed, is estimated based on the expected settlement amount of the litigation and the fees due to the Company under the litigation funding contract.
- The discount rate applied to the cash flow projections is 6.5% (2011: 7.0%).

The following specific asset recognition rules have been applied to the litigation contracts in progress intangible asset:

*i) Action still outstanding*

Where litigation is outstanding and pending a decision, the intangible asset is carried at cost. Subsequent expenditure is capitalised when it meets all of the following criteria:

- Demonstration of the feasibility of completing the litigation so that it will be available for use and the benefits embodied in the asset will be realised;
- Demonstration that the asset will generate future economic benefits;
- The Company intends to complete funding the litigation in progress;
- Demonstration of the availability of adequate technical, financial and other resources to complete the litigation in progress; and
- Ability to measure reliably the expenditure attributable to the intangible asset during the litigation contracts in progress.

*ii) Successful judgment*

Where the case has been decided in favour of the Company's client, this constitutes a derecognition of the intangible asset and accordingly a gain or loss is recognised in the profit or loss. Any future costs relating to the defence of an appeal by the defendant will be expensed as incurred.

*iii) Unsuccessful Judgment*

Where the Company's client's case is unsuccessful at trial, this is a trigger for impairment of the intangible asset and the asset will be written down to its recoverable amount. If the Company's client, having been unsuccessful at trial, appeals against the judgment then future costs incurred by the Company on the appeal process are expensed as incurred.

*(i) Recoverable amount of assets*

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Company makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

**2 Statement of significant accounting policies (continued)**

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing its use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**(j) Investments**

After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or losses previously reported in equity is recognised in profit or loss. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

**(k) Plant and equipment**

Plant and equipment is measured at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight line basis over the expected useful life of the assets as follows:

Plant and equipment 2.5 - 10 years

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate independent cash inflows, the recoverable amount is determined for the cash generating unit to which it belongs. If any indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

**(l) Trade and Other Payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of those goods and services.

**(m) 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 numerous defined contribution superannuation plans. Contributions made to the superannuation plans are recognised as an expense as they are made.

*Long service leave*

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.



**2 Statement of significant accounting policies (continued)**

**(n) Provisions**

A provision is recognised when a legal or constructive obligation exists as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The time value of money is not material to the currently recognised provisions and they are not discounted to expected future cash flows at a pre-tax rate.

**(o) Earnings per share**

*Basic earnings per share*

Basic earnings per share is determined by dividing net loss or 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.

*Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic loss or profit 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 nil consideration in relation to dilutive potential ordinary shares.

**(p) Cash and cash equivalents**

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

**(q) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

*Borrowing costs*

Borrowings costs are recognised as an expense when incurred.

**(r) Significant accounting judgments, estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period is:

*Impairment of Litigation Contracts*

The Company determines whether litigation contracts are impaired biannually. This requires an estimation of the recoverable amount of each litigation contract on an individual contract basis using cash flow projections as at 30 June 2012 that cover the period of the contract. The risk adjusted pre-tax discount rate applied to the cash flow projections is 6.5% (2011: 7.0%) (refer note 13).

**(s) Contributed Equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from proceeds.

**(t) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income. Operating lease payments are recognised as an expense in the profit or loss on a straight line basis over the lease term.

| | 2012 $ | 2011 $ |
|---|---|---|
| **3 Income** | | |
| Net gain on settlement of litigation contracts | **535,632** | - |
| Interest revenue | **64,721** | 86,000 |
| Reversal of deferred litigation costs previously written off (i) | **635,990** | - |
| Reversal of previously accrued litigation funding expenses | **71,473** | - |
| other | **60** | - |
| Total income | **1,307,876** | 86,000 |

(i) At 30 June 2011 the deferred litigation costs relating to the Manderson case were written off as the case was the subject of an adverse decision in May 2011 when the Court refused leave for MMFC to file and serve a proposed amended statement of claim and held that the proceeding should be dismissed or permanently stayed.
MMFC subsequently appealed that decision to the Victorian Supreme Court of Appeal. In December 2011, the Court of Appeal ordered that MMFC's appeal be allowed and that the previous order dismissing the proceeding be set aside. HLS will fund the continued pursuit of MMFC's claim.

| | 2012 $ | 2011 $ |
|---|---|---|
| **4 Expenses** | | |
| Net loss on settlement of litigation contracts | **-** | 1,557,864 |
| Employee Benefits: | | |
| Employee wages and salaries | **693,409** | 834,295 |
| Superannuation costs | **79,863** | 83,946 |
| Directors fees | **174,500** | 162,364 |
| | **947,772** | 1,080,605 |
| Depreciation | **2,491** | 1,508 |
| Operating lease payments | **64,027** | 58,562 |

**5 Earnings per share**

Basic earnings per share amounts are calculated by dividing net loss or profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net loss or profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options).

| | 2012 $ | 2011 $ |
|---|---|---|
| **Earnings reconciliation** | | |
| Basic profit/(losses) | **50,688** | (2,866,360) |
| Diluted profit/(losses) | **50,688** | (2,866,360) |
| Weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share. | **Number** **87,078,557** | Number 70,100,190 |

| | 2012 $ | 2011 $ |
|---|---|---|
| **6 Auditors' remuneration** | | |
| Statutory Audit and Review | **58,900** | 56,383 |
| Total fees paid to Ernst & Young | **58,900** | 56,383 |

| | 2012 $ | 2011 $ |
|---|---|---|
| **7 Taxation** | | |
| The major components of income tax expense are: | | |
| **Income Statement** | | |
| Current income tax | | |
| Current income tax charge | **(296,661)** | (402,272) |
| Deferred income tax | | |
| Relating to origination and reversal of temporary differences | **(309,379)** | 459,851 |
| Unused tax losses not recognised as DTA | **296,661** | 402,272 |
| Non recognition of tax balances | **309,379** | (459,851) |
| Utilisation of previous year tax losses | **-** | - |
| Income tax expense reported in the income statement | **-** | - |

**Statement of Changes in Equity**

There are no current or deferred income tax balances relating to the Statement of Changes in Equity.

Reconciliation from accounting profit/(loss) to tax profit/(loss) is as follows:

| | 2012 $ | 2011 $ |
|---|---|---|
| Accounting profit/( loss) | **50,688** | (2,866,360) |
| Income tax at 30% (2011: 30%) | **15,206** | (859,908) |
| Expenditure not allowable for tax purposes | **1,469** | 1547 |
| Other deductible amounts not recognised | **(3,957)** | (3,762) |
| Unused tax losses not recognised as deferred tax assets | **296,661** | 402,272 |
| Non recognition of deferred tax balances | **(309,379)** | 459,851 |
| Utilisation of previous year tax losses | **-** | - |
| Income tax expense reported in the income statement | **-** | - |

**Deferred income tax**

Deferred income tax at year end relates to the following:

| | Statement of Financial Position | | Income Statement | |
|---|---|---|---|---|
| | 2012 $ | 2011 $ | 2012 $ | 2011 $ |
| *Deferred tax liabilities* | | | | |
| Accrued revenue income | **233,625** | 266,784 | **(33,159)** | (26,531) |
| Prepaid expenses | **1,544** | 971 | **573** | 523 |
| Deferred litigation expenses | **443,223** | 136,150 | **307,073** | (359,345) |
| DTA used to offset DTL | **(678,392)** | (403,905) | **(274,487)** | 385,353 |
| | **-** | - | | - |

| | Statement of Financial Position | | Income Statement | |
|---|---|---|---|---|
| | 2012 $ | 2011 $ | 2012 $ | 2011 $ |
| **7 Taxation (continued)** | | | | |
| *Deferred tax assets* | | | | |
| Losses available to offset against future taxable income | **2,197,995** | 1,901,333 | **(296,661)** | (402,271) |
| Accelerated depreciation and write off for accounting purposes | **154** | 790 | **636** | 969 |
| Equity raising costs | **-** | - | **-** | 51 |
| Blackhole expenditure deductible over 5 years | **792** | 1.313 | **520** | (100) |
| Prepaid expenses | **1,648** | - | **(1,648)** | - |
| Accrued expenses | **44,100** | 72,091 | **27,991** | (56,191) |
| Provisions | **39,917** | 47,311 | **7,393** | (19,176) |
| DTA used to offset DTL | **(678,392)** | (403,905) | **274,487** | (385,354) |
| Gross deferred income tax assets not brought to account | **(1,606,214)** | (1,618,933) | **(12,718)** | 862,072 |
| Deferred tax income / (expense) | **-** | - | **-** | - |

At 30 June 2012 Hillcrest Litigation Services Limited has $6,649,719 (2011: $5,660,847) of tax losses and $676,931 (2011: $676,931) of capital losses that are available indefinitely for offset against future taxable profits and taxable capital gains respectively of the Company provided the rules for recoupment are satisfied in the future income year.

## 8 Segment Reporting

**Geographical segments**

The Company operates in only one geographical segment being Australia.

**Business segments and customers**

The Company operates in only one business segment being litigation funding that involves the conduct of a litigation funding business. The Company's customers are all private clients, specific information is disclosed within the Review of Operations and Activities.

| | 2012 $ | 2011 $ |
|---|---|---|
| **9 Cash and cash equivalents** | | |
| Cash at bank and on hand | **589,794** | 1,856,421 |
| **10 Term deposits** | | |
| **Current** | | |
| Term deposits – bank guarantees | **-** | 165,777 |
| **Non-current** | | |
| Term deposits – bank guarantees | **115,777** | - |

The above balances represent term deposits supporting bank guarantees totalling $115,777 (2011: $165,777) that have been provided for litigation funding of a specific case.

| | 2012 $ | 2011 $ |
|---|---|---|
| **11 Trade and Other Receivables** | | |
| **Current** | | |
| Accrued income | **-** | 110,530 |
| GST recoverable | **6,284** | 16,397 |
| | **6,284** | 126,927 |
| **Non-current** | | |
| Other receivable | **778,751** | 778,751 |
| Security for costs (i) | **100,000** | - |
| | **878,751** | 778,751 |

(i) Represents funds lodged with the Supreme Court of Western Australia as security for costs provided for litigation funding of a specific case.

| | 2012 $ | 2011 $ |
|---|---|---|
| **12 Prepayments** | | |
| Prepayments | **2,922** | 3,627 |
| **13 Litigation contracts** | | |
| Current | **163,624** | 199,984 |
| Non-Current | **1,313,785** | 253,851 |
| | **1,477,409** | 453,835 |

Litigation contracts in progress are not amortised as the assets are not available for use until the determination of a successful judgement at which point it is realised. Litigation contracts are reviewed for impairment half-yearly by the board of directors.

| | 2012 $ | 2011 $ |
|---|---|---|
| Opening balance | **453,835** | 1,651,653 |
| Additions | **486,948** | 1,081,010 |
| Reversal of deferred litigation costs previously written off | **635,990** | - |
| Written off (a) | **-** | (1,972,992) |
| Recovered upon settlement | **(99,364)** | (305,836) |
| Closing balance | **1,477,409** | 453,835 |

(a) At 30 June 2011, certain individual litigation contracts that were previously capitalised were written off due to the contracts being discontinued or having resulted in an unsuccessful judgment.

The recoverable amount of litigation contracts is their value in use calculated using cash flow projections and applying a discount rate of 6.5% (2011: 7.0%).

| | 2012 $ | 2011 $ |
|---|---|---|
| **14 Available for sale financial assets** | | |
| At fair value | **1,050** | 1,050 |

Available for sale financial assets consist of investments in listed ordinary shares, and therefore have no fixed maturity date or coupon rate.

| | 2012 $ | 2011 $ |
|---|---|---|
| **15 Plant and equipment** | | |
| Plant and equipment | | |
| At cost | **23,816** | 26,236 |
| Accumulated depreciation | **(18,340)** | (18,269) |
| | **5,476** | 7,967 |

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

| | 2012 $ | 2011 $ |
|---|---|---|
| **15 Plant and equipment (continued)** | | |
| *Plant and equipment* | | |
| Carrying amount at beginning of year | **7,967** | 2,884 |
| Additions | **-** | 6,591 |
| Depreciation (note 4) | **(2,491)** | (1,508) |
| Carrying amount at end of year | **5,476** | 7,967 |
| | | |
| **16 Trade and other payables** | | |
| **Current** | | |
| Trade creditors | **36,306** | 273,362 |
| Other creditors and accruals | **196,877** | 303,824 |
| | **233,183** | 577,186 |

Trade and other creditors are non-interest bearing and are normally settled on a 60 day term.
Information regarding the effective interest rate of current payables is set out in note 20.

| | 2012 $ | 2011 $ |
|---|---|---|
| **17 Provisions** | | |
| **Current** | | |
| Employee benefits | **72,090** | 73,656 |
| | | |
| **Non-current** | | |
| Employee benefits | **49,050** | 66,953 |

**Movements in provisions**

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

| | 2012 $ | 2011 $ | 2012 Shares | 2011 Shares |
|---|---|---|---|---|
| **18 Contributed equity** | | | | |
| **Issued and paid-up share capital** 87,078,557 (2011: 87,078,557) ordinary shares, fully paid | **20,334,438** | 20,338,546 | **87,078,557** | 87,078,557 |
| | | | | |
| **(a) Movements in ordinary share capital** | | | | |
| Balance at beginning of the year | **20,338,546** | 18,990,540 | **87,078,557** | 58,881,522 |
| Share issue (i) | **-** | 1,409,852 | **-** | 28,197,035 |
| Transactions costs (ii) | **(4,108)** | (61,846) | **-** | - |
| Balance at end of the year | **20,334,438** | 20,338,546 | **87,078,557** | 87,078,557 |

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) On 25 July 2012 the Company announced the issue of 87,078,557 shares for 1 cent each through a non-renounceable rights issue.

(ii) Transaction costs represent the costs of issuing shares.

**(b) Capital management**

When managing capital, which is defined as contributed equity, management's objective is to ensure that the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital to the Company and take advantage of favourable costs of capital or high returns on assets.

Management has no current plans to alter the Company's existing capital structure. The Company is not subject to any externally imposed capital requirements.

| | 2012 $ | 2011 $ |
|---|---|---|
| **19 Accumulated losses** | | |
| **Accumulated losses at beginning of year** | **(17,661,986)** | (14,795,626) |
| Net profit/(loss) attributable to members | **50,688** | (2,866,360) |
| Accumulated losses at end of year | **(17,611,298)** | (17,661,986) |

## 20 Financial instruments disclosure

*Financial Risk Management*

The Company's main risks arising from the financial instruments are interest rate risk, liquidity risk and credit risk. The board has no formal risk management committee due to the size of the Company and the number of directors, however the board does recognise that all directors and employees have a responsibility to recognise risks and actively apply controls to manage the risk. All controls in place are considered appropriate for the current position of the Company.

*Interest Rate Risk*

The Company's exposure to interest rate risk is related to its cash holdings with a variable interest rate. The Company constantly reviews its interest rate exposure and consideration is given to expected interest rate movements and future cash requirements.

*Liquidity Risk*

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of term deposits. The management team continually reviews the Company's liquidity position, including the preparation of cash flow forecasts, to determine the forecast liquidity position and maintain appropriate liquidity levels.

*Credit Risk*

The Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of the financial assets of the Company, which comprises cash and cash equivalents and trade and other receivables. The Company assesses the defendants in the cases funded prior to entering into any agreement to provide funding.

**20 Financial instruments disclosure (continued)**

**(a) Interest rate risk**

**Interest rate risk exposures**

The Company'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:

| | Note | Weighted average interest rate % | Floating Interest rate $ | Fixed Interest rate $ | Non-interest bearing $ | Total $ |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| *Financial Assets* | | | | | | |
| Cash at bank | 9 | **4.69 %** | **589,794** | **-** | **-** | **589,794** |
| Interest bearing deposits | 10 | **5.60 %** | **-** | **115,777** | **-** | **115,777** |
| Available for sale financial assets | 14 | | **-** | **-** | **1,050** | **1,050** |
| Trade and other receivables | 11 | | **-** | **-** | **885,035** | **885,035** |
| | | | **589,794** | **115,777** | **886,085** | **1,591,656** |
| *Financial Liabilities* | | | | | | |
| Trade and other payables | 16 | | **-** | **-** | **233,183** | **233,183** |
| **NET FINANCIAL ASSETS/(LIABILITIES)** | | | **589,794** | **115,777** | **652,902** | **1,358,473** |
| 2011 | | | | | | |
| *Financial Assets* | | | | | | |
| Cash at bank | 9 | 4.86 % | 1,856,421 | - | - | 1,856,421 |
| Interest bearing deposits | 10 | 5.66 % | - | 165,777 | - | 165,777 |
| Available for sale financial assets | 14 | | - | - | 1,050 | 1,050 |
| Trade and other receivables | 11 | | - | - | 905,678 | 905,678 |
| | | | 1,856,421 | 165,777 | 906,728 | 2,928,926 |
| *Financial Liabilities* | | | | | | |
| Trade and other payables | 16 | | - | - | 577,186 | 577,186 |
| NET FINANCIAL ASSETS/(LIABILITIES) | | | 1,856,421 | 165,777 | 329,542 | 2,351,740 |

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Carrying amount $ | Net fair value $ | Carrying Amount $ | Net fair value $ |
| *Recognised financial instruments* | | | | |
| The carrying amounts and net fair values of financial assets and liabilities as at the reporting date are as follows: | | | | |
| *Financial assets* | | | | |
| Cash assets | **589,794** | **589,794** | 1,856,421 | 1,856,421 |
| Interest bearing deposits | **115,777** | **115,777** | 165,777 | 165,777 |
| Trade and other receivables | **885,035** | **885,035** | 905,678 | 905,678 |
| Available for sale investments (a) | **1,050** | **1,050** | 1,050 | 1,050 |
| *Financial liabilities* | | | | |
| Trade and other payables | **233,183** | **233,183** | 577,186 | 577,186 |



**20 Financial instruments disclosure (continued)**

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.

(a) The Company uses method Level 1 – the fair value is calculated using quoted prices in active markets.

**(b) Liquidity risk**

During 2008, the Company negotiated a funding facility from NAB in the amount of $1,165,000 which was used to provide a bank guarantee for Rand 7,560,000 in the NPC case. As security for the Company's obligations under the funding facility, the Company's executive directors Alan van Noort and Ian Allen provided NAB with security in the form of registered mortgages over real property.

The funding agreement for the NPC case was terminated in February 2009. Upon termination, the Company remains liable to pay any taxed costs payable by NPC to any defendant arising or incurred during the term of the agreement. Any such liability would only occur should the NPC be unsuccessful in the proceedings and be the subject of an adverse costs order.

In January 2011, the High Court of South Africa handed down a judgment in favour of the NPC. However, the case is not yet finalised because the court is yet to deal with the question of interest and costs and, additionally, it appears that both the NPC and the defendant will seek leave to appeal from the judgment, with the NPC seeking to increase the judgment and the defendant seeking to avoid it.

The funding facility from NAB and the associated bank guarantee will remain in force until the completion of the NPC case.

**(c) Credit risk**

The credit risk on financial assets of the Company is generally the carrying amount recognised on the statement of financial position.

**(d) Sensitivity analysis**

The following table summarises the sensitivity of the Company's financial assets and liabilities to interest rate risk. Had the relevant variables, as illustrated in the tables, moved, with all other variables held constant, post tax profit/loss and equity would have been affected as shown. This analysis has been performed with consideration of expected interest rate movements in Australia, recognition of minimal use of debt funding and the Company's relationship with its bankers.

| | | Interest rate risk - 1% | | Interest rate risk + 1% | |
|---|---|---|---|---|---|
| | Carrying amount $ | Profit/(loss) $ | Equity $ | Profit/(loss) $ | Equity $ |
| **2012** | | | | | |
| *Financial Assets* | | | | | |
| Cash at bank | **589,794** | **(5,898)** | **(5,898)** | **5,898** | **5,898** |
| Interest bearing deposits | **115,777** | **(1,158)** | **(1,158)** | **1,158** | **1,158** |
| Total increase/(decrease) | | **(7,056)** | **(7,056)** | **7,056** | **7,056** |
| **2011** | | | | | |
| *Financial Assets* | | | | | |
| Cash at bank | 1,856,421 | (18,564) | (18,564) | 18,564 | 18,564 |
| Interest bearing deposits | 165,777 | (1,658) | (1,658) | 1,658 | 1,658 |
| Total increase/(decrease) | | (20,222) | (20,222) | 20,222 | 20,222 |

| | 2012 $ | 2011 $ |
|---|---|---|

## 21 Commitments

On 19 June 2009 the Company agreed to enter into a property lease with a lease term of 36 months from 1 November 2009. Future minimum lease payments not provided for in the financial statements and payable are as follows:

| | 2012 $ | 2011 $ |
|---|---|---|
| Not later than one year | **21,971** | 59,699 |
| Later than one year but not later than five | **-** | 19,900 |

## 22 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 2012.

## 23 Note to the statement of cash flows

**Reconciliation of loss from ordinary activities after income tax to net operating cash flows**

| | 2012 $ | 2011 $ |
|---|---|---|
| Profit/(loss) from ordinary activities after income tax | **50,688** | (2,866,360) |
| **Non-cash items:** | | |
| Litigation contracts written off | **-** | 1,972,992 |
| Depreciation | **2,491** | 1,508 |
| **Change in assets and liabilities:** | | |
| Decrease in term deposits | **50,000** | 850,000 |
| (Increase)/decrease in prepayments | **705** | (290) |
| Decrease in debtors | **10,530** | 88,440 |
| Increase in litigation contracts | **(1,023,573)** | (775,174) |
| Increase in GST recoverable | **10,112** | 16,619 |
| Increase/(decrease) in trade and other payables | **(344,003)** | 212,301 |
| Increase/(decrease) in provisions | **(19,469)** | 63,917 |
| Net cash (used in)/from operating activities | **(1,262,519)** | (436,047) |

## 24 Related parties

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, W A C Martin and A J L Middleton. Apart from the details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

**Compensation for key management personnel**

| | 2012 $ | 2011 $ |
|---|---|---|
| Short term employee benefits | **902,995** | 951,065 |
| Post-employment benefits | **79,865** | 83,947 |
| Total compensation | **982,860** | 1,035,012 |

**Transactions of directors and director related entities concerning shares**

Aggregate number of shares 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:

| | 2012 Number held ordinary shares | 2011 Number held ordinary shares |
|---|---|---|
| A R Van Noort | **21,354,083** | 21,354,083 |
| I D Allen | **18,772,037** | 18,029,757 |
| W A C Martin | **111,669** | 111,669 |
| A J L Middleton | **11,369,874** | 10,786,251 |

## 24 Related parties (continued)

**Transactions of directors and director related entities concerning shares (continued)**

The movement in each directors holding is outlined in the table below:

| 2012 | | 1 July 2011 | Shares Purchased | 30 June 2012 |
|---|---|---|---|---|
| A R Van Noort | Ordinary Shares | **21,354,083** | **-** | **21,354,083** |
| I D Allen | Ordinary Shares | **18,029,757** | **742,280** | **18,772,037** |
| W A C Martin | Ordinary Shares | **111,669** | **-** | **111,669** |
| A J L Middleton | Ordinary Shares | **10,786,251** | **583,623** | **11,369,874** |

| 2011 | | 1 July 2009 | Shares Purchased | 30 June 2011 |
|---|---|---|---|---|
| A R Van Noort | Ordinary Shares | 13,864,353 | 7,489,730 | 21,354,083 |
| I D Allen | Ordinary Shares | 11,556,738 | 6,473,019 | 18,029,757 |
| W A C Martin | Ordinary Shares | 74,446 | 37,223 | 111,669 |
| A J L Middleton | Ordinary Shares | 6,490,834 | 4,295,417 | 10,786,251 |

**Other Transactions with directors and director related entities**

During 2008, the Company negotiated a funding facility from NAB in the amount of $1,165,000 which was used to provide a bank guarantee for Rand 7,560,000 in the NPC case. As security for the Company's obligations under the funding facility, the Company's executive directors Alan van Noort and Ian Allen provided NAB with security in the form of registered mortgages over real property.

The funding agreement for the NPC case was terminated in February 2009. Upon termination, the Company remains liable to pay any taxed costs payable by NPC to any defendant arising or incurred during the term of the agreement. Any such liability would only occur should the NPC be unsuccessful in the proceedings and be the subject of an adverse costs order.

In January 2011, the High Court of South Africa handed down a judgment in favour of the NPC. However, the case is not yet finalised because the court is yet to deal with the question of interest and costs and, additionally, it appears that both the NPC and the defendant will seek leave to appeal from the judgment, with the NPC seeking to increase the judgment and the defendant seeking to avoid it.

The funding facility from NAB, the associated bank guarantee and the security provided by the executive directors will remain in force until the completion of the NPC case.

There were no other transactions with directors or director related entities.

## 25 Events subsequent to balance date

The Company is undertaking a rights issue during August 2012 to raise $870,785 for funding of cases and additional working capital through the issue of 87,078,557 ordinary shares at 1 cent each.

Apart from the above, 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 Company

# DIRECTORS' DECLARATION

The directors of Hillcrest Litigation Services Limited declare that the financial statements and notes set out in pages 16 to 39:

(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 as at 30 June 2012 and of the performance of the Company, as represented by the results of its operations and its 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. subject to the achievement of matters set out in note 2(b) of the financial statements, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c. The financial statements and notes also comply with the International Financial Reporting Standards as disclosed in note 2.

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
29 August 2012

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ERNST & YOUNG

**Independent auditor's report to the members of Hillcrest Litigation Services Limited**

**Report on the financial report**

We have audited the accompanying financial report of Hillcrest Litigation Services Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

**Directors' responsibility for the financial report**

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

**Auditor's responsibility**

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

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

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

**Independence**

In conducting our audit we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

**Opinion**

**In our opinion:**

a. the financial report of Hillcrest Litigation Services Limited is in accordance with the Corporations Act 2001, including:
   - i giving a true and fair view of the company's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

**Report on the remuneration report**

We have audited the Remuneration Report included in pages 11 and 13 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**Opinion**

In our opinion, the Remuneration Report of Hillcrest Litigation Services Limited for the year ended 30 June 2012 complies with section 300A of the Corporations Act 2001.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 (b) of the financial report. As a result of these matters, there is significant uncertainty whether the company will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in this financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

Ernst & Young

Ernst & Young

T Dachs
Partner
Perth
29 August 2012

# ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not disclosed elsewhere in this report is set out below. The information is current as at 24 August 2012.

**Substantial shareholders:**

| Name | Number of ordinary shares held | % of total issued capital |
|---|---|---|
| Lomp Pty Ltd | 21,354,083 | 24.52 |
| Lanzerac Nominees Pty Ltd | 18,772,037 | 21.56 |
| SA Capital Funds Management Ltd | 10,786,251 | 12.39 |

**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.

**On-market buy-back**

There is no current on-market buy-back.

**Distribution of ordinary fully paid shares in the Company is as follows:**

| Spread of holdings | | | Number of holdings | Number of units | % of total issued capital |
|---|---|---|---|---|---|
| 1 | - | 1,000 | 63 | 27,496 | 0.03 |
| 1,001 | - | 5,000 | 213 | 681,852 | 0.78 |
| 5,001 | - | 10,000 | 120 | 891,464 | 1.02 |
| 10,001 | - | 100,000 | 229 | 9,440,649 | 10.84 |
| 100,001 | - | & over | 81 | 76,037,096 | 87.32 |
| | | | 706 | 87,078,557 | 100.00 |

The number of shareholders holding less than a marketable parcel is 547.

**Twenty largest shareholders as at 24 August 2012:**

| | Name | Number of ordinary shares held | % of total issued capital |
|---|---|---|---|
| 1. | Lanzerac Nominees Pty Ltd | 15,874,683 | 18.23 |
| 2. | Lomp Pty Ltd | 14,212,925 | 16.32 |
| 3. | SA Capital Funds Management Ltd | 11,369,874 | 13.06 |
| 4. | Avanoor Pty Ltd | 7,254,079 | 8.33 |
| 5. | Lanzerac Nominees Pty Ltd | 5,070,966 | 5.82 |
| 6. | I Allen | 2,897,354 | 3.33 |
| 7. | Darman Pty Ltd | 2,331,428 | 2.68 |
| 8. | I Semerdziev | 2,013,168 | 2.31 |
| 9. | Tyler Enterprises Pty Ltd | 1,856,669 | 2.13 |
| 10. | Pinewood Asset Pty Ltd | 1,050,000 | 1.21 |
| 11. | Lemour Pty Ltd | 1,000,000 | 1.15 |
| 12. | TJ & AM Tyler | 760,000 | 0.87 |
| 13. | A Petch | 721,333 | 0.83 |
| 14. | M Petch | 721,333 | 0.83 |
| 15. | H Petch | 696,334 | 0.80 |
| 16. | G Critchley | 600,000 | 0.69 |
| 17. | W Callaghan | 500,002 | 0.57 |
| 18. | Lab Investments (WA) Pty Ltd | 472,500 | 0.54 |
| 19. | C Flint | 400,000 | 0.46 |
| 20. | Nino Messina Pty Ltd | 400,000 | 0.46 |
| | | 70,202,648 | 80.62 |